

THE VALUE CHAIN  
**GIGANTE**



2019  
Annual Report

Throughout its history, **Grupo Gigante has consolidated its presence in 8 countries, from Mexico, comprising its 32 States, to Central America and South America.** It has constantly struggled to achieve its growth through its acquisitions, partnerships and strategic alliances that have permitted its business diversification, without forgetting its fundamental basis, which is the commitment towards Mexico and its people.

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\*.

Nowadays, Grupo Gigante is assembled in **3 great divisions:**



#### **SPECIALIZED RETAIL DIVISION**

Includes OFFICE DEPOT, with its trademarks and formats, RADIOSHACK, CASA MARCHAND, FESA, PAPELERA GENERAL, OFIXPRES and PRISA; THE HOME STORE and PETCO (Joint Venture).



#### **RESTAURANT DIVISION AND OTHER SERVICES**

Composed of RESTAURANTES TOKS, with the BEER FACTORY brand; as well as PANDA EXPRESS and SHAKE SHACK.



#### **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.

## 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.

## 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.

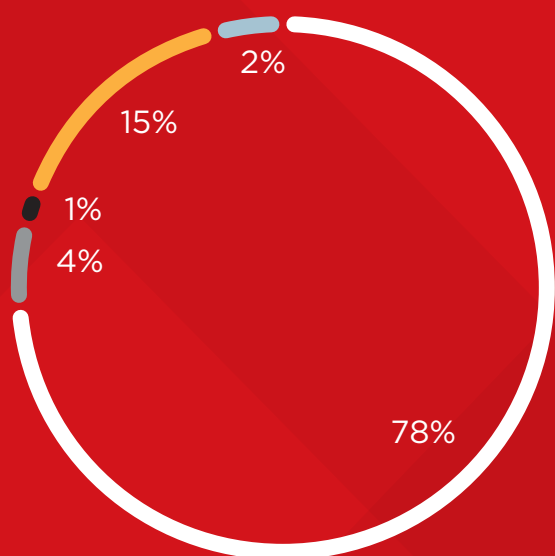
## Values

Leadership • Teamwork • Excellence  
Creativity and Innovation • Productivity  
Transparency • Recognition  
Social Responsibility.

## Content

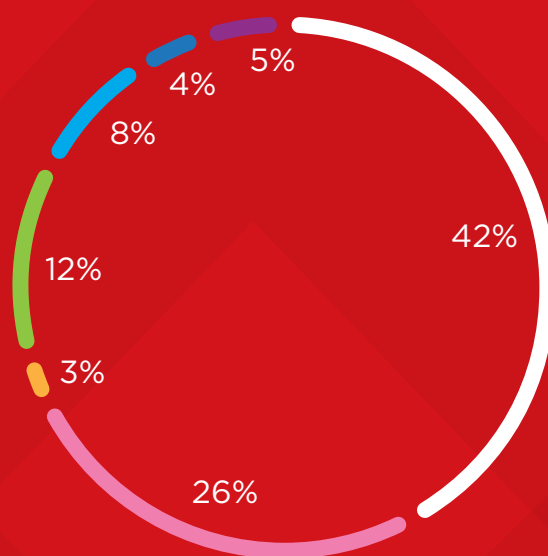
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### SALES BREAKDOWN BY FORMAT



- Office Depot
- GGI
- Panda Express
- Restaurantes Toks
- The Home Store

### REGIONAL DISTRIBUTION OF UNITS



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

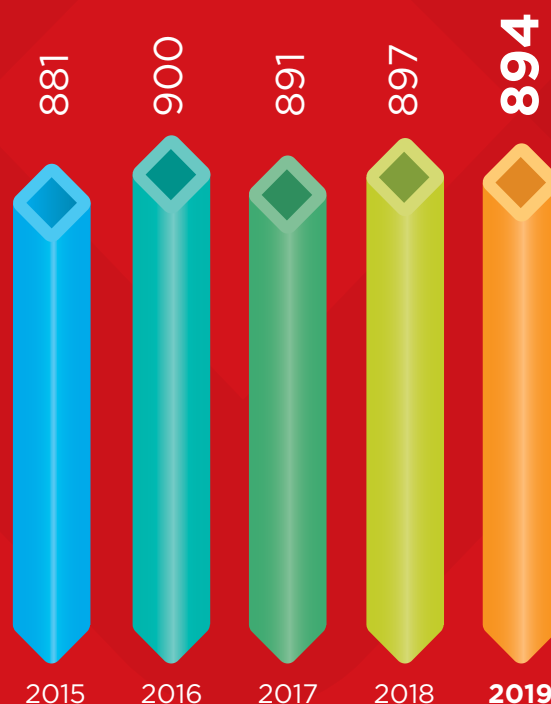
### SALES FLOOR PARTICIPATION OF SUBSIDIARIES

| Business Unit     | Units      | m <sup>2</sup> | Seats         |
|-------------------|------------|----------------|---------------|
| Office Depot      | 540        | 491,070        |               |
| Restaurantes Toks | 211        |                | 43,901        |
| Beer Factory      | 7          |                | 1,823         |
| Shake Shack       | 2          |                | 254           |
| Panda Express     | 23         |                |               |
| The Home Store    | 20         | 26,009         |               |
| <b>Sub total</b>  | <b>803</b> | <b>517,079</b> | <b>45,978</b> |
| Parkings          | 91         |                |               |
| <b>Total</b>      | <b>894</b> | <b>517,079</b> | <b>45,978</b> |

### SALES FLOOR PARTICIPATION OF ASSOCIATED

| Business Unit | Units | m <sup>2</sup> |
|---------------|-------|----------------|
| Petco         | 89    | 54,265         |

### CONSOLIDATED UNITS



# FINANCIAL HIGHLIGHTS

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the years ended December 31, 2019, 2018 and 2017. In thousands of Mexican pesos, except per share data.

|                                 | 2019        | 2018        | 2017        |
|---------------------------------|-------------|-------------|-------------|
| Total revenues                  | 32,445,627  | 33,188,795  | 32,151,711  |
| % variation                     | -2.2%       | 3.2%        | 4.2%        |
| Operation flow (Ebitda)         | 4,530,100   | 3,107,736   | 3,481,794   |
| % variation                     | 45.8%       | -10.7%      | 0.5%        |
| Consolidated net income         | 629,137     | 1,254,295   | 1,481,043   |
| % variation                     | -49.8%      | -15.3%      | -48.6%      |
| Consolidated integral income    | 466,442     | 1,020,734   | 1,465,857   |
| % variation                     | -54.3%      | -30.4%      | -38.5%      |
| Basic earnings per common share | 0.60        | 1.18        | 1.41        |
| % variation                     | -49.2%      | -16.3%      | -49.8%      |
| Price of share                  | 35.41       | 36.50       | 39.60       |
| Common shares outstanding       | 994,227,328 | 994,227,328 | 994,227,328 |

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2019, 2018 and 2017. In thousands of Mexican pesos.

|                                      | 2019       | 2018       | 2017       |
|--------------------------------------|------------|------------|------------|
| Assets                               | 48,829,625 | 43,302,039 | 40,568,362 |
| % variation                          | 12.8%      | 6.7%       | 0.3%       |
| Cash and cash equivalents            | 1,686,783  | 2,049,520  | 1,926,334  |
| % variation                          | -17.7%     | 6.4%       | -15.6%     |
| Financial instruments                | 426,608    | 426,113    | 434,889    |
| % variation                          | 0.1%       | -2.0%      | -11.5%     |
| Inventories-Net                      | 6,568,139  | 6,743,666  | 6,627,937  |
| % variation                          | -2.6%      | 1.7%       | -4.3%      |
| Assets use rights                    | 4,972,202  |            |            |
| % variation                          | NA         |            |            |
| Property and equipment-Net           | 10,775,004 | 10,399,393 | 9,821,015  |
| % variation                          | 3.6%       | 5.9%       | 0.5%       |
| Investment properties                | 14,932,014 | 13,923,440 | 12,745,562 |
| % variation                          | 7.2%       | 9.2%       | 7.2%       |
| Other assets                         | 9,468,875  | 9,759,907  | 9,012,625  |
| % variation                          | -3.0%      | 8.3%       | -0.6%      |
| Liabilities and Stockholder's equity | 48,829,625 | 43,302,039 | 40,568,362 |
| % variation                          | 12.8%      | 6.7%       | 0.3%       |
| Suppliers                            | 4,773,714  | 5,329,197  | 4,303,164  |
| % variation                          | -10.4%     | 23.8%      | -14.4%     |
| Bank loans                           | 10,745,739 | 10,517,633 | 10,101,763 |
| % variation                          | 2.2%       | 4.1%       | -2.2%      |
| Long-term lease liability            | 4,678,668  |            |            |
| % variation                          | NA         |            |            |
| Other liabilities                    | 6,066,832  | 5,348,519  | 4,784,449  |
| % variation                          | 13.4%      | 11.8%      | -6.0%      |
| Stockholder's equity                 | 22,564,672 | 22,106,690 | 21,378,986 |
| % variation                          | 2.1%       | 3.4%       | 7.0%       |

\* The % of variations are with respect the previous year.

# ANNUAL REPORT 2019 OF THE CHAIRMAN OF THE BOARD AND OF THE CFO GRUPO GIGANTE, S.A.B. DE C.V.

Mexico City, March 30, 2020

## **Dear Shareholders and Board Members**

Once again, we have the opportunity to address you and present for your consideration the annual report of activities and results for the year 2019, reporting on the progress of the Group and thus complying with the applicable legal provisions.

Throughout the year, we once again faced great volatility and uncertainty, due to many internal and external, national and international factors, especially in aspects such as the political situation in Mexico, including the change of government administration and the implementation of its vision, legal reforms and new policies, the ups and downs of our economy, the conclusion and signing of the USMCA, various issues in Europe, the leadership in the United States, its trade war with China, the instability in South America, particularly in Chile, as well as the technological transformation and the

digital disruption that is occurring at the global and national levels. The Mexican economy (in terms of GDP) decreased last year by -1%, with inflation standing at 2.83%.

The previous strengthening of our balance sheet, in terms of eliminating our exposure to dollars and refinancing our debt, has enabled us to avoid these major effects. The decisions taken allowed us to continue seeking better financial alternatives to meet our commitments, both, those related to financial aspects and those linked to our strategy, growth plans, objectives, and goals. These actions have made it possible to continue facing the challenges of the country and the world, in which we actively participate, competing against digitalization, disruption, interconnection and technology.

In 2019, we finished with more than 921,000 m<sup>2</sup> of floor space for rent, with a total of 983 units, including stores, restaurants and 91 parking

lots. We continue to be present in 8 countries, including Mexico, El Salvador, Guatemala, Honduras, Panama, Costa Rica, Chile and Colombia, this total number, also considers the 89 units of Petco, our successful operation of pet supplies and services, through the joint venture with our American partner (Petco Animal Supply Stores, Inc.), achieving a growth of 19 new stores during the year. In our restaurant and services division, we concluded the year with 45,978 seats and 243 restaurants. In the real estate division, we ended the year with 119 owned and managed properties, with more than 1,379 profitable premises, with an occupancy rate of 95.3%. We confirm that we will continue, with extreme caution and selectivity, remodeling and finishing various real estate projects, with the client as the final objective, insisting on orientation towards greater efficiency and profitability.

In terms of our financial results, total revenues reached \$32,445.6 million pesos,

while gross profit total \$12,679.6 million. This gross profit represented a 39.1% gross margin. With regard to EBITDA, this totaled \$4,530.1 million pesos, and our consolidated net profit was \$629.1 million pesos. Our stockholders' equity grew by 2.1%, so we ended the year with a consolidated cash flow of \$2,113.4 million pesos.

We continue to work on various efficiency fronts, such as the Energy Saving project, the implementation of the Organizational Development strategy, with a long-term vision that addresses issues of talent and culture, and the very important implementation of the Labor Reform, to remain qualified in the top places in Transparency and Anti-Corruption Practices, within the 500 most important companies in the country. We were invited to join the 200 Companies with the Greatest Social Responsibility in Mexico and other strategic initiatives underway during 2019.

As always, the activities of Social Responsibility maintain the strategic

significance and conviction that the Group has held throughout its more than 57 years of history. Among the actions and Programs of Health, Education and Help in Natural Disasters, we have maintained the support and provided aid, upholding the principle of the value of being able to serve others, especially those who need it most.

Although the Annual Report's Social Responsibility chapter, describes various efforts and concrete achievements, it is necessary to emphasize that apart from the initiatives executed by Fundación Gigante there are concrete actions that the each company of the Group carries out, based on their own capacities and characteristics. With this, we reaffirm that we will continue to strengthen strategically and decisively, Fundación Gigante and the companies of the Group in their support of disasters, children, youth and the elderly.

Once again, it is necessary to emphasize that none of the above, would have

been possible without the effort and commitment of the more than 28,500 employees, who work in their respective subsidiaries, including the seasonal variables throughout the year in all the countries where we operate. It is necessary to reiterate our recognition to all of them.

Our special thanks go to our shareholders and advisors for their trust and support.

Under the premise of the new great challenges, we will be updating and executing our strategic plan for the coming years, based on the six defined premises: Profitability, Sustainability and Social Responsibility, the identification and capture of Synergies between all Business Units, Portfolio Diversification, Digital Transformation and, of course, the Development of Talent and Culture of the organization at all levels. We will continue to make efforts towards consolidating the strengths of Grupo Gigante and its subsidiaries.

NOTHING WOULD HAVE BEEN POSSIBLE  
WITHOUT THE EFFORT AND COMMITMENT  
OF OUR MORE THAN 28,500 EMPLOYEES,  
IN THEIR RESPECTIVE SUBSIDIARIES.

Finally, and although this does not correspond to the year of the results presentation of this Report (2019), we cannot ignore the problems and the enormous health and economic challenge that the global COVID-19 pandemic represents currently for our country, and consequently for our group, but in addition to sharing with you that we have been analyzing and making decisions on our options in all fields of action to face the emergency, such as financing and strengthening the savings bank, substantial savings, renegotiation of contracts, suspension or cancellation of non-"essential" projects, etcetera. We want to assure you that by staying together, working as a team, taking care of each other, developing extraordinary efforts in all fronts, including solidarity actions, as well as exercising the right leadership, we will move forward, our

sights set on the priority of maintaining jobs, the future of the company and from our trenches, supporting Mexico and its people in these uncertain times.

Sincerely,



**Ángel Losada Moreno**

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



**Federico Bernaldo de Quirós**

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

# SPECIALIZED RETAIL DIVISION





**Office  
DEPOT**

**petco** 

**THE HOME STORE**



## MARKED WITH ACTIONS THAT DISTINGUISH US

2019 was a year of great momentum for Office Depot. During these 12 months, we opened 15 units, in their different formats, with an investment of more than \$800 million pesos, which resulted in an increase in the stationery department, above ANTAD.

WE TAKE CARE OF  
**OUR  
PLANET**  
AND THE ENVIRONMENT,  
WHICH IS WHY WE PROMOTE A  
LINE OF ECOLOGICAL PRODUCTS.



### REPROGRAF PAPER

Strongly promoted in our stores since it is a paper produced from sugar cane bagasse, an environmentally friendly agro-industrial sub product, since its process is free of elemental chlorine and we do not encourage deforestation of forests because it is extracted from an alternative fiber, so we call it Tree Free.







# WITH RESPECT TO THE E-COMMERCE, WE HAD A SUSTAINED GROWTH OF 35%, GENERATING AN IMPORTANT ADVANCE IN THE VOLUME OF TRANSACTIONS IN COMPARISON TO THE PREVIOUS YEAR.

At Office Depot, we are constantly looking for ways to improve our services. That is why we created the “Coworking” project, which consists of implementing a specialized service module for SMEs. This new project is in operation in two of our branches: Gran Terraza Coapa and Roma in Mexico City. It is worth mentioning that this was made possible thanks to our commitment to provide personal and qualified attention to our customers and in this way, continue adding value and making a difference.

Through the use of technology, we also diversify our sales channels through Pick up in Store, Kiosks, App Copy Center, Marketplaces with Rappi and Mercado Libre, generating greater value to our customers.

Meanwhile, with respect to the e-commerce, we had a sustained growth of 35%, generating an important advance in the volume of transactions with respect to the previous year.

