



Present *at all times*

2016 Annual Report

The history of Grupo Gigante is summarized by over half a century of challenges, taking advantage of opportunities and successes, which have positioned it as a leading conglomerate in Mexico within the sectors it participates due to its people, its vocation for service and quality, its customer focus, corporate vision and business diversification.

The group is present in 32 states of Mexico and in 8 countries of Central America, the Caribbean and South America. Grupo Gigante is divided in 3 divisions:

- **Specialized Retail Division**, which includes **OFFICE DEPOT**, with its trademarks and formats, **RADIO SHACK**, **CASA MARCHAND**, **FESA**, **PAPELERA GENERAL**, **OFIXPRES** and **PRISA**; **TIENDAS HOME STORE** and **PETCO** (Joint Venture).
- **Restaurant Division and Other Services**, composed of **RESTAURANTES TOKS**, with the **BEER FACTORY** and **RESTAURANTES CALIFORNIA** brands; as well as **PANDA EXPRESS**.
- **Real Estate Division**, with the participation of **GIGANTE GRUPO INMOBILIARIO**.
- **Social Responsibility**, which supplements the business group. It is important to mention the part of social responsibility of the company that through the action of its own subsidiaries and of **FUNDACIÓN GIGANTE**, prove the social commitment of the Group.

Shares representing the Capital Stock of Grupo Gigante, S.A.B. de C.V. are traded in Bolsa Mexicana de Valores (Mexican Stock Exchange) since July 1991 with ticker Gigante*. In 2016, Grupo Gigante, S.A.B de C.V. celebrated 25 years of trading in the Mexican Stock Exchange.

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VISION

We strive constantly to be the leader in every market in which we participate; we are committed to the profitability of our businesses; and to the success and development of our customers, Shareholders and collaborators.

MISSION

Ensure the creation of value for our customers, shareholders and collaborators through the integration, communication and exchange of experiences, in the search for profitability and synergies in our businesses, within the Divisions of Specialized Retail, Restaurant and Other Services and Real Estate.

CORPORATE VALUES

- Leadership
- Teamwork
- Excellence
- Creativity and Innovation
- Productivity
- Transparency
- Recognition
- Social Responsibility

28 Restaurantes Toks

34 Panda Express

40 Real Estate Division

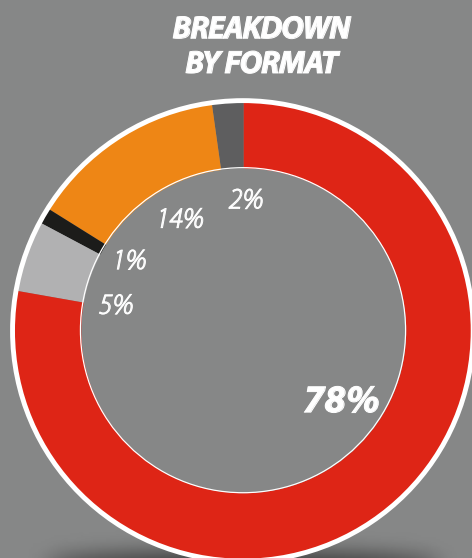
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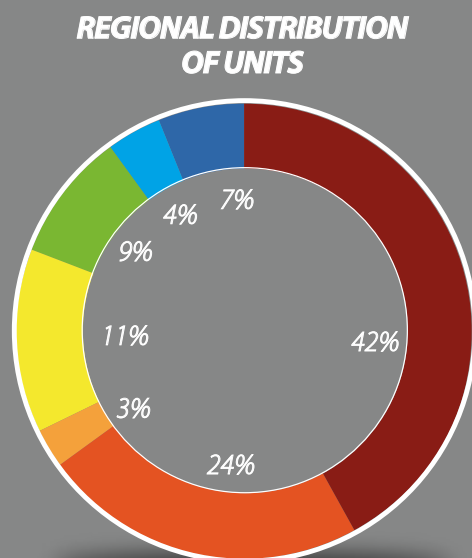
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- Office Depot
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- Panda Express
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- The Home Store



- Metropolitan Area
- Central Area
- North
- Northeast
- Southeast
- Southwest
- Central and South America and Caribe

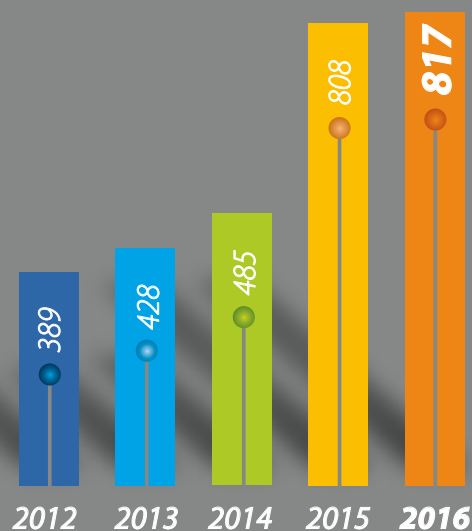
SALES FLOOR PARTICIPATION OF SUBSIDIARIES

Business Unit	Units	m²	Seats
Office Depot	568	460,753	
Restaurants Toks	198	-	42,457
Panda	24	-	-
Cup Stop	8	-	-
The Home Store	19	25,392	
Total	817	486,145	42,457

SALES FLOOR PARTICIPATION OF ASSOCIATED

Business Unit	Units	m²
Petco	34	21,509

CONSOLIDATED UNITS



Financial Highlights

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the years ended December 31, 2016, 2015 and 2014. In thousands of Mexican pesos, except per share data.

	2016	2015	2014
Total revenues	30,858,564	26,611,266	20,814,102
% variation	16.0%	27.9%	8.6%
Operation flow (Ebitda)	3,465,874	3,124,254	2,843,408
% variation	10.9%	9.9%	4.0%
Income from continuing operations	2,882,732	1,570,808	1,236,910
% variation	83.5%	27.0%	-29.2%
Income from discontinued operations	2,385,059	1,386,259	985,435
% variation	72.1%	40.7%	-57.5%
Basic earnings per common share	2.81	1.50	1.23
% variation	87.3%	22.0%	-22.2%
Price of share	39.00	38.50	41.60
Common shares outstanding	994,227,328	994,227,328	994,227,341

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2016, 2015 and 2014. In thousands of Mexican pesos.

	2016	2015	2014
Assets	40,431,823	41,003,198	33,941,754
% variation	-1.4%	20.8%	8.7%
Cash and cash equivalents	2,281,685	3,177,165	1,724,511
% variation	-28.2%	84.2%	13.0%
Financial instruments	491,531	2,138,688	2,718,551
% variation	-77.0%	-21.3%	-21.1%
Inventories-Net	6,927,570	5,446,714	4,188,809
% variation	27.2%	30.0%	19.1%
Property and equipment-Net	9,769,426	9,364,371	8,855,587
% variation	4.3%	5.7%	2.3%
Investment properties	11,894,763	12,924,916	11,869,868
% variation	-8.0%	8.9%	4.0%
Other assets	9,066,848	7,951,344	4,584,428
% variation	14.0%	73.4%	71.8%
Liabilities and Stockholder's equity	40,431,823	41,003,198	33,941,754
% variaci3n	-1.4%	20.8%	8.7%
Suppliers	5,028,255	4,094,218	2,194,790
% variaci3n	22.8%	86.5%	8.9%
Bank loans	10,327,196	8,257,737	6,190,081
% variaci3n	25.1%	33.4%	2.6%
Stock market loans	0	5,995,086	5,067,702
% variaci3n	-100.0%	18.3%	13.4%
Other liabilities	5,089,195	4,973,306	4,409,973
% variaci3n	2.3%	12.8%	22.2%
Stockholder's equity	19,987,177	17,682,851	16,079,208
% variaci3n	13.0%	10.0%	6.5%

The % of variations are with respect the previous year.

*Annual Report 2016 of the Chairman of the Board and CEO **Grupo Gigante, S.A.B. de C.V.***

Mexico City, March 15, 2017

**To the Board of Directors
To the Shareholders' Meeting of
Grupo Gigante, S.A.B. de C.V.**

**Dear Shareholders, Board Members and
Collaborators,**

Once again, I have the opportunity to address to you in order to present the annual report of the activities and the results for the preceding fiscal year. I am proud to head a conglomerate like Grupo Gigante, which is formed by people and companies that during the last year continued to reiterate their commitment and leadership in the industries in which they participate, overcoming the many obstacles.

Although the global economic growth improved during the last few months of last year, 2016 was plagued by uncertainty and the consequent volatility, which has continued during the start of this year. Global and regional external factors play a significant role and critically impact the country; including the rate of exchange, interest rate hikes, oil prices, the political situation between the US and Mexico and others. So,

the last fiscal year was complicated. Nevertheless, the Mexican GDP grew 2.3% while inflation increased by 3.36%. Among the factors that influence our results, undoubtedly the most significant was the rate of exchange and the interest rates because they affected the debt carried by the Group. This is especially true for the portion of the debt taken out in US dollars. In light of this situation, we focused on eliminating our exposure to foreign currency and, in general, to reducing our total debt.

I am proud to inform that the Group's total debt was reduced by a little over 4 billion pesos and that we eliminated our exposure to foreign currency through a series of financial strategies and actions. These included selling assets, hedging exchange and interest rates, taking out new debt in Mexican pesos under more favorable conditions and, especially, prepaying the 6.875% Senior Notes in US dollars issued by Office Depot de Mexico. Consequently, the balance of Grupo Gigante and of our subsidiary was significantly strengthened and, although we will presently face other challenges, we can rest at ease with respect to the volatility of the rate of exchange.

As always, I would like to highlight the value and contribution of our people. I would like to especially take this opportunity to recognize all of the



collaborators of Grupo Gigante, within the various industries and companies, for their commitment and effort in their daily tasks throughout the year. They are the reason why we reached our goals and achieved results. In 2016, the Group generated and maintain over 26,800 permanent jobs.

We concluded 2016 with over 486,000 m² of sale floors, with a total of 817 establishments, which include stores and restaurants, we are located in 9 countries including Mexico, Central America, the Caribbean, Chile and Colombia. Another 34 additional units should be added as well for our pet business. Thus, an 88.89% increase was achieved from new stores corresponding to the co-investment with our American partner (Petco). At the end of the year, our restaurant division registered 42,457 seats.

In terms of real estate, we continue to manage over 119 properties with over 1,450 leasable units and an occupation rate of 96.1%. We have a territorial reserve and vision for remodeling and developing other real estate development projects, focusing on our customers and with strategic objectives such as commercial, office, housing and mixed.

Our results during the fiscal year 2016 are positive again. Our total revenue increased by 16% with respect to the preceding fiscal year, reaching

a total of \$30,858.6 million pesos while gross profits also increased by 16% for a total of \$11,723.8 million. This gross profit represented a 38.0% of the gross margin. In terms of EBITDA, it was 11.0% more than the amount registered during the end of the previous period, totaling \$3,466.7 million pesos. Finally, our net consolidated profit registered a total of \$2,882.7 million, which meant an 83.5% increase compared to the previous fiscal year. The financial restructuring carried out by the Group generated the increase.

We have continued with the corporate reorganization goal, which begun in 2008. Grupo Toks was created and we continued to grouping the businesses into three divisions: specialized retail, restaurants and other services and real estate.

Office Depot de Mexico continued to grow in its various formats and 7 brands in Mexico and Latin America as well as Office Depot, Radio Shack, Casa Marchand, FESA, Papelera General, Ofixpress and Prisa. This growth was organic and occurred in 9 countries. The Home Store also grew; however, adjustments to its designs and remodeling continued according to its new image. Through Grupo Toks, we continue consolidating our formats and restaurant businesses. It is important to mention the reconversion of



Restaurantes California to the Toks format, reaching three digit increase in sales. This confirms that we are one of the leading players in the restaurant business, since we exceeded 3 times that of the industry. In the case of our real estate business, through Gigante Grupo Inmobiliario, in addition to any increased revenue and profits and the processes for continual improvement, streamlining management, our leasable areas and the consolidation of its ongoing projects, we are concluding the projects in association with Andamar I and II in Veracruz. We also initiated operations of the Miyana project in Mexico City, one of the real estate icons of this great city.

Once again, we would like to reiterate that in light of our vocation and commitment to service and quality that we have undertaken and proven to honor, through our subsidiaries and brands, within Mexico and abroad, we will continue implementing best practices in each of our subsidiaries, developing synergies and cutting-edge procedures. We are especially careful with the controls, products, prices and services that we offer and reconfirm our commitment to our shareholders, collaborators, suppliers and customers.

We will identify and take into consideration new and different options for the formats and businesses,

anticipating the needs of our demanding customers and honoring the trust that was placed upon us.

In execution of our policies in matters of Social Responsibility, the Group and each subsidiary will continue implementing the strategies and taking steps to strengthen it. We continue to provide assistance and reiterate our commitment to serving others who are most in need. In addition to the specific efforts carried out by the Group's subsidiaries, consistent with their own characteristics and capacities, we continue to strengthen Fundación Gigante in support of children, teens and the elderly. Its mission is to provide aid through health, education, environmental programs and directly assisting in emergency situations caused by natural disasters.

In addition to creating value and profits for our shareholders, our commitment continues to be maintaining and generating formal and permanent employment within a framework of comprehensive consolidation and growth. This is achieved by the strategies and policies that fuel it both organically and through new investment and businesses within the parameters of profitability, selectivity and caution.

Again, I would like to thank our shareholders, board members, the management team and to our over 26,800 employees for their trust, contributions and counsel as well as their dedication.

*Taking into consideration the uncertainty and challenges posed for 2017 and 2018 and facing the national and international perspectives in both the political arena as well as the commercial and economic climates, we will act cautiously and decisively. **Our goals for growth and consolidation will be clear.***

Taking into consideration the uncertainty and challenges posed for 2017 and 2018 and facing the national and international perspectives in both the political arena as well as the commercial and economic climates, we will act cautiously and decisively. Our goals for growth and consolidation will be clear, with special care on our leveraging levels, including improvements to the existing financing terms and conditions. This will be done by updating and adjusting our current Business Plan while not losing sight of the commitment in the development of a better country and society in order to generate opportunities for all in Mexico and in the regions where we work.

Sincerely,



Ángel Losada Moreno

Chairman of the Board of Directors and CEO
Grupo Gigante, S.A.B. de C.V.

Specialized Retail Division

This division includes the formats and points of sale offering an extensive amount of items, ranging from stationary and office supplies, electronic goods, gadgets and other technological components. It also includes the best offers in home decoration and ideas and provides a wide range of pet products. The following companies comprise this division: **Office Depot de México** (with its 7 trademarks and formats), **The Home Store** and **Petco**.



Office DEPOT



THE HOME STORE



Office DEPOT

*In 2016, the company maintained its leadership in the **9 countries** where it is located (Mexico, Guatemala, Costa Rica, Panama, Honduras, El Salvador, Dominican Republic, Colombia and Chile).*

*It operates under 7 different trademarks: **Office Depot, RadioShack, Casa Marchand, FESA, Papelera General, Ofixpres and Prisa.***



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*The revenue from all its stores increased **17.9%** and the sales to same stores by **8.6%**, while e-commerce increased **45.8%** with respect to 2015. Moreover, **14** more branches of Office Depot, **3** Casa Marchand and **12** RadioShack stores opened this year. They have a great potential for growth and profitability.*



Office Depot de México

It has a total of 568 stores and over 12,000 employees.

Its main strength comes from its people; and as a result, the Company was selected again as one of the “Best companies to work for in Mexico” and finished in 8th place and was recognized as a Socially Responsible Company.

Moreover, it appeared in Top Companies as one of the firms with the best organizational environment in Central America with the following ranking: at number 10, El Salvador; at number 9, Honduras; at number 6, Guatemala; and at number 5, Colombia. This is largely because its people as well as because it is a company that is fully integrated by all its channels, platforms and points of contact with its customers. Since we are committed to profitability, we will continue to significantly promote our e-commerce platform in all of our brands and countries.



This format and brand has been incorporated into the Office Depot Mexico portfolio as "convenience stores". They have a big potential for cross sales of ODM products since 45% of the RadioShack Mexico suppliers are shared with ODM in addition to having important synergies due to the consolidation of distribution and cost centers. A plan has been traced to streamline and increase these stores.

Finally, its strategic plan will extend the cross-dock in Mexico from 32,000 m² to 40,462 m². Thus, profits will be increased by optimizing the resources and allowing our brands greater integration.

The goal in 2017 is to open 19 Office Depot, 5 Casa Marchand and 6 RadioShack stores.





RadioShack Mexico, which was restored to the Group in 2015, **has 234 stores at the end of 2016.** It offers its customers a wide range of innovative technological products under distinguished brands. It quickly became a favorite spot of technology enthusiasts.





THE HOME STORE

*Last year, The Home Store continued adjusting its rebranding by opening **2 stores** located in strategic commercial centers, such as **Mundo E** and **Miyana Comercial**.*



Miyana has become an iconic store because it provided a value proposal for one of the most demanding markets in Mexico: **Polanco**. Currently, it employs over **400 persons** throughout **19 stores** and with its new openings over **2 mil 400 m²** of sales floor for a total of **25 mil 392 m²**.





The Home Store

In addition to the thousands of items offered by The Home Store, in 2016 the Swedish brand, Elfa, was launched in 5 stores in Mexico City. It specializes in providing storage and organization space for the home.

We will continue to be strategically anchored to the value, authority of style and inspiration comparable to international companies; focusing on customers and service and ensuring a pleasurable shopping experience within innovative life styles.

Our objective continues to be consolidation and growth, streamlining the operation of our stores. We will continue on this course in light of the criteria of profitability, caution and selectivity.





*This store specializes in pet care and began as a joint venture with PetCo Animal Supplies Stores, Inc. To date, Petco has opened **34 stores - 8 of which have an express format-**, achieving a presence in 10 states of Mexico and a total of **930 employees.***



Petco

According to its motto "Adopt First", and in compliance with its policy on Social Responsibility, since opening in 2013, Petco has completed 12,300 adoptions of dogs, cats and small species thanks to its collaboration with 20 adoption centers. Moreover, we also provide training courses to our associates and customers every weekend on the care and responsibility to pets.

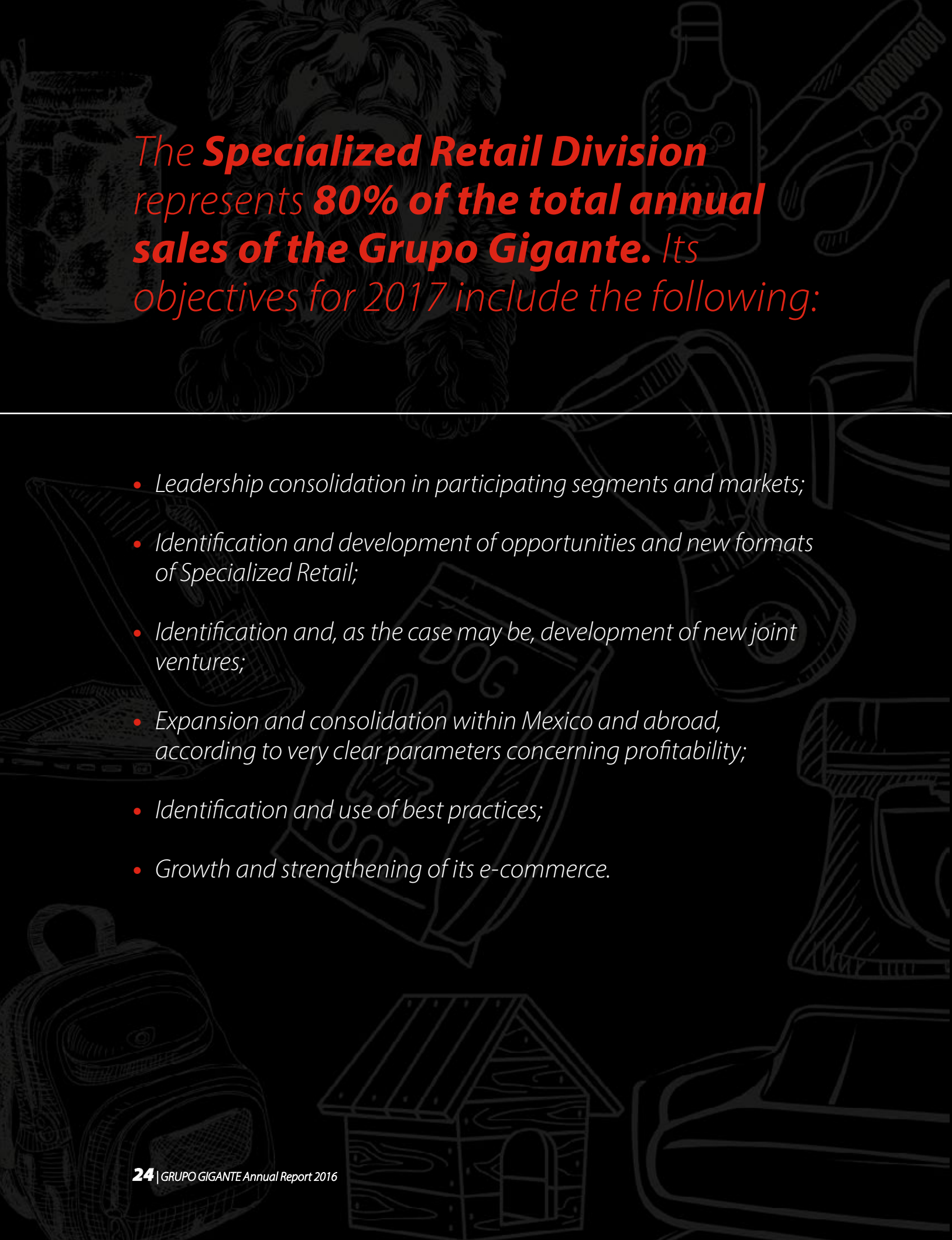
It currently has 24 Pet Hospitals working inside its stores. More than 30,000 dogs and cats are groomed each month at its Grooming Salons.





Its goal for 2017 is to reach **50 stores in 15 states and Mexico City** and over **32,000 m² of sales floors**; while continuing with its goal to be leaders in Omnichannel and exceed **20,000 adoptions**.





The **Specialized Retail Division** represents **80% of the total annual sales of the Grupo Gigante**. Its objectives for 2017 include the following:

- Leadership consolidation in participating segments and markets;
- Identification and development of opportunities and new formats of Specialized Retail;
- Identification and, as the case may be, development of new joint ventures;
- Expansion and consolidation within Mexico and abroad, according to very clear parameters concerning profitability;
- Identification and use of best practices;
- Growth and strengthening of its e-commerce.



Restaurant Division and Other Services

This division primarily includes several gastronomic models, some of which are steeped in Mexican traditions and other offer Oriental fare and artisanal beer. The following companies comprise this division: **Toks** (California and Beer Factory) and **Panda Express**.