At the international level, we consolidated the opening of the Distribution Center in Chile, achieving a 20% increase in distribution, a 30% increase in storage capacity, delivery in 72 hours and a reduction in transportation costs. Additionally, in Central America, we managed to exceed the margin by 3 percentage points, which means that the EBITDA margin tripled in comparison to the previous year.

Casa Marchand, our Business Unit specialized in the sale of school supplies, exceeded its sales by 11% over the previous year, so the margin increased by 1.2 percentage points compared to 2018. EBITDA grew by 10.1% with



## WE OPENED 15 NEW STORES, CONSOLIDATING THE STRENGTH OF THE BRAND.

respect to the previous year and transactions increased by 16.3% in the last 12 months.

Fesa, another of our brands dedicated to logistics, exceeded its sales from the previous year, increasing the margin by 3.8 percentage points compared to 2018 and tripling EBITDA in the same period of time.

We are proud that for the eleventh consecutive year, Office Depot was recognized as a Socially Responsible Company. We promoted environmental care among the communities, recycling 539 tons of cardboard and plastic wrap and protecting the felling of 7,330 trees. As a result of these and other actions, we continue to be distinguished as one of the 10 Best Companies to Work For in Mexico.

This year, we will focus our vision on satisfying our customers, so we will invest the aforementioned amount in the renovation of our stores, in the implementation of loyalty and CRM programs, as well as in the updating of systems such as merchandise, inventory management, point of sale, import management and analytical reporting platform. In addition, a Customer Service Center was established.

As for Social Responsibility, we will develop a rehabilitation program in some schools, while continuing with sustainability projects and volunteering for reforestation.

With all of this, we at Office Depot continue to add in Mexico and beyond.







## MULTI-LEVEL, BUILDABLE CAT FURNITURE You and Me

Your cat can scratch and play with it as much as you like thanks to the platforms, hammock and tunnel where it can rest or sleep.

WE  
ACHIEVED THE  
ADOPTION OF  
50,000





## THE VALUE OF OUR PHILOSOPHY

Since our arrival in Mexico seven years ago, we have managed to position ourselves as a pet expert. As a result, in 2019, we witnessed a 31.0% increase in total store sales, opening 19 units nationwide.



## OUR ADOPTION PHILOSOPHY HAS PERMEATED OUR 89 UNITS NATIONWIDE.

Since our arrival in Mexico seven years ago, we have managed to position ourselves as a pet expert. As a result, in 2019, we witnessed a 31.0% increase in total store sales, opening 19 units nationwide.

At the end of the year, we were present in 23 states and Mexico City. We added 89 units in operation, 65 stores in normal format and 24 in express format, which is equivalent to more than 54,000 m2 in floor sales.

Due to the launch of the Petco Mexico app and by implementing the “Pick-up at the Store” and “Send from the Store” programs, we achieved a 50% growth in online sales and served more than 1.9 million members of Club Petco.

Our social networks have allowed us to reach over 2 million followers on Facebook, over 130,000 on Instagram and 16,000 on Twitter, which proves how close we are to our audience. Together with them, we are always ensuring the welfare of their pets.

At the end of 2019, we had over 2,000 employees, who have assisted around 408,660 dogs and more than 2,460 cats in the grooming area. Our commitment to always provide quality service led us to train 1,758 employees on the topic of nutrition for more than 4,100 hours.

For the proper handling of small pets, 835 employees received 5,565 hours of training, while 126 stylists from the Grooming Petco Academy were certified after more than 100,000 hours of training.

Under the “Adopt First” philosophy, we managed to place over 47,000 pets in

new homes through our “Find a Home” and “Save Lives” campaigns, donating almost \$4,500,000 pesos.

Through an aggressive expansion plan, by 2020, we plan to open 16 stores, achieving our 100th branch and with it, have presence in 24 states and Mexico City including the consolidation of the border area. Additionally, we proudly celebrated our 50,000 adoption and strengthened Petco Digital’s strategy (POS, app, grocery store, e-commerce), aspects that led us and will continue to lead to the creation of value chains in favor of pets in this country.





Natural Gourmet

CARNE FRESCA +  
FRUTOS DEL BOSQUE.

LO MEJOR  
PARA  
ELLOS.

RICO Y  
SANO  
PARA  
TODOS.

No le cuesta hacer  
el cambio de un  
alimento a otro  
de forma gradual

Satisfacción al 100%  
Si el producto no  
le agrada a tu  
pet, lo devolvemos  
sin costo.

petco

para entretenerlo  
| camisas | bully sticks | huesos

para entretenerlo  
| antlers | camisas | bully sticks | huesos

# THE HOME STORE

## HOME STORE, MORE VALUE TO YOUR HOME

2019 was a year of great challenges for us, as we opened the Gran Terraza Coapa store, in addition to having obtained important annual sales in e-commerce.





### ECOFILTER

Drink water, donate water

Its 3 levels of filtration, mud, activated carbon and colloidal silver are ideal for having pure water at any time without using plastic bottles.

EVERY YEAR, ECOFILTERS ARE  
**DONATED**  
TO COMMUNITIES  
WITHOUT ACCESS  
TO DRINKING WATER.





As experts in offering solutions for the home, our strategy focused on developing the Gift Table program on our website, implementing our sales channel through Mercado Libre, implementing the Institutional Sales area and developing the Pick up at Store program for customer convenience.

During the year, we also implemented the SAP system in our Distribution Center, while at the same time having a better organization and thus increasing the storage capacity of our products.

A priority of this business strategy, also focused on reducing staff turnover, from 120% in 2017 to 42% in 2019, which meant significant stability for the brand.

By 2020, we will continue to take actions that improve the shopping experience of our customers. With that objective, we will implement the Circle Home Store affiliation concept and will implement the CRM in the platform called *Sugar*.

The introduction of new sales subcategories in some of our stores such as the Baby Line is also contemplated. Besides, we will also continue to develop improvements to the platform and operating processes of the

website, in order to expand the purchasing process to more digital channels.

Along with these actions, we will work to maintain the positioning of Home Store as the destination store, which offers solutions for the home with innovative, high quality and functional products; and a fundamental part will be the focus of growth of our employees, through ongoing training to have greater training with respect to products.

Therefore, we will continue to strengthen our company and our employees to be more competitive every day.

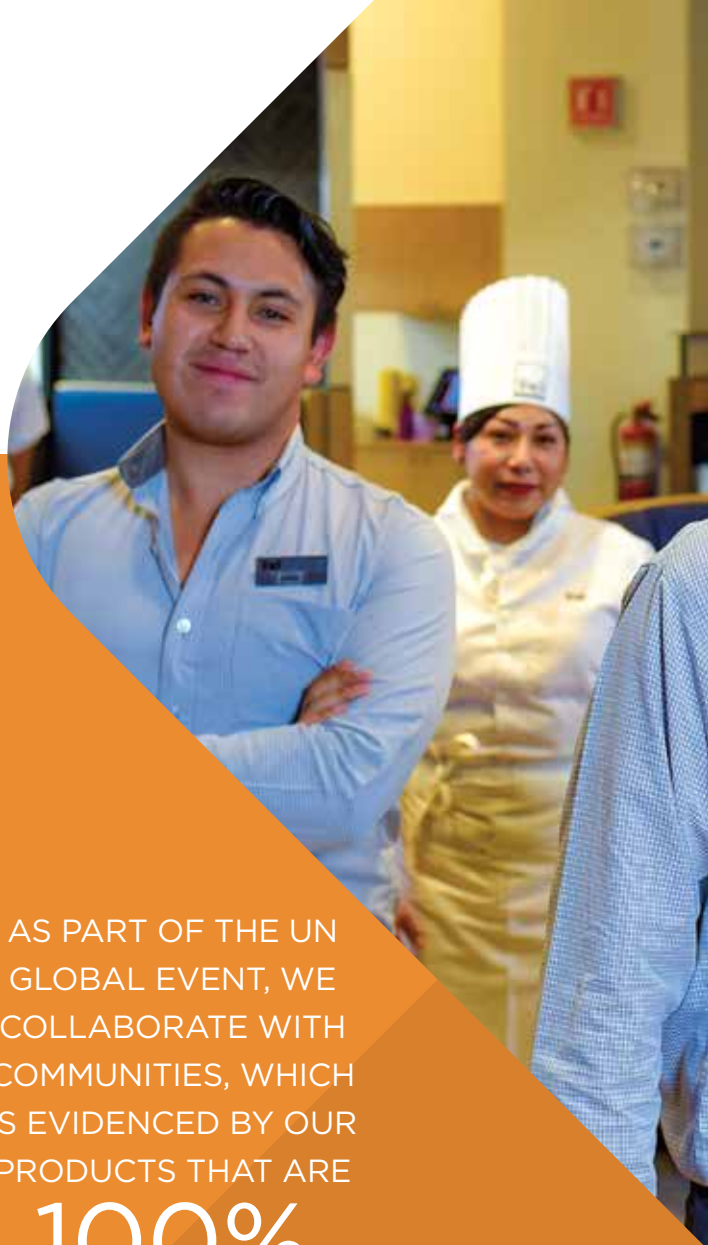
**E-COMMERCE HAS BECOME A GREAT ALLY  
FOR OUR SALES BY 2020, WE WILL TAKE  
ACTION TO BECOME MORE COMPETITIVE.**



# RESTAURANT DIVISION AND OTHER SERVICES







## QUALITY, TASTE AND SERVICE AT YOUR TABLE

For the Restaurantes Toks chain, 2019 was a positive year. We opened five new branches and served a total of more than 32 million customers in our 211 units. At the end of the year, we had more than 11,000 employees and created 246 jobs.

AS PART OF THE UN  
GLOBAL EVENT, WE  
COLLABORATE WITH  
COMMUNITIES, WHICH  
IS EVIDENCED BY OUR  
PRODUCTS THAT ARE

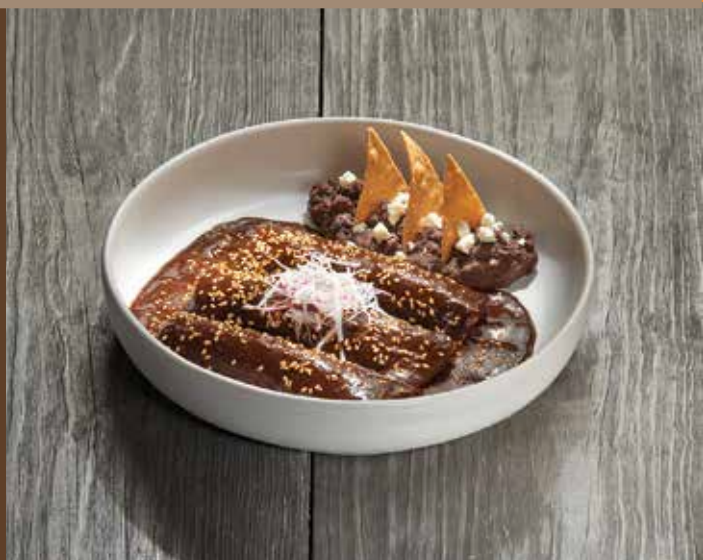
# 100%

MEXICAN



### DOÑA YOLANDA Handmade Mole

With programs such as “handcrafted and fair trade products”, we support the communities. An example is the handmade mole “Doña Yolanda” which is created by Mazahua women in the State of Mexico. The purchase of each jar at a fair price improves the lives of the community.







TOKS  
**A MANO**  
PROYECTOS PRODUCTIVOS

Respetamos  
A LA TIERRA Y A  
LAS MANOS QUE  
LA TRABAJAN.

Celebramos  
A MÉXICO A  
TRAVÉS DE SUS  
SABORES.

SABORES  
TRAVÉS DE SUS  
A MÉXICO A  
CELEBRAMOS

## WE WILL CONTINUE TO ADD VALUE IN THE AREA OF SOCIAL RESPONSIBILITY, AN ASPECT THAT HAS CHARACTERIZED US.

For the convenience of our clients, we implemented home sales through the Uber Eats and Rappi technology platforms, reaching a figure of more than \$69.6 million pesos. We also put into operation the mobile payments and order taking.

To strengthen our brand presence, we launched a pilot menu and reinforced the advertising strategy through the “Be Here, It’s Better” campaign.

Meanwhile, in the children’s segment, we remodeled 46 play areas, in addition to developing new dishes and beverages in partnership with Mattel with the flavor and quality that has always identified us.

An important part of our business strategy was to cover all Social Responsibility

programs planned throughout the year. We created the Productive and Business Integrity Projects, which focus on food loss and waste, used vegetable oil recycling, the glasses and school supplies program, as well as the Green Fund project.

We also join other programs, such as Youth Building the Future, Food Bank, Toks Forest, Volunteering, health programs to the population and in particular for people with disabilities, having established partnerships with Universities.

Additionally and indirectly, we participate in various fundraising campaigns, recycling of ink cartridges, Jugué-Toks, Hope Truck, animal welfare and set in motion links with the Ministry of Public Safety, among others.

In sum, in terms of Social Responsibility, 12,356 direct and 62,474 indirect beneficiaries were reached.

In 2020, our vision and commitment will remain focused on customers, through a “Loyalty Program” and through the “Noches Toks” campaign, we will seek to reward and satisfy the preference of our diners.

To improve the processes to reduce the loss of food waste, we will implement a cluster and migrate to high technology programs and platforms, giving more value in each action.

We will also consolidate the acquisition of El Farolito made in 2020, one of the most popular Mexican taco restaurant, dating since 1962.





## Shake Shack Captivates Mexicans





**100% NATURAL  
ANGUS MEAT**

No hormones or antibiotics.

Our meat mixture is fresh ground.

All burgers are cooked term 3/4,

unless otherwise requested.

FOR OUR OPENINGS  
IN MEXICO CITY WE HIRED

**176**  
**EMPLOYEES**  
**MEXICANS**

AT 31<sup>ST</sup> DECEMBER  
FROM 2019.





## Stand For Something Good

This is our vision and we apply it in everything we do. From the careful selection of our ingredients that come from suppliers we admire and love to our commitment to the community through donations and events. This has made hamburger, hot dog and shake lovers want to come to Shake Shack to eat delicious food and have a good time with family or friends.

In June 2019, we opened the first Shack in Reforma and in December of the same year, we opened the second one in Arcos Bosques, Cuajimalpa, both in Mexico City. In only seven months of operation, we achieved significant revenues and above our budget estimates, which means caring for over 200,000 satisfied customers.





## Mexican **HANDCRAFTED BEER**

It produces its own handcrafted beer styles with the best quality raw materials and high production standards, ranging from a Light Mediterranean, Light Ale style to a Santa Fe, Vienna Lager style.

DURING 2019  
WE ATTEND TO  
**448,000**  
CUSTOMERS





# BEER FACTORY

& FOOD

BEER FACTORY:  
PASSION IN  
EVERY DRINK





Since 1997, we have been pioneers in the production of artisan beer, which has earned us national and international recognition. To date, our unique business concept allows us to have 7 branches, two of which were inaugurated in 2019. At the end of this year, we had 288 employees.

Part of our commercial strategy, which came to fruition during the year, focused on implementing the “Eat Free Mondays” and “2x1 Tuesdays and Thursdays” promotions.



SAYING “CHEERS”  
TO NEW BUSINESS  
STRATEGIES.







PANDA EXPRESS,  
A TRADITION  
OF TASTE





## ORANGE CHICKEN

Crispy, breaded chicken seasoned with our sweet and sour orange sauce.

IN 2019,  
PANDA EXPRESS  
SHARED ITS DISHES  
WITH OVER  
**1,000,000**  
CONSUMERS







DIGITAL PLATFORMS  
HAVE INCREASED  
BUSINESS BY  
OVER 33%.

Driven by the taste of Chinese cuisine, in 2019 we will continue with the “Panda within Reach of Everyone” program, breaking the price barrier and adding new consumers.

We maintained the home delivery system in all our units, through digital platforms such as Uber Eats, Rappi, Sin Delantal, Posmates and Didi, reaching a 33.7% share in terms of delivery. In total, we had more than 1.4 million sale transactions.

Our focus will continue to be on implementing strategies that satisfy the customer’s taste and improve their shopping experience, to create a “flavor chain”.

# REAL STATE DIVISION





**GIGANTE**  
**GRUPO**  
INMOBILIARIO®

FLAGSHIP PROJECTS,  
EXAMPLE OF  
INNOVATION

## WE OPEN DEVELOPMENTS THAT ADD VALUE TO OUR REAL ESTATE PRESTIGE AND CONTRIBUTE TO THE COMMUNITY

We had good results because in 2019 we maintained our upward trend in the real estate sector.

Occupation of Gigante Grupo Inmobiliario's portfolio remained at a satisfactory level during the 12 months of the year, closing at 95.3% occupation of the total profitable gross area, thus improving annual profitability by 10.4%. During this period, we also registered 45.7 million visitors in our Commercial Centers and the entrance of 6.5 million vehicles.

Also, in July of 2019, we opened the first phase of the Gran Terraza Coapa Shopping Center. This flagship property, has more than 69,000 square meters of profitable commerce, providing an innovative, casual and inviting architecture, which provides a competitive advantage in comparison to the offering in the area.





## **GAMMA LED SERIES**

Sealed led luminaire

It offers maximum efficiency and is highly reliable. Our devices incorporate the latest LED technology, powered by precise electronics to achieve efficiencies of up to 130 lm / watt while controlling the operating temperature, maximizing the life of the device.

THE LED LIGHTING  
CONSUMES  
APPROXIMATELY  
**80%**  
LESS  
ELECTRICITY  
THAN THE  
TRADITIONAL LIGHTING.







## COMMITMENT AND RESPONSIBILITY, VALUES THAT KEEP US GOING.

Palmas Uno, is another of our most representative real estate complexes. Located in Interlomas, the development opened the doors of its Shopping Center in August 2019. By the end of the year, the construction of the corporate office area was completed. Of the total area of this complex, 12,154 m<sup>2</sup> is intended for commerce, more than 12,900 m<sup>2</sup> for rental offices and 5,447 m<sup>2</sup> for offices for sale.

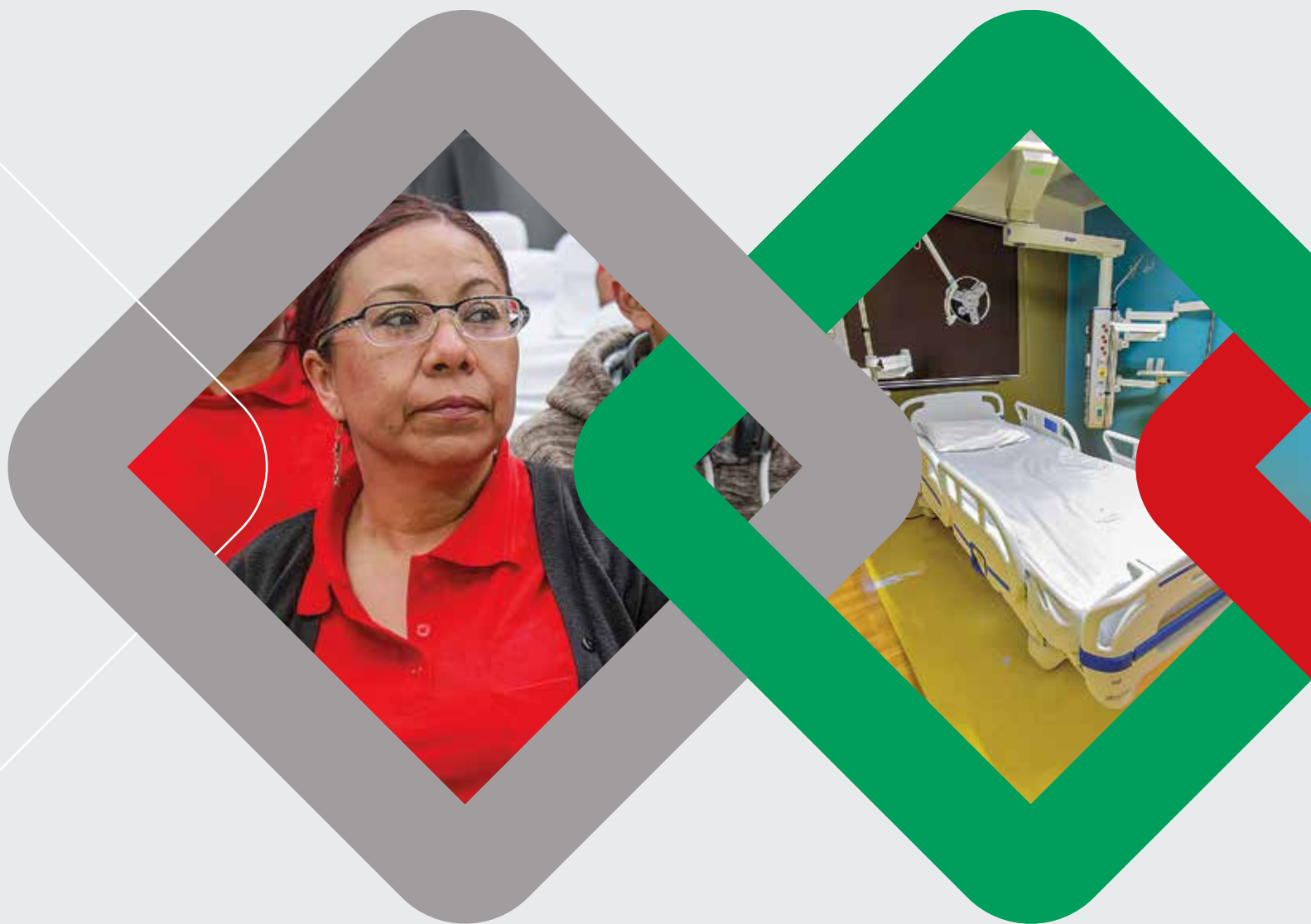
By the end of the year, the Office Tower in Miyana - within GGI's mixed-use project - closed with an occupation of almost 91.0% of a total profitable gross area of almost 38,000 m<sup>2</sup>. In addition, we are proud to announce that this year we completed the Tower III of Miyana housing -the highest of them all- with 44 levels and 321 apartments for sale.

For Gigante Grupo Inmobiliario, we constantly commit to the work with our business partners and support them in the projection, execution and consolidation of each of their projects.

As developers, we seek to be on the forefront of the creation of modern and functional world-class concepts. These are elements that have undoubtedly kept us moving forward and adding value every day.

WE SEEK TO BE ON  
THE FOREFRONT  
OF THE CREATION  
OF MODERN AND  
FUNCTIONAL  
WORLD-CLASS  
CONCEPTS.

# WE BUILD A BETTER FUTURE





WE WORK WITH  
PASSION AND  
DEDICATION TO  
BRING ABOUT  
GREAT CHANGE  
IN THE LIVES OF  
THOUSANDS  
OF PEOPLE.



## FRAMES

Ver Bien para Aprender  
Mejor” Foundation

The design is unique because  
they are made by Mexican hands  
and exclusively for “Ver Bien  
Para Aprender Mejor”.

IN 2019

**13,648**  
GLASSES

WERE GIVEN TO  
CHILDREN IN PUBLIC  
SCHOOLS, PRIMARY  
AND SECONDARY),  
THROUGHOUT MEXICO.



# TRUE VALUE LIES IN HELPING OTHERS, THIS IS WHY IN FUNDACIÓN GIGANTE WE HAVE BEEN WORKING FOR OVER 19 YEARS, PROVIDING SUPPORT TO THOSE WHO IN NEED.

During 2019, Fundación Gigante continued with different programs and actions, such as the School Supplies Program. We successfully delivered over 7,200 packages to children in elementary, middle and high schools. Higher education was also fostered and through our scholarship program, we have aided more than 222 students to finish their degree.

Likewise, through our alliance with Operation Smile, we were able to transform the lives of 675 people who suffered from cleft lip and/or palate.

The first Cancer Research and Prevention Center was also inaugurated in Mexico City by the National Institute of Cancerology.

We continued to support the “Federico Gómez” Children’s Hospital and the “Fundación Amigos del Instituto Nacional de Ciencias Médicas y Nutrición, A.C.”.

We promote culture and art through the “Ángel and Tere Losada” Theatre. Committed

to education, which is one of our guiding principles, Fundación Gigante promotes the culture of the arts and joined the Universidad Anáhuac project to build the Anahuac Mexican Cultural Center.

On November 7th, the Anahuac Mexican Cultural Center was inaugurated, which houses the “Ángel and Tere Losada” Theatre. This space is considered one of the best in the country and Latin America. Currently, this theatre is the only one of its kind, in the west of the Valley of Mexico.

This Cultural Center has an area of 15,400 m2 and the auditorium has a capacity for 1,300 spectators. Its design and construction was carried out by companies of renowned international prestige: Jaffe Holden from New York and Chemtrol from Spain. It has the best acoustics, isoptics and theatrical mechanics in Latin America; and, is considered unique in its type in the west of the Valley of Mexico.





It is also home to the avant-garde facilities of the School of Arts of the Universidad Anáhuac Mexico, which are dedicated to the memory of Yitzhak Rabin, Nobel Peace Prize laureate. Famous for the motto “To the Universal Friendship of All Peoples”, with the intention that his values and legacy be known by new generations.

### **Congenital Heart Surgeries**

Congenital cardiopathies are the second cause of death for children under the age of five in Mexico. Every year, between 18,000 and 21,000 children are born in Mexico with a cardiopathy. It is estimated that less than a third of this population has access to treatment and, when they do, it is generally insufficient and deficient.

Kardias was founded 20 years ago as a response to this problem, and currently, it has the first and only program of excellence for the treatment of pediatric congenital cardiopathies in a private hospital in Mexico.

Since 2012 and to date, thanks to the Kardias Program, over 550 patients from the public sector have been treated at the Mexican ABC Medical Center, in addition to the private sector, with a low mortality rate comparable to the best centers worldwide (2.9%).

In 2019, the ABC-Kardias Pediatric Heart Center was opened to achieve the best clinical outcomes through an inclusive care model that allows patients to receive the excellent care they need from doctors and nurses, dedicated full time to the program.

The Center began operations in 2019 and has a nine-bed Cardiovascular Intensive Care Unit, tripling the installed capacity for the program, as well as a team of 40 dedicated medical specialists.

The ABC Kardias Pediatric Heart Center (PHC) has proven to be the best choice in pediatric cardiology and heart surgery in the country. Kardias, in alliance with the ABC Medical Center, has designed a plan focused on achieving financial sustainability of the program's hospital costs in the medium term.

The ABC-Kardias Pediatric Heart Center is based on an innovative model, where the hospital costs of the care patients are paid from the reinvestment of the profits generated by the care of private patients in the same Pediatric Heart Center. The aim is to achieve sustainability by seeking to finance the hospital costs of the care patients in a sustainable manner without the philanthropic support of Kardias. To achieve this transition in the next five years, a Sustainability Fund was designed.

This year, Fundación Gigante joined this sustainability fund by making a commitment to contribute 8 million pesos to finance the surgeries of 198 children.

### **Ver Bien Para Aprender Mejor**

The World Health Organization (WHO) states that with a culture of prevention it would be possible to avoid most of the diseases that cause visual impairment and blindness.

The most common sight problems are called refractive errors, including myopia,







astigmatism and hyperopia, which can be corrected by glasses, contact lenses or refractive surgery.

In 2005, with the objective of caring for the visual health of our employees and their families, promoting a practice of prevention and being an economic support for Mexican families, the eyeglasses program at Fundación Gigante was born. To make this support possible, it was necessary to develop a strategic alliance with the foundation “Ver Bien Para Aprender Mejor”, which provides optometric care and high quality glasses to children who study in Mexico City and the rest of country, elementary and middle schools.

In 2019, like every two years, Sight Day was hosted for employees and their families of the companies comprising Grupo Gigante. As a result, 4,903 glasses were given to employees and their families. With this program, Fundación Gigante has managed to remind its employees that they belong to a business group that cares and is interested in their health and well-being.

Additionally, 13,648 lenses were delivered to boys and girls in public schools, primary and secondary, throughout Mexico.

#### **Fundación Botín**

Fundación Gigante signed an agreement with Fundación Botín (based in Santander, Spain), which will last 3 years, with the aim

of generating social development by taking advantage of the potential that the arts have to awaken creative capacity.

It is an educational program to encourage the physical, emotional, social and creative growth of the students, promoting communication and improving the coexistence in the schools involving teachers, students and families.

This program encourages:

Emotional Development: emotional identification and expression, empathy and self-esteem.

Cognitive Development: self-control, decision making, positive attitudes towards health

Social Development: interaction skills, selfassertion skills, assertive opposition skills.

Students will learn to recognize and express emotions; understand others, know and trust themselves; develop self-control; learn to make decisions responsibly; value and care for their health; improve their social skills; solve problems assertively; and develop their creative abilities.

Teachers will observe in students a decrease in aggressive behavior, social withdrawal and decreased anxiety.

Families will see improvements in emotional skills and pro-social behaviors such as generosity, empathy, and collaboration. In the study centers, a better coexistence, improvement in the school climate and the well-being of the students will be observed.

# REPORT OF THE AUDIT COMMITTEE

Mexico City, March 30, 2020

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

**Dear Sirs,**

In our competence as Members and Secretary of the Audit Committee and in compliance with the provisions of Articles 42 and 43 of the Mexican Securities Law ("Ley del Mercado de Valores"), the Committee's Bylaws and the Internal Regulations 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, we hereby submit our annual report for the year 2019, whereby the following activities were carried out:

- I. We analyzed and recommended for approval the quarterly and annual consolidated financial statements, having requested from the External Auditor, the corresponding written reports of each quarter, which confirm that the financial information of Grupo Gigante, was prepared under the same financial information standards, criteria and practices with which the annual reports. As mentioned in numeral III below, these were prepared by using the International Financial Reporting Standards (IFRS).
- II. We reviewed the status of Grupo Gigante's internal control and corporate internal audit system. With respect to the Corporate Internal Audit Department, the Committee reviewed and approved its budget, guidelines, annual review plan 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, in compliance with IFRS.
- IV. We verified that the procedures established for risk control were observed by the various business units of Grupo Gigante.
- V. We reviewed and updated the committee bylaws and the policy on approving services other than those of the external audit in order to validate their validity and compliance with the regulations and provisions issued by the National Banking and Securities Commission during 2018 and thus ensuring the independence of the external auditor.
- VI. We reviewed and followed up on reinforcing and implementing information security practices for Grupo Gigante, including all the risks and controls related to cyber security.
- VII. We evaluated the performance of the firm, Galaz, Yamazaki, Ruiz Urquiza, S.C., who audited the consolidated financial statement for the fiscal year as well as the External Auditor, C.P.C. Carlos Torres Villagómez and his work team. 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 Service Plan, its Executive Summary of Observations and Recommendations and the Action Plans provided by the administration as well as the Report on the Consolidated Financial Statements to December 31, 2019.

**VIII.** We analyzed the description and assessment of the complementary services to the financial statements that were provided during the fiscal year 2019 by the firm Galaz, Yamazaki, Ruiz Urquiza, S.C. We also received their confirmation of independence.

**IX.** We reviewed the process carried out by Grupo Gigante to support and document the statement signed by those responsible for signing the basic financial statements, issued in terms of Article 32 of the provisions issued by the CNBV on April 26, 2018.

**X.** We approve the reports of external and internal legal counsel to ensure that Grupo Gigante and its subsidiaries duly comply with legal provisions, as well as the timely disclosure of any contingencies. 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.

**XI.** The administration presented to the Committee the control measures implemented to formally comply with the Federal Law on the Protection of Personal Data in Possession of Individuals, as well as the Federal Law for the Prevention and Identification of Transactions with Illegal Resources.

**XII.** If applicable, we consider the relevant observations and possible reports on events

deemed irregular by management, made by shareholders, directors, senior managers, employees and, in general, any third party, with respect to accounting, internal controls and issues related to corporate or external internal audit.

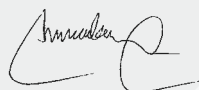
**XIII.** We followed-up on the resolutions of the Shareholders' and Board of Directors' Meetings related to this Committee..

**XIV.** We reviewed the Annual Report for 2019 of the Chairman of the Board and the CEO of Grupo Gigante.

Based on the work carried out and the opinion of the external auditors, in our opinion the accounting and reporting policies and criteria followed by the Company are adequate and sufficient and have been applied consistently, and that the information presented by the Chief Executive Officer fairly reflects the financial position and results of the Company.

Due to the above, we recommend that the Board of Directors submit for the approval of the Shareholders' Meeting the Financial Statements of Grupo Gigante for the year ended December 31, 2019.