*While completely focusing on customers, 2016 was a very productive year for the Restaurantes Toks. Their growth surpassed three times that of the industry. It serviced **33.5 million customers** with an average ticket of \$125 mexican pesos; and providing jobs to a total **12,500 employees.***



Today it has **192 establishments** of which **185** operate under the **Restaurantes Toks** brand, including **4 out of 5 Wings restaurants** that were acquired recently and the remaining **7** under the **Restaurantes California** brand that are soon to be converted, reaching its sales of those units by three digits after the conversions.





Restaurantes Toks

Having created 600 new jobs, in 2016, the Company was selected once more as one of the Best 10 Companies to Work for in Mexico.

It is also working on a new image and repositioning of the 6 BeerFactory restaurants that currently exist.

On the topic of Social Responsibility, Restaurantes Toks plays a significant role in benefitting over 10,000 persons through its Productive Projects Program that directly impacts 70 communities of Mexico. This makes the firm one of the businesses with the most amount of best practices in RSE: 9 in total. As an example we are committed to purchasing eggs from cage free hens and, for this purpose, a detailed program is under development.

Despite the challenges and uncertainties, we will continue with our rhythm of growth.






BeerFactory

3212A
EXIT

It is also working on a new image and repositioning **6 Beer Factory** restaurants that currently exist.





*Panda Express was a pioneer
in introducing Chinese - Asian
cuisine with a touch of Mexican
flavors into our country. It
currently has **24 restaurants.***





la Jumex \$25
E MAQUINA \$25
\$27
\$30

Vegetales Frescos Siempre

Offering unique dishes and a wonderful experience for its customers ranging from chicken marinated in honey sauce with peanuts, jicama, carrots and zucchini and a bit of spice to delicious marinated beef in a sweet and sour sauce with jicama, pineapple, red pepper and coriander.





The **Restaurant Division** represents about **15% of the Group's sales**. Its goals for next year include the following:

- Growth twice as much as the industry;
- 28 openings of various brand;
- 20 conversions and renovations;
- New Distribution Center;
- Identifying strategic opportunities to develop new formats;
- Internal and external renovation to offer environments with modern architectural designs, new dishes and constant service improvements;
- Consolidation and development of the "Toks Institute" to reinforce training and career programs at all levels of the organization;
- Developing menus that support our customers and that absorb the inflationary pressures that are predicted for 2017.



Real Estate Division

This division is represented by **Gigante Grupo Inmobiliario (GGI)**. As a consistent developer, it operates **25 states of Mexico** and owns mixed, commercial and residential properties. Moreover, **it owns 119 properties** of which 6% has been converted into shopping centers, over **1,450 commercial establishments** with an occupation rate of 96% and a leasable area of over 923,000 m² as well as territorial reserve of 212,000 m². Its sales represent 5% of Group Gigante's revenue.





GIGANTE
GRUPO
INMOBILIARIO®





Miyana Comercial forms part of the GGI Shopping Centers, which in 2016 received **36 million visitors** to its facilities. This traffic generated increased sales for its business partners.



In Miyana, its iconic real estate development, Phase I and II have concluded. This includes the opening of a shopping center with a new concept called Food Central. Innovative options were selected ranging from prestigious restaurants operated by specialized chefs to international urban cuisine among many other delicacies. The Office Towers also initiated operations, 2016 ended with 51% of the m² under lease.

GGI initiated strategic renovations of other properties under the concept of ServiPlazas. This helped it to maintain in optimal conditions certain developments that had been constructed years ago. This also improved the image of its properties in support of Soriana, its anchor tenant store in the most of these shopping centers, and of its tenants and business partners in order to attract more potential customers.

Construction of the shopping center, Gran Terraza Coapa, initiated after intense government filings. Criteria and guidelines were completely fulfilled as well as the neighborhood requirements.



The extensive benefits of this new project for society were disclosed.

At the end of May, Grupo Gigante through its corporate division and Gigante Grupo Inmobiliario sold to the fund, UIR Polanco, S.A. de C.V. (UIR), a subsidiary of Union Investment Real Estate GmbH (an investment fund managing company(Kapitalanlagegesellschaft / KAG)) the building called "Corporativo 2 Patios" at a sales price of USD \$117,500,000.

GGI also provided support to the growth and adjustments to The Home Store and managed the renovation of Soriana Mixcoac, which included the participation and opening of Petco in this location.

The challenges faced by the Real Estate Division in 2017 include:

- Increase and generation of flows through new real estate projects;
- Increased occupation of the shopping centers;
- Efficiency and profitability by selling and leasing the developments;
- Growth and management of properties looking for efficiency and profitability, by remodeling and reconsidering the assets and possibilities in this field;
- Successful sale of the different housing developments;
- Implementation of follow-up indicators, standardization of processes clearly to increase efficiency and profits;
- Enforcing social responsibility's policies and actions that emphasize sustainable projects and environmental protection.





Social Responsibility

Fundación Gigante has the mission of providing assistance to the most underprivileged sector. This spirit permeates into all of the companies comprising the Group. So, it takes on worthy causes by leading programs that focus on Education, Health and Emergency Support during Natural Disasters, **benefitting approximately 27,000 persons.**







*Its large-scale activities include providing **eyeglasses to 11,300 children in public schools; 14 million pesos donated in cash or kind; over 8,000 backpacks with school supplies; and 3,400 nutritional packages.** This exemplifies Grupo Gigante's commitment to the wellbeing of mexican families.*





Audit Committee Annual Report

Mexico City, March 22, 2017

**To the Board of Directors
To the Shareholders' Meeting of
Grupo Gigante, S.A.B. de C.V.**

Dear Sirs,

In our capacity as Members together with the Secretary of the Audit Committee and in compliance with Articles 42 and 43 of the Mexican Securities Law ("Ley del Mercado de Valores"), the Committee Bylaws and the Internal Regulation of the Board of Directors of Grupo Gigante, S.A.B. de C.V. (Grupo Gigante), and taking into consideration the recommendations of the Code of Best Practice for Corporate Governance 2016, we hereby submit our annual report for the fiscal year 2016, whereby the following activities were carried out:

- I. We analyzed and approved the quarterly and annual consolidated financial statements, having requested the External Auditor to provide the reports in writing for each quarter, which confirm the financial information of Grupo Gigante and were prepared according to the same financial information standards, criteria and practices as the annual reports. As mentioned in numeral III below, the latter were prepared by using the International Financial Reporting Standards (IFRS).
- II. We reviewed the system for internal control and internal corporate audit of Grupo Gigante. With respect to the Internal Corporate Audit Department, the Committee reviewed and approved its guidelines, the annual plan for reviews and its proper compliance. We concluded that, in general, the system for internal control and internal corporate audit is satisfactory.
- III. We approved the guidelines and policies for operations and accounting records of Grupo Gigante and its subsidiaries, as provided by the IFRS.
- IV. We verified that the procedures established for risk control were observed by the various business departments of Grupo Gigante.
- V. We evaluated the performance of the firm, Galaz, Yamazaki, Ruiz Urquiza, S.C. (Deloitte Mexico), which carry out the audit on the consolidated financial statement for the fiscal year as well as the External Auditor, C.P.C. Erick Calvillo Rello. In our opinion, both adequately complied with their duties in adherence to the International Audit Standards and with the applicable provisions of the Mexican Securities Law. We approved its Annual External Audit Plan, its Executive Summary of Observations and Recommendations as well as its Report on the consolidated financial statements to December 31, 2016.
- VI. We analyzed the description and valuation of the complementary services provided by the firm Galaz, Yamazaki, Ruiz Urquiza, S.C. (Deloitte Mexico) during the fiscal year 2016.
- VII. We approved of the reports by the external and internal legal counsel to ensure that Grupo Gigante and its subsidiaries properly comply with the legal provisions as well as timely disclosing any contingency. Similarly, we held work meetings with the External Auditor, the Director of Internal Corporate Audit and with the directors who we considered appropriate of the administration of Grupo Gigante and its subsidiaries.
- VIII. The administration presented the Committee with the control measures that were implemented in order to formally comply with the Federal Act on the Protection of Personal Data Held by Private Individuals as well as the Federal Act for the Prevention and Identification of Operations with Illegal Resources.
- IX. We followed-up with the updates to the Code of Ethics and Conduct of Grupo Gigante, as well the process to distribute this document among the personnel.

X. We took into consideration the relevant observations and the potential complaints about certain actions considered irregular that were taken by the administration and posed by the shareholders, board members, senior directors and employees with respect to the accounting, internal controls and other topics regarding the internal or external corporate audit and found that there is nothing to report.

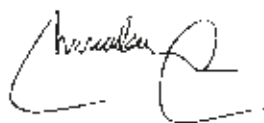
XI. We followed-up on the resolutions taken by the Shareholders' Meetings and by the Board of Directors related to this Committee.

Based on the work carried out and on the report of the external auditors, in our opinion the accounting and information policies

and criteria followed by the company are adequate and sufficient and have been consistently applied; therefore, the information submitted by the CEO reasonably reflects the financial situation and results of the Company.

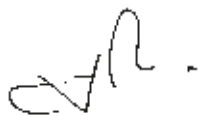
Therefore, we recommend to the Board of Directors to submit for the approval of the Shareholders' Meeting the Financial Statements of Grupo Gigante for the year ending on December 31, 2016.

Consequently, with this report we have complied with the obligation established by the aforementioned Articles of the Mexican Securities Law and the Bylaws and Regulation of the Board of Directors of Grupo Gigante.



Luis Santana Castillo

Chairman



Luis Rebollar Corona

Board Member



Roberto Salvo Horvilleur

Board Member



Ernesto Valenzuela Espinoza

Secretary

Corporate Practices Committee Annual Report

Mexico City, March 16, 2017

**To the Board of Directors
To the Shareholders' Meeting of
Grupo Gigante, S.A.B. de C.V.**

Dear Directors and Shareholders,

In our capacity as members of the Corporate Practices Committee, in compliance with Article 43, section I and other applicable provisions of the Mexican Securities Law ("Ley del Mercado de Valores"), the Bylaws of Grupo Gigante S.A.B. de C.V. and the Regulation of its Board of Directors, please find below the Report of this Committee for the activities carried out during the fiscal year 2016.

Over the past year, this Committee met on 3 occasions, thereby presenting to the Board of Directors its respective reports and recommendations at the ordinary and extraordinary meetings of the fiscal year being reported. The following activities and matters were mainly discussed:

I. SUPERVISION OF CORPORATE GOVERNANCE. In compliance with the Corporate Governance program and the applicable legal provisions, the Committee supervised the meetings that were held and the functioning of the corporate governance bodies as well as its operating regulations, the legal provisions on this subject matter and the bylaws of Grupo Gigante. It is hereby informed that the latter was carried out properly and in a timely manner, having held several board and committee meetings, according to the provisions.

II. COMPREHENSIVE COMPENSATION PLAN. Based on the Compensation Plan for the CEO and the senior directors of Grupo Gigante, which is comprised of 4 elements: Base Salary Structure, Variable Annual Compensation or Performance Bonus, Long-Term Incentive and Retirement Benefits, the Committee actively participated in supervising its execution. Detailed adjustments and specifications were proposed and agreed.

III. REVIEW AND APPROVAL OF GENERAL INCREASES.

In terms of their duties and according to the general and specific economic conditions of the Group, the Committee reviewed and approved the corresponding proposal submitted by the administration.

IV. EVALUATION OF THE PERFORMANCE BY THE CEO AND SENIOR OFFICERS.

In compliance with the applicable provisions, the performance of the CEO of the Company and the Senior Directors was evaluated. Salary adjustments as well as the performance bonuses and incentives were authorized in light of the results of the fiscal year 2015 and the plans for 2016.

V. OPERATIONS BETWEEN RELATED PARTIES. In compliance and execution of their responsibilities and authorities and as provided by Article 28, section III, subsection b) of the Securities Law, the Committee reviewed and analyzed operations between related, recurring and private parties. It always sought fair and market value, costs and parameters in these operations for the benefit of company.

VI. LEGAL EXEMPTIONS. Since the situation related to the exemptions referred to in Article 28, section III, subsection f) of the Mexican Securities Law did not occur, these operations did not need to be presented to the Board and, consequently, there is nothing to report.

VII. CORPORATE POLICIES AND PROCEDURES. The Committee supervised the application of the policies that were established.

VIII. REVIEW AND UPDATE OF THE BUSINESS PLAN OF GRUPO GIGANTE AND SUBSIDIARIES. Within the scope of its responsibilities, and in coordination with the Finance and Planning Committee, the Committee reviewed and initiated the process to update the Business Plan. For this purpose, it sought the help of external advisors.

IX. REVIEW AND UPDATE OF THE BUSINESS PLAN OF GRUPO GIGANTE AND SUBSIDIARIES.

Within the scope of its authorities and responsibilities, as per the request by the Finance and Planning Committee, with respect to the second stage of development of the process of the Business Plan for Grupo Gigante and subsidiaries, regarding the review and, as the case may be, update of the organizational structure of the Group and, specifically, of the subsidiary, Gigante Grupo Inmobiliario, as a result of the findings and preliminary conclusions of the Business Plan, during the second half of the fiscal year being reported, the Committee actively participated in the analysis and proposals concerning adjustments of these structures. It should conclude during the first quarter of 2017.

X. VALIDATION AND APPROVAL OF THE CODE OF ETHICS.

In coordination with the Audit Committee, the Committee reviewed and authorized the update of the Code of Ethics of Grupo Gigante and subsidiaries. Thereafter, it was recommended to the Board of Directors for its approval.

XI. PROPOSAL AND APPROVAL OF THE BOARD OF DIRECTORS' REGULATIONS.

In order to update and adjust the Regulations of the Board of Directors and its Committees

to the amendments made to the Bylaws that were approved by Grupo Gigante's Shareholders' Meeting, the Committee reviewed these Regulations after their update and determined it should be proposed to the Board for its approval.

XII. REVIEW OF THE POLICY RELATED TO POWERS-OF-ATTORNEY OF GRUPO GIGANTE AND CONTROLLED COMPANIES.

As per management's proposal, the Committee agreed to review the powers-of-attorney recently granted by Grupo Gigante and subsidiaries as well as preparing a policy on this subject. For this purpose, an analysis will be carried out about the revocation of powers and granting of new powers-of-attorney, according to the specific rules that are in the process of being defined. This policy should be concluded during the first quarter of 2017.

Consequently, with this report we hereby comply with Article 43, section I and other applicable provisions of the Law as well as the bylaws and regulation of the Board of Directors of Grupo Gigante, S.A.B. de C.V.



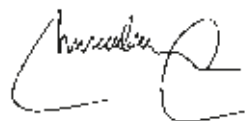
Roberto Salvo Horvilleur

Committee Chairman



Gilberto Pérezalonso Cifuentes

Board Member



Luis Santana Castillo

Board Member



Sergio Montero Querejeta

Committee Secretary

Finance and Planning Committee Annual Report

Mexico City, March 16, 2017

**To the Board of Directors
To the Shareholders' Meeting of
Grupo Gigante, S.A.B. de C.V.**

Dear Board Members and Shareholders,

In our capacity as members of the Finance and Planning Committee and in compliance with the bylaws of Grupo Gigante, S.A.B. de C.V. and the Regulations of the Board of Directors, we hereby present the 2016 Activities Report for your consideration.

According to the preceding paragraph, during said fiscal year, this Committee held 5 work sessions, having presented its respective reports and recommendations to the Board of Directors for all of its sessions of the year in terms of the content and development of the following aspects and topics:

I. RECURRING ACTIVITIES. In exercise of its duties, the Committee received detailed information in a timely manner about the matters related to the strategic, financial and budgetary aspects that became the subject to considerations and recommendations of this collegiate body to the Board of Directors. It was considered appropriate to specifically inform about the discussion and analysis of the following topics:

I.1. Budget 2016, its structure, follow-up and progress.

I.2. Cash flow of the Group and its subsidiaries.

I.3. Results for the fiscal year, annual and quarterly of the Group and its subsidiaries and affiliates.

I.4. Integration and follow-up of the Capex of the company and its subsidiaries.

I.5. Supervision and use of the lines of credit of the Company and its controlled companies.

I.6. Analysis and discussion about the different sources of financing and alternatives of the Group and its subsidiaries.

I.7. Analysis and definition of the premises and principle aspects of the budget 2016 as well as the financial ratios to be applied and performance indicators.

I.8. Follow-up and report about openings and closing of the Group's units - stores.

I.9. Analysis and, as the case may be, approval of investment projects.

II. SUPERVISION OF THE MANAGEMENT OF THE GROUP'S TREASURY. Investment alternatives were analyzed and guidelines and policies were defined. Their performance and compliance was supervised. To supplement the annual report,

it was informed that at the end of the fiscal year 2016, the Company's treasury concluded with the sum of \$2,773.2 million pesos after paying interests, bank loans and having covered other investments, including income from financial interest.

III. BUYBACK POLICY AND OUTSTANDING SHARES. The Committee received periodical reports regarding the compliance of the Company's share buyback policy; however, since no operations of this kind were executed during the corresponding year, it was reported that at the end of the fiscal year 994'227,328 shares were outstanding.

IV. ASSET VALUATION CRITERIA. The Committee participated in the review and confirmation of the asset valuation criteria, whose authorization was recommended to the Board, according to the International Financial Reporting Standards (IFRS).

V. DEBT ANALYSIS AND SUPERVISION. The Committee actively participated with management in the debt analysis of the Group and its subsidiaries. Reduction and streamlining

proposals were defined, which included the prepayment of the 6.875% Senior Notes issued by its subsidiary, Office Depot de México, S.A. de C.V.

VI. PREPAYMENT OF 6.875% SENIOR NOTES BY OFFICE DEPOT DE MÉXICO. As a result of the foregoing and at the management's proposal, a financial strategy was approved to eliminate our exposure to foreign currency, monitoring its implementation.

To do so it was necessary to take a series of financial steps, which included selling certain assets, hedging exchange rates, taking out new debt in Mexican pesos under more favorable conditions and, especially, prepaying the 6.875% Senior Notes issued by our subsidiary, Office Depot de México, S.A. de C.V. This included a significant capitalization of said controlling company, which generated as a result a significant strengthening of Grupo Gigante and its corresponding subsidiary's Balance.

VII. GRUPO GIGANTE AND SUBSIDIARIES' BUSINESS PLAN.

Considering the review and update of Plans for Grupo Gigante and its main subsidiaries, starting this fiscal year 2016, the Committee used its best efforts to participate in the update and design of new strategies in total

coordination with management. The Strategic Plan 2017-2021 will result from the latter and which should conclude in the first quarter of 2017.

VIII. REAL ESTATE PROJECTS. During the year that concluded, and given its budgetary and strategic importance, the Committee continued its participation in the review process of the progress made with the Miyana Project (iconic real estate project of the Group) and other real estate projects.

IX. MEETINGS WITH MANAGEMENT. Throughout 2016, the Committee held meetings with management and with those responsible for the Group's most important operating subsidiaries (Office Depot de México, Grupo Toks and Gigante Grupo Inmobiliario). After analyzing the periodical reports, recommendations were made with special emphasis in the care given to the optimal use of the capital and debt levels of the subsidiaries and the Group. Several alternatives were identified, including divestment or monetization of the specific assets to improve and/or reduce leveraging.

Consequently, with this report, we have complied with the provisions of the bylaws and other applicable provisions of the Regulations of the Board of Directors.



Javier Molinar Horcasitas
Committee Chairman



Manuel Somoza Alonso
Board Member



Roberto Salvo Horvilleur
Board Member



Angel Losada Moreno
Board Member



Juan Carlos Mateos Durán de Huerta
Board Member



Sergio Montero Querejeta
Committee Secretary

Board of *Directors*

EQUITY RELATED BOARD MEMBERS

ÁNGEL LOSADA MORENO
Chairman of the Board of Directors and
Chief Executive Officer of
Grupo Gigante, S.A.B. de C.V.
BS in Business Administration,
Universidad Anáhuac

EQUITY BOARD MEMBERS

BRAULIO ANTONIO ARSUAGA LOSADA
Chief Executive Officer of Grupo
Presidente
BS in Business Administration,
Universidad Anáhuac.
MS in Business Administration,
Southern Methodist University

GONZALO BARRUTIETA LOSADA
Chairman of the board, Operadora IPC
de México
BS in Economics, ITAM. MS in Business
Administration, Claremont Graduate
University

RELATED BOARD MEMBERS

JOSÉ ALVERDE LOSADA
General Director of Desarrolladora A&L
BS in Business Administration, MS in
Business Administration,
Texas University

INDEPENDENT BOARD MEMBERS

ROBERTO SALVO HORVILLEUR
Independent board member in
several companies in Mexico and
Centroamérica
BS in Business Administration,
University of Notre Dame
MS in Business Administration, INCAE
Business School

LORENZO PEÓN ESCALANTE
Independent board member in
several companies
Responsible for the construction of
the Mexican Baseball Hall of Fame in
Monterrey
BS in Business Administration,
Universidad Iberoamericana

JAVIER MOLINAR HORCASITAS
Manager partner and director of
Ventura Capital Privado, S.A. de C.V.
BS in Business Administration,
Universidad La Salle

GILBERTO PÉREZALONSO CIFUENTES
Independent board member in
several companies
BS in Legal Studies, Universidad
Iberoamericana. MS in Business
Administration, INCAE Business School

LUIS REBOLLAR CORONA
Independent board member in
several companies
BS in Chemical Engineering, UNAM

LUIS SANTANA CASTILLO
Independent board member in
several companies
BS in Philosophy, Pontifical Gregorian
University, Roma, Italia. MS in
Administration, IPADE, México

MANUEL SOMOZA ALONSO
Chairman of Strategies of CI Banco by
Somoza, Musi y Asociados
BS in Economics, Universidad
Anáhuac. MS in Business Administra-
tion, TEC de Monterrey México

ALFONSO SALEM SLIM
Chairman of the Board of Directors
and Chief Executive Officer of
Inmuebles Carso
Civil Engineer, Universidad Anáhuac

JUAN CARLOS MATEOS DURÁN
DE HUERTA
CFO of Grupo Pochteca, S.A.B. de C.V.
BS in Economics, Claremont McKenna
College, MS in Business Administra-
tion, Harvard Business School.