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*

# REPORT OF THE CORPORATE PRACTICES COMMITTEE

Mexico City, March 30, 2020

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

**Dear Directors and Shareholders,**

In our competence 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 2019.

Over the past year, this Committee met on 3 occasions, thereby presenting to the Board of Directors its respective reports and recommendations at the 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, including its Base Salary Structure, Performance Bonus, Long-Term Incentive and Retirement Benefits, the Committee actively participated in supervising its execution, having discussed, proposed and agreed on the adjustments and specifications.

## **III. REVIEW AND APPROVAL OF GENERAL AND PARTICULAR INCREASES.**

In terms of their duties and in light of the general economic conditions of the country and specific conditions of the Grupo Gigante and its subsidiaries, 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 2018 and the plans for 2019.

## **V. OPERATIONS BETWEEN RELATED PARTIES.**

In compliance and execution of their responsibilities and authorities, pursuant to 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 society.

**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 RECOMMENDATIONS FOR THE BOARD OF DIRECTORS ABOUT THE ANNUAL REPORT OF THE CHAIRMAN OF THE BOARD AND THE CEO.** The Annual Report 2019 of the Chairman and

CEO was reviewed and its approval was recommended.

**IX. MATTERS RELATED TO LABOR REFORM.** In view of the labor reform approved this year, the Committee participated in the review of management's proposal on the compliance and adequacy strategy.

Therefore, we hereby comply with the provisions of Article 43, section I and other applicable provisions of the Stock Market Law, as well as the bylaws and regulations of the Board of Directors of Grupo Gigante, S.A.B. de C.V.



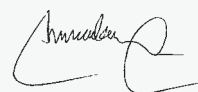
**Roberto Salvo Horvilleur**

*Committee Chairman*



**Gilberto Pérezalonso Cifuentes**

*Board Member*



**Luís Santana Castillo**

*Board Member*



**Sergio Montero Querejeta**

*Committee Secretary*

# REPORT OF FINANCE AND PLANNING COMMITTEE

Mexico City, March 30, 2020

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

**Dear Board Members and Shareholders,**

In our competence as members of the Finance and Planning Committee and in compliance with the bylaws of Grupo Gigante S.A.B. de C.V. (Grupo or GG) and the Regulations of the Board of Directors, we hereby present the 2019 Activities Report for your consideration.

According to the preceding paragraph, during said fiscal year, this Committee held 5 working 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 2019, its structure, follow-up and progress.
- I.2.** Cash flow of Grupo Gigante and its subsidiaries.
- I.3.** Results for the fiscal year, annual and quarterly of the company, its subsidiaries and affiliates.

- I.4.** Integration and follow-up of the Capex of the company and its business units.
- 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 financing sources and alternatives of the Grupo Gigante and its subsidiaries.
- I.7.** Analysis and definition of the premises and main aspects of the budget 2019 as well as the financial ratios to be applied and performance indicators from a financial point-of-view.
- I.8.** Follow-up and report about openings and closing of the units of Grupo Gigante.
- I.9.** Analysis and, as the case may be, approval of investment projects.

## **II. SUPERVISION OF THE MANAGEMENT OF GRUPO GIGANTE'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 2019, the Company's treasury finished with the sum of \$2,113.4 million pesos after paying interests, bank loans and having covered other investments, including income from financial interest.

## **III. BUYBACK POLICY AND OUTSTANDING SHARES.**

This 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 Grupo Gigante and its subsidiaries. Reduction and streamlining proposals were detailed, having redefined the debt at a corporate level.

**VI. BUSINESS PLAN OF GRUPO GIGANTE AND SUBSIDIARIES.** Considering the permanent exercise of reviewing and updating the Planning for Grupo Gigante and its main subsidiaries, the Committee devoted significant efforts to this essential aspect, participating in the updating and design of new strategies, in full coordination with management.

**VII. 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 certain

real-estate projects, particularly, the Committee analyzed the projects of Coapa and Interlomas, thereby recommending their approval to the Board of Directors.

**VIII. MEETINGS WITH MANAGEMENT.**

Throughout 2019, the Committee held meetings with management and with those responsible for Grupo Gigante's most important operating subsidiaries. After analyzing the periodical reports, specific recommendations were made, insisting on the care given to the optimal use of the capital and debt levels of Grupo Gigante and its subsidiaries. Several alternatives were identified, including divestment or monetarization of assets to improve and/ reduce leveraging.

**IX. REVIEW AND RECOMMENDATION TO THE BOARD OF DIRECTORS CONCERNING THE ANNUAL REPORT BY THE CHAIRMAN AND CEO.** The Annual Report 2019 of the CEO and of the President and Chairman of the Board of Directors was reviewed and the Committee approved its recommendation.

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*



**Ángel 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 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  
Chairman of Consejo Nacional Empresarial Turístico.*

*BS in Business Administration, Universidad Anáhuac.*

*MS in Business Administration Southern Methodist University.*

### Gonzalo Barrutieta Losada

*Chairman of 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

*National Vice chairman of the Cruz Roja.*

*Independent board member in several companies*

*BS in Legal Studies Universidad Iberoamericana.*

*BS in Business Administration, INCAE Business School.*

### Luis Rebollar Corona

*Independent board member in several companies*

*BS in Chemical Engineering, Universidad Nacional Autónoma de México.*

**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**

*Chief Executive Officer of CI Fondos, Operadora de Sociedades de Inversión.*

*BS in Economics, Universidad Anáhuac.*

*MS in Business Administration, 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**

*Consultant and independent board member in several companies.*

*BS in Economics, Claremont McKenna College*

*MS in Business Administration,*

*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 by 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 COMMITTEE****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*

# INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED STATEMENTS

FOR 2019, 2018 AND 2017

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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. and Subsidiaries (the "Entity"), which comprise the consolidated statements of financial position as of December 31, 2019, 2018 and 2017, 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 accompanying 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, 2019, 2018 and 2017, 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 audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated 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 Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP 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 consolidated 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 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 mosts 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:

Test on the design, implemetantion and operating effectiveness of the Entity's relevant internal controls, mainly if the internal evaluation of the fair value is reviewed and aproved by the appropriate level of management, among others.

Substantive tests, we tested the assumptions used by the Entity's management in the calculation at the end of the year, including the reasonableness of the valuation inputs such as the discount rate used, long-term inflation and other for which we involved our internal specialists, we tested the income and expenses used in the projection of net future cash flows, we tested any movement or change in the assumptions used with respect to previous year to ensure reasonableness and, if necessary, normalize any non-recurring effect and prevent these effects from being included in the projections.

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 11 to the consolidated financial statements.

### **Impairment Long-lived assets**

The Entity owns long-lived assets such as fixed assets and intangible assets that it uses in its business. Management has identified that the lowest level at which independent cash flows are generated (Cash Generating Units or "CGUs") are the Entity's stores and restaurants. Each year an assessment is performed by looking for indicators of impairment in accordance with the International Accounting Standard 36, *Impairment of Assets* ("IAS 36"), during which indicators of possible impairment losses such as operating losses or recurring negative cash flows are identified. For the CGUs that present impairment indicators, management calculates the value in use of the CGU, by calculating discounted future cash flows, and compares them to the CGU's book value to identify impairment losses. For long-lived assets that are not attributable to a single CGU, corporate assets, they are allocated to the group of CGUs to which they are related and subsequently a comparison is made by adding the total value in use of the group of CGUs against its book value including the corporate assets assigned.

The audit procedures performed to test operating effectiveness included:

As of the end of year we tested: 1) the identification of CGUs with indicators of impairment, 2) the reasonableness of the value in use calculations of the CGUs, 3) the calculation of the impairment losses determined by management, and 4) the recognition and, if applicable, the reversal of any impairment loss previously recognized. Our tests included testing the determination of, among others, the following assumptions: the determination of the future cash-flows, the discount rate used and, according to our knowledge of the Entity's business, testing that the increases considered in those future cash-flows were reasonable.

Notes 3p and 3u include the disclosures about the accounting policy of the Entity regarding impairment of long-lived assets.

### **Right-of-use assets and Lease liabilities**

At January 1, 2019, the Entity recognized the effects derived from its adoption of IFRS 16, Leases, including the respective right-of-use assets and lease liabilities, in its consolidated financial statements. Right-of-use assets represent the rights to utilize an asset or substantially obtain all the economic benefits resulting from its use over a given period of time. Lease liabilities refer to the payments made to utilize the asset during the lease period, which are measured at their present value.

The Entity determines the fair value of its lease contracts internally, which requires management to utilize its judgment and significant estimates to determine lease periods, together with adequate discount rates for each contract.

The audit procedures we applied to cover this key audit matter included the following:

Tests: 1) Validate the mechanism used to value usage rights and lease liabilities; 2) the fairness of the correct identification of general lease conditions, the periods considered in the projection, as well as the discount rate utilized, for which we involved our specialists.

Note "3t" includes the disclosures required according to IFRS 16, together with the accounting policy applied by the Entity to recognize right-of-use assets and lease liabilities.

### ***Information other than the Financial Statements and Auditors' 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 33 Fraction I, subsection b) 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. When we read the Annual Report we will issue the auditors' legend about the reading thereof, required in Article 33 Fraction I, subsection b) numeral 1.2. of the Provisions or if 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 IFRS, 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.

### ***Auditors' 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 IAS, 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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 consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate evidency related with the financial information of the entities or bussines activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the Entity. We are solely responsible for our audit opinion.

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. Calos Alberto Torres Villagómez

México City, March 31, 2020

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

# Consolidated Statements of Financial Position

As of December 31, 2019, 2018 and 2017  
(In thousands of Mexican pesos)

| <b>Assets</b>                                                    | <b>Note</b> | <b>2019</b>          | <b>2018</b>          | <b>2017</b>          |
|------------------------------------------------------------------|-------------|----------------------|----------------------|----------------------|
| Current assets:                                                  |             |                      |                      |                      |
| Cash and cash equivalents                                        | 5           | \$ 1,686,783         | \$ 2,049,520         | \$ 1,926,334         |
| Financial instruments                                            | 6           | 426,608              | 426,113              | 434,889              |
| Accounts receivable – Net                                        | 7           | 3,137,809            | 3,121,337            | 2,759,379            |
| Inventories – Net                                                | 8           | 6,568,139            | 6,743,666            | 6,627,937            |
| Prepaid expenses                                                 |             | <u>203,927</u>       | <u>236,250</u>       | <u>239,802</u>       |
| Total current assets                                             |             | 12,023,266           | 12,576,886           | 11,988,341           |
| Property and equipment – Net                                     | 9           | 10,775,004           | 10,399,393           | 9,821,015            |
| Right-of-use asset – Net                                         | 10          | 4,972,202            | -                    | -                    |
| Investment properties                                            | 11          | 14,932,014           | 13,923,440           | 12,745,562           |
| Investments in joint ventures and associates                     | 12          | 3,190,718            | 2,910,299            | 2,543,020            |
| Goodwill                                                         | 14          | 978,474              | 985,993              | 995,885              |
| Deferred income taxes                                            | 27          | 484,915              | 495,946              | 418,451              |
| Intangibles and other assets – Net                               | 15          | <u>1,473,032</u>     | <u>2,010,082</u>     | <u>2,056,088</u>     |
| Total non-current assets                                         |             | 36,806,359           | 30,725,153           | 28,580,021           |
| Total assets                                                     |             | <u>\$ 48,829,625</u> | <u>\$ 43,302,039</u> | <u>\$ 40,568,362</u> |
| <b>Liabilities and stockholders' equity</b>                      |             |                      |                      |                      |
| Current liabilities:                                             |             |                      |                      |                      |
| Current portion of long-term debt                                | 18          | \$ 446,205           | \$ 1,058,348         | \$ 514,549           |
| Trade accounts payable                                           |             | 4,773,714            | 5,329,197            | 4,303,164            |
| Accrued expenses and taxes                                       | 16          | 2,164,870            | 1,942,677            | 1,610,772            |
| Current portion of lease liabilities                             | 17          | <u>724,874</u>       | <u>-</u>             | <u>-</u>             |
| Total current liabilities                                        |             | 8,109,663            | 8,330,222            | 6,428,485            |
| Long-term debt                                                   | 18          | 10,299,534           | 9,459,285            | 9,587,214            |
| Lease liabilities                                                | 17          | 4,678,668            | -                    | -                    |
| Employee benefits                                                | 19          | 150,366              | 73,944               | 207,605              |
| Deferred income taxes                                            | 27          | 2,396,713            | 2,476,342            | 2,470,887            |
| Long-term income tax payable                                     | 27          | 168,540              | 224,721              | 280,901              |
| Derivative financial instruments                                 |             | 278,674              | 300,562              | -                    |
| Prepaid rents, rent holidays received and other accounts payable |             | <u>182,795</u>       | <u>330,273</u>       | <u>214,284</u>       |
| Total non-current liabilities                                    |             | 18,155,290           | 12,865,127           | 12,760,891           |
| Total liabilities                                                |             | <u>26,264,953</u>    | <u>21,195,349</u>    | <u>19,189,376</u>    |

|                                             | Note | 2019                 | 2018                 | 2017                 |
|---------------------------------------------|------|----------------------|----------------------|----------------------|
| 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                           |      | 16,591,220           | 15,990,370           | 14,820,534           |
| Other comprehensive income                  | 22   | <u>284,512</u>       | <u>455,280</u>       | <u>641,477</u>       |
| Equity attributable to owners of the Entity |      | 22,277,202           | 21,847,120           | 20,863,481           |
| Non-controlling interest                    | 23   | <u>287,470</u>       | <u>259,570</u>       | <u>515,505</u>       |
| Total stockholders' equity                  |      | <u>22,564,672</u>    | <u>22,106,690</u>    | <u>21,378,986</u>    |
| Total stockholders' equity and liabilities  |      | <u>\$ 48,829,625</u> | <u>\$ 43,302,039</u> | <u>\$ 40,568,362</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, 2019, 2018 and 2017

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

|                                                                       | Note | 2019              | 2018                | 2017                |
|-----------------------------------------------------------------------|------|-------------------|---------------------|---------------------|
| Sale of goods – Net                                                   |      | \$ 30,620,281     | \$ 31,519,002       | \$ 30,589,532       |
| Rental income                                                         |      | 1,511,144         | 1,401,704           | 1,319,916           |
| Other income                                                          |      | <u>314,202</u>    | <u>268,089</u>      | <u>242,263</u>      |
|                                                                       |      | 32,445,627        | 33,188,795          | 32,151,711          |
| Cost of sales                                                         | 25   | 19,765,988        | 20,741,363          | 20,000,794          |
| Operating expenses                                                    | 25   | 9,877,277         | 10,223,313          | 9,512,107           |
| Gain on revaluation of investment property                            | 11   | (136,640)         | (290,552)           | (231,725)           |
| Interest expense                                                      |      | 1,549,737         | 1,036,244           | 1,008,808           |
| Interest income                                                       |      | (190,175)         | (179,808)           | (116,267)           |
| Exchange (gain) loss – Net                                            |      | (416)             | (4,432)             | 25,346              |
| Loss (gain) on revaluation of financial instruments                   |      | 443,467           | (151,813)           | (19,834)            |
| Share of profit of joint ventures and associates                      | 12   | <u>(182,920)</u>  | <u>(188,687)</u>    | <u>(241,340)</u>    |
| Profit before income taxes                                            |      | 1,319,309         | 2,003,167           | 2,213,822           |
| Income taxes expense                                                  | 27   | <u>690,172</u>    | <u>748,872</u>      | <u>732,779</u>      |
| Net consolidated income                                               |      | <u>\$ 629,137</u> | <u>\$ 1,254,295</u> | <u>\$ 1,481,043</u> |
| <b>Other comprehensive income:</b>                                    |      |                   |                     |                     |
| <b>Items that will be reclassified subsequently to profit or loss</b> |      |                   |                     |                     |
| Exchange differences on translating foreign operations                |      | <u>\$ 162,695</u> | <u>\$ 233,561</u>   | <u>\$ 15,186</u>    |
| Other comprehensive income for the year, net of income tax            |      | <u>162,695</u>    | <u>233,561</u>      | <u>15,186</u>       |
| Total comprehensive income for the year                               |      | <u>\$ 466,442</u> | <u>\$ 1,020,734</u> | <u>\$ 1,465,857</u> |
| Profit for the year attributable to:                                  |      |                   |                     |                     |
| Owners of the Entity                                                  |      | \$ 600,850        | \$ 1,169,836        | \$ 1,400,358        |
| Non-controlling interest                                              | 13   | <u>28,287</u>     | <u>84,459</u>       | <u>80,685</u>       |
|                                                                       |      | <u>\$ 629,137</u> | <u>\$ 1,254,295</u> | <u>\$ 1,481,043</u> |

(Continued)

|                                             | Note | 2019              | 2018                | 2017                |
|---------------------------------------------|------|-------------------|---------------------|---------------------|
| Other comprehensive income attributable to: |      |                   |                     |                     |
| Owners of the Entity                        |      | \$ 430,082        | \$ 983,639          | \$ 1,374,143        |
| Non-controlling interest                    |      | <u>36,360</u>     | <u>37,095</u>       | <u>91,714</u>       |
|                                             |      | <u>\$ 466,442</u> | <u>\$ 1,020,734</u> | <u>\$ 1,465,857</u> |

**Earnings per share:**

|                                                      |    |                |                |                |
|------------------------------------------------------|----|----------------|----------------|----------------|
| Basic and diluted earnings (mexican pesos per share) | 28 | \$ <u>0.60</u> | \$ <u>1.18</u> | \$ <u>1.41</u> |
|------------------------------------------------------|----|----------------|----------------|----------------|

(Concluded)

See accompanying notes to consolidated financial statements.