JAVIER MARTÍNEZ DEL CAMPO LANZ
Secretary of the Board of Grupo
Gigante, S.A.B. de C.V.
BS in Legal Studies, Universidad
Anáhuac del Norte
MS University of San Diego

AUDIT COMMITTEE

LUIS SANTANA CASTILLO
Committee Chairman

ROBERTO SALVO HORVILLEUR
LUIS REBOLLAR CORONA

ERNESTO VALENZUELA ESPINOZA
Committee Secretary

CORPORATE PRACTICES COMMITTEE

ROBERTO SALVO HORVILLEUR
Committee Chairman

GILBERTO PÉREZALONSO CIFUENTES
LUIS SANTANA CASTILLO

SERGIO MONTERO QUEREJETA
Committee Secretary

FINANCE AND PLANNING COM- MITTEE

JAVIER MOLINAR HORCASITAS
Committee Chairman

ÁNGEL LOSADA MORENO
JUAN CARLOS MATEOS DURÁN DE
HUERTA
MANUEL SOMOZA ALONSO
ROBERTO SALVO HORVILLEUR

SERGIO MONTERO QUEREJETA
Committee Secretary

Investor **Information**

CORPORATE HEADQUATERS

Grupo Gigante, S.A.B. de C.V.
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DEPOSITARY BANK

Banco de Nueva York
620 Avenue of the Americas,
Nueva York, N.Y. 10011,
USA

INVESTOR RELATIONS

Jorge Hernández Talamantes
Tel. (52) 55 5269-8186
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GIGANTE



**EMPRESA
SOCIALMENTE
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Grupo Gigante, S. A. B. de C. V. and Subsidiaries

Consolidated Financial
Statements for the Years
Ended December 31, 2016,
2015 and 2014, and
Independent Auditors' Report
Dated March 22, 2017

Grupo Gigante, S. A. B. de C. V. and Subsidiaries

Independent Auditors' Report and Consolidated Financial Statements for 2016, 2015 and 2014

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Independent Auditors' Report to the Board of Directors and Stockholders of Grupo Gigante, S. A. B. de C. V.

Opinion

We have audited the accompanying consolidated financial statements of Grupo Gigante, S. A. B. de C. V., S. A. B. de C. V. and subsidiaries (the "Entity"), which comprise the consolidated statements of financial position as of December 31, 2016, 2015 and 2014, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the 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, 2016, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have concluded that the following Key Audit Matters should be communicated in our report.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise. The Entity determines internally the fair value of its Investment properties, which requires Entity's management the use of certain significant judgments and estimates. Changes in these assumptions would have an impact in the fair value determined for the investment properties as well as in the profit for the year.

The audit procedures performed to test investment properties included:

Performing detail substantive testing of the additions to investment properties made during the year, using the work of our internal experts we tested the reasonableness of the assumptions used such as discount rate, long-term inflation rates and others; we tested other assumptions used in the determination of future cash flows such as income and property operating costs and we tested the changes in significant assumptions used for reasonableness.

Our procedures also included the review of the appropriateness of the Entity's disclosures regarding the assumptions and accounting policies for the recognition of investment properties, which are included in the Note 10 to the consolidated financial statements.

Long-term debt

As of December 31, 2016 the Entity has entered into long-term agreements with certain financial institutions which include certain covenants. If the Entity breaches these covenants the classification of the long-term debt would change to be presented as current liabilities.

The audit procedures performed for testing the long-term debt were significant for our audit due to the importance of such loans. As a result, our audit procedures included:

As of December 31, 2016 we tested: the completeness of the long-term debt by obtaining confirmations of the outstanding amounts from the financial institutions; compliance with the long-term debt covenants including maintaining certain financial ratios such as leverage ratio, interest coverage ratio, adjusted leverage ratio, hedging certain foreign currency risks and maintaining a certain level of minimum shareholders' equity amount as required per the debt agreements.

Nota 17 to the consolidated financial statements includes the disclosures related to long-term debt.

Information other than the Financial Statements and Auditor's Report

Management is responsible for the other information. The other information comprises two documents, the Entity's Annual Report and the information that will be incorporated in the Annual Report which the Entity is required to prepare in accordance with article 33Ib) of the fourth title, first chapter of the General Provisions Applicable to Issuers of Securities and Other Participants in the Securities Market in Mexico (the requirements). As of the date of our auditor's report we have not yet obtained these documents and they will be available only after the issuance of this Audit Report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether if the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If when reading the other information we conclude that it is materially misstated we would be required to report this fact.

Responsibilities of Management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited



C. P. C. Erick J. Calvillo Rello

March 22, 2017

Grupo Gigante, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2016, 2015 and 2014

(In thousands of Mexican pesos)

Assets	Note	2016	2015	2014
Current assets:				
Cash and cash equivalents	5	\$ 2,281,685	\$ 3,177,165	\$ 1,724,511
Financial instruments	6	491,531	2,138,688	2,718,551
Accounts receivable - Net	7	2,859,590	3,007,959	1,698,962
Inventories - Net	8	6,927,570	5,446,714	4,188,809
Prepaid expenses		<u>533,562</u>	<u>240,474</u>	<u>140,513</u>
Total current assets		13,093,938	14,011,000	10,471,346
Property and equipment - Net	9	9,769,426	9,364,371	8,855,587
Investment property	10	11,894,763	12,924,916	11,869,868
Investments in joint ventures and associates	11	2,491,610	1,966,976	577,650
Goodwill	14	992,582	947,361	359,940
Deferred income taxes	27	463,385	353,419	328,994
Intangibles and other assets - Net	15	<u>1,726,119</u>	<u>1,435,155</u>	<u>1,478,369</u>
Total non-current assets		<u>27,337,885</u>	<u>26,992,198</u>	<u>23,470,408</u>
Total assets		<u>\$ 40,431,823</u>	<u>\$ 41,003,198</u>	<u>\$ 33,941,754</u>
Liabilities and stockholders' equity				
Current liabilities:				
Current portion of long-term debt	17	\$ 472,304	\$ 606,523	\$ 397,467
Trade accounts payable		5,028,255	4,094,218	2,194,790
Accrued expenses and taxes	16	<u>1,906,220</u>	<u>1,930,758</u>	<u>1,495,146</u>
Total current liabilities		7,406,779	6,631,499	4,087,403
Long-term debt	17	9,854,892	7,651,214	5,792,614
Senior notes payable	18	-	5,995,086	5,067,702
Employee benefits	19	124,680	59,842	105,856
Deferred income taxes	27	2,537,776	2,617,864	2,316,657
Long-term income tax payable	27	337,081	176,011	298,962
Prepaid rents and rent holidays received		<u>183,438</u>	<u>188,831</u>	<u>193,352</u>
Total non-current liabilities		<u>13,037,867</u>	<u>16,688,848</u>	<u>13,775,143</u>
Total liabilities		<u>20,444,646</u>	<u>23,320,347</u>	<u>17,862,546</u>
Stockholders' equity:				
Common stock	21	1,374,928	1,374,928	1,374,928
Additional paid-in capital		4,026,542	4,026,542	4,026,542
Retained earnings		13,410,665	10,621,182	9,125,028
Other comprehensive income	22	<u>667,692</u>	<u>1,235,903</u>	<u>1,417,985</u>
Equity attributable to owners of the Entity		19,479,827	17,258,555	15,944,483
Non-controlling interest	23	<u>507,350</u>	<u>424,296</u>	<u>134,725</u>
Total stockholders' equity		<u>19,987,177</u>	<u>17,682,851</u>	<u>16,079,208</u>
Total stockholders' equity and liabilities		<u>\$ 40,431,823</u>	<u>\$ 41,003,198</u>	<u>\$ 33,941,754</u>

See accompanying notes to consolidated financial statements.

Grupo Gigante, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Profit or Loss and Other Comprehensive Income

For the years ended December 31, 2016, 2015 and 2014

(In thousands of Mexican pesos, except earnings per share data)

	Note	2016	2015	2014
Sale of goods - Net		\$ 29,153,978	\$ 25,001,900	\$ 19,231,415
Rental income		1,284,447	1,307,371	1,261,774
Other income		<u>420,139</u>	<u>301,995</u>	<u>320,913</u>
		30,858,564	26,611,266	20,814,102
Cost of sales	25	19,134,734	16,504,013	12,472,933
Operating expenses	25	8,965,854	7,822,020	6,159,016
Gain on revaluation of investment property	10	(803,535)	(1,051,330)	(721,354)
Interest expense		1,505,383	924,962	791,918
Interest income		(106,462)	(90,274)	(79,112)
Exchange loss - Net		181,505	884,986	542,480
Available-for-sale financial instruments		(1,513,836)	(666,659)	-
Gain on revaluation of financial instruments		(368,042)	(17,296)	(147,045)
Share of profit of joint ventures and associates	11	<u>(429,805)</u>	<u>(97,301)</u>	<u>(14,307)</u>
Profit for the year from continuing operations before income taxes		4,292,768	2,398,145	1,809,573
Income taxes expense	27	<u>1,410,036</u>	<u>827,337</u>	<u>572,663</u>
Net consolidated income		<u>\$ 2,882,732</u>	<u>\$ 1,570,808</u>	<u>\$ 1,236,910</u>
Other comprehensive income:				
Items that will be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations		\$ (554,311)	\$ (111,512)	\$ (35,895)
Net fair value loss on available-for-sale financial assets		1,528,179	501,718	287,370
Deferred tax related to gain on available-for-sale financial assets	27	<u>(476,195)</u>	<u>(205,657)</u>	<u>-</u>
Other comprehensive income for the year, net of income tax		<u>497,673</u>	<u>184,549</u>	<u>251,475</u>
Total comprehensive income for the year		<u>\$ 2,385,059</u>	<u>\$ 1,386,259</u>	<u>\$ 985,435</u>
Profit for the year attributable to:				
Owners of the Entity		\$ 2,789,483	\$ 1,496,175	\$ 1,220,900
Non-controlling interest	12	<u>93,249</u>	<u>74,633</u>	<u>16,010</u>
		<u>2,882,732</u>	<u>\$ 1,570,808</u>	<u>\$ 1,236,910</u>
Other comprehensive income attributable to:				
Owners of the Entity		\$ 2,221,272	\$ 1,314,093	\$ 969,425
Non-controlling interest		<u>163,787</u>	<u>72,166</u>	<u>16,010</u>
		<u>\$ 2,385,059</u>	<u>\$ 1,386,259</u>	<u>\$ 985,435</u>
Earnings per share:				
Basic and diluted earnings	28	<u>\$ 2.81</u>	<u>\$ 1.50</u>	<u>\$ 1.23</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2016, 2015 and 2014
(In thousands of Mexican pesos)

	Stockholders' equity		Retained earnings	Other items of comprehensive income			Non-controlling interest	Total stockholders' equity
	Common Stock	Additional paid-in capital		Net cumulative fair value gain on available- for-sale financial assets	Cumulative exchange differences on translating foreign operations			
Balances as of January 1, 2014	\$ 1,374,928	\$ 4,026,542	\$ 7,904,128	\$ 1,635,415	\$ 34,045	\$	\$ 119,827	\$ 15,094,885
Acquisition of non-controlling interest	-	-	-	-	-		(1,112)	(1,112)
Comprehensive income	-	-	1,220,900	(287,370)	35,895		16,010	985,435
Balances as of December 31, 2014	1,374,928	4,026,542	9,125,028	1,348,045	69,940		134,725	16,079,208
Repurchase of shares	-	-	(21)	-	-		-	(21)
Subsidiaries acquired	-	-	-	-	-		217,405	217,405
Comprehensive income	-	-	1,496,175	(296,061)	113,979		72,166	1,386,259
Balances as of December 31, 2015	1,374,928	4,026,542	10,621,182	1,051,984	183,919		424,296	17,682,851
Dividends paid	-	-	-	-	-		(101,880)	(101,880)
Subsidiaries acquired	-	-	-	-	-		21,147	21,147
Comprehensive income	-	-	2,789,483	(1,051,984)	483,773		163,787	2,385,059
Balances as of December 31, 2016	\$ 1,374,928	\$ 4,026,542	\$ 13,410,665	\$ -	\$ 667,692	\$	\$ 507,350	\$ 19,987,177

See accompanying notes to consolidated financial statements.

Grupo Gigante, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2016, 2015 and 2014
(In thousands of Mexican pesos)

	2016	2015	2014
Cash flow from operating activities:			
Profit before income taxes from continued operations	\$ 4,292,768	\$ 2,398,145	\$ 1,809,573
Adjustments:			
Depreciation and amortization	753,742	770,210	600,632
(Reversal of) long-lived assets impairment loss	(45,844)	68,811	60,623
Gain on revaluation of investment property	(803,535)	(1,051,330)	(721,354)
Loss on sale and disposal of property and equipment	304,196	126,832	132,298
Unrealized foreign exchange loss	-	911,750	584,360
Foreign exchange	1,085,834	-	-
Available-for-sale financial instruments	(1,513,836)	(666,659)	-
Gain on revaluation of financial instruments	(368,042)	(17,296)	(147,045)
Dividends received	(6,648)	(16,665)	(13,779)
Share of gain of joint ventures and associates	(429,805)	(97,301)	(14,307)
Interest income	(106,462)	(90,274)	(79,112)
Other non-cash	3,911	58,618	-
Interest expense	1,505,383	924,962	791,918
	<u>4,671,662</u>	<u>3,319,803</u>	<u>3,003,807</u>
Working capital adjustments:			
(Increase) decrease in:			
Accounts receivable - Net	(109,012)	(554,732)	198,448
Inventories - Net	(1,479,870)	(466,645)	(368,235)
Prepaid expenses	(73,634)	37,519	(128,284)
Increase (decrease) in:			
Trade accounts payable	934,045	586,674	(101,404)
Accrued expenses and taxes	18,994	370,046	90,366
Income taxes paid	(785,720)	(695,606)	(792,866)
Net cash generated by operating activities	<u>3,176,465</u>	<u>2,597,059</u>	<u>1,901,832</u>
Cash flow from investing activities:			
Acquisition of property and equipment	(1,201,909)	(784,058)	(865,219)
Acquisition of investment properties	(333,529)	(3,718)	(45,213)
Proceeds on sale of properties and equipment	-	114,254	2,570
Proceeds on sale of investment properties	2,167,218	-	-
Acquisition of intangible assets	-	(52,730)	(11,600)
Acquisition of subsidiaries - net of cash received	(145,017)	(2,017,628)	7,854
Advanced payments to acquire associate	-	-	(678,000)
Dividends received in cash from available-for-sale equity instruments	6,648	16,665	13,779
Disposals of financial instruments held for trading	1,794,245	683,999	481,540
Investments in joint ventures and associates	(109,256)	(571,948)	(212,256)
Interest received	106,462	90,274	79,112
Net cash generated by (used in) investing activities	<u>2,284,862</u>	<u>(2,524,890)</u>	<u>(1,227,433)</u>

Grupo Gigante, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2016, 2015 and 2014
(In thousands of Mexican pesos)

	2016	2015	2014
Cash flow from financing activities:			
Proceeds from borrowings	3,114,000	2,248,709	4,730,953
Re-payments of borrowings	(960,696)	(250,275)	(4,560,698)
Re-payments of Senior notes payable	(7,164,764)	-	-
Interest paid	(1,491,974)	(801,435)	(686,903)
Repurchase of shares	-	(21)	-
Dividends paid to non-controlling interest	(101,880)	-	-
Acquisition of non-controlling interest	-	123,676	(1,112)
Net cash (used in) generated by financing activities	<u>(6,605,314)</u>	<u>1,320,654</u>	<u>(517,760)</u>
Net (decrease) increase in cash and cash equivalents	(1,143,987)	1,392,823	156,639
Cash and cash equivalents at the beginning of year	3,177,165	1,724,511	1,525,927
Effects of exchange rates changes on cash	<u>248,507</u>	<u>59,831</u>	<u>41,945</u>
Cash and cash equivalents at the end of year	<u>\$ 2,281,685</u>	<u>\$ 3,177,165</u>	<u>\$ 1,724,511</u>

See accompanying notes to consolidated financial statements.

Grupo Gigante, S. A. B. de C. V. and Subsidiaries

Notes to Consolidated Financial Statements

For the years ended December 31, 2016, 2015 and 2014

(In thousands of Mexican pesos, except earnings per share data)

1. Activities

Grupo Gigante, S. A. B. de C. V. ("Grupo Gigante") is a corporation incorporated under the laws of Mexico. The address of its corporate offices is Ejercito Nacional 350, Polanco V Seccion, 11560, in Mexico City, Mexico.

Grupo Gigante, S. A. B. de C. V. and subsidiaries (collectively, the "Entity") is engaged in the operation of restaurants, management and development of investment property and the operation of self-service stores that sell office supplies, electronic goods as well as housewares.

On December 19, 2016, Grupo Gigante, S. A. B. de C. V., through its subsidiary Office Depot de México, S.A. de C.V. ("ODM"), settled its Senior Notes payable (the Senior Notes) using the "Make Whole Payment" clause as described in the Senior Note's Indenture. The Notes were issued on September 20, 2013, for a total amount of 350,000,000 dollars, were due in 2022 and they bear interest at an annual rate of 6.875%.

On June 30, 2016, Office Depot de México, S.A. de C.V., an indirect subsidiary of Grupo Gigante, S.A.B. de C.V. acquired through its subsidiary OD Chile, S.P.A. 51% of the voting shares of the Chilean companies Transportes Surtivía Limitada, S.A., Transporte Tropiservi Limitada, S.A. and Transporte y Distribuidora Tropivias Limitada, S.A.

On May 27, 2016, Operadora y Administradora de Restaurantes Gigante, S.A. de C.V., an indirect subsidiary of Grupo Gigante, S. A. B. de C. V., entered into an agreement to acquire five restaurants that until then were operated under the trademark "Wings", by Fly By Wings, S.A. de C.V., a subsidiary of CMR, S.A.B. de C.V. Known as units Barranca, Fray Servando, Chapultepec, Queretaro, Alameda, as well as the assets of Cedros.

In April 29, 2015, Grupo Gigante, S. A. B. de C. V., through its indirect subsidiary Office Depot de México, S.A. de C.V., and this through OD Chile, S.P.A., closed the acquisition of 51% of the shares of each of the five companies comprising Grupo Prisa S. A. ("Grupo Prisa"), Proveedores Integrales Prisa, S.A., Distribuidora Prisa Store, S.A., Proveedores Integrales del Norte, S.A., Surtiventas, S.A., Proveedores Integrales del Sur, S.A., y Prisa Logística, S.A, thereby initiating operations in the Chilean market.

On March 27, 2015, Grupo Gigante, S.A.B. de C.V. through its indirect subsidiary Office Depot de México, S.A. de C.V., entered into a purchase agreement to acquire 100% of the shares representing the equity of Radio Shack de México, S. A. de C. V., Retail Answers, S. A. de C. V. Logistic and Answers, S. A. de C. V. ("RadioShack de México") as well as all trademarks, trade names, domain names and other industrial property related to the operation of Radio Shack of Mexico in the country. The transaction included a total of 247 stores. This acquisition closed and the Entity began consolidating it on June 18, 2015, once all the conditions of the operation and all the relevant approval were obtained.

In August 2014, the Entity, through its indirect subsidiary Restaurantes Toks, S.A. de C.V., entered into an agreement with Controladora Comercial Mexicana, S. A. B. de C. V. ("CCM"), to acquire all of the shares of Restaurantes California, S. A. de C. V. and subsidiaries, which owns the brands "Restaurantes California" and "Beer Factory " and it operates a total of 53 restaurants; 7 under the Beer Factory brand and 46 under the Restaurantes California brand. This transaction was approved by the Federal Competition Commission ("COFECE") on February 6, 2015.

2. Application of new and revised International Financial Reporting Standards

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 International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

a. ***Application of new and revised International Financial Reporting Standards (“IFRSs” or “IAS”) and interpretations that are mandatorily effective for the current year 2016***

In the current year, the Entity has applied a number of amendments to IFRSs and new Interpretation issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after January 1, 2016.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice.

The application of these amendments to IAS 1 did not have impacts on the Entity’s consolidated financial statements.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 Income Taxes regarding the recognition of deferred taxes at the time of acquisition and IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments to IFRS 11 are applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016.

The application of these amendments to IFRS 11 did not have an impact on the Entity’s consolidated financial statements.

Amendments to IAS 16, IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) When the intangible asset is expressed as a measure of revenue; or
- b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, Entity uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively. The management of the Entity believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the application of these amendments to IAS 16 and IAS 38 did not have an impact on the Entity's consolidated financial statements.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The amendments should be applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016.

The application of these amendments to IFRS 10 and IAS 28 did not have any impact on the Entity's consolidated financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments had no material effect on the Entity's consolidated financial statements.

b. *New and revised IFRSs in issue but not yet effective*

The Entity has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments ²
IFRS 15	Revenue from Contracts with Customers ²
IFRS 16	Leases ³
Amendments to IAS 7	Statements of Cash Flows ¹

¹ Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

² Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

IFRS 9, *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2014 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2015 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in net income (loss).
- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Entity's management does not anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Entity's financial assets and financial liabilities.

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Entity's management anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Entity's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Entity performs a detailed analysis.

IFRS 16, *Leases*

IFRS 16 "Leases" was issued in January 2016 and supersedes IAS 17 "Leases" and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

The Entity is in the process of determining the potential impacts that will derive from the adoption of this standard in its consolidated financial statements, although by the nature of its operations it is expected to have significant impacts.

Amendments to IAS 7 Statements of Cash Flows: Provide disclosures

The amendments in disclosure initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted.

The management of the Entity expects that there may be some impacts a result of these amendments.

3. Summary of significant accounting policies

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with IFRS released by the IASB.

b. *Basis of measurement*

The consolidated financial statements have been prepared on the historical cost basis except for, investment property and certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

i. *Historical cost*

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

ii. *Fair value*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable.

c. ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Entity and its subsidiaries controlled by it. Control is achieved when the Entity:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Entity has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Entity considers all relevant facts and circumstances in assessing whether or not the Entity's voting rights in an investee are sufficient to give it power, including:

- The size of the Entity's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Entity, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Entity obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Entity and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Entity's accounting policies.

All intra-Entity assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Entity are eliminated in full on consolidation.

Changes in the Entity's ownership interests in existing subsidiaries

Changes in the Entity's ownership interests in subsidiaries that do not result in the Entity losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Entity.

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

d. **Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Entity, liabilities incurred by the Entity to the former owners of the acquiree and the equity interests issued by the Entity in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, *Income Taxes*, and IAS 19 *Employee benefits*, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Entity entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, *Share Based Payments*, at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Entity previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

e. ***Investments in joint ventures and associates***

An associate is a company over which the Entity has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Entity's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Entity's share of losses of an associate or a joint venture exceeds the Entity's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Entity's net investment in the associate or joint venture), the Entity discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Entity's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Entity's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Entity's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36, *Impairment of Assets*, as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Entity discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Entity retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Entity measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Entity accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Entity continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Entity reduces its ownership interest in an associate or a joint venture but the Entity continues to use the equity method, the Entity reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When the Entity transacts with an associate or a joint venture of the Entity, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Entity's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Entity.

f. **Cash equivalents**

Cash equivalents consist mainly in short-term investments, highly liquid and easily convertible into cash, maturing within three months as of their acquisition date, which are subject to immaterial value change risks. Cash equivalents are measured at fair value; any fluctuations in fair value are recognized in profit for the year.

g. **Restricted cash**

Restricted cash represents cash and cash equivalents balances held by the Entity that are only available for use under certain conditions pursuant to the guarantee agreements and other contracts entered into by the Entity (as discussed in Note 5). These restrictions are classified according to their restriction period: less than 12 months and over one year, considering the period of time in which such restrictions are fulfilled and the Entity may use these amounts, whereby the short-term restricted cash balance was classified within current assets under cash and cash equivalents and the long-term restricted cash, was classified within intangibles and prepaid expenses.

h. ***Financial assets***

Financial assets are recognized when the Entity or any of its subsidiaries becomes a party to the contract governing such financial instruments.

Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets are classified into the following specified categories: financial assets “at fair value through profit or loss” (FVTPL), “held-to-maturity” “investments”, “available-for-sale” (AFS) financial assets and “loans and receivable”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. At the reporting date of the consolidated financial statements the Entity had only financial instruments classified as financial assets held for trading, available- for- sale financial assets and loans and receivables:

i. Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as of FVTPL.

ii. Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading. See Note 6.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets held for trading are measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss in the Net gain on fair value of available- for- sale financial assets line item within the consolidated statements of profit and loss and other comprehensive income.

iii. Financial assets classified as available-for-sale (AFS financial assets)

The Entity maintains investments in equity instruments of other entities that have been designated as available-for-sale. These investments are measured at fair value at the report date and changes in fair value are recognized in other comprehensive income, net of tax. See Note 6.

Dividends on AFS equity instruments are recognized in profit or loss, in the other income line item, when the right of the Entity to receive dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

iv. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed payments or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term accounts receivable when the effect of discounting is immaterial. Accounts receivable are mainly comprised of trade receivables.

v. Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity instruments, a significant or prolonged decline in the fair value of the equity instrument below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Entity's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets recorded at cost, the amount for the impairment loss is calculated as the difference between the book value of the asset and the current value of the estimated future cash flows, deducted from the current rate of the exchange market for a similar financial asset. Such impairment loss will not be reverted to subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trading receivables, where the carrying amount is reduced through the use of an allowance account. When a trading receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

vi. Derecognition of financial assets

The Entity derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Entity retains an option to repurchase part of a transferred asset), the Entity allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

i. ***Inventories***

Inventories are stated at the lower of cost or realizable value. The costs, including a portion of fixed and variable overhead costs are allocated to inventories using the most appropriate method for the particular kind of inventory and they are mainly measured using the average cost. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

j. ***Housing inventories***

Housing inventories consist of houses and apartments, land in process of being developed for its sale, costs and expenses incurred during the construction process of such inventories. They are stated at its construction cost, including all directly attributable costs such as the cost of the land used, construction in process and borrowing costs, without exceeding its realizable value.

k. ***Prepaid expenses***

Prepaid expenses are measured at the amount of cash or cash equivalents paid and recognized as assets from the date in which the payment is made. They are recognized in profit or loss during the period in which the related services are received or the goods are used. They are classified as short-term or long-term depending on whether the period of use of the services or goods goes beyond 12 months.

l. ***Property and equipment***

Property and equipment are initially recognized at cost and subsequently at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is recognized so as to write off the cost of the assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in such estimates accounted for on a prospective basis. Land is not depreciated.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation is calculated using the straight-line method based on the estimated useful lives of the related assets, as follows:

	Average years
Buildings	40
Leasehold improvements	9-25
Furniture and equipment	4-10
Vehicles	4
Computers	4

Leasehold improvements are amortized over the shorter of their useful life or the term of the lease.

m. ***Investment properties***

Investment properties are properties held to earn rentals and/or for capital appreciation, mainly buildings and land destined for use by the Entity's customers as supermarkets, retail stores and offices. It includes investment property under construction for such purposes. Property occupied by the Entity is segregated from the Entity's investment property and classified as property and equipment, such segregation is made based on relative square meters.

Investment properties are measured initially at cost, including transaction costs. Subsequent investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Fair values are based on market values, which are estimated to be the amount of money for which an investment property could be sold at the measurement date. Fair value for investment property and land occupied or ready to be occupied for the Entity's tenants is determined internally using valuation techniques such as the discounted cash flows approach which uses the capitalization of rental income minus property operating expenses, such as maintenance, insurance and other direct costs. The valuations take into account the ability of market participants to generate economic benefits by selling the asset or by using it in its "highest and best use" which includes the consideration of the highest and best use that physically possible, legally permissible and financially feasible. Valuations are periodically made by a specialized department of the Entity that has experience in location and category of valued investment properties. This valuation is performed for the investment properties currently in conditions to be rented; for land reserves, an appraisal is made by independent external experts that use the market approach to determine their fair value.

After initial recognition of the investment properties, all repairs and maintenance expenses are recognized within profit or loss of the period in which they are incurred.

Investment properties under construction are measured at is fair value only to the extent that such fair value can be reliably determined. In such determination, management considers, among other factors, the general conditions of the construction contract, the stage of completion of such construction, the existence of similar construction projects in the market, the reliability of the expected future cash inflows, the specific risk of the related property and past experiences.

An investment property is derecognized upon sale or when the investment property is permanently withdrawn from use and no future economic benefits are expected to be received from such investment property. Any gain or loss arising on derecognition of the property (calculated as the difference between the net sale proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

The Entity transfers from other categories of property to investment property when, and only when, there is a change in use, evidenced by commencement of development with a view to sell, the Entity vacates an existing owner-occupied property with a view to begin redevelopment as investment property or the beginning of an operating lease with a third party.

n. ***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs, including costs for loans related to investment properties that are valued at fair value are recognized in profit or loss in the period in which they are incurred.

o. ***Goodwill***

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see Note 14) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Entity's cash-generating units (or the Entity's of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

p. ***Deferred charges***

Costs incurred in the development phase that meet certain requirements and that the Entity has determined will have future economic benefits are capitalized and amortized using the straight-line-method over their estimated useful lives. Disbursements that do not meet such requirements, as well as research cost, are recorded in profit or loss of the period in which they are incurred.

q. ***Intangible assets***

1. Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

2. Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to their initial measurement, an internally-generated intangible asset is recognized at their cost less accumulated amortization and cumulative impairment losses, on the same basis as the intangible assets that are acquired separately.

3. Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

4. Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

r. ***Customer lists***

Customer lists represent the fair value of the intangible assets related to client lists identified as an asset at the acquisition date. Its expected economic life is estimated to be ten years and is subject to impairment tests on an annual basis.

s. ***Leasing***

Leases are classified as finance leases whenever the terms of the lease agreement transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

i. The Entity as a lessor

The Entity, as a lessor, retains substantially all of the benefits and risks of ownership of the property; therefore, it accounts for its leases as operating leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease agreement. Contingent rents are recognized as rental income in the consolidated statements of profit or loss and other comprehensive income in the period in which the contingency occurs.

ii. The Entity as a lessee

Leases have been classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Rent holidays are amortized over the lease term. Contingent rents arising under operating leases are recognized as an expense in the consolidated statement of profit or loss in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

t. ***Impairment in value of tangible and intangible assets other than goodwill***

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Entity of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less (or a cash-generating unit) than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

u. ***Financial liabilities and equity instruments***

Financial assets and financial liabilities are recognized when an Entity becomes a party to the contractual provisions of the instruments.

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

i. **Classification as debt or equity**

Debt and equity instruments issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

ii. **Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

iii. Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

iv. Derecognition of financial liabilities

The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

v. Offset

Financial assets and liabilities are subject to offset and the net amount is shown in the financial status statement only when the Entity has a legal right to offset the amounts and its purpose is to carry out liquidation on a net basis or to simultaneously realize the asset and liquidate the liability.

vi. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Entity are recognized at the proceeds received, net of direct issue costs.

v. ***Derivative financial instruments***

The Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks including foreign exchange forward contracts, including interest rate *swaps* and exchange rate *forwards*. Further details of derivative financial instruments are disclosed in Note 20.

Derivative financial instruments presented as of the date of the report, even though they have been entered into with hedging purposes from an economic perspective, they have been classified as trading from an accounting perspective. Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL.

w. **Provisions**

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, when it is probable that the Entity will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties associated with the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

i. **Onerous contracts**

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Entity has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

ii. **Restructurings**

A restructuring provision is recognized when the Entity has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Entity.

x. ***Employee benefits, benefits from termination, retirement and statutory employee profit sharing (PTU)***

Employee benefits from termination and retirement

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement.

The Entity presents the first two components of defined benefit costs in profit or loss. Gains and losses for reduction of service are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Entity's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Short-term and other long-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

Statutory employee profit sharing (PTU)

PTU is recorded in the results of the year in which it is incurred and is presented in operating expenses and cost of sales line item in the consolidated statement of profit or loss and other comprehensive income/consolidated statement of income. PTU is determined based on taxable income, according to Section I of Article 9 of the Income Tax Law.

y. ***Income taxes***

Income tax expense represents the sum of the tax currently payable and deferred tax.

i. Current tax

Current income tax ("ISR") is recognized in the results of the year in which they are incurred. Until December 31, 2014, current income tax was calculated as the higher of the ISR and the Business Flat Tax ("IETU").

ii. Deferred income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

As a consequence of the 2015 Tax Reform, as of December 31, 2014, deferred IETU is no longer recognized; as such, those effects were cancelled affecting the 2014 results.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

iii. Current and deferred taxes

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

z. ***Repurchase of treasury shares***

Pursuant to the Mexican Stock Market Law, a reserve was created to repurchase shares of Grupo Gigante, S.A.B. de C.V. which amount is reviewed and approved each year by the General Annual Ordinary Shareholders' Meeting. Shares, that are purchased temporarily by Grupo Gigante, S.A.B. de C.V., are repurchased by charging the stockholders' equity or the common stock, according to Article 56 of the Stock Market Law. No Gains or losses related the repurchase, sale, issuance or settlement of Grupo Gigante, S.A.B. de C.V. own equity instruments are recognized in the comprehensive income statements.

aa. ***Foreign currencies***

In preparing the financial statements of the Entity, transactions in currencies other than the Entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

The individual financial statements of each subsidiary, direct or indirect of Grupo Gigante, S.A.B. de C.V., are prepared in the currency of the primary economic environment operates (its functional currency). For purposes of these financial statements, the results and financial position of each subsidiary of Grupo Gigante, S.A. de C.V. are expressed in Mexican pesos, which is the functional currency of the Entity and the presentation currency for the consolidated financial statements.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Entity's foreign operations are translated into Currency Units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal (i.e. a disposal of the Entity's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled Entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Entity are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Entity losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Entity losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

bb. **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

The Entity recognizes revenue related to the different activities it is engaged on as follows:

- Sale of goods:* Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:
 - The Entity has transferred to the buyer the significant risks and rewards of ownership of the goods.
 - In sell of real estate, risks and rewards of ownership of the goods sold are transferred when the buyer obtains legal ownership of the inventory.
 - The Entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
 - The amount of revenue can be measured reliably.
 - It is probable that the economic benefits associated with the transaction will flow to the Entity.
 - The costs incurred or to be incurred in respect of the transaction can be measured reliably.

ii. *Rental income:* Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are capitalized within non-current assets and recognized on a straight-line basis over the lease term. Income from maintenance services related to property for rent granted are recognized in the period in which they accrue. Leasing incentives are recognized on a straight-line basis over the life of the lease. Rental income includes income from parking lots operated by the Entity.

iii. *Dividend and interest income:* Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Entity and the amount of income can be measured reliably). Dividend income is included in other income in the consolidated statements of profit or loss and other comprehensive income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Entity and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

iv. *Rendering of services:* Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- Installation fees are recognized by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period.
- Servicing fees included in the price of products sold are recognized by reference to the proportion of the total cost of providing the servicing for the product sold.
- Revenue from time and material contracts is recognized at the contractual rates as labor hours and direct expenses are incurred.

Service revenue is included in other income in the consolidated statements of profit or loss and other comprehensive income.

cc. ***Statement of Cash Flows***

The Entity reports cash flows for investment transactions using the indirect method whereby the profit or loss is adjusted for the effects of transactions of a nature different than cash, any deferral of inflow or outflow of cash for past or future accumulation or entries of income or expenses associated with cash flows from investment or financing activities.

Interests paid and interests and dividends received are classified as financing and investment activities, respectively.

dd. ***Earnings per share***

Basic earnings per common share are calculated by dividing net income of the equity attributable to owners of the Entity by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share are determined by adjusting consolidated profit attributable to the owners of the Entity for the year and common shares on the assumption that the Entity's commitments to issue or exchange its own shares would be fulfilled. During 2016, 2015 and 2014, the Entity did not have any dilutive instruments; therefore, basic and diluted per share are the same.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Entity's accounting policies, which are described in Note 3, the Entity's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. *Critical accounting judgments when applying accounting policies*

Leases classification - Leases are classified based on the extent that the risks and benefits inherent to the property of the leased asset are transferred or maintained, depending more on the substance of the transaction than in the legal form. The Entity set forth internal criteria to determine if the term of the leases is for most of the economic life of the leased property, as well as the criteria for the separation of the value allocated to the land and the construction by the participants on the lease of a real estate.

b. *Key sources of estimation uncertainty:*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

i. *Investment properties*

The Entity carries out internal valuations of its investment property which are occupied or ready to be occupied by leasees (investment properties in operation). The valuation methodology includes assumptions that are not directly observable in the market to determine the fair value. The method used was the income capitalization method - income approach, which consists of techniques and mathematic model to analyze the capacity for the future generation of economic benefits by the property discounted at present value. The main assumptions used in such calculation are discount rates, the Entity's future net operating income per property and inflation rates.

Significant changes in occupancy levels and/or in the rental income or significant increases or changes in the discount rate may result in a fair value for the investment properties significantly different and a related impact in profit or loss.

The valuation techniques used during the reported periods have been consistent. Management believes that the valuation methodologies and assumptions used are appropriate for the determination of the Entity's investment property fair values.

For investment property that is not in condition for being occupied (land or land reserves maintained for future development or to obtain capital appreciation) external appraisals are performed periodically by an independent appraiser.

ii. *Property and equipment*

The Entity determines the useful lives and residual values of its property and equipment based on its experience using the advice of internal specialists.

iii. **Impairment testing**

The Entity is required to test its definite useful live long-lived assets for impairment when there are indicators that an impairment loss has occurred and to test its indefinite useful live assets, including goodwill and other intangible assets, at least on an annual basis. To calculate impairment losses of long-lived assets in use, it is necessary to determine the asset's recoverable amount. Recoverable amount is defined as the higher of the asset's fair value less cost to sell or its value in use, which is the present value of the future cash flows expected to be derived from the asset. Determining whether goodwill is impaired requires an estimation of the value-in use of the cash-generating units to which goodwill has been allocated. The value-in use calculation requires management to estimate the present value of the future cash flows expected to arise from the cash-generating unit, determined using a suitable discount.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires Management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

iv. **Deferred taxes**

Under IFRS, the Entity is required to recognize income tax effects for temporary differences between the carrying amount of the Entity's assets and liabilities in the statement of financial position and their related tax basis. A deferred income tax asset is recognized in the consolidated financial statements to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilize and therefore future economic benefits will ultimately flow to the Entity. Such estimates are based on management's knowledge of the business as well as projections of future profits, including tax strategies entered into by the Entity.

v. **Fair value measurements and valuation processes**

Some of the Entity's assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Entity uses observable market data as they become available. Management informs the Board of Directors of any variations in fair value of financial instruments on a quarterly basis.

5. Cash and cash equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, bank deposits and short-term investments highly liquid which are measured at nominal value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statements of cash flows can be reconciled to the related items in the consolidated statements of financial position as follows:

	2016	2015	2014
Cash on hand	\$ 24,883	\$ 20,741	\$ 15,403
Bank deposits and cash equivalents	2,050,753	3,091,578	1,672,315
Restricted cash and cash equivalents ⁽ⁱ⁾	<u>206,049</u>	<u>64,846</u>	<u>36,793</u>
	<u>\$ 2,281,685</u>	<u>\$ 3,177,165</u>	<u>\$ 1,724,511</u>

- (i) Some of the Entity's subsidiaries have borrowings from financial institutions whose contracts require certain amounts of cash to be deposited as collateral. Such amounts are deposited in trusts that have been created and where the collection of rental income of some of the Entity's investment properties is deposited. Such funds service the borrowings and a reserve equivalent to five monthly payments of capital and interest is required to exist at any point in time. The deposited amounts are invested in debt instruments which are highly liquid such as government bonds. At the end of the reporting period, the balance maintained for the service of the debt in accordance with the borrowing agreements and since the time restriction for the use of these resources is less than 12 months; such amounts are presented as restricted cash within current assets. As of December 31, 2016, restricted cash includes \$141,480 related to the gain on the sale of a derivative financial instrument which will be available for use during 2017.

6. Financial instruments

	2016	2015	2014
Available-for-sale financial assets ⁽ⁱ⁾	\$ -	\$ 1,675,663	\$ 2,241,077
Held for trading financial assets ⁽ⁱⁱ⁾	<u>491,531</u>	<u>463,025</u>	<u>477,474</u>
	<u>\$ 491,531</u>	<u>\$ 2,138,688</u>	<u>\$ 2,718,551</u>

- (i) Investments in equity instruments of PriceSmart Inc. listed on the Nasdaq Stock Market and they are measured at fair value. These investments were disposed of during 2016; therefore, the cumulative gain recognized in other comprehensive income within equity was recycled to profit for the year and it is presented in the *Gain on revaluation of financial instruments line item*.
- (ii) Investments in financial instruments, including both equity and debt some of which trade in stock exchanges in Mexico and other countries, acquired with the intention of being sold. They are measured at fair value through profit or loss.

7. Accounts receivable

- a. Accounts receivable are as follows:

	2016	2015	2014
Trade accounts receivable	\$ 1,530,535	\$ 1,276,001	\$ 648,962
Allowance for doubtful accounts	<u>(33,136)</u>	<u>(34,616)</u>	<u>(23,465)</u>
	1,497,399	1,241,385	625,497
Recoverable Value Added Tax ("VAT")	777,347	771,154	617,617
Recoverable income tax	302,388	319,178	285,767
Accounts receivable in joint venture and associates ⁽ⁱ⁾	158,346	454,965	-
Other accounts receivable	<u>124,110</u>	<u>221,277</u>	<u>169,981</u>
	<u>\$ 2,859,590</u>	<u>\$ 3,007,959</u>	<u>\$ 1,698,962</u>

- (i) Additional to certain accounts receivables related to transactions with associates; as of December 31, 2015, there was an account receivable from Conjunto Polanco, S. A.P.I. de C. V., an associate, for \$330,000 which accrued interest at the Mexican Government Treasury Bonds 28-day rate (CETES), this account was collected during 2016. Additionally, as of December 31, 2016, and 2015, there is an account receivable from the associate Fideicomiso CI Banco, S.A. IBM CIB/535 for \$50,000 which accrues interest at a fixed rate of 8% annually.

b. Movements in the allowance for doubtful accounts receivable is as follows:

	2016	2015	2014
Balance at beginning of the year	\$ 34,616	\$ 23,465	\$ 26,748
Increases	15,968	14,356	5,943
Amounts written-off as uncollectible	<u>(17,448)</u>	<u>(3,205)</u>	<u>(9,226)</u>
Balance at end of the year	<u>\$ 33,136</u>	<u>\$ 34,616</u>	<u>\$ 23,465</u>

Normal credit terms for most of the customers of the Entity are 30 to 90 days; thereafter the payment is considered past due. As of December 31, 2016, 2015 and 2014, 96%, 96% and 95%, respectively, of all accounts receivable are current.

Balances past due but not impaired: The main accounts receivable that are past due but not impaired relate to receivables owed by one of the Entity's clients, which even though are past due, management considers they have a high probability of being collected and therefore, an allowance for recoverability has not been created. As of December 31, 2016, 2015 and 2014, the amount of past due but not impaired receivables is \$62,977, \$48,148 and \$11,769, respectively.

The allowance for doubtful accounts receivable covers receivables past due for more than 90 days with low recovery possibilities.

8. Inventories

	2016	2015	2014
Office supplies inventories	\$ 6,263,802	\$ 4,900,632	\$ 3,509,775
Housewares supplies inventories	137,847	129,686	111,507
Food inventories	87,511	81,499	58,572
Allowance for obsolete inventories	<u>(17,924)</u>	<u>(29,282)</u>	<u>(17,824)</u>
	6,471,236	5,082,535	3,662,030
Housing inventories	<u>456,334</u>	<u>364,179</u>	<u>526,779</u>
	<u>\$ 6,927,570</u>	<u>\$ 5,446,714</u>	<u>\$ 4,188,809</u>

9. Property and equipment

	2016	2015	2014
Gross investment at cost:			
Land	\$ 2,095,013	\$ 2,051,885	\$ 2,084,048
Buildings and leasehold improvements	8,477,070	7,922,336	7,226,708
Furniture and equipment	2,963,116	2,868,016	2,181,583
Computers	893,262	795,300	582,341
Vehicles	313,557	291,249	262,617
Construction in-progress	<u>250,199</u>	<u>137,108</u>	<u>149,966</u>
Gross investment	<u>\$ 14,992,217</u>	<u>\$ 14,065,894</u>	<u>\$ 12,487,263</u>

	2016	2015	2014
Accumulated depreciation:			
Buildings and leasehold improvements	\$ (2,678,617)	\$ (2,291,826)	\$ (1,883,501)
Furniture and equipment	(1,655,337)	(1,625,302)	(1,151,208)
Computers	(677,907)	(589,463)	(431,643)
Vehicles	<u>(210,930)</u>	<u>(194,932)</u>	<u>(165,324)</u>
Accumulated depreciation	<u>\$ (5,222,791)</u>	<u>\$ (4,701,523)</u>	<u>\$ (3,631,676)</u>
Net investment:			
Land	\$ 2,095,013	\$ 2,051,885	\$ 2,084,048
Buildings and leasehold improvements	5,798,453	5,630,510	5,343,207
Furniture and equipment	1,307,779	1,242,714	1,030,375
Computers	215,355	205,837	150,698
Vehicles	102,627	96,317	97,293
Construction in-progress	<u>250,199</u>	<u>137,108</u>	<u>149,966</u>
Total property and equipment - Net	<u>\$ 9,769,426</u>	<u>\$ 9,364,371</u>	<u>\$ 8,855,587</u>

- a. The roll forward of the net book value of property and equipment is as follows:

	Land	Buildings and leasehold improvements	Furniture and equipment	Computers
Balance as of January 1, 2014	\$ 2,042,627	\$ 5,264,019	\$ 974,193	\$ 148,043
Additions	41,421	390,970	216,178	64,251
Additions through business combinations	-	9,960	-	-
Depreciation	-	(238,843)	(137,396)	(59,692)
Disposals related to sale	<u>-</u>	<u>(82,899)</u>	<u>(22,600)</u>	<u>(1,904)</u>
Balance as of December 31, 2014	2,084,048	5,343,207	1,030,375	150,698
Additions	19,831	367,810	188,574	102,490
Additions through business combinations	-	271,662	226,120	34,423
Effect of foreign currency exchange differences	14,119	39,880	1,675	360
Depreciation	-	(263,591)	(164,510)	(79,415)
Disposals related to sale	<u>(66,113)</u>	<u>(128,458)</u>	<u>(39,520)</u>	<u>(2,719)</u>

	Land	Buildings and leasehold improvements	Furniture and equipment	Computers
Balance as of December 31, 2015	2,051,885	5,630,510	1,242,714	205,837
Additions	-	445,091	323,726	117,003
Additions through business combinations	-	90,581	10,244	-
Transfers	-	5,500	-	-
Effect of foreign currency exchange differences	43,128	97,267	15,645	4,277
Depreciation	-	(293,788)	(184,307)	(96,259)
Impairment	-	-	-	-
Disposals related to sale	-	(176,708)	(100,243)	(15,503)
Balance as of December 31, 2016	<u>\$ 2,095,013</u>	<u>\$ 5,798,453</u>	<u>\$ 1,307,779</u>	<u>\$ 215,355</u>

	Vehicles	Construction in- progress	Net investment
Balance as of January 1, 2014	\$ 93,874	\$ 133,044	\$ 8,655,800
Additions	118,815	33,584	865,219
Additions through business combinations	-	-	9,960
Depreciation expense	(94,044)	(10,549)	(540,524)
Disposals related to sale	<u>(21,352)</u>	<u>(6,113)</u>	<u>(134,868)</u>
Balance as of December 31, 2014	97,293	149,966	8,855,587
Additions	120,164	(14,811)	784,058
Additions through business combinations	136	2,034	534,375
Effect of foreign currency exchange differences	3,537	2,564	62,135
Depreciation expense	(115,315)	-	(622,831)
Disposals related to sale	<u>(9,498)</u>	<u>(2,645)</u>	<u>(248,953)</u>
Balance as of December 31, 2015	96,317	137,108	9,364,371
Additions	126,395	190,716	1,202,931
Additions through business combinations	-	-	100,825
Transfers	-	-	5,500
Effect of foreign currency exchange differences	10,210	505	171,032
Depreciation expense	(118,332)	-	(692,686)
Impairment	-	(72,851)	(72,851)
Disposals related to sale	<u>(11,963)</u>	<u>(5,279)</u>	<u>(309,696)</u>
Balance as of December 31, 2016	<u>\$ 102,627</u>	<u>\$ 250,199</u>	<u>\$ 9,769,426</u>

- b. Depreciation expense is presented in the cost of sales and operating expenses line items in the consolidated statements of profit and loss and other comprehensive income. During the years ended December 31, 2016, 2015 and 2014, impairment losses related to property and equipment for \$72,851, \$940 and \$10,623, respectively.

10. Investment properties

The Entity uses different valuation approaches such as the income approach, the replacement cost approach and the market approach to determine the fair value of its investment property. The techniques used include assumptions, the majority of which are not directly observable in the market such as discount rates, long-term future net operating income (NOI), inflation rates and the market value of its land reserves per square meter. The Entity internally calculates the fair value of its land and buildings that are leased, both vacant and occupied by tenants, using the income approach and it uses external independent appraisers to determine the fair value of its land reserves. The fair value determination considered the highest and best use of the investment properties. There have been no changes in the valuation approaches used.

Gains or losses arising from changes in the fair values are included in the consolidated statements of profit and loss and other comprehensive income in the period in which they arise.

The direct operating expenses, including maintenance, arising from investment property that generated rental income during the years ended December 31, 2016, 2015 and 2014, were \$228,623, \$234,612 and \$233,430, respectively. The direct operating expenses, for properties that did not generate rental income for the years ended December 31, 2016, 2015 and 2014 were \$3,326, \$4,495 and \$3,464, respectively.

As of December 31, 2016, 2015 and 2014, the Entity's investment properties have a gross leasable area (unaudited) of 923,675, 979,931 and 981,660 square meters, respectively. As of December 31, 2016, and 2015 were 96%, in both years, and for 2014 98% occupied (unaudited) by tenants, respectively.

The Entity's investment properties are located in Mexico and they are classified as Level 3 in the IFRS fair value hierarchy. The following table provides information about how the fair values of the investment properties are determined (in particular, the valuation technique(s) and inputs used).

Property	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Value/range	Relationship of unobservable inputs to fair value
Buildings and land	Level 3	Discounted cash flows	Discount rate	11.35%	The higher the discount rate, the lower the fair value.
			Long-term NOI	Based on contractual rent and then on market related rents	The higher the NOI, the higher the fair value.
			Inflation rate	Mexico: 3.76%	The higher the inflation rate, the higher the fair value.
Land reserves	Level 3	Market value	Price per square meter	Depending on the location	The higher the price, the higher the fair value.

- a. The table below sets forth the aggregate values of the Entity's investment properties for the years indicated:

	2016	2015	2014
Buildings and land	\$ 10,611,684	\$ 11,659,625	\$ 10,569,689
Land reserves	<u>1,283,079</u>	<u>1,265,291</u>	<u>1,300,179</u>
Balance at end of year	<u>\$ 11,894,763</u>	<u>\$ 12,924,916</u>	<u>\$ 11,869,868</u>

- b. The reconciliation of investment property is as follows:

	2016	2015	2014
Balance at beginning of year	\$ 12,924,916	\$ 11,869,868	\$ 11,408,024
Additions	333,529	3,718	45,213
Transfer of assets (i)	-	-	(304,723)
Disposals	(2,167,217)	-	-
Gain on revaluation of investment property	<u>803,535</u>	<u>1,051,330</u>	<u>721,354</u>
Balance at end of year	<u>\$ 11,894,763</u>	<u>\$ 12,924,916</u>	<u>\$ 11,869,868</u>

The gain on revaluation of the property is driven by changes in: 1) discount rates used to calculate the fair value, 2) higher occupancy rates and NOI and 3) new operating leases entered into by the Entity as well as changes in the market-related assumptions used to determine the fair value of land reserves.

As of December 31, 2016, 2015 and 2014, there are 23, 25 and 5, respectively, of the Entity's investment properties pledged as collateral for the long-term debt as discussed in Note 17. The fair value of such investment properties as of December 31, 2016, 2015 and 2014 was \$5,642,135, \$6,836,326 and \$3,342,408, respectively.

On May 25, 2016, the Entity through its subsidiary Gigante, S.A. de C.V., entered into an agreement with UIR Polanco, S.A. de C.V. (UIR), a subsidiary of Union Investment Real Estate GmbH (Investment fund investment entity Kapitalanlagegesellschaft/KAG), in which (i) Gigante, S.A. de C.V. agreed to sale to UIR the investment property known as "Corporativo Dos Patios", (ii) Gigante, S.A. de C.V. ceded to UIR all rights and responsibilities as lessor related to several lease contracts in respect of the such investment property and (iii) Gigante ceded to UIR the trademark Dos Patios. The consideration received was 117,500,000 dollars.

The operating lease contracts entered into by the Entity with its customers, include rental incentives such as rent holidays, other incentives as well as one time signing payments charged (known as key money). Income from operating leases is recognized on a straight-line basis over the lease term, including the income related to these lease incentives.

- (i) Transfers of investment properties are related to land that was transferred to housing inventories and land that was contributed to some of the Entity's associates as part of the Entity's investment.

11. Investments in joint venture and associates

Details of each of the Entity's joint ventures and associates are as follows:

Entity	Investment type	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Entity		
				2016	2015	2014
Mascotas y Compañía, S. A. P. I. de C. V.	Joint venture	Retail specialized in selling pet products	Mexico city, Mexico	50.0%	50.0%	50.0%
Trust Banorte F/743955	Associate	Holding of an entity that operates a shopping center	Veracruz, Mexico	50.0%	50.0%	50.0%
Trust CIB/535	Associate		Veracruz, Mexico	50.0%	50.0%	50.0%
Inmobiliaria Conjunto Polanco, S. A. P. I. de C. V. - Note 15	Associate	Developing of investment properties	Mexico city, Mexico	41.6%	41.6%	-

The details of the amounts recognized in the consolidated statement of financial position and in the consolidated statements of profit or loss and other comprehensive income as of and for the years ended December 31, 2016, 2015 and 2014 are as follows:

Entity	Investment in shares		
	2016	2015	2014
Mascotas y Compañía, S. A. P. I. de C. V.	\$ 313,241	\$ 184,743	\$ 64,117
Trust Banorte F/743955	292,016	259,214	198,421
Trust CIB/535	347,346	337,601	314,849
Other	263	263	263
Inmobiliaria Conjunto Polanco, S. A. P. I. de C. V. - Note 15	<u>1,538,744</u>	<u>1,185,155</u>	<u>-</u>
	<u>\$ 2,491,610</u>	<u>\$ 1,966,976</u>	<u>\$ 577,650</u>

Entity	Entity's share of profit or loss		
	2016	2015	2014
Mascotas y Compañía, S. A. P. I. de C. V.	\$ (24,763)	\$ (19,063)	\$ (4,627)
Trust Banorte F/743955	(32,801)	(20,793)	6,523
Trust CIB/535	(9,744)	27,248	(29,290)
Other	-	(1,454)	-
Inmobiliaria Conjunto Polanco, S. A. P. I. de C. V. - Note 15	<u>(362,497)</u>	<u>(83,239)</u>	<u>13,087</u>
	<u>\$ (429,805)</u>	<u>\$ (97,301)</u>	<u>\$ (14,307)</u>

Mascotas y Compañía, S. A. P. I. de C. V. was classified as a joint venture because the contractual agreement gives the Entity the right to 50% of the net assets of this joint agreement. The investment in the joint venture is accounted for using the equity method.

The Trust Banorte F/743955 and the Trust CIB/535 and Inmobiliaria Conjunto Polanco, S.A.P.I. de C.V. were classified as associate entities because the Entity does not have control or joint control over them and they are measured them using the equity method.

A summary of the information on the joint venture and of the Entity's associates is detailed below. The condensed financial information presented below represents the amounts which are presented in the financial statements of the joint venture and in associates' and they are prepared in conformity with the IFRS.

Condensed information related to the statement of financial position as of December 31, for Mascotas y Compañía S. A. P. I. de C. V. is as follows:

	2016	2015	2014
Current assets	\$ 388,252	\$ 243,821	\$ 98,337
Property and equipment	358,066	200,048	65,953
Other assets	<u>30,634</u>	<u>21,774</u>	<u>9,621</u>
<i>Total assets</i>	<u>776,952</u>	<u>465,643</u>	<u>173,911</u>
Current liabilities	150,470	96,156	43,056
Other long-term liabilities	<u>-</u>	<u>-</u>	<u>2,622</u>
Total liabilities	<u>150,470</u>	<u>96,156</u>	<u>45,678</u>
<i>Net assets</i>	<u>\$ 626,482</u>	<u>\$ 369,487</u>	<u>\$ 128,233</u>

Condensed information related to the statement of profit or loss and other comprehensive income for the years ended December 31, for Mascotas y Compañía S. A. P. I. de C. V. is as follows:

	2016	2015	2014
Total revenues	\$ 945,344	\$ 485,263	\$ 152,640
Cost of sales	549,287	284,104	86,271
Operating expenses	311,164	154,055	53,987
Financing (expense) income	(5,562)	10,412	696
Income taxes	<u>34,400</u>	<u>19,391</u>	<u>3,824</u>
Profit for the year	<u>\$ 44,931</u>	<u>\$ 38,125</u>	<u>\$ 9,254</u>

Condensed information related to the statement of financial position as of December 31, 2016 , 2015 and 2014, for the associates is as follows:

	2016 Banorte Trust F/743955	2015 Banorte Trust F/743955	2014 Banorte Trust F/743955
Current assets	\$ 40,045	\$ 40,045	\$ 229,489
Investment properties	-	-	1,106,422
Other assets	<u>487,319</u>	<u>421,211</u>	<u>19,939</u>
<i>Total assets</i>	<u>527,364</u>	<u>461,256</u>	<u>1,355,850</u>
Current liabilities	\$ 40,565	\$ 40,000	\$ 173,495
Long-term debt	-	-	688,663
Other long-term liabilities	<u>-</u>	<u>-</u>	<u>57,635</u>
Total liabilities	40,565	40,000	919,793
Stockholders' equity	486,799	421,256	436,057
Shareholders' pending equity contributions	<u>-</u>	<u>97,172</u>	<u>(39,215)</u>
<i>Total</i>	<u>\$ 486,799</u>	<u>\$ 518,428</u>	<u>\$ 396,842</u>

	2016 Trust CIB/535	2015 Trust CIB/535	2014 Trust CIB/535
Current assets	\$ 44,094	\$ 63,592	\$ 35,139
Investment properties	815,868	764,330	661,597
Other assets	<u>8,151</u>	<u>16,803</u>	<u>39,123</u>
Total assets	868,113	844,725	735,859
Current liabilities	195,975	185,380	111,278
Other long term liabilities	<u>21,467</u>	<u>28,163</u>	<u>-</u>
Total liabilities	217,442	213,543	111,278
Stockholders' equity	650,671	631,182	624,581
Shareholders' pending equity contributions	<u>-</u>	<u>44,020</u>	<u>5,117</u>
Total	<u>\$ 650,671</u>	<u>\$ 675,202</u>	<u>\$ 629,698</u>

	2016 Inmobiliaria Conjunto Polanco, S. A. P. I. de C.V.	2015 Inmobiliaria Conjunto Polanco, S. A. P. I. de C.V.
Current assets	\$ 2,566,045	\$ 2,083,729
Other long-term assets	10,064	-
Investment properties	<u>3,800,973</u>	<u>2,441,789</u>
Total assets	6,377,082	4,525,518
Current liabilities	320,040	520,946
Long-term debt	1,000,000	-
Other long-term liabilities	<u>1,728,323</u>	<u>1,516,199</u>
Total liabilities	<u>3,048,363</u>	<u>2,037,145</u>
Stockholders' equity	<u>\$ 3,328,720</u>	<u>\$ 2,488,375</u>

Condensed information related to the statement of profit or loss and other comprehensive income for the years ended December 31, 2016 and 2015 for the associates is as follows:

	2016 Banorte Trust F/743955	2015 Banorte Trust F/743955	2014 Banorte Trust F/743955
Equity method	\$ 66,260	\$ 28,278	\$ 9,472
Operating expenses	566	94	23,718
Interest income	<u>1</u>	<u>4</u>	<u>1,696</u>
Profit (loss) for the year	<u>\$ 65,695</u>	<u>\$ 28,188</u>	<u>\$ (12,550)</u>

	2016 Trust CIB/535	2015 Trust CIB/535	2014 Trust CIB/535
Equity method	\$ 41,405	\$ 19,041	\$ -
Operating expenses	20,221	19,261	1,294
Financing expense (income)	7,595	4,336	(437)
Gain on revaluation of investment properties	<u>5,900</u>	<u>4,200</u>	<u>59,802</u>
Profit (loss) for the year	<u>\$ 19,489</u>	<u>\$ (356)</u>	<u>\$ 58,945</u>

	2016 Inmobiliaria Conjunto Polanco, S. A. P. I. de C.V.	2015 Inmobiliaria Conjunto Polanco, S. A. P. I. de C.V.
Revenues	\$ 1,109,182	\$ 9,690
Cost of sales of housing	768,155	-
Operating expenses	143,732	59,468
Financing income	21,122	(3,088)
Gain on revaluation of investment properties	1,001,015	290,638
Income taxes expense	<u>336,843</u>	<u>86,618</u>
Profit for the year	<u>\$ 840,345</u>	<u>\$ 157,330</u>

12. Investment in subsidiaries

The subsidiaries listed below are companies incorporated in Mexico with operations throughout the country, except for some direct subsidiaries of Office Depot de México, S.A. de C.V., which have operations in Central America, the Caribbean, Colombia and Chile.

The ownership interest and voting power held by Grupo Gigante, S.A.B. de C.V. in its direct subsidiaries is as follows:

Entity	Ownership 2016	Ownership 2015	Ownership 2014	Activity
Gigante Retail, S.A. de C.V. and Subsidiaries	100.00%	100.00%	100.00%	Holding entity; its subsidiaries are engaged in specialized retail.
Grupo Toks, S.A. de C.V. y Subsidiarias (formerly Hospitalidad y Servicios Especializados Gigante, S. A. de C. V. and Subsidiaries until February 21, 2017)	100.00%	100.00%	100.00%	Holding entity; its subsidiaries are engaged in managing restaurants and selling prepared food.
Gigante Hospitalidad y Servicios Especializados, S.A.P.I. de C.V.	100.00%	-	-	Holding entity.

Entity	Ownership 2016	Ownership 2015	Ownership 2014	Activity
Gigante Grupo Inmobiliario S.A. de C.V. and Subsidiaries	100.00%	100.00%	100.00%	55 companies that own and manage properties where offices, stores and shopping centers are located which are leased to third parties and where some of the Entity's restaurants and stores are located.
Gigante Fleming, S.A. de C.V.	100.00%	100.00%	100.00%	Real estate entity that owns investment property where 2 stores that are leased to third parties are located.
Controladora y Operadora de Inmuebles, S.A. de C.V.	100.00%	100.00%	100.00%	Real estate entity
Servicios Gigante, S. A. de C. V.	99.99%	99.99%	99.99%	Provides administrative services to the Entity.
Servicios Toks, S. A. de C. V.	100.00%	100.00%	100.00%	Provides administrative services to the Entity.
Operadora Gigante, S. A. de C. V.	100.00%	100.00%	100.00%	Provides administrative services to the Entity.
Servicios Gastronómicos Gigante, S. A. de C. V.	100.00%	100.00%	100.00%	Provides administrative services to the Entity.
Servicios Operativos Gigante, S. A. de C. V.	100.00%	100.00%	100.00%	Provides administrative services to the Entity.
Servicios Técnicos y Administrativos Gigante, S. A. de C. V.	100.00%	100.00%	100.00%	Provides administrative services to the Entity.
Unidad de Servicios Compartidos Gigante, S.A. de C.V.	100.00%	100.00%	100.00%	Provides administrative services to the Entity.
Gigante IT, S.A. de C.V. and Subsidiaries	100.00%	100.00%	100.00%	Holding entity; its subsidiaries are engaged in providing information technology consulting services and technical support to the Entity and to third parties.

Proportion of ownership interest and voting power held by Grupo Gigante, S.A.B. de C.V. in its indirect subsidiaries is as follows:

Entity	Ownership 2016	Ownership 2015	Ownership 2014	Activity
Office Depot de México, S. A. de C. V. and Subsidiaries	100.00%	100.00%	100.00%	It operates 281 office supply stores in Mexico (including five Distribution Centers that also sell merchandise), 9 in Costa Rica, 9 in Guatemala, 4 in El Salvador, 2 in Honduras, 5 in Panama (including one distribution center that also sells merchandise), 12 in Colombia, 4 in the Dominican Republic (including one distribution center that also sells merchandise), 8 in Chile (including five distribution centers that also sell merchandise) and 1 distribution center in Mexico. And also it includes 234 electronics and technology stores Radio Shack.
Distribuidora Storehome, S. A. de C. V.	100.00%	100.00%	100.00%	It operates 19 self-service stores that sell houseware.
Restaurantes Toks, S. A. de C. V.	100.00%	100.00%	100.00%	It is a chain of 194 restaurants; 181 of them are operated under the Restaurantes Toks brand and 7 of them are operated under the Restaurantes California brand, and 6 Beer Factory units.
Operadora y Administradora de Restaurantes Gigante, S.A. de C.V.	100.00%	100.00%	100.00%	It operates 24 Chinese fast food restaurants and 4 restaurants under the Toks trademark, which were acquired in May 2016 to Fly by Wings, subsidiary of CMR, S.A.B. de C.V.
Operadora de Café y Chocolate de Especialidad, S. A. de C. V.	100.00%	100.00%	100.00%	Operates 8 specialty coffee stores

All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Entity are eliminated in full on consolidation.

The table below shows details of non-wholly owned subsidiaries of the Entity that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests 2016	Profit (loss) allocated to non-controlling interests 2016	Accumulated non-controlling interests 2016
Benmore International Corp.	Dominican Republic	10.0%	\$ (2,876)	\$ 2,993
Inmobiliaria Lomo Lomas Verdes, S. A. de C. V.	Mexico	49.9%	19,566	147,305
OD Chile, SPA.	Chile	49.0%	<u>76,559</u>	<u>357,052</u>
			<u>\$ 93,249</u>	<u>\$ 507,350</u>

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests 2016	Comprehensive income allocated to non-controlling interest 2016
Benmore International Corp.	Dominican Republic	10.0%	\$ (2,200)
Inmobiliaria Lomo Lomas Verdes, S. A. de C. V.	Mexico	49.9%	19,566
OD Chile, SPA.	Chile	49.0%	<u>146,421</u>
			<u>\$ 163,787</u>

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests 2015	Profit (loss) allocated to non-controlling interests 2015	Accumulated non-controlling interests 2015
Benmore International Corp.	Dominican Republic	10.0%	\$ (999)	\$ 5,193
Inmobiliaria Lomo Lomas Verdes, S. A. de C. V.	Mexico	49.9%	8,271	137,739
OD Chile, SPA.	Chile	49.0%	<u>67,361</u>	<u>281,364</u>
			<u>\$ 74,633</u>	<u>\$ 424,296</u>

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests 2015	Comprehensive income allocated to non-controlling interest 2015
Benmore International Corp.	Dominican Republic	10.0%	\$ 326
Inmobiliaria Lomo Lomas			
Verdes, S. A. de C. V.	Mexico	49.9%	8,271
OD Chile, SPA.	Chile	49.0%	<u>63,569</u>
			<u>\$ 72,166</u>

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests 2014	Profit (loss) allocated to non-controlling interests 2014	Accumulated non-controlling interests 2014
Benmore International Corp.	Dominican Republic	10.0%	\$ 6,367	\$ 5,257
Inmobiliaria Lomo Lomas				
Verdes, S. A. de C. V.	Mexico	49.9%	9,643	129,468
OD Chile, SPA.	Chile	-	<u>-</u>	<u>-</u>
			<u>\$ 16,010</u>	<u>\$ 134,725</u>

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests 2014	Comprehensive income allocated to non-controlling interest 2014
Benmore International Corp.	Dominican Republic	10.0%	\$ 6,367
Inmobiliaria Lomo Lomas			
Verdes, S. A. de C. V.	Mexico	49.9%	9,643
OD Chile, SPA.	Chile	-	<u>-</u>
			<u>\$ 16,010</u>

OD Chile, S.P.A., an indirect subsidiary of the Grupo Gigante, S.A.B. de C.V., acquired 51% of the total shares of Grupo Prisa in Chile on April 29, 2015: Distribuidora Prisa Store, S.A., Proveedores Integrales del Norte, S.A., Prisa Logística, S.A. On July 30, 2016, OD Chile, S.P.A. acquired 51% of the total shares of Transporte Surtivia Limitada, S.A., Transporte Tropiservi Limitada, S.A. and Transportes and Distribuidora Tropivias Limitada, S.A.

Benmore International Corp. – In December 2014 Office Depot de México, S.A. de C.V. acquired 90% of the shares of this entity, which operates under the name Office Depot in the Dominican Republic.