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

### Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2019, 2018 and 2017  
(In thousands of Mexican pesos)

|                                                   | Stockholders' equity |                            |               | Retained earnings | Cumulative exchange differences on translating foreign operations | Non-controlling interest | Total stockholders' equity |
|---------------------------------------------------|----------------------|----------------------------|---------------|-------------------|-------------------------------------------------------------------|--------------------------|----------------------------|
|                                                   | Common Stock         | Additional paid-in capital |               |                   |                                                                   |                          |                            |
| Balances as of January 1, 2017                    | \$ 1,374,928         | \$ 4,026,542               | \$ 13,410,665 | \$ 667,692        | \$ 507,350                                                        | \$ 19,987,177            |                            |
| Other                                             | -                    | -                          | 9,511         | -                 | -                                                                 | 9,511                    |                            |
| Dividends paid to non-controlling interest        | -                    | -                          | -             | -                 | (83,559)                                                          | (83,559)                 |                            |
| Comprehensive income                              | -                    | -                          | 1,400,358     | (26,215)          | 91,714                                                            | 1,465,857                |                            |
| Balances as of December 31, 2017                  | 1,374,928            | 4,026,542                  | 14,820,534    | 641,477           | 515,505                                                           | 21,378,986               |                            |
| Initial recognition of put option for Grupo Prisa | -                    | -                          | -             | -                 | (293,030)                                                         | (293,030)                |                            |
| Comprehensive income                              | -                    | -                          | 1,169,836     | (186,197)         | 37,095                                                            | 1,020,734                |                            |
| Balances as of December 31, 2018                  | 1,374,928            | 4,026,542                  | 15,990,370    | 455,280           | 259,570                                                           | 22,106,690               |                            |
| Dividends paid to non-controlling interest        | -                    | -                          | -             | -                 | (8,460)                                                           | (8,460)                  |                            |
| Comprehensive income                              | -                    | -                          | 600,850       | (170,768)         | 36,360                                                            | 466,442                  |                            |
| Balances as of December 31, 2019                  | \$ 1,374,928         | \$ 4,026,542               | \$ 16,591,220 | \$ 284,512        | \$ 287,470                                                        | \$ 22,564,672            |                            |

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, 2019, 2018 and 2017  
(In thousands of Mexican pesos)

|                                                               | 2019               | 2018               | 2017               |
|---------------------------------------------------------------|--------------------|--------------------|--------------------|
| Cash flow from operating activities:                          |                    |                    |                    |
| Profit before income taxes                                    | \$ 1,319,309       | \$ 2,003,167       | \$ 2,213,822       |
| Adjustments:                                                  |                    |                    |                    |
| Depreciation and amortization                                 | 1,727,727          | 883,618            | 842,983            |
| Long-lived assets impairment (reversal of) loss               | (31,000)           | 31,000             | -                  |
| Gain on revaluation of investment property                    | (136,640)          | (290,552)          | (231,725)          |
| Loss on sale and disposal of property and equipment           | 173,392            | 121,510            | 295,345            |
| Loss (gain) on revaluation of financial instruments           | 443,467            | (151,813)          | (19,834)           |
| Share of gain of joint ventures and associates                | (182,920)          | (188,687)          | (241,340)          |
| Interest income                                               | (190,175)          | (179,808)          | (116,267)          |
| Other non-cash                                                | 49,472             | 103,119            | 119,289            |
| Interest expense                                              | <u>1,549,737</u>   | <u>1,036,244</u>   | <u>1,008,808</u>   |
|                                                               | 4,722,369          | 3,367,798          | 3,871,081          |
| Working capital adjustments:                                  |                    |                    |                    |
| (Increase) decrease in:                                       |                    |                    |                    |
| Accounts receivable – Net                                     | (16,472)           | (225,454)          | 100,211            |
| Inventories – Net                                             | 290,913            | (115,729)          | 218,544            |
| Prepaid expenses                                              | 32,323             | 24,081             | (103,036)          |
| Increase (decrease) in:                                       |                    |                    |                    |
| Trade accounts payable                                        | (555,483)          | 1,026,033          | (725,091)          |
| Accrued expenses and taxes                                    | 369,194            | 393,057            | (264,042)          |
| Income taxes paid                                             | <u>(865,952)</u>   | <u>(1,077,226)</u> | <u>(805,708)</u>   |
| Net cash generated by operating activities                    | <u>3,976,892</u>   | <u>3,392,560</u>   | <u>2,291,959</u>   |
| Cash flow from investing activities:                          |                    |                    |                    |
| Acquisition of property and equipment                         | (1,250,891)        | (1,577,532)        | (1,159,448)        |
| Acquisition of investment properties                          | (1,014,578)        | (887,326)          | (493,962)          |
| Acquisition of intangible and other assets                    | -                  | (70,537)           | -                  |
| Proceeds on sale of properties and equipment                  | -                  | 6,207              | -                  |
| Dividends received in cash from joint ventures and associates | 24,516             | 17,000             | 222,704            |
| Disposals of financial instruments                            | 2,221              | 31,115             | 56,646             |
| Increase in joint ventures and associates                     | (104,500)          | (180,070)          | (52,219)           |
| Interest received                                             | <u>190,175</u>     | <u>179,808</u>     | <u>116,267</u>     |
| Net cash (used in) generated by investing activities          | <u>(2,153,057)</u> | <u>(2,481,335)</u> | <u>(1,310,012)</u> |

(Continued)

|                                                      | 2019                | 2018                | 2017                |
|------------------------------------------------------|---------------------|---------------------|---------------------|
| Cash flow from financing activities:                 |                     |                     |                     |
| Proceeds from borrowings net of issuance costs       | 1,287,000           | \$ 1,878,654        | \$ 4,183,435        |
| Repayments of borrowings                             | (1,075,896)         | (1,482,225)         | (4,460,053)         |
| Repayment of lease liabilities                       | (1,256,145)         | -                   | -                   |
| Interest paid                                        | (1,032,146)         | (1,002,348)         | (979,078)           |
| Dividends paid to non-controlling interest           | (8,460)             | -                   | (83,559)            |
| Net cash used in financing activities                | <u>(2,085,647)</u>  | <u>(605,919)</u>    | <u>(1,339,255)</u>  |
| Net (decrease) increase in cash and cash equivalents | (261,812)           | 305,306             | (357,308)           |
| Cash and cash equivalents at the beginning of year   | 2,127,119           | 1,926,334           | 2,281,685           |
| Effects of exchange rates changes on cash            | <u>(93,233)</u>     | <u>(104,521)</u>    | <u>1,957</u>        |
| Cash and cash equivalents at the end of year         | <u>\$ 1,772,074</u> | <u>\$ 2,127,119</u> | <u>\$ 1,926,334</u> |

(Concluded)

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, 2019, 2018 and 2017

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

### 1. Activities

Grupo Gigante, S. A. B. de C. V. is a public corporation incorporated under the laws of Mexico. The address of its corporate offices is Ejercito Nacional 769, Tower “B”, 12th floor, Granada, 11520, 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 November 21, 2018, Grupo Gigante, S. A. B. de C. V., informed that, under terms of the respective deposit contracts, the procedure for the termination of Level I programs for 416 ADRs and Rule 144A for 588 ADRs was definitively concluded, which collectively represent 10,040 ordinary, normative shares without par value of the common stock of Grupo Gigante, S. A. B. de C. V.

On May 28, 2018, the outstanding balance of the bank loan, held on February 27, 2015, that Restaurants Toks, S.A. de C.V., owed was prepaid for a total amount of \$1,150,000, the prepayment was made by using the proceeds of a new bank loan entered into for a total amount of \$1,100,000, which matures in 6 years and it accrues interest using a single applicable margin during the entire term of the loan.

On July 14, 2017, Grupo Gigante, S. A. B. de C. V. prepaid in advance the outstanding balance of the Unsecured Credit Contract which, in its capacity as borrower, it executed with certain financial institutions on July 4, 2014 for \$4,544,015. This payment was made through using the proceeds received from the three-year unsecured loan for \$4,200,000, which has no periodic amortization until maturity and it accrues interest at a variable interest rate. On May 14, 2018, Grupo Gigante, S.A.B. de C.V., signed an amendment agreement to the Credit Agreement dated July 12, 2017, in order to renegotiate the terms of payment, maturity (extending it until 2024) and establish a single margin applicable for the calculation of the interest rate during the entire term of the loan.

On September 7, 2017, Grupo Gigante, S. A. B. de C. V. reported that, under the terms of the respective deposit contracts, a procedure was initiated to terminate Level I programs for 416 ADRs and Rule 144 A for 588 ADRs which collectively represent 10,040 ordinary normative shares with no par value of the common stock of Grupo Gigante, S. A. B. de C. V.

### 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 mandatory effective for the current year*

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, 2019.

***New and modified IFRS that are effective for reporting exercises and periods beginning January 1, 2019***

The Entity has applied IFRS 16 (as issued by the IASB in January 2016). IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 3. The impact of the adoption of IFRS 16 on the Entity's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Entity is 1 January 2019.

The Entity has elected to apply IFRS 16 using retrospectively with the cumulative effect at the date of initial application in accordance with IFRS 16: C5 (b). Consequently, the Entity will not restate comparative information.

*(a) Impact of the new definition of a lease*

The Entity has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Entity applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Entity has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Entity.

*(b) Impact on Lessee Accounting*

*(i) Former operating leases*

IFRS 16 changes how the Entity accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Entity:

- (a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- (b) Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
- (c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (personal computers, small items of office furniture and telephones), the Entity has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'lease expenses' in profit or loss.

(ii) Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Entity recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Entity's consolidated financial statements.

(c) *Impact on Lessor Accounting*

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Because of this change, the Entity has reclassified certain of its sub-lease agreements as finance leases.

(d) *Financial impact of the initial application of IFRS 16*

The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 16 for the current year.

| Impact on assets, liabilities as at 1 January 2019 | Determined          | Reclassification | Initial recognition |
|----------------------------------------------------|---------------------|------------------|---------------------|
| Right-of-use assets (1), (4)                       | \$ 5,509,185        | \$ (13,940)      | \$ 5,495,245        |
| Lease incentives (3)                               | (13,940)            | 13,940           | -                   |
| Investment properties of                           |                     |                  |                     |
| Right-of-use assets (4)                            | 283,039             | -                | 283,039             |
| Net impact on total assets                         | <u>5,778,284</u>    | <u>-</u>         | <u>5,778,284</u>    |
| Lease liabilities (1)                              | <u>5,792,224</u>    | <u>-</u>         | <u>5,792,224</u>    |
| Net impact on total liabilities                    | <u>\$ 5,792,224</u> | <u>\$ -</u>      | <u>5,792,224</u>    |

### ***Impact on profit or loss as of December 31, 2019***

#### **Impact on profit/(loss) for the year:**

|                                                        |                     |
|--------------------------------------------------------|---------------------|
| Depreciation of right-of-use asset (1)                 | \$ 879,724          |
| Interest expense of lease liabilities (1)              | <u>510,782</u>      |
| Total expense recognized in profit/(loss) for the year | <u>\$ 1,390,506</u> |

#### **Entity as a lessee:**

- (1) The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets of \$5,495,245, investment properties of Right-of-use assets of \$283,039 and lease liabilities of \$5,792,224. It also resulted in a decrease in other expenses of \$1,256,145 and an increase in depreciation of \$879,724 and interest expense of \$510,782.
- (2) At the adoption date, the Entity did not have any equipment under capital lease contracts, which would now be presented under the heading of “Right-of-use asset”.
- (3) Lease incentives liability of \$(13,940) previously recognised with respect to operating leases have been derecognised and the amount was factored into the measurement of the right-of-use assets and lease liabilities.

#### **Entity as a lessor:**

- (4) The Entity, as a lessor, has reclassified certain of its sub-lease agreements as investment properties. The leased assets of \$283,039 have been derecognised and investment properties have instead been recognised.

The application of IFRS 16 has an impact on the consolidated statement of cash flows of the Entity. Under IFRS 16, lessees must present:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by IAS 7 (the Entity has opted to include interest paid as part of financing activities); and
- Cash payments for the principal portion for a lease liability, as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by \$1,256,145 in 2019, being the lease payments, and net cash used in financing activities has increased by the same amount.

The adoption of IFRS 16 did not have an impact on net cash flows.

The impact of the application of IFRS 16 on basic and diluted earnings per share is disclosed in note 28.

## Impact of application of Other amendments to IFRS Standards and Interpretations that are effective for an annual period that begins on or after 1 January 2019

In the current year, the Entity has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

### *Amendments to IFRS 9 Prepayment Features with Negative Compensation*

The Entity has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

### *Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures*

The Entity has adopted the amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Entity applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Entity does not take account of any adjustments to the carrying amount of longterm interests required by IAS 28 (i.e., adjustments to the carrying amount of longterm interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The Entity has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards:

#### IAS 12 Income Taxes

The amendments clarify that the Entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

### *Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs*

#### IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

## IFRS 3 Business Combinations

The amendments clarify that when the Entity obtains control of a business that is a joint operation, the Entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

## IFRS 11 Joint Arrangements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Entity does not remeasure its PHI in the joint operation.

## Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement*

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. The Entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

## IFRIC 23 *Uncertainty over Income Tax Treatments*

The Entity has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Entity to:

- Determine whether uncertain tax positions are assessed separately or as a Entity;

And

- Assess whether it is probable that a tax authority will accept an uncertain tax.

Treatment used, or proposed to be used, by an entity in its income tax filings:

- If yes, the Entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- If no, the Entity should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

### **New and revised IFRS Standards in issue but not yet effective**

At the date of authorisation of these financial statements, the Entity has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 10 and IAS 28 (amendments)

Amendments to IFRS 3

Amendments to IAS 1 and IAS 8

Conceptual Framework

*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

*Definition of a business*

*Definition of material*

*Amendments to References to the Conceptual Framework in IFRS Standards*

The management do not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Entity in future periods, except as noted below:

#### ***IFRS 10 and IAS 28 (amendments) 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 recognised 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 recognised 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 effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Entity anticipate that the application of these amendments may have an impact on the Entity's consolidated financial statements in future periods should such transactions arise.

### ***Amendments to IFRS 3 Definition of a business***

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

### ***Amendments to IAS 1 and IAS 8 Definition of material***

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of ‘obscuring’ material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from ‘could influence’ to ‘could reasonably be expected to influence’.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term ‘material’ to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

### ***Amendments to References to the Conceptual Framework in IFRS Standards***

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASB Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

## **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 considered on an active market for identical assets or liabilities that the Entity may obtain at the valuation date;
- 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 36 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 IFRS 9. 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. *Financial instruments***

Financial assets and financial liabilities are recognised in the Entity's statement of financial position when the Entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and 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 recognised immediately in profit or loss.

**h. *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 other assets.

**i. *Financial assets***

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.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

*Classification of financial assets*

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss.

Despite the foregoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:

- The Entity may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (ii) below); and
- The Entity may irrevocably designate a debt investment that meets the amortized cost or fair value through other comprehensive income criteria as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch (see (iii) below).