Inmobiliaria Lomo Lomas Verdes, S.A. de C.V. – it operates a shopping center in Mexico City's metropolitan area.

Condensed financial information in respect of each of the Entity's subsidiaries that has material non-controlling interests is set out below.

Inmobiliaria Lomo Lomas Verdes, S.A. de C.V.:

Condensed information related to the statements of financial position as of December 31:

	2016	2015	2014
Current assets	\$ 125,506	\$ 94,750	\$ 102,135
Investment property	611,857	629,507	645,967
Other assets	<u>23,476</u>	<u>25,873</u>	<u>31,955</u>
Total assets	<u>\$ 760,839</u>	<u>\$ 750,130</u>	<u>\$ 780,057</u>
Current liabilities	\$ 156,957	\$ 295,734	\$ 296,845
Long-term debt	<u>309,271</u>	<u>178,918</u>	<u>224,275</u>
Total liabilities	<u>466,228</u>	<u>474,652</u>	<u>521,120</u>
Stockholders' equity	<u>\$ 294,611</u>	<u>\$ 275,478</u>	<u>\$ 258,937</u>
Non-controlling interest	<u>\$ 147,305</u>	<u>\$ 137,739</u>	<u>\$ 129,468</u>

Condensed information related to the statements of profit or loss and other comprehensive income for the years ended December 31 is as follows:

	2016	2015	2014
Rental income	\$ 109,175	\$ 98,342	\$ 119,232
Profit for the year	39,133	16,542	19,285
Non-controlling interest	19,566	8,271	9,643

Grupo Prisa:

Condensed information related to the statements of financial position as of December 31:

	2016	2015
Current assets	\$ 1,934,616	\$ 1,485,196
Property and equipment	98,479	40,841
Other assets	<u>17,622</u>	<u>11,374</u>
Total assets	<u>\$ 2,050,717</u>	<u>\$ 1,537,411</u>
Current liabilities	\$ 1,322,041	\$ 931,528
Long-term debt	<u>-</u>	<u>31,671</u>
Total liabilities	<u>1,322,041</u>	<u>963,199</u>
Stockholders' equity	<u>\$ 728,676</u>	<u>\$ 574,212</u>
Non-controlling interest	<u>\$ 357,052</u>	<u>\$ 281,364</u>

Condensed information related to the statements of profit or loss and other comprehensive income for the year ended December 31 is as follows:

	2016	2015
Rental income	\$ 4,095,441	\$ 2,271,771
Profit for the year	156,244	137,472
Non-controlling interests	76,559	67,361
Comprehensive income	298,819	129,734
Comprehensive income allocated to non-controlling interest	146,421	63,569

13. Business combinations

1. Subsidiaries acquired and Assets acquired

Subsidiaries acquired

Name of Subsidiary	Principal activity	Date of acquisition	Proportion of voting equity interest acquired (%)	Consideration transferred
Grupo Prisa (Transportes Surtivía Limitada, S.A., Transporte Tropiservi Limitada, S.A. and Transporte y Distribuidora Tropivias Limitada, S.A.)	Freight and transport	June 30, 2016	51%	\$ 42,917
Radio Shack de México, S.A. de C.V.	Sells electronic supplies	June 18, 2015	100%	482,608
Grupo Prisa (Proveedores Integrales Prisa, S.A., Distribuidora Prisa Store, S.A., Proveedores Integrales del Norte, S.A., Surtiventas, S.A., Proveedores Integrales del Sur, S.A. and Prisa Logística, S.A.)	Wholesaler of stationery and school supplies	April 29, 2015	51%	737,239
Restaurantes California, S.A. de C.V.	Restaurant chain	March 12, 2015	100%	1,103,000
Benmore International Corp.	It operates specialized retail stores that sell office supplies in the Dominican Republic	December 1, 2014	90%	85,604
Casa Marchand, S. A. de C. V.	Wholesaler of stationery and school supplies	April 1, 2014	100%	487,646

Assets acquired

Assets acquired to:	Principal activity	Date of acquisition	Acquired assets	Consideration transferred
Fly By Wings, S.A. de C.V. subsidiary of CMR, S.A.B. de C.V.	Restaurants Chain	May 27, 2016	Five restaurants	\$ 102,100

On June 30, 2016 OD Chile, S.P.A., an indirect subsidiary of Grupo Gigante, S.A.B. de C.V., acquired 51% of the shares of the Chilean entities: Transportes Surtivía Limitada, S.A., Transporte Tropiservi Limitada, S.A. and Transporte y Distribuidora Tropivias Limitada, S.A.

On May 27, 2016, Operadora y Administradora de Restaurantes Gigante, S.A. de C.V., an indirect subsidiary of Grupo Gigante, S.A.B. de C.V. acquired the assets of the Barranca, Fray Servando, Chapultepec, Querétaro, Alameda and Cedros, "Wings" restaurants which until then were owned by Fly By Wings, S.A. de C.V., a subsidiary of CMR, S.A.B. de C.V.

On June 18, 2015, the Entity acquired 100% of the shares of Radio Shack de México, S.A. de C.V., Retail Answers, S.A. de C.V. and Logistic Answers, S.A. de CV, once all conditions of operation, relating to corporate approvals and other due diligence matters and the approvals of the Bankruptcy Court of the United States, District of Delaware were obtained (United States Bankruptcy District Court of Delaware) and the COFECE in México were obtained.

On February 19, 2015, Office Depot de México, S.A. de C.V., indirect subsidiary of Grupo Gigante, S.A.B. de C.V., signed through OD Chile, S.P.A, a purchase agreement with the Shareholders of Grupo Prisa (which comprises six legal entities engaged in the wholesale of stationary and office supplies); this acquisition closed on April 29, 2015.

During 2014, the Entity, through subsidiary Restaurantes Toks, S.A. de C.V., entered into an agreement with Controladora Comercial Mexicana, S. A. B. de C. V., to acquire all of the shares of Restaurantes California, S. A. de C. V. and subsidiaries ("Restaurantes California"), which owns the brands "Restaurantes California" and "Beer Factory " and it operates a total of 53 restaurants; 7 under the Beer Factory brand and 46 under the Restaurantes California brand. This transaction was approved by the COFECE on February 6, 2015. Total consideration agreed for the acquisition was \$1,103,000, which was paid on March 12, 2015. The Entity began consolidating the financial statements of this entity on April 1, 2015.

In December 2014, the Entity entered into an agreement, thru its subsidiary OD Panama, to acquire 90% of the shares of Benmore International Corp., which is an entity engaged in the operation of retail stores that sell office supplies and from that date began operating under the name Office Depot in the Dominican Republic. The consolidated financial statements include the results of operations from December 1, 2014.

In July 2014, the Entity, through Gigante Grupo Inmobiliario, S.A. de C.V., entered into an agreement to acquire 41.6% of the common stock of an entity denominated Inmobiliaria Conjunto Polanco, S. A. de C. V. As of December 31, 2014, COFECE's approval for this capital subscription was pending, which was received on March 24, 2015. On March 24, 2015, it was received the approval from the COFECE for this acquisition.

The acquisitions made during the year are part of the Entity's strategy to expand its presence in Mexico and Latin America.

Costs related to the acquisition are excluded from the consideration transferred and recognized as an expense in profit or loss in the period in which they are incurred.

For tax purposes, the tax basis of the assets and liabilities acquired are adjusted to their related market values on the acquisition date. None of the goodwill arising on these acquisitions will be deductible for tax purposes.

2. *Assets and liabilities recognized at the date of acquisition*

Net assets acquired after allocation of the purchase price is equal to the total consideration paid in cash and are as follows:

	2016	
	Grupo Prisa (Transportes Surtivía Limitada, S.A., Transporte Tropiservi Limitada, S.A. and Transporte y Distribuidora Tropivias Limitada, S.A.)	
		Assets Fly by Wing
Current assets:		
Cash	\$ 3,956	\$ -
Accounts receivable	4,968	-
Inventories	-	986
Non-current assets:		
Property and equipment	26,084	49,680
Intangibles assets	-	51,434
Other assets	1,849	-
Current liabilities:		
Accounts and notes payable to suppliers and other payables	\$ 9,416	\$ -
Deferred income taxes	-	15,430
Net assets acquired	27,441	86,670
Consideration paid in cash	42,917	102,100
Goodwill (bargain purchase gain)	\$ 15,476	\$ 15,430

	2015		
	Grupo Prisa (Proveedores Integrales Prisa, S.A., Distribuidora Prisa Store, S.A., Proveedores Integrales del Norte, S.A., Surtiventas, S.A., Proveedores Integrales del Sur, S.A. and Prisa Logística, S.A.)		
	Restaurantes California, S.A. de C.V.		Radio Shack de México, S.A. de C.V.
Current assets:			
Cash	\$ 77,439	\$ 129,217	\$ 103,916
Accounts receivable	26,202	341,175	123,702
Inventories	8,677	268,878	255,371
Non-current assets:			
Property and equipment	415,897	20,206	78,860
Intangibles assets	170,848	459,536	131,799
Other assets	5,397	-	21,480

	2015		
	Restaurantes California, S.A. de C.V	Grupo Prisa (Proveedores Integrales Prisa, S.A., Distribuidora Prisa Store, S.A., Proveedores Integrales del Norte, S.A., Surtiventas, S.A., Proveedores Integrales del Sur, S.A. and Prisa Logística, S.A.)	Radio Shack de México, S.A. de C.V.
<i>Current liabilities:</i>			
Accounts and notes payable to suppliers and other payables	\$ 84,294	\$ 532,704	\$ 296,020
Deferred income taxes	<u>105,472</u>	<u>-</u>	<u>108,979</u>
Net assets acquired	514,694	686,308	528,087
Consideration paid in cash	<u>1,103,000</u>	<u>737,239</u>	<u>482,608</u>
Goodwill (bargain purchase gain)	<u>\$ 588,306</u>	<u>\$ 50,931</u>	<u>\$ (45,479)</u>

	2014	
	Casa Marchand, S.A. de C.V.	Benmore International Corp.
<i>Current assets:</i>		
Cash	\$ 4,860	\$ 2,994
Accounts receivable	78,194	20,433
Inventories	277,852	23,919
<i>Non-current assets:</i>		
Property and equipment	18,568	9,396
Intangibles assets	192,362	-
Other assets	2,609	4,988
<i>Current liabilities:</i>		
Accounts and notes payable to suppliers and other payables	\$ 291,533	\$ 26,989
Deferred income taxes	<u>56,593</u>	<u>-</u>
Net assets acquired	226,319	31,747
Consideration paid in cash	<u>487,646</u>	<u>85,604</u>
Goodwill (bargain purchase gain)	<u>\$ 261,327</u>	<u>\$ 50,863</u>

The preliminary identification of the assets and liabilities acquired was determined only provisionally at the acquisition date, using management's best estimate. The fair value calculations and other calculation necessary to determine the fair values of intangible assets acquired at December 31, 2016, 2015 and 2014 were concluded for each acquisition.

The fair values of intangible assets acquired as of December 31, 2016 and the related deferred taxes are as follows:

	Grupo Prisa (Transportes Surtivía Limitada, S.A., Transporte Tropiservi Limitada, S.A. and Transporte y Distribuidora Tropivias Limitada, S.A.)	Assets – Fly by Wings	Restaurantes California, S.A. de C.V
Customer lists	\$ -	\$ -	\$ -
Non-compete agreements	-	-	30,000
Trademarks	-	-	72,290
Deferred income taxes	-	(15,430)	(22,749)
Leasehold rights	-	51,434	68,558
Goodwill	15,476	15,430	588,306

	Grupo Prisa (Proveedores Integrales Prisa, S.A., Distribuidora Prisa Store, S.A., Proveedores Integrales del Norte, S.A., Surtiventas, S.A., Proveedores Integrales del Sur, S.A. and Prisa Logística, S.A.)	Radio Shack de México, S.A. de C.V.	Casa Marchand, S.A. de C.V.
Customer lists	\$ 113,242	\$ -	\$ 141,388
Non-compete agreements	-	-	4,225
Trademarks	376,869	123,675	46,749
Deferred income taxes	(30,575)	(44,649)	-
Leasehold rights	-	8,127	-
Goodwill	49,895	-	261,327

The acquisition of Radio Shack de México, S.A. de C.V. generated a bargain purchase gain for \$45,479; this gain is presented in the "Other income" line in the consolidated statement of profit or loss and other comprehensive income. Goodwill from the acquisitions of the year are:

Entity	Goodwill
Grupo Prisa (Transportes Surtivía Limitada, S.A., Transporte Tropiservi Limitada, S.A. and Transporte y Distribuidora Tropivias Limitada, S.A.)	\$ 15,476
Assets – Fly by Wings, S.A. de C.V.	15,430

3. *Net cash outflow on business combinations:*

		2016	
		Grupo Prisa (Transportes Surtivía Limitada, S.A., Transporte Tropiservi Limitada, S.A. and Transporte y Distribuidora Tropivias Limitada, S.A.)	Assets – Fly by Wings
Consideration paid in cash	\$	42,917	\$ 102,100
Less: cash and cash equivalents acquired		(3,956)	-
	\$	<u>38,961</u>	<u>\$ 102,100</u>

		2015	
		Grupo Prisa (Proveedores Integrales Prisa, S.A., Distribuidora Prisa Store, S.A., Proveedores Integrales del Norte, S.A., Surtiventas, S.A., Proveedores Integrales del Sur, S.A. and Prisa Logística, S.A.)	Radio Shack de México, S.A. de C.V.
Consideration paid in cash	\$	1,103,000	\$ 482,608
Less: cash and cash equivalents acquired		(77,439)	(103,916)
	\$	<u>1,025,561</u>	<u>\$ 378,692</u>

		2014	
		Casa Marchand, S.A. de C.V.	Benmore International Corp.
Consideration paid in cash	\$	487,646	\$ 85,604
Less: cash and cash equivalents acquired		(4,860)	(2,994)
	\$	<u>482,786</u>	<u>\$ 82,610</u>

4. *Impact of acquisitions in profit or loss of the Entity:*

Revenues from sales of goods and net income as of December 31, 2016, included in the consolidated financial statements, generated by the acquisitions made are as follows:

	Sale of goods	Net profit
Grupo Prisa (Transportes Surtivía Limitada, S.A., Distribuidora Prisa Store, S.A., Proveedores Integrales del Norte, S.A., Surtiventas, S.A., Proveedores Integrales del Sur, S.A. and Prisa Logística, S.A.)	\$ 24,014	\$ 3,975
Assets – Fly by Wings	38,785	10,136

Revenues from sales of goods and net income as of December 31, 2015, included in the consolidated financial statements, generated by acquisitions are:

	Sale of goods	Net profit
Restaurantes California, S.A. de C.V.	\$ 569,700	\$ 26,740
Grupo Prisa (Proveedores Integrales Prisa, S.A., Distribuidora Prisa Store, S.A., Proveedores Integrales del Norte, S.A., Surtiventas, S.A., Proveedores Integrales del Sur, S.A. and Prisa Logística, S.A.)	2,257,670	137,473
Radio Shack de México, S.A. de C.V.	909,786	52,924
Casa Marchand, S.A. de C.V.	1,443,161	72,399
Benmore International Corp.	101,689	(7,280)

Revenues from sales of goods and net income as of December 31, 2014, included in the consolidated financial statements, generated by the acquisitions made are as follows:

	Sale of goods	Net profit
Casa Marchand, S.A. de C.V.	\$ 1,006,766	\$ 30,736
Benmore International Corp.	86,327	77,118

14. Goodwill

Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired at acquisition date. Goodwill is subject to impairment tests annually taking into consideration the value in use of the cash generating unit to which goodwill has been allocated.

The reconciliation of goodwill is as follows:

	2016	2015	2014
Balance at beginning of year	\$ 947,361	\$ 359,940	\$ 47,750
Additional amounts recognized from business combinations that occurred during the year	30,906	649,177	261,327
Effect of foreign currency translation	14,315	(10,893)	-
Write-off ⁽ⁱ⁾	-	(50,863)	50,863
Total	<u>\$ 992,582</u>	<u>\$ 947,361</u>	<u>\$ 359,940</u>

- (i) Goodwill generated as of December 31, 2014 for the acquisition of Benmore International Corp. was written-off against the profit or loss during the year ended December 31, 2015 when the measurement period was concluded.

The detail of goodwill generated by business combination is as follows:

	2016	2015	2014
Casa la Daga, S.A. de C.V.	\$ 47,750	\$ 47,750	\$ 47,750
Casa Marchand, S.A. de C.V.	261,327	261,327	261,327
Benmore International Corp.	-	-	50,863
Grupo Prisa (Proveedores Integrales Prisa, S.A., Distribuidora Prisa Store, S.A., Proveedores Integrales del Norte, S.A., Surtiventas, S.A., Proveedores Integrales del Sur, S.A. and Prisa Logística, S.A.)	60,871	60,871	-
Restaurantes California, S.A. de C.V.	588,306	588,306	-
Assets – Fly by Wings	15,430	-	-
Grupo Prisa (Transportes Surtivía Limitada, S.A., Transporte Tropiservi Limitada, S.A. and Transporte y Distribuidora Tropivias Limitada, S.A.)	15,476	-	-
Effect of foreign currency translation	<u>3,422</u>	<u>(10,893)</u>	<u>-</u>
Total	<u>\$ 992,582</u>	<u>\$ 947,361</u>	<u>\$ 359,940</u>

15. Intangibles and other assets

	2016	2015	2014
Deferred charges	\$ 35,359	\$ 33,358	\$ 34,560
Accumulated amortization	<u>(15,082)</u>	<u>(13,927)</u>	<u>(12,209)</u>
	20,277	19,431	22,351
Trademark	742,925	644,201	79,397
Customer list	379,198	331,254	229,845
Non-compete agreement	69,999	64,147	29,651
Accumulated amortization	<u>(233,082)</u>	<u>(158,460)</u>	<u>(113,524)</u>
	959,040	881,142	225,369
Software licenses	290,398	288,444	182,782
Accumulated amortization	<u>(169,082)</u>	<u>(110,815)</u>	<u>(22,945)</u>
Accumulated impairment losses	<u>-</u>	<u>(117,844)</u>	<u>(50,000)</u>
	121,316	59,785	109,837
Restricted cash	-	7,043	7,043
Technical assistance paid in advance	12,351	15,943	19,117
Rent holidays and key money paid	167,077	128,252	63,611
Advanced payments to acquire subsidiaries and associate (i)	-	-	721,913
Derivative financial instruments (ii)	128,516	182,362	104,332
Other long-term advance payments	<u>317,542</u>	<u>141,197</u>	<u>204,796</u>
Total	<u>\$ 1,726,119</u>	<u>\$ 1,435,155</u>	<u>\$ 1,478,369</u>

- (i) In July 2014, the Entity entered into an agreement to acquire 41.6% of the common stock of an entity denominated Inmobiliaria Conjunto Polanco, S. A. P. I. de C. V. for a total consideration of \$1,128,000. As of December 31, 2014, the Entity has advanced payments for this acquisition in cash for \$735,000 and during the year ended December 31, 2014, the Entity recognized a loss of \$13,087 as its share of this entity's loss for the year. As of December 31, 2014, the Entity was waiting to receive approval from COFECE for this acquisition; therefore, the amounts advanced are presented as advance payments and not as investment in associates; this approval was received on March 24, 2015, therefore the advance payments made during 2014 were reclassified to investment in associates on this date.

As of December 31, 2013, the Entity had advanced a total of \$493,832 as consideration transferred for the acquisition of Casa Marchand, S. A. de C. V. as described in Note 13. During April 2014, the Entity received approval from the COFECE; therefore, this date is considered the acquisition date and on this date the fair value of the acquired assets and liabilities was calculated.

- (ii) During 2014, the Entity entered into a Cross Currency Swap contract to manage its exchange rate and interest rate risks in relation to future interest on the senior notes payable as described in Note 18.