*(i) Amortized cost and 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.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), 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) excluding expected credit losses, through the expected life of the debt instrument or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at fair value through other comprehensive income. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Entity recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the "finance income - interest income".

(ii) *Equity instruments designated as at fair value through other comprehensive income*

On initial recognition, the Entity may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income. Designation at fair value through other comprehensive income is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

A financial asset is 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 evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at fair value through other comprehensive income are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not being reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'finance income' in profit or loss.

The Entity has designated all investments in equity instruments that are not held for trading as at fair value through other comprehensive income on initial application of IFRS 9 (see note 2).

(iii) *Financial assets at fair value through profit or loss*

Financial assets that do not meet the criteria for being measured at amortized cost or fair value through other comprehensive income (see (i) to (iii) above) are measured at fair value through profit or loss. Specifically:

- Investments in equity instruments are classified as at fair value through profit or loss, unless the Entity designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at fair value through other comprehensive income on initial recognition (see (ii) above).
- Debt instruments that do not meet the amortized cost criteria or the fair value through other comprehensive income criteria (see (i) above) are classified as at fair value through profit or loss. In addition, debt instruments that meet either the amortized cost criteria or the fair value through other comprehensive income criteria may be designated as at fair value through profit or loss upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Entity has not designated any debt instruments as at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses'. Fair value is determined in the manner described in note 20 (1).

#### *Foreign exchange gains and losses*

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- For financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses';
- For debt instruments measured at fair value recognized in other comprehensive income that are not part of a designated hedging relationship, exchange differences on the amortized cost of the debt instrument are recognized in profit or loss in the 'other gains and losses'. Other exchange differences are recognized in other comprehensive income in the investments revaluation reserve;
- For financial assets measured at fair value through profit or loss that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses' and
- For equity instruments measured at fair value recognized in other comprehensive income, exchange differences are recognized in other comprehensive income in the investments revaluation reserve.

#### *Impairment of financial assets*

The Entity recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at fair value recognized in other comprehensive income, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Entity always recognizes lifetime expected credit loss for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Entity's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Entity recognizes lifetime expected credit loss when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Entity measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit loss.

Lifetime expected credit loss represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month expected credit loss represents the portion of lifetime expected credit loss that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date

(i) *Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Entity compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Entity considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Entity's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Entity's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Entity presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Entity has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Entity assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (1) The financial instrument has a low risk of default,
- (2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Entity considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Entity becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Entity considers the changes in the risk that the specified debtor will default on the contract.

The Entity regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) *Definition of default*

The Entity considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Entity, in full (without taking into account any collateral held by the Entity).

Irrespective of the above analysis, the Entity considers that default has occurred when a financial asset is more than 90 days past due unless the Entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) Significant financial difficulty of the issuer or the borrower;
- (b) A breach of contract, such as a default or past due event (see (ii) above);
- (c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) The disappearance of an active market for that financial asset because of financial difficulties.

(iv) *Write-off policy*

The Entity writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Entity's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

(v) *Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Entity's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Entity in accordance with the contract and all the cash flows that the Entity expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 *Leases*.

For a financial guarantee contract, as the Entity is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Entity expects to receive from the holder, the debtor or any other party.

If the Entity has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Entity measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Entity recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at fair value through other comprehensive income, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

*Derecognition of financial assets*

The Entity derecognizes a financial asset only 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 entity. 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 measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Entity has elected on initial recognition to measure at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

## *Financial liabilities and equity*

### *Classification as debt or equity*

Debt and equity instruments 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.

### *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.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

#### **j. *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.

#### **k. *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, see Note 8. 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.

#### **l. *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.

#### **m. *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, leasehold improvements are amortized over the shorter of their useful life or the term of the lease as follows:

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

**n. *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 its 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.

**o. *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.

**p. *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.

**q. *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. It mainly includes the costs of acquiring and generating software.

**r. *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.

s. ***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.

t. ***Leasing***

i. The Entity as a lessor

The Entity enters into lease agreements as a lessor with respect to some of its investment properties. Leases for which the Entity is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Entity is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Entity's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Entity's net investment outstanding in respect of the leases.

When a contract includes both lease and non-lease components, the Entity applies IFRS 15 to allocate the consideration under the contract to each component.

ii. The Entity as a lessee

The Entity assesses whether a contract is or contains a lease, at inception of the contract. The Entity recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Entity recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Entity uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Entity remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Entity did not make any such adjustments during the periods presented, except for the lease payments that are changed due to changes in an index.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Entity applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in profit or loss.

**u. *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.

**v. *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 fair value through profit or loss (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.

w. ***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.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months.

**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 fair value through profit or loss (FVTPL).

x. ***Provisions***

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

y. ***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.

## **z. *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 is incurred.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognized for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

### **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.

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Entity intends to settle its current tax assets and liabilities on a net basis.

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.

aa. ***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.

bb. ***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:

- i. *Sale of goods:* revenue is recognized when control of the goods has been transferred, being at the point when customers purchase the goods at the stores or restaurants. Payment is received immediately when customers buy the goods and services.

Under the Entity's standard contract and sale terms, customers have the right to return purchased goods. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognized for those products expected to be returned. At the same time, the Entity has a right to recover the product when customers exercise their right of return so consequently recognises a right to returned goods asset and a corresponding adjustment to cost of sales. The Entity uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognized will not occur given the consistent level of returns over previous years.

The entity sells goods through its own stores and online.

For sales on the point of sales and online, revenue is recognized when control of the goods is transferred, this generally occurs when the goods have been shipped to the customer specific location (delivery) for sales made at the point of sales.

For online sales, revenue is recognized when control of the goods has transferred to the customer, which occurs once the purchase goods are delivered to the customer. When the customer initially purchases the goods online the transaction price received by the Entity is recognized as a contract liability until the goods have been delivered to the customer

- ii. *Rental income:* 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. 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 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.
- iv. *Sale of housing:* They are recognized in the period in which the risks and benefits of inventories are transferred to customers, which occurs at the time of deed of the homes.
- v. *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 2019, 2018 and 2017, 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.

***The Entity as lessee*** - As part of the adoption of IFRS 16, the Entity established assumptions for the identification of lease terms, as well as the use of discount rates according to business conditions.

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 valuation techniques and mathematic models 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.

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.

## **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:

|                                                     | 2019                | 2018                | 2017                |
|-----------------------------------------------------|---------------------|---------------------|---------------------|
| Cash on hand                                        | \$ 23,929           | \$ 26,229           | \$ 26,617           |
| Bank deposits and cash equivalents                  | 1,662,854           | 2,023,291           | 1,825,248           |
| Restricted cash and cash equivalents <sup>(1)</sup> | <u>-</u>            | <u>-</u>            | <u>74,469</u>       |
|                                                     | <u>\$ 1,686,783</u> | <u>\$ 2,049,520</u> | <u>\$ 1,926,334</u> |
| Restricted cash Long Term –<br>Note 15              | \$ 85,291           | 77,599              | -                   |
|                                                     | <u>\$ 1,772,074</u> | <u>\$ 2,127,119</u> | <u>\$ 1,926,334</u> |

- (1) Given that some subsidiaries have bank loans with mortgage guarantees, in certain cases, administrative trusts and alternative sources were created to cover the payment of the collection rights derived from the lease contracts executed for the commercial premises used for the projects covered by bank loans. Accordingly, a debt service reserve fund equal to five months' principal and interest has been established. Trust assets are invested in investment-grade debt instruments with 24-hour liquidity, such as promissory notes or bank bonds, debt instruments issued and guaranteed by the Federal Government. At each monthly close, the Entity maintains an interest payment balance for each executed contract. As of 2018, restricted cash is presented as a noncurrent asset under the heading of Intangible and Other Assets because these restrictions remain in effect for more than 12 months.

## 6. Financial instruments

|                                                  | 2019              | 2018              | 2017              |
|--------------------------------------------------|-------------------|-------------------|-------------------|
| Held for trading financial assets <sup>(i)</sup> | <u>426,608</u>    | <u>426,113</u>    | <u>434,889</u>    |
|                                                  | <u>\$ 426,608</u> | <u>\$ 426,113</u> | <u>\$ 434,889</u> |

- (i) 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:

|                                                                       | 2019                | 2018                | 2017                |
|-----------------------------------------------------------------------|---------------------|---------------------|---------------------|
| Trade accounts receivable                                             | \$ 1,302,455        | \$ 1,521,044        | \$ 1,669,839        |
| Allowance for doubtful accounts                                       | <u>(34,922)</u>     | <u>(46,142)</u>     | <u>(29,208)</u>     |
|                                                                       | 1,267,533           | 1,474,902           | 1,640,631           |
| Recoverable Value Added<br>Tax ("VAT")                                | 1,164,417           | 1,049,885           | 720,077             |
| Recoverable income tax                                                | 400,788             | 285,777             | 189,229             |
| Accounts receivable in joint<br>venture and associates <sup>(i)</sup> | 204,028             | 47,278              | 89,622              |
| Other accounts receivable                                             | <u>101,043</u>      | <u>263,495</u>      | <u>119,820</u>      |
|                                                                       | <u>\$ 3,137,809</u> | <u>\$ 3,121,337</u> | <u>\$ 2,759,379</u> |

- (i) As of December 31, 2017, there was an account receivable from the associate Fideicomiso CI Banco, S. A. IBM CIB/535 for \$50,000 which accrued interest at a fixed rate of 8% annually, the principal and its accrued interests were capitalized during 2018.

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

|                                      | 2019             | 2018             | 2017             |
|--------------------------------------|------------------|------------------|------------------|
| Balance at beginning of the year     | \$ 46,142        | \$ 29,208        | \$ 33,136        |
| Increases                            | 4,582            | 30,485           | 9,518            |
| Amounts written-off as uncollectible | <u>(15,802)</u>  | <u>(13,551)</u>  | <u>(13,446)</u>  |
| Balance at end of the year           | <u>\$ 34,922</u> | <u>\$ 46,142</u> | <u>\$ 29,208</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, 2019, 2018 and 2017, 100%, 97% and 96% of all accounts receivable are current, respectively. The allowance for doubtful accounts receivable covers receivables past due for more than 90 days with low recovery possibilities.

*Balances past due but not impaired:* As of December 31, 2018 y 2017, the amount of past due but no impaired receivables is \$43,578 y \$71,889, respectively, as of December 31, 2019 the balances are current.

8. Inventories

|                                    | 2019                | 2018                | 2017                |
|------------------------------------|---------------------|---------------------|---------------------|
| Office supplies inventories        | \$ 6,105,068        | \$ 6,440,595        | \$ 6,209,405        |
| Housewares supplies inventories    | 212,911             | 189,432             | 169,165             |
| Food inventories                   | 140,805             | 107,614             | 93,933              |
| Allowance for obsolete inventories | <u>(17,639)</u>     | <u>(25,393)</u>     | <u>(23,580)</u>     |
|                                    | 6,441,145           | 6,712,248           | 6,448,923           |
| Housing inventories                | <u>126,994</u>      | <u>31,418</u>       | <u>179,014</u>      |
|                                    | <u>\$ 6,568,139</u> | <u>\$ 6,743,666</u> | <u>\$ 6,627,937</u> |

9. Property and equipment

|                                      | 2019                  | 2018                  | 2017                  |
|--------------------------------------|-----------------------|-----------------------|-----------------------|
| <b>Gross investment at cost:</b>     |                       |                       |                       |
| Land                                 | \$ 2,206,150          | \$ 2,259,923          | \$ 2,052,314          |
| Buildings and leasehold improvements | 9,416,698             | 8,898,096             | 8,569,750             |
| Furniture and computers              | 4,799,704             | 4,376,541             | 4,151,394             |
| Vehicles                             | 449,715               | 450,947               | 411,499               |
| Construction in-progress             | <u>462,547</u>        | <u>472,194</u>        | <u>171,878</u>        |
| Gross investment                     | <u>\$ 17,334,814</u>  | <u>\$ 16,457,701</u>  | <u>\$ 15,356,835</u>  |
| <b>Accumulated depreciation:</b>     |                       |                       |                       |
| Buildings and leasehold improvements | \$ (3,198,725)        | \$ (2,949,608)        | \$ (2,689,954)        |
| Furniture and equipment              | (3,064,380)           | (2,826,617)           | (2,578,537)           |
| Vehicles                             | <u>(296,705)</u>      | <u>(282,083)</u>      | <u>(267,329)</u>      |
| Accumulated depreciation             | <u>\$ (6,559,810)</u> | <u>\$ (6,058,308)</u> | <u>\$ (5,535,820)</u> |
| <b>Net investment:</b>               |                       |                       |                       |
| Land                                 | \$ 2,206,150          | \$ 2,259,923          | \$ 2,052,314          |
| Buildings and leasehold improvements | 6,217,973             | 5,948,488             | 5,879,796             |
| Furniture and computers              | 1,735,324             | 1,549,924             | 1,572,857             |
| Vehicles                             | 153,010               | 168,864               | 144,170               |
| Construction in-progress             | <u>462,547</u>        | <u>472,194</u>        | <u>171,878</u>        |
| Total property and equipment – Net   | <u>\$ 10,775,004</u>  | <u>\$ 10,399,393</u>  | <u>\$ 9,821,015</u>   |

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

|                                                    | <b>Lands</b>        | <b>Buildings and<br/>leasehold<br/>improvements</b> | <b>Furniture and<br/>computers</b> |
|----------------------------------------------------|---------------------|-----------------------------------------------------|------------------------------------|
| Balance as of January 1, 2017                      | \$ 2,095,013        | \$ 5,798,453                                        | \$ 1,523,134                       |
| Additions                                          | 8,246               | 639,629                                             | 424,476                            |
| Transfer assets to investment<br>properties        | -                   | (44,023)                                            | -                                  |
| Effect of foreign currency<br>exchange differences | (15,350)            | (12,306)                                            | (7,833)                            |
| Depreciation expense                               | -                   | (319,563)                                           | (319,415)                          |
| Disposals related to sale                          | <u>(35,595)</u>     | <u>(182,394)</u>                                    | <u>(47,505)</u>                    |
| Balance as of December 31, 2017                    | 2,052,314           | 5,879,796                                           | 1,572,857                          |
| Additions                                          | 222,661             | 533,095                                             | 350,835                            |
| Impairment                                         | -                   | (31,000)                                            | -                                  |
| Effect of foreign currency<br>exchange differences | (10,384)            | (25,829)                                            | (10,062)                           |
| Depreciation expense                               | -                   | (339,024)                                           | (322,139)                          |
| Disposals related to sale                          | <u>(4,668)</u>      | <u>(68,550)</u>                                     | <u>(41,568)</u>                    |
| Balance as of December 31, 2018                    | 2,259,923           | 5,948,488                                           | 1,549,923                          |
| Additions                                          | 32                  | 567,195                                             | 637,215                            |
| Impairment                                         | -                   | 31,000                                              | -                                  |
| Transfer assets to investment<br>properties        | -                   | 42,662                                              | -                                  |
| Effect of foreign currency<br>exchange differences | (5,546)             | (15,485)                                            | (12,712)                           |
| Depreciation expense                               | -                   | (318,863)                                           | (417,837)                          |
| Disposals related to sale                          | <u>(48,259)</u>     | <u>(37,024)</u>                                     | <u>(21,265)</u>                    |
| Balance as of December 31, 2019                    | <u>\$ 2,206,150</u> | <u>\$ 6,217,973</u>                                 | <u>\$ 1,735,324</u>                |
|                                                    | <b>Vehicles</b>     | <b>Construction in-<br/>progress</b>                | <b>Net investment</b>              |
| Balance as of January 1, 2017                      | \$ 102,627          | \$ 250,199                                          | \$ 9,769,426                       |
| Additions                                          | 171,638             | (84,541)                                            | 1,159,448                          |
| Asset revaluation                                  | -                   | 9,512                                               | 9,512                              |
| Transfer assets to investment<br>properties        | -                   | -                                                   | (44,023)                           |
| Effect of foreign currency<br>exchange differences | (1,362)             | (5,570)                                             | (42,421)                           |
| Depreciation expense                               | (113,839)           | 5,056                                               | (747,761)                          |
| Disposals related to sale                          | <u>(14,894)</u>     | <u>(2,778)</u>                                      | <u>(283,166)</u>                   |
| Balance as of December 31, 2017                    | 144,170             | 171,878                                             | 9,821,015                          |
| Additions                                          | 169,140             | 301,801                                             | 1,577,532                          |
| Impairment                                         | -                   | -                                                   | (31,000)                           |
| Effect of foreign currency<br>exchange differences | (1,723)             | (822)                                               | (48,820)                           |
| Depreciation expense                               | (131,116)           | -                                                   | (792,279)                          |
| Disposals related to sale                          | <u>(11,606)</u>     | <u>(663)</u>                                        | <u>(127,055)</u>                   |

|                                                 | Vehicles          | Construction in-progress | Net investment       |
|-------------------------------------------------|-------------------|--------------------------|----------------------|
| Balance as of December 31, 2018                 | 168,865           | 472,194                  | 10,399,393           |
| Additions                                       | 36,446            | 10,003                   | 1,250,891            |
| Reversal of impairment                          | -                 | -                        | 31,000               |
| Transfers                                       | -                 | -                        | 42,662               |
| Effect of foreign currency exchange differences | (3,571)           | (6,455)                  | (43,769)             |
| Depreciation expense                            | (45,957)          | -                        | (782,657)            |
| Disposals related to sale                       | <u>(2,773)</u>    | <u>(13,195)</u>          | <u>(122,516)</u>     |
| Balance as of December 31, 2019                 | <u>\$ 153,010</u> | <u>\$ 462,547</u>        | <u>\$ 10,775,004</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. As of December 31, 2019, an impairment loss recognized on buildings and leasehold improvements as of December 31, 2018 was reversed for \$31,000, during the year ended December 31, 2017, no impairment losses were recognized.

## 10. Right-of-use assets – Net

The initial cost of the right-of-use asset covers the amount of the initial measurement of the lease liability, increased by prepaid expenses and commercial lease assignment fees and received lease incentives (grace periods).

|                                             | Building and sites  |
|---------------------------------------------|---------------------|
| Balance as of January 1, 2019               | \$ 5,495,245        |
| Additions                                   | 275,762             |
| Increase per index or rate                  | 80,919              |
| Depreciation expense on right-of-use assets | <u>(879,724)</u>    |
| Balance as of December 31, 2019             | <u>\$ 4,972,202</u> |

Depreciation expense of Right-of-use assets is presented in the cost of sales and operating expenses line items in the consolidated statements of profit and loss and other comprehensive income. See Note 25.

## 11. 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, 2019, 2018 and 2017, were \$259,215, \$243,759 and \$227,331, respectively. The direct operating expenses, for properties that did not generate rental income for the years ended December 31, 2019, 2018 and 2017 were \$10,578, \$4,062 and \$3,390, respectively.

As of December 31, 2019, 2018 and 2017, the Entity's investment properties have a gross leasable area (unaudited) of 921,178, 929,011 and 928,649 square meters, respectively. As of December 31, 2019, 2018 and 2017 were 95%, 95% and 96%, 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                   | 2019: 12.10%<br>2018: 12.16%<br>2017: 12.05%               | The higher the discount rate, the lower the fair value.   |
|                    |                      |                       |                                 |                                                            |                                                           |
|                    |                      |                       | NOI                             | Based on contractual rent and then on market related rents | The higher the NOI, the higher the fair value.            |
|                    |                      |                       |                                 |                                                            |                                                           |
| Land reserves      | Level 3              | Market value          | Inflation rate                  | Mexico:<br>2019: 3.65%<br>2018: 4.02%<br>2017: 4.20%       | The higher the inflation rate, the higher the fair 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:

|                                              | 2019                 | 2018                 | 2017                 |
|----------------------------------------------|----------------------|----------------------|----------------------|
| Buildings and land                           | \$ 13,554,830        | \$ 12,806,866        | \$ 11,628,988        |
| Land reserves                                | 1,139,242            | 1,116,574            | 1,116,574            |
| Investment properties of Right-of-use assets | <u>237,942</u>       | <u>-</u>             | <u>-</u>             |
| Balance at end of year                       | <u>\$ 14,932,014</u> | <u>\$ 13,923,440</u> | <u>\$ 12,745,562</u> |

b. The reconciliation of investment property is as follows:

|                                                                       | 2019                 | 2018                 | 2017                 |
|-----------------------------------------------------------------------|----------------------|----------------------|----------------------|
| Balance at beginning of year                                          | \$ 13,923,440        | \$ 12,745,562        | \$ 11,894,763        |
| Additions                                                             | 1,014,579            | 887,326              | 493,962              |
| Transfer of assets (i)                                                | (374,808)            | -                    | 125,112              |
| Disposals                                                             | (50,876)             | -                    | -                    |
| Gain on revaluation of investment property                            | 181,737              | 290,552              | 231,725              |
| Initial recognition of right-of-use asset investment properties       | 283,039              | -                    | -                    |
| Loss from the revaluation of right-of-use asset investment properties | (45,097)             | -                    | -                    |
| Balance at end of year                                                | <u>\$ 14,932,014</u> | <u>\$ 13,923,440</u> | <u>\$ 12,745,562</u> |

(i) Asset transfers correspond to land transfers and construction between investment properties, property and equipment and housing inventories.

Additions for 2018 include insurance recovery for the loss of a property for \$56,669. 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, 2019, 2018 and 2017, there is 24, 23 and 23 of Entity's investment properties, respectively, and as of December 31, 2017, 24 of the Entity's investment properties were pledged as collateral for the long-term debt as discussed in Note 18. The fair value of such investment properties as of December 31, 2019, 2018 and 2017 was \$8,046,900, \$7,155,256 and 5,703,698, respectively.

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.

## 12. 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 |       |       |
|-----------------------------------------------------|-----------------|-----------------------------------------------------|--------------------------------------|----------------------------------------------------------------------|-------|-------|
|                                                     |                 |                                                     |                                      | 2019                                                                 | 2018  | 2017  |
| 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       | Parent of an entity that operates a shopping center | Veracruz, Mexico                     | 50.0%                                                                | 50.0% | 50.0% |
| Trust CIB/535                                       | Associate       | Entity that operates a shopping center              | Veracruz, Mexico                     | 50.0%                                                                | 50.0% | 50.0% |
| Inmobiliaria Conjunto Polanco, S. A. P. I. de C. V. | Associate       | Developing of investment properties                 | Mexico City, Mexico                  | 41.6%                                                                | 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, 2019, 2018 and 2017 are as follows:

| Entity                                                 | Investment in shares |                     |                     |
|--------------------------------------------------------|----------------------|---------------------|---------------------|
|                                                        | 2019                 | 2018                | 2017                |
| Mascotas y Compañía, S. A. P. I. de C. V.              | \$ 642,100           | \$ 571,615          | \$ 407,798          |
| Trust Banorte F/743955                                 | 322,837              | 315,276             | 303,361             |
| Trust CIB/535                                          | 543,560              | 433,011             | 360,910             |
| Other                                                  | 261                  | 263                 | 263                 |
| Inmobiliaria Conjunto Polanco,<br>S. A. P. I. de C. V. | <u>1,681,960</u>     | <u>1,590,134</u>    | <u>1,470,688</u>    |
|                                                        | <u>\$ 3,190,718</u>  | <u>\$ 2,910,299</u> | <u>\$ 2,543,020</u> |

| Entity                                                           | Entity's share of profit or loss |                     |                     |
|------------------------------------------------------------------|----------------------------------|---------------------|---------------------|
|                                                                  | 2019                             | 2018                | 2017                |
| Mascotas y Compañía, S. A. P. I. de C. V.                        | \$ (95,000)                      | \$ (75,916)         | \$ (52,520)         |
| Trust Banorte F/743955                                           | (10,549)                         | (11,068)            | (11,026)            |
| Trust CIB/535                                                    | (2,976)                          | (11,796)            | (13,564)            |
| Inmobiliaria Conjunto Polanco,<br>S. A. P. I. de C. V. – Note 15 | <u>(74,395)</u>                  | <u>(89,907)</u>     | <u>(164,230)</u>    |
|                                                                  | <u>\$ (182,920)</u>              | <u>\$ (188,687)</u> | <u>\$ (241,340)</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:

|                        | 2019                | 2018                | 2017              |
|------------------------|---------------------|---------------------|-------------------|
| Current assets         | \$ 752,574          | \$ 610,903          | \$ 470,911        |
| Property and equipment | 1,801,196           | 694,041             | 541,481           |
| Other assets           | <u>183,314</u>      | <u>95,184</u>       | <u>65,364</u>     |
| Total assets           | 2,737,084           | 1,400,128           | 1,077,756         |
| Total liabilities      | <u>1,452,885</u>    | <u>256,897</u>      | <u>262,161</u>    |
| Equity                 | <u>\$ 1,284,199</u> | <u>\$ 1,143,231</u> | <u>\$ 815,595</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:

|                     | 2019              | 2018              | 2017             |
|---------------------|-------------------|-------------------|------------------|
| Total revenues      | \$ 2,821,589      | \$ 2,156,238      | \$ 1,528,459     |
| Cost of sales       | 1,602,823         | 1,223,609         | 878,823          |
| Operating expenses  | 888,891           | 726,152           | 505,588          |
| Financing expense   | 85,533            | 3,380             | 1,412            |
| Income taxes        | <u>78,857</u>     | <u>69,792</u>     | <u>48,751</u>    |
| Profit for the year | <u>\$ 165,485</u> | <u>\$ 133,305</u> | <u>\$ 93,885</u> |

Condensed information related to the statement of financial position as of December 31, 2019, 2018 and 2017, for the associates is as follows:

|                                                                             | 2019<br>Banorte Trust<br>F/743955                                | 2018<br>Banorte Trust<br>F/743955                                | 2017<br>Banorte Trust<br>F/743955                                 |
|-----------------------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------|-------------------------------------------------------------------|
| Current assets                                                              | \$ 44,535                                                        | \$ 40,045                                                        | \$ 40,045                                                         |
| Other assets                                                                | <u>539,406</u>                                                   | <u>533,275</u>                                                   | <u>509,489</u>                                                    |
| Total assets                                                                | <u>\$ 583,941</u>                                                | <u>\$ 573,320</u>                                                | <u>\$ 549,534</u>                                                 |
| Current liabilities – contributions for<br>Entity's future capital increase | \$ 40,000                                                        | \$ 40,000                                                        | \$ 40,044                                                         |
| Total liabilities                                                           | <u>40,000</u>                                                    | <u>40,000</u>                                                    | <u>40,044</u>                                                     |
| Stockholders' equity                                                        | <u>543,941</u>                                                   | <u>533,320</u>                                                   | <u>509,490</u>                                                    |
| Total                                                                       | <u>\$ 543,941</u>                                                | <u>\$ 533,320</u>                                                | <u>\$ 509,490</u>                                                 |
|                                                                             | Trust<br>CIB/535                                                 | Trust<br>CIB/535                                                 | Trust<br>CIB/535                                                  |
| Current assets                                                              | \$ 96,285                                                        | \$ 27,025                                                        | \$ 53,288                                                         |
| Investment properties                                                       | 1,244,988                                                        | 882,048                                                          | 843,173                                                           |
| Other assets                                                                | <u>621</u>                                                       | <u>12,862</u>                                                    | <u>7,224</u>                                                      |
| Total assets                                                                | <u>1,341,894</u>                                                 | <u>921,935</u>                                                   | <u>903,685</u>                                                    |
| Current liabilities                                                         | 39,857                                                           | 78,373                                                           | 207,932                                                           |
| Other long term liabilities                                                 | <u>218,882</u>                                                   | <u>12,505</u>                                                    | <u>17,954</u>                                                     |
| Total liabilities                                                           | <u>258,739</u>                                                   | <u>90,878</u>                                                    | <u>225,886</u>                                                    |
| Stockholders equity                                                         | <u>1,083,155</u>                                                 | <u>831,057</u>                                                   | <u>677,799</u>                                                    |
| Total                                                                       | <u>\$ 1,341,894</u>                                              | <u>\$ 921,935</u>                                                | <u>\$ 903,685</u>                                                 |
|                                                                             | 2019<br>Inmobiliaria Conjunto<br>Polanco, S. A. P. I. de<br>C.V. | 2018<br>Inmobiliaria Conjunto<br>Polanco, S. A. P. I. de<br>C.V. | 2017<br>Inmobiliaria<br>Conjunto Polanco,<br>S. A. P. I. de C. V. |
| Current assets                                                              | \$ 2,149,901                                                     | \$ 1,615,913                                                     | \$ 1,573,331                                                      |
| Investment properties                                                       | 5,152,446                                                        | 4,462,415                                                        | 4,128,356                                                         |
| Total assets                                                                | <u>7,302,347</u>                                                 | <u>6,078,328</u>                                                 | <u>5,701,687</u>                                                  |
| Current liabilities                                                         | 441,409                                                          | 177,721                                                          | 665,393                                                           |
| Long-term debt                                                              | 1,650,000                                                        | 1,000,000                                                        | 1,000,000                                                         |
| Other long-term liabilities                                                 | <u>1,527,901</u>                                                 | <u>1,438,361</u>                                                 | <u>872,557</u>                                                    |
| Total liabilities                                                           | <u>3,619,310</u>                                                 | <u>2,616,082</u>                                                 | <u>2,537,950</u>                                                  |
| Stockholders 'equity                                                        | <u>\$ 3,683,037</u>                                              | <u>\$ 3,462,246</u>                                              | <u>\$ 3,163,737</u>                                               |

Condensed information related to the statement of profit or loss and other comprehensive income for the years ended December 31, 2019, 2018 and 2017 for the associates is as follows:

|                                              | 2019<br>Banorte Trust<br>F/743955                                | 2018<br>Banorte Trust<br>F/743955                                | 2017<br>Banorte Trust<br>F/743955                                |
|----------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------|
| Equity method                                | \$ 6,131                                                         | \$ 23,786                                                        | \$ 22,170                                                        |
| Operating expenses                           | 242                                                              | 194                                                              | 119                                                              |
| Interest income                              | <u>66</u>                                                        | <u>-</u>                                                         | <u>1</u>                                                         |
| Profit for the year                          | <u>\$ 5,955</u>                                                  | <u>\$ 23,592</u>                                                 | <u>\$ 22,052</u>                                                 |
|                                              | 2019<br>Trust CIB/535                                            | 2018<br>Trust CIB/535                                            | 2017<br>Trust CIB/535                                            |
| Revenue                                      | \$ 58,096                                                        | \$ 43,660                                                        | \$ 43,755                                                        |
| Operating expenses                           | 24,075                                                           | 22,919                                                           | 23,188                                                           |
| Financing (income) expense                   | 12,924                                                           | (1,395)                                                          | 6,438                                                            |
| Gain on revaluation of investment properties | <u>-</u>                                                         | <u>-</u>                                                         | <u>13,000</u>                                                    |
| Profit for the year                          | <u>\$ 21,097</u>                                                 | <u>\$ 22,136</u>                                                 | <u>\$ 27,129</u>                                                 |
|                                              | 2019<br>Inmobiliaria Conjunto<br>Polanco, S. A. P. I. de<br>C.V. | 2018<br>Inmobiliaria Conjunto<br>Polanco, S. A. P. I. de<br>C.V. | 2017<br>Inmobiliaria Conjunto<br>Polanco, S. A. P. I. de<br>C. V |
| Revenues                                     | \$ 450,513                                                       | \$ 425,132                                                       | \$ 1,895,900                                                     |
| Cost of sales of housing                     | 43,616                                                           | 72,837                                                           | 1,289,281                                                        |
| Operating expenses                           | 156,298                                                          | 160,074                                                          | 183,682                                                          |
| Financing (income) expense                   | 145,542                                                          | 76,239                                                           | (21,908)                                                         |
| Gain on revaluation of investment properties | (186,847)                                                        | (265,299)                                                        | (37,842)                                                         |
| Income taxes expense                         | <u>71,114</u>                                                    | <u>95,457</u>                                                    | <u>121,280</u>                                                   |
| Profit for the year                          | <u>\$ 220,790</u>                                                | <u>\$ 285,824</u>                                                | <u>\$ 361,407</u>                                                |