Amortization expense is presented in the operating expenses line item in the consolidated statements of profit and loss and other comprehensive income. The following total useful lives are used in the calculation of amortization expense:

	Average years
Deferred charges	4
Trademarks with definite useful life	3 and 7
Non-compete agreements	3 and 7
Software licenses	from 3 to 10
Customer lists	10

16. Accrued expenses and taxes

	2016	2015	2014
Taxes payable - mainly ISR	\$ 554,872	\$ 477,345	\$ 521,571
Direct employee benefits	251,845	317,717	171,842
Accrued operating expenses	243,939	327,264	209,828
Accrued interest	13,409	123,496	105,018
Advances received from customers	251,227	168,895	102,472
Other accounts payable	<u>590,928</u>	<u>516,041</u>	<u>384,415</u>
	<u>\$ 1,906,220</u>	<u>\$ 1,930,758</u>	<u>\$ 1,495,146</u>

17. Long-term debt

	2016	2015	2014
Secured – at amortized cost			
On June 23, 2010, a loan was taken out with a mortgage guarantee. The only withdrawal was made on June 25, 2010 in the sum of \$229,000, payable in 108 monthly installments. Monthly interest payments were set at THIE rate plus 3 percentage points. On December 2015, the loan was renegotiated and the maturity date was changed to 2023 at a fixed rate of 7.92%. (i)	135,037	138,166	162,803

	2016	2015	2014
On June 23, 2010, a loan was taken out with a mortgage guarantee. The first disbursement was in the sum of \$342,000, payable in 96 monthly installments. Monthly interest payments were set at THIE rate plus 3 percentage points. On December 2015, the loan was renegotiated and the maturity date was changed to 2023 at a fixed rate of 7.92%. On February 9, 2016, a second disbursement of the loan was made in the sum of \$114,000 with the same conditions as the first. (i)	325,748	220,304	261,411
On October 26, 2012, a loan was taken out in the sum of \$400,000 with a mortgage guarantee, payable on October 25, 2019. Monthly interest payments were set at a fixed rate of 6.97%. On August 2, 2013, this loan was extended by \$200,000, payable August 1, 2020. Monthly interest payments were set at a fixed rate of 7.19%. In May 2016, this loan was paid prior to its maturity date. (i)	-	598,514	598,160
On October 26, 2012 a loan was taken out in the sum of \$250,000. Its disbursement date was scheduled for October 31, 2012, at a seven-year term with monthly interest payable at a fixed rate of 7.50% and monthly payments of capital. On May 19, 2014, the loan was extended by \$124,000, under the same conditions as the original loan, except for the rate that was set at 7.55%. On August 13, 2014, an additional disbursement was made for this loan in the sum of \$95,000, under the same conditions as the original loan, except for the rate that was set at 7.06%. (i)	370,670	403,437	431,777
On October 26, 2012, a loan was taken out in the sum of \$130,000. Its disbursement date was scheduled for October 31, 2012, at a seven-year term with monthly interest payable at a fixed rate of 7.50% and monthly payments of capital. On May 19, 2014, the loan was extended by \$31,000, under the same conditions as the original loan, except for the rate that was set at 7.55%. (i)	114,572	128,984	142,058

	2016	2015	2014
On March 27, 2013, a loan was taken out in the sum of \$112,500, payable in 14 quarterly installments with a 21-month grace period, only with respect to the capital. Monthly interest payments were set at TIIE rate plus 2 percentage points. (iv)	47,681	79,913	106,519
On July 4, 2014, a syndicated loan was taken out in the sum of \$4,544,015. Its disbursement date was scheduled for July 9, 2014, at a six-year term with monthly interest payable at TIIE rate plus a margin. The applicable margin is determined with respect to the leverage ratio of the Company. (ii)	4,223,956	4,440,855	4,487,353
On January 22, 2015, a loan was taken out in the sum of \$1,300,000, payable in 7 years. The following disbursements were made under the same conditions as this agreement: a) February 4, 2015, a disbursement in the sum of \$560,000 at a fixed rate of 7.36%; b) April 29, 2015, a Disbursement in the sum of \$225,000 at a fixed rate of 7.80%; c) April 29, 2015, a disbursement in the sum of \$150,000 at a fixed rate of 7.74%; d) July 10, 2015, a disbursement in the sum of \$98,220 at a fixed rate of 7.96%; and e) July 10, 2015, a disbursement in the sum of \$65,480 at a fixed rate of 7.90%.	1,045,549	1,074,997	-
On February 27, 2015, a loan was taken out in the sum of \$1,150,000. Its disbursement date was scheduled for March 11, 2015, payable in 16 quarterly installments with a 15-month grace period, only with respect to the capital. The first capital payment was made on May 27, 2016. Monthly interest is paid at the Interbank Equilibrium Interest Rate (TIIE, as abbreviated in Spanish) plus the applicable margin. (v)	1,118,188	1,140,896	-
A loan was taken out with the acquisition of the business by Office Depot de México, S. A. de C. V. in Chile. This loan was granted on June 11, 2009 for an 8-year term, in the sum of 325,754,000 Chilean pesos with an annual rate of 4.70%. It was paid in 2016. (iii)	-	5,931	-

	2016	2015	2014
A loan was taken out with the acquisition of the business by Office Depot de México, S. A. de C. V. in Chile. This loan was granted on December 22, 2014 for a 1-year term, in the sum of 700,000,000 Chilean pesos with an annual rate of 5.52%. It was paid in 2016. (iii)	-	17,160	-
A loan was taken out with the acquisition of the business by Office Depot de México, S. A. de C. V. in Chile. This loan was granted on December 24, 2014 for a 1-year term, in the sum of 350,000,000 Chilean pesos with an annual rate of 5.27%. It was Paid in 2016. (iii)	-	8,580	-
On November 15, 2016, a loan was taken out. Its disbursement date was scheduled for November 17, 2016, payable in 96 monthly installments with a 24-month grace period, only with respect to the capital. Monthly interest payments were set at 28-day THIE rate plus the applicable margin of 1.43%. (iv)	<u>2,945,795</u>	<u>-</u>	<u>-</u>
Total debt	<u>\$ 10,327,196</u>	<u>\$ 8,257,737</u>	<u>\$ 6,190,081</u>
Current portion	\$ 472,304	\$ 606,523	\$ 397,467
Long-term debt	<u>9,854,892</u>	<u>7,651,214</u>	<u>5,792,614</u>
	<u>\$ 10,327,196</u>	<u>\$ 8,257,737</u>	<u>\$ 6,190,081</u>

As of December 31, 2016, 2015 and 2014, THIE was 6.11%, 3.55% and 3.31%, respectively.

- (i) These loans are guaranteed with twenty-three investment properties of the Entity, the fair value of these investment properties to December 31, 2016 is \$5,642,135.

The agreements documenting these loans establish certain restrictions, which include incurring in additional liabilities, restrictions to create liens on its assets, restrictions related to merges, spin-offs, dissolutions, liquidations or consolidations. Similarly, these agreements establish different financial ratios and restrictions that include financial ratios and restrictions on the stockholders' equity and in the leverage ratio. The agreements dated June 23, 2010 establish limits for dividend payments in case an event of default occur.

With respect to the agreements dated June 23, 2010 and January 22, 2015, the Entity executed hedging agreements to cap the loans that were taken out with variable THIE rates in order to manage the risk from the interest rates of the loans that were received. Accordingly, the Entity limits THIE to levels from 7.3% to 7.92%, for the purpose of calculating interests with respect to the total balance from its bank loans. To December 31, 2016, none of these options have been exercised. These financial derivative instruments are valued at their reasonable price and changes to them are recognized in the results of the fiscal year; these instruments are presented as assets or liabilities from financial instruments in the consolidated statement of financial position, according to the results of the valuation on the date of the report.

- (ii) This loan is guaranteed by joint obligations of certain subsidiaries of Grupo Gigante, S.A.B. de C.V., such as the Guarantee Trust with Right of Reversal F/1709 whose Trustee is Deutsche Bank México, S.A., Institución de Banca Múltiple, División Fiduciaria and to which the shares representing 75% (seventy-five percent) of the capital stock of Office Depot de México, S.A. de C.V., owned by Grupo Gigante, S.A.B. de C.V., and by Gigante Retail, S.A. de C.V. were transferred.

This loan agreement provides affirmative covenants such as Grupo Gigante's intercompany debts (except for the provision related to the loan granted to Grupo Gigante, S.A.B. de C.V. by Office Depot de México, S.A. de C.V.) being subordinated to this loan payment. It also provides other restrictions for Grupo Gigante, S.A.B. de C.V. (with specific exceptions contained the agreement itself) like incurring in additional liabilities, paying dividends while its Leverage Ratio is greater than 2.5, making investments in capital, creating liens on its assets and merging, dissolving or consolidating. Moreover, it provides several financial ratios and restrictions such as limitations on its stockholders' equity and leverage ratio.

- (iii) These loans are guaranteed with notes that do not contain specific affirmative and/or negative covenants, except for penalization in the event of nonpayment of capital and interests in which case the debt would immediately become due and payable.
- (iv) The agreement establishes restrictions for dividend payments in the event of default as well as limitations to incur in additional liabilities, restrictions in creating liens on their assets, limitation to merge, spin-off, dissolve, liquidate or consolidate. It also establishes financial ratios and restrictions including financial ratios and restrictions in the stockholders' equity and the leverage ratio. The agreements also establish restrictions for dividend payments in the event of breaching the agreement.
- (v) This loan is guaranteed by a joint obligation of Grupo Gigante, S.A.B. de C.V. The agreement establishes restrictions to incur in additional liabilities, restrictions to create liens on its assets, restrictions related to merges, spin-offs, dissolutions, liquidations or consolidations. It also establishes financial ratios and restrictions including financial ratios and restrictions in the stockholders' equity and the leverage ratio. The agreements also establish restrictions for dividend payments in the event of breaching the agreement.
- (vi) This loan is guaranteed by a joint obligation of Grupo Gigante, S.A.B. de C.V. The agreement establishes restrictions to incur in additional liabilities, restrictions to create liens on its assets, restrictions to reduce or change the shareholding structure of Office Depot de México, S.A. de C.V.

The restrictive clauses of the bank loan agreements provide the obligation to maintain certain financial ratios; these clauses have been complied with to December 31, 2016 for all the loans except the loan granted to a subsidiary of the Entity. Therefore, the balance to December 31, 2016 of this shortterm loan is for the sum of \$47,681 since the lender has a discretionary contractual right to demand its payment because these subsidiaries have breached the obligation to maintain a proportion of the total liabilities within the stockholders' equity.

The Entity has taken out revolving lines of credit with banks, which are available in pesos as well as letters of credit in US dollars to cover needs related to work capital. To December 31, 2016 and 2015, it has undrawn revolving lines of credit in thousands of pesos for sums of \$544,600 and \$446,000, respectively. It does not have revolving lines of credit in US dollars during either year. Moreover, the undrawn balance to December 31, 2016, 2015 and 2014 of the letters of credit in thousands of US dollars is \$13,614 and \$12,197 and \$10,899, respectively.

18. Senior notes payable

On September 20, 2013, Grupo Gigante S.A.B. de C.V., through its subsidiary Office Depot de México, S. A. de C. V. listed senior notes, according to rule 144A, on the international markets. The sum of such notes was US\$350,000,000 dollars for a seven-year term without capital payments and with annual fixed interest rates of 6.875% (the "Senior Notes"). Interests for noteholders are payable on a semi-annual basis.

During 2014, Office Depot de México, S.A. de C.V. took out a Cross Currency Swap to manage its currency exchange and interest rate risks with respect to the interest from the long-term Senior Notes. To December 31, 2016, this derivative financial instrument is equivalent to \$173,639 and is included in the outstanding working capital of the consolidated financial position statement.

The Entity through its subsidiary Office Depot de México, S. A. de C. V., on December 19, 2016 made a total upfront payment of the Senior Notes through a process known as Make Whole provided by an Indenture (Through which, it was issued the Senior Notes) and the legal provisions applicable to said document.

Office Depot de México, S.A. de C.V. made an upfront payment of the Senior Notes, taking advantage of the favorable exchange rate of \$19.02 pesos per US dollar and by using (i) funds from its own operations; (ii) funds from the capital contributions of its shareholders (Grupo Gigante, S.A.B. de C.V. and Gigante Retail, S.A. de C.V.) for the total sum of US200,000,000 dollars originating from the divestment of the group's non-strategic assets that were liquidated and held in US dollars; and (iii) funds from taking out a long-term loan with Banco Nacional de Comercio Exterior, S.N.C., Banca de Desarrollo (as the Borrower) and Grupo Gigante, S.A.B. de C.V. (as the Joint Obligor) for the sum of \$3,000,000 with a 10-year term and a 24-month grace period, according to note 17.

The securities loan was guaranteed by the following indirect subsidiaries: Formas Eficientes, S. A. de C. V., Papelera General, S. A. de C. V., Servicios Administrativos Office Depot, S. A. de C. V., Centro de Apoyo Caribe, S. A. de C. V., Centro de Apoyo, S. A. de C. V., O. D. G. Caribe S. A. de C. V., OD Colombia, S. A. S. and Ofixpres, S. A. S. This securities loan imposes certain restrictions on these subsidiaries such as the limitation to take out more debt, restrictions on selling significant assets or a certain subsidiary, limits to the amount of dividends that may be decreed from the note's issue date as well as forbidding any merger or transfer of its assets.

19. Employee benefits

- a) Defined contribution plans - Under Mexican law, the Entity is required to make payments equivalent to 2% of its workers' daily integrated salary to a defined contribution plan that is part of the retirement savings system. The related expense during 2016, 2015 and 2014 was \$47,177, \$44,425 and \$33,597, respectively.
- b) Defined benefit plans - The Entity has defined benefits pension plans which include a voluntary retirement plan and a lump-sum payment plan required by the Mexican Labor law (seniority premiums). In the voluntary retirement plan eligible employees who retire voluntarily are entitled to receive a lump-sum payment determined based on their years of service and salary. Seniority premium, according to article 162 of the Mexican Labor law, consists of a lump-sum payment equivalent to 12 days per each year of worked based on the worker's last wage and it is limited to two times the minimum wage set forth by Mexican law.
- c) Amounts recognized in comprehensive income in respect of these defined benefit plans are as follows:

	2016	2015	2014
Service cost:			
Current service cost	\$ 14,386	\$ 23,822	\$ 18,368
Past service cost and curtailment gains		(611)	-
Net interest expense	<u>3,747</u>	<u>3,077</u>	<u>5,189</u>
	18,133	26,288	23,557
Components of defined benefit costs recognized in other comprehensive income - Net actuarial (gains) losses	<u>(3,914)</u>	<u>(1,806)</u>	<u>5,862</u>
Total	<u>\$ 16,701</u>	<u>\$ 24,482</u>	<u>\$ 29,419</u>

- d) The amounts included in the consolidated statements of financial position arising from the Entity's obligation in respect of its defined benefit plans are as follows:

	2016	2015	2014
Present value of defined benefit obligation	\$ 162,895	\$ 156,129	\$ 211,037
Fair value of plan assets	(97,910)	(101,732)	(164,109)
Net liability arising from defined benefit obligation	64,985	54,397	46,928
Other long term benefits - Note 19e)	59,695	5,445	58,928
Total liability arising from defined benefit obligation	\$ 124,680	\$ 59,842	\$ 105,856

Other disclosures required by IFRS have not been included since they are considered immaterial.

- e) Other long-term benefits - The Entity has a long-term incentive plan for some of its employees. Under this plan, eligible employees receive a tri annual payment calculated using certain criteria in accordance with the plan, including the increase in the Entity's net equity. As of December 31, 2015, the liability related to this plan was \$119,995, of which \$113,532 was presented in the line of accrued expenses and taxes, in current liabilities, due to the payment of this benefit was done during 2016.

20. Financial instruments

a. *Capital management:*

The Entity manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Entity's overall strategy remains unchanged.

The capital structure of the Entity consists of net debt (long-term debt and the Senior Notes payable as detailed in Note 17 and 18 offset by cash and cash equivalents and financial assets) and equity of the Entity (comprising common stock, additional paid-in capital, retained earnings and other comprehensive income).

The Entity is not subject to any externally imposed capital requirements.

b. *Leverage ratio:*

The Entity's finance committee reviews its capital structure on a regular basis. As part of this review, the committee considers the cost of capital and the risks associated with each type of funding.

The leverage ratio at the end of the reporting period was as follows:

	2016	2015	2014
Cash and cash equivalents - Note 5	\$ (2,281,685)	\$ (3,177,165)	\$ (1,724,511)
Financial assets - Note 6	(491,531)	(2,138,688)	(2,718,551)
Long term restricted cash - Note 15	-	(7,043)	(7,043)
Long-term debt - Note 17	10,327,196	8,257,737	6,190,081
Senior Notes payable - Note 18	-	5,995,086	5,067,702
Net debt	7,553,980	8,929,927	6,807,678
Stockholders' equity	19,987,177	17,682,851	16,079,208
Net debt to equity ratio	38%	51%	42%

c. **Categories of financial instruments:**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the consolidated financial.

The main financial instruments of the Entity as presented in the consolidated financial statements are as follows:

	2016	2015	2014
i. Cash and cash equivalents	\$ 2,281,685	\$ 3,177,165	\$ 1,724,511
ii. Held for trading financial instruments	491,531	463,025	477,474
iii. Available-for-sale financial instruments	-	1,675,663	2,241,077
iv. Accounts receivable	2,859,590	3,007,959	1,698,962
v. Trade accounts payable	5,028,255	4,094,218	2,194,790
vi. Long-term debt at amortized cost	10,327,196	8,257,737	6,190,081
vii. Senior Notes payable at amortized cost	-	5,995,086	5,067,702
viii. Assets (liability) related to derivative financial instruments through profit and losses	302,156	182,362	104,332

During the year there were no reclassifications of financial instruments between categories.

d. **Financial risk management objectives**

The Entity's Board of Directors through its finance committee supervises and manages the financial risks relating to the Entity's exposure as a result of its operations. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Entity seeks to minimize the effects of these risks by using different instruments including derivative financial instruments to hedge its exposures. The use of financial derivatives is governed by the Entity's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Entity does not enter into derivative financial instruments for speculative purposes.

The Corporate Treasury function reports quarterly to the Finance Committee, which is an independent body that monitors risks and policies implemented to mitigate risk exposures.

e. **Market risk:**

The Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

The Entity seeks to minimize the potential negative effects of these risks on its financial performance through an overall risk management program. The Entity uses derivative and non-derivative financial instruments to hedge some of its exposures to financial risks as described in Note 17 y 18. The Entity identifies, assesses and hedges financial risks in collaboration with its subsidiaries. There have been no changes in the Entity exposure to market risks in the way these risks are managed and measured.

f. **Foreign currency risk management:**

The Entity undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise, primarily with respect to US dollar denominated financial instruments, trade accounts payables as well as the principal and accrued interest on the senior notes payable. As described in Note 18, the Entity enters into derivative financial instruments to manage its exposure to foreign currency risk; a Cross Currency Swap was exercised in advance in January 2017. In addition approximately 8%, 8% and 17% of total purchases of the Entity's inventories were imported by approximately 96,007, 82,921 and 160,276 (thousands of US dollars) for the years ended December 31, 2016, 2015 and 2014, respectively.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are as follows:

	2016	2015	2014
<i>Thousands of U.S. dollars:</i>			
Monetary assets	20,113	158,770	187,700
Monetary liabilities	<u>41,524</u>	<u>380,093</u>	<u>396,395</u>
Net liability position	<u>(21,411)</u>	<u>(221,323)</u>	<u>(208,695)</u>
Equivalent in thousands of Mexican pesos	<u>\$ (442,437)</u>	<u>\$ (3,837,697)</u>	<u>\$ (3,075,079)</u>

The exchange rates as of December 31, 2016, 2015, 2014 and as of the date of issuance of these consolidated financial statements were as follows:

	2016	2015	2014	March 22, 2017
U.S. dollar	<u>\$ 20.6640</u>	<u>\$ 17.3398</u>	<u>\$ 14.7348</u>	<u>\$ 19.1070</u>

g. **Foreign currency sensitivity analysis:**

The following table details the Entity's sensitivity to a 5% appreciation or depreciation in Mexican peso against the U.S. dollar. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency exchange rates.

	2016	2015	2014
Net position in thousands of U.S. dollar	(21,411)	(221,323)	(208,695)
Estimated exchanges rates:	<u>21.6972</u> <u>19.6308</u>	<u>18.2068</u> <u>16.4728</u>	<u>15.4715</u> <u>13.9981</u>
Sensitivity + / -	5%	5%	5%
Change in total comprehensive income for the year + / -	<u>\$ 22,122</u>	<u>\$ 191,885</u>	<u>\$ 153,754</u>

h. **Interest rate risk management:**

The Entity obtains financing under different conditions; when such financing is subject to variable interest rates, the Entity enters into derivative financial instruments (interest rate CAPS) in order to reduce its exposure to risks of volatility in interest rates. Such CAPS limit the Entity's exposure to changes in variable interest rates. Negotiating with derivative instruments is done only with credit-worthy institutions and limits have been established for each institution. The Entity's policy is to not perform transactions with derivative financial instruments for speculation purposes.

Interest rate swap contracts

Under interest rate swap contracts, the Entity agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Entity to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Entity's:

Net income for the year ended December 31, 2016, 2015 and 2014 would decrease/increase by \$16,457, \$10,678 and \$7,605, respectively. This is mainly attributable to the Entity's exposure to interest rates on its variable rate borrowings.

i. ***Credit risk management:***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Entity. Due to the nature of the Entity's operations, its exposure to credit risk is low, since its trade accounts receivable mainly relate to credit sales to wholesalers that operate in the retail industry.

The maximum credit exposure is represented by the balance of trade accounts receivable as presented in the consolidated statement of financial position. As of December 31 2016, 2015 and 2014, the allowance for doubtful accounts receivable includes accounts that have been identified as potentially not recoverable.

No one single client outstanding balance represented an amount higher than 10% of the total trade accounts receivable.

j. ***Other price risks***

The Entity is exposed to equity price risk arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Entity does not actively trade these investments.

Equity price sensitivity analysis

The Sensitivity analysis has been determined based on the exposure to equity price risk at the end of reporting period.

If equity prices had been 5% higher/lower and all other market conditions remained the same:

- Net consolidated profit for the year ended December 31, 2016 would increase/decrease by \$541 as a result of the Entity's exposure to share prices on it's held for trading financial assets.

The Entity's sensitivity to equity prices has not changed significantly from the prior year.

k. **Liquidity risk management:**

If the Entity is unable to raise additional debt or equity, its results of operations could suffer. The Entity closely monitors the maturity of its liabilities and the cash needs of its operations. It prepares and provides a detailed cash flow analysis on a quarterly basis and presents it to its board of directors. Decisions are made to obtain new financing or limit cash investments in order to maintain a healthy projected cash balance.

The following tables detail the Entity's remaining contractual maturity for its derivative and non-derivative financial liabilities is as follows:

	Less than 1 year	More than 1 year and less than 5 years	More than 5 years
Trade accounts payable	\$ 5,028,255	\$ -	\$ -
Advances received from customers	251,227	-	-
Other accounts payable	590,928	-	-
Long-term debt	472,304	6,829,218	3,025,674
Interest to accrue	841,665	2,669,065	484,607

The weighted average interest rate on the long-term debt as of December 31, 2016 was 8.45%

1. **Fair value measurements recognized in the consolidated statement of financial position:**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, arranged into levels from 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

1. Fair value of the Entity's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Entity's financial assets and financial liabilities are measured at their fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used).

Assets/ liabilities	Fair value as of 2016	Fair value hierarchy	Valuation techniques and key inputs
Financial instrument available-for-sale financial assets	\$ -	Level 1	Quoted bid prices in an active market
Held for trading financial assets	491,531	Level 1	Quoted bid prices in the market
Derivative financial instruments	302,156	Level 2	Discounted cash flow
Investment properties	11,894,763	Level 3	Discounted cash flow (i)

Assets/ liabilities	Fair value as of 2015	Fair value hierarchy	Valuation techniques and key inputs
Financial instrument available-for-sale financial assets	\$ 1,675,663	Level 1	Quoted bid prices in an active market
Held for trading financial assets	463,025	Level 1	Quoted bid prices in the market
Derivative financial instruments	182,362	Level 2	Discounted cash flow
Investment properties	12,924,916	Level 3	Discounted cash flow (i)

Assets/ liabilities	Fair value as of 2014	Fair value hierarchy	Valuation techniques and key inputs
Financial instrument available-for-sale financial assets	\$ 2,241,077	Level 1	Quoted bid prices in an active market
Held for trading financial assets	477,474	Level 1	Quoted bid prices in the market
Derivative financial instruments	104,332	Level 2	Discounted cash flow
Investment properties	11,869,868	Level 3	Discounted cash flow (i)

- (i) The significant non-observable input data and their relationship with fair value are described in Note 10.

There were no transfers among the levels during the period.

2. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

Except as detailed in the following table, the Entity's management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

	2016	
	Carrying amount	Fair value
Financial liabilities held at amortized cost:		
Long-term debt	\$ 10,327,196	\$ 10,766,958
Senior notes payable	-	-
Total	\$ 10,327,196	\$ 10,766,958

	Level 1	Level 2	Total	Valuation techniques and significant inputs
Financial liabilities held at amortized cost:				
Long-term debt	\$ -	\$ 10,766,958	\$ 10,766,958	Discounted cash flows using market rates

	2015	
	Carrying amount	Fair value
Financial liabilities held at amortized cost:		
Long-term debt	\$ 8,257,737	\$ 8,309,127
Senior notes payable	<u>5,995,086</u>	<u>6,140,307</u>
Total	<u>\$ 14,252,823</u>	<u>\$ 14,449,434</u>
	2014	
	Carrying amount	Fair value
Financial liabilities held at amortized cost:		
Long-term debt	\$ 6,190,081	\$ 6,181,323
Senior notes payable	<u>5,067,702</u>	<u>5,381,682</u>
Total	<u>\$ 11,257,783</u>	<u>\$ 11,563,005</u>

21. Stockholders' equity

- a. Common stock as of December 31, 2016, 2015 and 2014 consists of the following:

	Outstanding number of shares	Nominal value
Fixed capital	176,734,102	\$ 18,922
Variable capital	<u>817,493,226</u>	<u>87,525</u>
	<u>994,227,328</u>	<u>\$ 106,447</u>

Shares of the Grupo Gigante, S.A.B. de C.V. are registered in the National Securities Registry kept by the National Banking and Securities Commission. The outstanding shares of Grupo Gigante, S.A.B. de C.V. are represented by ordinary shares, registered shares of the same series without par value, which can be subscribed freely.

- b. At the Shareholders' Meeting held on September 8, 2015, Grupo Gigante, S.A.B. de C.V. resolved, among other issues, to cancel 1,928,392 treasury shares. The registration update of the Common Stock of Grupo Gigante, S.A.B. de C.V. before the National Banking and Securities Commission was resolved by it on December 4, 2015.

As of December 31, 2016, 2015 and 2014, Grupo Gigante, S.A.B. de C.V., had 500, 500 and 1,928,392 shares repurchased with recorded against to stockholders' equity. The market price of such shares as of December 31, 2016, 2015 and 2014, was \$39.00, \$38.50 and \$ 41.60 per share, respectively.

- c. Retained earnings include a statutory legal reserve. Mexican 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. As of December 31, 2016, 2015 and 2014, the legal reserve, in historical pesos, was \$21,290.

- d. Stockholders' equity, except restated additional paid-in capital and tax retained earnings will be subject to ISR payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on the dividend is paid and the following two fiscal years, against the tax for the year and provisional payments.
- e. Dividends paid from the profits generated from January 1, 2014 to residents in Mexico and to nonresident shareholders may be subject to an additional tax of up to 10%, which will be withheld by the Entity.
- f. The balances of the stockholders' equity tax accounts as of December 31, are:

	2016	2015	2014
Contributed capital account	\$ 12,033,964	\$ 11,642,767	\$ 11,399,948
Net consolidated tax income account (CUFIN) after 2014	78,862	(63,444)	(53,740)
Net consolidated tax income account (CUFIN) before 2014	<u>9,948,495</u>	<u>8,937,788</u>	<u>8,549,923</u>
Total	<u>\$ 22,061,321</u>	<u>\$ 20,517,111</u>	<u>\$ 19,896,131</u>

22. Other comprehensive income

	2016	2015	2014
Cumulative fair value gain on available-for-sale financial assets net of income tax	\$ -	\$ 1,051,984	\$ 1,348,045
Cumulative exchange differences on translating foreign operations	<u>667,692</u>	<u>183,919</u>	<u>69,940</u>
	<u>\$ 667,692</u>	<u>\$ 1,235,903</u>	<u>\$ 1,417,985</u>

a. Cumulative fair value gain on available-for-sale financial assets - net

	2016	2015	2014
Balance at beginning of year	\$ 1,051,984	\$ 1,348,045	\$ 1,635,415
Gain (loss) arising on changes in fair value	(14,343)	164,941	(275,852)
Reclassified to profit or loss	(1,513,836)	(666,659)	-
Related income taxes	<u>476,195</u>	<u>205,657</u>	<u>(11,518)</u>
Balance at end of year	<u>\$ -</u>	<u>\$ 1,051,984</u>	<u>\$ 1,348,045</u>

b. Exchange differences on translating foreign operations

	2016	2015	2014
Balance at beginning of year	\$ 183,919	\$ 69,940	\$ 34,045
Exchange differences for the year	<u>483,773</u>	<u>113,979</u>	<u>35,895</u>
Balance at end of year	<u>\$ 667,692</u>	<u>\$ 183,919</u>	<u>\$ 69,940</u>

23. Non-controlling interests

	2016	2015	2014
Balance at beginning of year	\$ 424,296	\$ 134,725	\$ 119,827
Profit allocated to non-controlling interest	93,249	74,633	16,010
Acquisition of non-controlling interest	21,147	217,405	(1,112)
Dividends paid	(101,880)	-	-
Exchange differences arising on translating the foreign operations	<u>70,538</u>	<u>(2,467)</u>	<u>-</u>
Balance at end of year	<u>\$ 507,350</u>	<u>\$ 424,296</u>	<u>\$ 134,725</u>

24. Transactions with related parties

Balances and transactions between the companies that comprise the Entity, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Entity and other related parties are disclosed below.

- a. Transactions with related parties during the years, carried out in the ordinary course of business, were as follows:

	2016	2015	2014
Purchases of fixed assets - other related parties	\$ 27,808	\$ 12,842	\$ 22,914
Rental expense - shareholders	40,294	36,550	27,411
Rental income - other related parties	16,301	14,560	3,213
Purchase of inventory - other related parties	3,993	3,287	2,164
Consulting services received - other related parties	49,676	33,935	22,126
Consulting services provided - other related parties	83,829	71,334	70,445
Charitable contributions - other related parties	23,225	22,052	8,341
Loans issued	498	386,240	11,259
Advanced payments to acquire associate - other related parties	-	-	678,000
Other income	11,759	1,425	-
Other expenses	1,684	715	-

The above transactions with related parties were performed with the usual list of prices of the Entity.

- b. As of December 31, 2016, 2015 and 2014, the Entity has accounts payable due to related parties for \$154,969, \$454,965 y \$938. As of December 31, 2014, there are no accounts payable due to related parties.

- c. Employee benefits granted to key management were as follows:

	2016	2015	2014
Short-term benefits	\$ 150,537	\$ 203,563	\$ 140,402
Other long term benefits	60,068	59,637	27,468
Post employee benefits	5,202	7,656	12,643

25. Cost of sales and operating expenses

- a. Cost of sales is as follow:

	2016	2015	2014
Cost of merchandise sold	\$ 18,166,599	\$ 15,697,068	\$ 11,807,300
Employee benefits	462,347	345,787	320,120
Rental expense	162,322	142,642	95,531
Electricity, water, gas and other utilities	154,824	148,322	114,708
Depreciation and amortization	<u>188,642</u>	<u>170,194</u>	<u>135,274</u>
Total cost of sales	<u>\$ 19,134,734</u>	<u>\$ 16,504,013</u>	<u>\$ 12,472,933</u>

- b. Operating expenses are as follows:

	2016	2015	2014
Employee benefits	\$ 3,886,400	\$ 3,383,597	\$ 2,621,597
Rental expense	1,001,592	778,348	561,534
Insurance	63,648	53,001	48,362
Electricity, water, gas and other utilities	391,219	366,299	349,165
Maintenance	348,142	427,656	277,045
Marketing	309,332	265,803	219,379
Depreciation and amortization	565,100	600,016	465,358
(Reversal) Impairment of property and equipment and intangibles	(45,844)	68,811	60,623
Other operating expenses	<u>2,446,265</u>	<u>1,878,489</u>	<u>1,555,953</u>
Total operating expenses	<u>\$ 8,965,854</u>	<u>\$ 7,822,020</u>	<u>\$ 6,159,016</u>

26. Operating leases

- a. The Entity as lessor – As lessor, agreements consist of leasing the investment properties to the Entity's clients who operate in the retail and restaurant industries. These mostly contain a minimum guaranteed income and contingent income based on the sale percentages of the clients with increases in the minimum guaranteed income determined based on inflation. Lease periods vary from 1 to 25 years (including possible extensions).

Within such leases are given incentives to customers, like grace periods as well as single payments made by customers (referred to as "key money"). These incentives are recorded in the consolidated statement of financial position as deferred income and recognised as income in a straight line over the contract term.

The future minimum lease receivables related to non-cancelable operating leases are as follows:

	2016
Not more than 1 year	\$ 1,139,978
More than 1 year and not more than 5 years	2,920,961
More than 5 years	<u>1,393,745</u>
Total	<u>\$ 5,454,684</u>

- b. The Entity as lessee – Operating leases relate to leases of land and buildings in which the Entity has some of its stores, the lease terms range from 1 to 25 years. All operating lease agreements, greater than 1 year, include inflation escalation clauses. Key money paid as well as rent holidays received are recognized initially as a prepaid rent and subsequently as rent expense on a straight-line basis over the lease terms unless another systematic basis is more representative of Entity's consumption of the benefits.

The future minimum lease payments related to non-cancelable operating leases are as follows:

	2016
Not more than 1 year	\$ 1,028,913
More than 1 year and not more than 5 years	4,734,350
More than 5 years	<u>3,130,554</u>
Total	<u>\$ 8,893,817</u>

27. Income taxes

The Entity is subject to ISR. The rate of current income is 30%. The Entity incurred ISR on a consolidated basis until 2014 with its Mexican subsidiaries. As a result of the 2014 Tax Law, the tax consolidation regime was eliminated, and the Entity and its subsidiaries have the obligation to pay the deferred income tax benefit calculated as of that date over a five-year period beginning in 2014, as illustrated below.

In compliance with the Decree that amends several provisions of the Income Tax Law published on November 18, 2015, the Entity recalculated the deferred income tax related to the consolidation regime considering: a) tax loss carryforwards according to Article Two, sections VIII and IX of the Decree that amends several provisions of the Income Tax Law published on November 18, 2015. This credit is related to tax losses for which a deferred tax asset had not been recognized since it was not probable that the economic benefits would flow to the Entity and b) reversal of losses determined in share sale transactions which had been used to offset the consolidated taxable income. According to this Decree, the resulting deferred tax payable will be settled in 10 annual installments beginning on the date in which the consolidation regime ended (December 31, 2013). During September 2016 a payment of \$168,540 was made related to the difference between the amounts previously paid in the three annual instalments already paid and the recalculated amounts. The remaining income tax payable will be paid in seven yearly instalments beginning in March 2017.

Income taxes in other countries, for Office Depot de México, S.A. de C.V., its foreign subsidiaries calculate their individual income taxes, according to the regulations of each country.

- a. Income taxes recognize in profit for the year are as follow:

	2016	2015	2014
ISR expense (benefit):			
Current	\$ 715,283	\$ 334,854	\$ 360,819
Deferred	<u>694,753</u>	<u>492,483</u>	<u>211,844</u>
	<u>\$ 1,410,036</u>	<u>\$ 827,337</u>	<u>\$ 572,663</u>

- b. The effective ISR rate for fiscal 2016, 2015 and 2014 differ from the statutory rate as follow:

	2016 %	2015 %	2014 %
Statutory rate	30	30	30
Permanent differences	2	2	5
Effects of inflation	-	(1)	(1)
Effect of future tax loss carry forwards partially recognized and changes in income tax rates	<u>1</u>	<u>4</u>	<u>(2)</u>
Effective rate	<u>33</u>	<u>35</u>	<u>32</u>

- c. Income taxes recognized in other comprehensive income are as follows:

	2016	2015	2014
Deferred ISR expense (benefit):	<u>\$ 476,195</u>	<u>\$ 205,657</u>	<u>\$ 11,518</u>

- d. The main items originating deferred taxes are:

	2016	2015	2014
Deferred ISR assets (liabilities):			
Property and equipment and investment property	\$ (2,193,039)	\$ (2,292,489)	\$ (1,868,088)
Inventories	9,557	2,955	(3,022)
Accrued expenses and provisions	245,279	145,646	155,663
Prepaid expenses and advances from customers	(93,692)	(77,687)	(23,718)
Intangible assets and others	<u>(248,986)</u>	<u>(234,795)</u>	<u>(379,308)</u>
	(2,280,881)	(2,456,370)	(2,118,473)
Effect of tax loss carry forwards	<u>206,490</u>	<u>191,925</u>	<u>130,810</u>
Total deferred tax liability- Net	<u>\$ (2,074,391)</u>	<u>\$ (2,264,445)</u>	<u>\$ (1,987,663)</u>

- e. The balances presented in the consolidated statements of financial position are as follows:

	2016	2015	2014
Deferred tax asset	\$ 463,385	\$ 353,419	\$ 328,994
Deferred tax liability	<u>(2,537,776)</u>	<u>(2,617,864)</u>	<u>(2,316,657)</u>
Total deferred tax liability - Net	<u>\$ (2,074,391)</u>	<u>\$ (2,264,445)</u>	<u>\$ (1,987,663)</u>

In the determination of the deferred ISR liability as of December, 31, 2016, 2015 and 2014, a total of \$ 286,606 \$641,443 and \$217,498, respectively, related tax losses carry forwards were excluded since the management believes that it is not probable the related future economic benefits will be realized.

As of December 31, 2016, the Entity's has tax losses carryforwards related to its operations in Colombia for \$605,794 which can be recovered without limitation on the value or period; however, the related deferred income tax asset has not been recognized as management does not believe that it is probable that sufficient future taxable income will be generated in order to benefit from such tax loss carryforwards. Accordingly, unrecognized tax loss carryforwards in Colombia as of December 31, 2016, 2015 and 2014, are \$181,738, \$164,285 and \$149,879, respectively.

f. Tax consolidation

ISR liability as of December 31, 2016 related to the tax deconsolidation which will be paid in the following years is as follows:

Year	
2017 (i)	\$ 73,039
2018	56,180
2019	56,180
2020	56,180
2021	56,180
2022	56,180
2023	<u>56,181</u>
	<u>\$ 410,120</u>

- (i) The current portion of the income tax payable is included within accrued expenses and taxes in the consolidated statements of financial position.

28. Earnings per share

As of December 31, 2016, 2015 and 2014, there are no potentially dilutive instruments, therefore the basic and diluted earnings per share are the same. The amounts used to determine earnings per share from continuing operations, discontinued operations and diluted earnings per share were as follows:

	2016 Mexican pesos per share	2015 Mexican pesos per share	2014 Mexican pesos per share
Basic and diluted earnings per share:	<u>2.81</u>	<u>1.50</u>	<u>1.23</u>

a. **Basic and diluted earnings per share**

For the years ended December 31, 2016, 2015 and 2014, the Entity does have any commitments to issue or exchange its own shares; therefore there are no potentially dilutive instruments hence basic and diluted earnings per share are the same. The earnings amounts and the weighted average number of shares used for the calculation of the basic and diluted earnings per share are the following:

For the years ended December 31:

	2016	2015	2014
Earnings used in the calculation of basic and diluted earnings per share from continuing operations	\$ <u>2,789,483</u>	\$ <u>1,496,175</u>	\$ <u>1,220,900</u>
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>994,227,328</u>	<u>994,227,328</u>	<u>994,227,341</u>

b. ***Weighted average number of ordinary shares***

For the years ended December 31, 2016, 2015 and 2014, there were no movements in the number of outstanding shares, therefore, the weighted average of ordinary shares is equal to the number of outstanding shares at the end of each one of these periods.

As of December 31, 2016			
	Profit	Weighted average number of shares	Mexican pesos per share
Basic and diluted earnings per share	\$ <u>2,789,483</u>	<u>994,227,328</u>	<u>2.81</u>
As of December 31, 2015			
	Profit	Weighted average number of shares	Mexican pesos per share
Basic and diluted earnings per share	\$ <u>1,496,175</u>	<u>994,227,328</u>	<u>1.50</u>
As of December 31, 2014			
	Profit	Weighted average number of shares	Mexican pesos per share
Basic and diluted earnings per share	\$ <u>1,220,900</u>	<u>994,227,341</u>	<u>1.23</u>

29. **Commitments and contingencies**

Commitments

The Entity has entered into operating leases for land and buildings in which some of its stores and restaurants are located. Rental payments are calculated as a percentage of sales ranging from 1% to 6%, subject to minimum amounts which are adjusted annually for increases in inflation.

Also, certain operating lease agreements entered into by the Entity as lessor gives tenants renewal options to extend the lease terms for up to 10 years.

The Entity has no commitments for the acquisition of property and equipment or investment property.

Contingencies

In the ordinary course of business, the Entity is party to various legal proceedings which have resulted in immaterial contingencies for which the Entity has created reserves.

Except for the aforementioned paragraph, neither the Entity nor its assets are subject to any legal contingency that does not derive from the Entity's normal and routine activities.

30. Reportable segments

The information provided to the Chief Operating Decision Maker of the Entity ("CODM") for purposes of allocating resources and assessing segment performance focuses on types of goods and services sold or rendered to customers, the type of customers of each of the operating segments of the Entity and also in the way in which the Entity delivers such goods or provides the related services to its customers. The Entity, using this approach, has identified the following reportable segments:

- i. Retail - Specialized stores which sell:
 - a. Office supplies and furniture as well as office electronics
 - b. Housewares
- ii. Restaurants - Family restaurant chain, which stands out for its innovative dishes, excellent service in a young and casual environment.
- iii. Real Estate - Development of investment property, retail stores, shopping malls and corporate office buildings, which are leased to tenants as well as development of housing for sell to customers.
- iv. Corporate - Entity management and corporate administration

Reportable segments information is as follows:

a. *Segment revenues and results*

The following is an analysis of the Entity's revenues and results from continuing operations by reportable segment:

	<u>Revenues by segment</u>	<u>Revenues by segment</u>	<u>Revenues by segment</u>
	2016	2015	2014
Retail	\$ 24,713,692	\$ 20,992,192	\$ 16,351,370
Restaurants	4,493,718	3,947,554	3,030,051
Real Estate	1,430,830	1,610,040	1,385,703
Corporate	-	1,079	26,358
Other	220,324	60,401	20,620
	<u>\$ 30,858,564</u>	<u>\$ 26,611,266</u>	<u>\$ 20,814,102</u>

	<u>Profit by segment</u> 2016	<u>Profit by segment</u> 2015	<u>Profit by segment</u> 2014
Retail	\$ 1,636,067	\$ 1,389,875	\$ 1,260,717
Restaurants	360,324	293,768	319,121
Real Estate	1,656,622	1,972,348	1,623,603
Corporate	(290,960)	(288,914)	(268,250)
Other	<u>199,458</u>	<u>(30,514)</u>	<u>(31,684)</u>
	<u>\$ 3,561,511</u>	<u>\$ 3,336,563</u>	<u>\$ 2,903,507</u>
Interest expense	1,505,383	924,962	791,918
Available for sale financial instruments	(1,513,836)	(666,659)	-
Interest income	(106,462)	(90,274)	(79,112)
Exchange loss - Net	181,505	884,986	542,480
Gain on revaluation of financial instruments - Net	(368,042)	(17,296)	(147,045)
Share of profit of joint venture and associates	<u>(429,805)</u>	<u>(97,301)</u>	<u>(14,307)</u>
Profit for the year from continuing operations before income taxes	<u>\$ 4,292,768</u>	<u>\$ 2,398,145</u>	<u>\$ 1,809,573</u>

Segment revenues reported above represent revenues generated from external customers. Inter-segment revenues are as follows:

	<u>Inter-segment revenues</u>		
	2016	2015	2014
Retail	\$ 35,526	\$ 118,366	\$ 248,710
Restaurants	20,729	13,562	23,056
Real Estate	213,733	191,665	158,252
Corporate	539,811	563,114	694,015

The accounting policies of the reportable segments are the same as the Entity's accounting policies described in Note 3. Segment profit represents the profit before tax earned by each reportable segment without allocation of corporate administration costs and the equity share in the profits or losses of joint ventures and associates.

b. ***Segment assets, long-term debt and Senior Notes payable***

	<u>Total segment assets</u>		
	2016	2015	2014
Retail	\$ 16,464,632	\$ 14,280,241	\$ 10,903,241
Restaurants	3,991,914	3,665,770	2,329,240
Real Estate	16,799,961	17,454,667	15,597,615
Corporate	1,324,464	2,031,540	1,464,271
Other	<u>1,850,852</u>	<u>3,571,057</u>	<u>3,647,387</u>
Total assets	<u>\$ 40,431,823</u>	<u>\$ 41,003,198</u>	<u>\$ 33,941,754</u>

Intercompany balances are not included.

	Long-term debt and Senior Notes payable		
	2016	2015	2014
Retail	\$ 2,945,795	\$ 6,026,756	\$ 5,067,702
Restaurants	1,118,188	1,140,896	-
Real Estate	1,991,575	2,564,402	1,596,210
Corporate	4,223,956	4,440,855	4,487,352
Other	<u>47,682</u>	<u>79,914</u>	<u>106,519</u>
Total long-term debt and Senior Notes payable	<u>\$ 10,327,196</u>	<u>\$ 14,252,823</u>	<u>\$ 11,257,783</u>

c. **Other segment information**

	Depreciation and amortization	Depreciation and amortization	Depreciation and amortization
	2016	2015	2014
Retail	\$ 490,985	\$ 506,497	\$ 394,179
Restaurants	215,353	176,235	133,130
Real Estate	9,343	16,400	8,678
Corporate	6,886	2,944	129
Other	<u>31,175</u>	<u>68,134</u>	<u>64,516</u>
Total	<u>\$ 753,742</u>	<u>\$ 770,210</u>	<u>\$ 600,632</u>

	Additions to long-term assets	Additions to long-term assets	Additions to long-term assets
	2016	2015	2014
Retail	\$ 575,634	\$ 520,074	\$ 943,041
Restaurants	741,582	794,892	312,980
Real Estate	240,423	5,698	45,213
Corporate	-	-	7,350
Other	<u>79,647</u>	<u>1,489</u>	<u>107,448</u>
Total	<u>\$ 1,637,286</u>	<u>\$ 1,322,153</u>	<u>\$ 1,416,032</u>

d. **Geographical information**

The Entity operates in four principal geographical areas, Mexico, Central America, Colombia, the Caribbean and Chile. The Entity's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

	Revenue from external customers	Revenue from external customers	Revenue from external customers
	2016	2015	2014
Mexico	\$ 24,054,213	\$ 21,856,379	\$ 18,506,955
Central America	1,843,407	1,633,440	1,339,082
Colombia	778,455	747,988	881,739
Caribbean	148,400	101,689	86,326
Chile	<u>4,034,089</u>	<u>2,271,770</u>	<u>-</u>
Total	<u>\$ 30,858,564</u>	<u>\$ 26,611,266</u>	<u>\$ 20,814,102</u>

	<u>Non-current assets</u> 2016	<u>Non-current assets</u> 2015	<u>Non-current assets</u> 2014
Mexico	\$ 25,597,520	\$ 25,582,990	\$ 22,612,242
Central America	684,388	594,971	573,020
Colombia	267,073	228,982	268,798
Caribbean	31,443	22,796	16,348
Chile	<u>757,461</u>	<u>562,459</u>	<u>-</u>
Total	<u>\$ 27,337,885</u>	<u>\$ 26,992,198</u>	<u>\$ 23,470,408</u>

31. Authorization to issue the Consolidated Financial Statements

On March 22, 2017, the issuance of the consolidated financial statements was authorized by the Board of Directors of Grupo Gigante, S.A.B. de C.V. These consolidated financial statements are subject to the approval at the General Ordinary Stockholders' Meeting, which may decide to modify such consolidated financial statements according to the Mexican General Corporate Law.

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