### 13. 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, 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<br>2019 | Ownership<br>2018 | Ownership<br>2017 | 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. |

| Entity                                                                                                                                                                            | Ownership<br>2019 | Ownership<br>2018 | Ownership<br>2017 | Activity                                                                                                                                                                                                                                                                                                       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Grupo Toks, S. A. de C. V.<br>(formerly Hospitalidad y<br>Servicios Especializados<br>Gigante, S. A. de C. V.<br>and Subsidiaries until<br>February 21, 2017) and<br>Subsidiaries | 100.00%           | 100.00%           | 100.00%           | Holding entity; its subsidiaries are<br>engaged in managing restaurants and<br>selling prepared food.                                                                                                                                                                                                          |
| Gigante Hospitalidad y<br>Servicios Especializados,<br>S. A. P. I. de C. V.                                                                                                       | 100.00%           | 100.00%           | 100.00%           | Holding entity.                                                                                                                                                                                                                                                                                                |
| Gigante Grupo<br>Inmobiliario S. A. de<br>C. V. and Subsidiaries                                                                                                                  | 100.00%           | 100.00%           | 100.00%           | Involves 56 companies, in 52 of which<br>Grupo Gigante, S.A.B. de C.V. has a<br>direct investment, which manage<br>properties where stores, offices and<br>shopping malls leased from third<br>parties are located, together with<br>certain restaurants, parking lots and<br>stores pertaining to the Entity. |
| Gigante Fleming, S. A. de<br>C. V.                                                                                                                                                | 100.00%           | 100.00%           | 100.00%           | Real estate entity that owns investment<br>property where 2 stores that are<br>leased to third parties are located.                                                                                                                                                                                            |
| Operadora Gigante, S. A.<br>de C. V.                                                                                                                                              | 100.00%           | 100.00%           | 100.00%           | Provides administrative services to the<br>Entity.                                                                                                                                                                                                                                                             |
| Servicios Gigante, S. A.<br>de C. V.                                                                                                                                              | 100.00%           | 100.00%           | 99.99%            | Provides administrative services to the<br>Entity.                                                                                                                                                                                                                                                             |
| Servicios Operativos<br>Gigante, S. A. de C. V.                                                                                                                                   | 100.00%           | 100.00%           | 100.00%           | Provides administrative services to the<br>Entity.                                                                                                                                                                                                                                                             |
| Servicios Técnicos y<br>Administrativos Gigante,<br>S. A. de C. V.                                                                                                                | 100.00%           | 100.00%           | 100.00%           | Provides administrative services to the<br>Entity.                                                                                                                                                                                                                                                             |
| Unidad de Servicios<br>Compartidos Gigante,<br>S.A. de C.V.                                                                                                                       | 100.00%           | 100.00%           | 100.00%           | Provides administrative services to the<br>Entity.                                                                                                                                                                                                                                                             |
| Gigante IT, S. A. de C. V.<br>and Subsidiaries                                                                                                                                    | 100.00%           | 100.00%           | 100.00%           | Provides information technology<br>consulting services and technical<br>support to the Entity and to third<br>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<br>2019 | Ownership<br>2018 | Ownership<br>2017 | Activity                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|----------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Office Depot de México, S. A. de C. V. and Subsidiaries                                                                    | 100.00%           | 100.00%           | 100.00%           | It operates 302 office supply stores in Mexico (including 4 Distribution Centers that also sell merchandise), 9 in Costa Rica (including one Distribution Centers that also sell merchandise), 9 in Guatemala, 4 in El Salvador (including one Distribution Centers that also sell merchandise), 4 in Honduras, 5 in Panama (including one distribution center that also sells merchandise), 7 in Colombia (including one Distribution Center that also sell merchandise and one printing service), 5 distribution centers that also sell merchandise in Chile and 1 distribution center in Mexico. It also includes 195 electronics and technology stores Radio Shack (including one distribution center that also sells merchandise). |
| Distribuidora Storehome, S. A. de C. V.                                                                                    | 100.00%           |                   | 100.00%           | It operates 20 self-service stores that sell houseware.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Restaurantes Toks, S. A. de C. V. and subsidiaries                                                                         | 100.00%           |                   | 100.00%           | It is a chain of 218 restaurants; 211 of them are operated under the Restaurantes Toks brand and 7 Beer Factory units.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Operadora y Administradora de Restaurantes Gigante, S. A. de C. V.                                                         | 100.00%           |                   | 100.00%           | It operates 23 Chinese fast food restaurants through the franchise agreement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Operadora de Alimentos y Malteadas, S.A.P.I. de C.V. (Antes Operadora de Café y Chocolate de Especialidad, S. A. de C. V.) | 100.00%           |                   | 100.00%           | Starting in June, 2019, it operates 2 fast food restaurants using the Shake Shack brand through a franchise agreement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

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 whereby the Entity has 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 2019 | Profit (loss) allocated to non-controlling interests 2019 | Accumulated non-controlling interests 2019 |
|------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------|
| Benmore International Corp.                    | Dominican Republic                                     | 10.0%                                                                                      | \$ (1,117)                                                | \$ (1,539)                                 |
| Inmobiliaria Lomo Lomas Verdes, S. A. de C. V. | Mexico                                                 | 49.9%                                                                                      | 11,553                                                    | 174,240                                    |
| Grupo Prisa                                    | Chile                                                  | 49.0%                                                                                      | <u>17,851</u>                                             | <u>114,769</u>                             |
|                                                |                                                        |                                                                                            | <u>\$ 28,287</u>                                          | <u>\$ 287,470</u>                          |

| Name of subsidiary                             | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests 2019 | Comprehensive income allocated to non-controlling interest 2019 |
|------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| Benmore International Corp.                    | Dominican Republic                                     | 10.0%                                                                                      | \$ (1,117)                                                      |
| Inmobiliaria Lomo Lomas Verdes, S. A. de C. V. | Mexico                                                 | 49.9%                                                                                      | 11,553                                                          |
| Grupo Prisa                                    | Chile                                                  | 49.0%                                                                                      | <u>25,924</u>                                                   |
|                                                |                                                        |                                                                                            | <u>\$ 36,360</u>                                                |

| Name of subsidiary                             | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests 2018 | Profit (loss) allocated to non-controlling interests 2018 | Accumulated non-controlling interests 2018 |
|------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------|
| Benmore International Corp.                    | Dominican Republic                                     | 10.0%                                                                                      | \$ (368)                                                  | \$ (986)                                   |
| Inmobiliaria Lomo Lomas Verdes, S. A. de C. V. | Mexico                                                 | 49.9%                                                                                      | 16,215                                                    | 171,146                                    |
| Grupo Prisa                                    | Chile                                                  | 49.0%                                                                                      | <u>68,612</u>                                             | <u>89,410</u>                              |
|                                                |                                                        |                                                                                            | <u>\$ 84,459</u>                                          | <u>\$ 259,570</u>                          |

| Name of subsidiary                             | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests 2018 | Comprehensive income allocated to non-controlling interest 2018 |
|------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| Benmore International Corp.                    | Dominican Republic                                     | 10.0%                                                                                      | \$ (240)                                                        |
| Inmobiliaria Lomo Lomas Verdes, S. A. de C. V. | Mexico                                                 | 49.9%                                                                                      | 16,215                                                          |
| Grupo Prisa                                    | Chile                                                  | 49.0%                                                                                      | <u>21,120</u>                                                   |
|                                                |                                                        |                                                                                            | <u>\$ 37,095</u>                                                |

| Name of subsidiary                             | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests 2017 | Profit (loss) allocated to non-controlling interests 2017 | Accumulated non-controlling interests 2017 |
|------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------------------------------------------|-----------------------------------------------------------|--------------------------------------------|
| Benmore International Corp.                    | Dominican Republic                                     | 10.0%                                                                                      | \$ (3,799)                                                | \$ (746)                                   |
| Inmobiliaria Lomo Lomas Verdes, S. A. de C. V. | Mexico                                                 | 49.9%                                                                                      | 12,943                                                    | 154,931                                    |
| Grupo Prisa                                    | Chile                                                  | 49.0%                                                                                      | <u>71,541</u>                                             | <u>361,320</u>                             |
|                                                |                                                        |                                                                                            | <u>\$ 80,685</u>                                          | <u>\$ 515,505</u>                          |

| Name of subsidiary                             | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests 2017 | Comprehensive income allocated to non-controlling interest 2017 |
|------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| Benmore International Corp.                    | Dominican Republic                                     | 10.0%                                                                                      | \$ (3,650)                                                      |
| Inmobiliaria Lomo Lomas Verdes, S. A. de C. V. | Mexico                                                 | 49.9%                                                                                      | 12,943                                                          |
| Grupo Prisa                                    | Chile                                                  | 49.0%                                                                                      | <u>82,421</u>                                                   |
|                                                |                                                        |                                                                                            | <u>\$ 91,714</u>                                                |

Grupo Gigante, S.A.B. de C.V., through its indirect subsidiary Office Depot de México, S.A. of C.V., acquired 90% of the shares of Benmore International Corp., during December 2014, which operated under the name Office Depot in the Dominican Republic. On October 31, 2018, Grupo Gigante, S.A. B. de C.V., informed that in accordance to its strategic plan and particularly regarding the treatment of unproductive assets, it closed its operation in the Dominican Republic and early terminate the only franchise contract that it had with Office Depot Inc., in relation to that territory.

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:

|                          | 2019              | 2018              | 2017              |
|--------------------------|-------------------|-------------------|-------------------|
| Current assets           | \$ 40,822         | \$ 71,901         | \$ 97,144         |
| Investment property      | 555,862           | 574,226           | 593,285           |
| Other assets             | <u>45,288</u>     | <u>23,930</u>     | <u>20,967</u>     |
| Total assets             | <u>\$ 641,972</u> | <u>\$ 670,057</u> | <u>\$ 711,396</u> |
| Current liabilities      | \$ 42,241         | \$ 55,354         | \$ 109,783        |
| Long-term debt           | <u>251,251</u>    | <u>272,410</u>    | <u>291,751</u>    |
| Total liabilities        | <u>293,492</u>    | <u>327,764</u>    | <u>401,534</u>    |
| Stockholders' equity     | <u>\$ 348,480</u> | <u>\$ 342,293</u> | <u>\$ 309,862</u> |
| Non-controlling interest | <u>\$ 174,240</u> | <u>\$ 171,146</u> | <u>\$ 154,931</u> |

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

|                          | 2019       | 2018       | 2017       |
|--------------------------|------------|------------|------------|
| Rental income            | \$ 125,464 | \$ 122,241 | \$ 120,561 |
| Profit for the year      | 23,106     | 32,431     | 25,886     |
| Non-controlling interest | 11,553     | 16,216     | 12,943     |

**Grupo Prisa**

Condensed information related to the statements of financial position as of December 31 (Note 14):

|                                                   | 2019                | 2018                | 2017                |
|---------------------------------------------------|---------------------|---------------------|---------------------|
| Current assets                                    | \$ 1,579,254        | \$ 1,885,440        | \$ 2,073,466        |
| Property and equipment                            | 154,876             | 146,021             | 273,959             |
| Right-of-use assets                               | 277,468             | -                   | -                   |
| Other assets                                      | <u>25,876</u>       | <u>21,534</u>       | <u>723,947</u>      |
| Total assets                                      | <u>\$ 2,037,474</u> | <u>\$ 2,052,995</u> | <u>\$ 3,071,372</u> |
| Current liabilities                               | \$ 1,085,449        | \$ 1,271,942        | \$ 1,281,711        |
| Other long-term liabilities                       | <u>216,245</u>      | <u>560</u>          | <u>28,705</u>       |
| Total liabilities                                 | <u>1,301,694</u>    | <u>1,272,502</u>    | <u>1,310,416</u>    |
| Stockholders' equity                              | <u>\$ 735,780</u>   | <u>\$ 780,493</u>   | <u>\$ 1,760,956</u> |
| Equity interest 49%                               | <u>\$ 360,532</u>   | <u>\$ 382,440</u>   | <u>\$ 361,320</u>   |
| Initial recognition of the Grupo Prisa put option | <u>\$ (245,763)</u> | <u>\$ (293,030)</u> | <u>-</u>            |
| Non-controlling interest                          | <u>\$ 114,769</u>   | <u>\$ 89,410</u>    | <u>\$ 361,320</u>   |

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

|                                                            | 2019         | 2018         | 2017         |
|------------------------------------------------------------|--------------|--------------|--------------|
| Rental income                                              | \$ 3,983,828 | \$ 4,586,622 | \$ 4,343,368 |
| Profit for the year                                        | 36,431       | 140,024      | 158,014      |
| Comprehensive income                                       | 52,906       | 43,102       | 168,206      |
| Comprehensive income allocated to non-controlling interest | 25,924       | 21,120       | 82,421       |
| Non-controlling interests                                  | 17,851       | 68,612       | 71,541       |

#### 14. Goodwill

Goodwill represents the excess of the consideration paid over the fair value of the net assets acquired at acquisition date. Goodwill has been assigned to the cash generating units that management considers to have synergies and which will benefit from the acquisition. Similarly, goodwill is subject to annual impairment testing based on the use value of these cash generating units.

The reconciliation of goodwill is as follows:

|                                        | 2019              | 2018              | 2017              |
|----------------------------------------|-------------------|-------------------|-------------------|
| Balance at beginning of year           | \$ 985,993        | \$ 995,885        | \$ 992,582        |
| Effect of foreign currency translation | <u>(7,519)</u>    | <u>(9,892)</u>    | <u>3,303</u>      |
| Total                                  | <u>\$ 978,474</u> | <u>\$ 985,993</u> | <u>\$ 995,885</u> |

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

|                                                                                                                                                                                                              | 2019              | 2018              | 2017              |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|
| 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           |
| 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            | 60,871            |
| Restaurantes California, S. A. de C. V.                                                                                                                                                                      | 588,306           | 588,306           | 588,306           |
| Assets – Fly by Wings                                                                                                                                                                                        | 15,430            | 15,430            | 15,430            |
| Grupo Prisa (Transportes Surtivía Limitada, S.A., Transporte Tropiservi Limitada, S.A. and Transporte y Distribuidora Tropivías Limitada, S.A.)                                                              | 15,476            | 15,476            | 15,476            |
| Effect of foreign currency translation                                                                                                                                                                       | <u>(10,686)</u>   | <u>(3,167)</u>    | <u>6,725</u>      |
| Total                                                                                                                                                                                                        | <u>\$ 978,474</u> | <u>\$ 985,993</u> | <u>\$ 995,885</u> |

## 15. Intangibles and other assets

|                                                                        | 2019                | 2018                | 2017                |
|------------------------------------------------------------------------|---------------------|---------------------|---------------------|
| Deferred charges                                                       | \$ 42,849           | \$ 34,722           | \$ 34,722           |
| Accumulated amortization                                               | <u>(29,138)</u>     | <u>(19,253)</u>     | <u>(17,515)</u>     |
|                                                                        | 13,711              | 15,469              | 17,207              |
| Trademark                                                              | 740,697             | 702,604             | 761,178             |
| Customer list                                                          | 338,647             | 355,958             | 381,356             |
| Non-compete agreement                                                  | 66,792              | 68,144              | 68,280              |
| Accumulated amortization                                               | <u>(312,223)</u>    | <u>(291,379)</u>    | <u>(274,588)</u>    |
|                                                                        | 833,913             | 835,327             | 936,226             |
| Software licenses                                                      | 356,507             | 314,371             | 283,928             |
| Accumulated amortization                                               | <u>(284,702)</u>    | <u>(254,711)</u>    | <u>(201,484)</u>    |
|                                                                        | 71,805              | 59,660              | 82,444              |
| Restricted cash – Note 5                                               | 85,291              | 77,599              | -                   |
| Technical assistance paid in advance                                   | 15,044              | 14,811              | 17,554              |
| Rent holidays and key money paid (i)                                   | 12,642              | 142,538             | 147,500             |
| Derivative financial instruments                                       | 26,168              | 287,774             | 147,119             |
| Other long-term advance payments and advance payments for construction | <u>414,458</u>      | <u>576,904</u>      | <u>708,038</u>      |
| Total                                                                  | <u>\$ 1,473,032</u> | <u>\$ 2,010,082</u> | <u>\$ 2,056,088</u> |

(i) At January 1, 2019, certain items were reclassified to the right-of-use asset in conformity with IFRS 16 (see Note 10).

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

|                                                 | 2019                | 2018                | 2017                |
|-------------------------------------------------|---------------------|---------------------|---------------------|
| Taxes payable – mainly ISR                      | \$ 524,860          | \$ 344,363          | \$ 433,635          |
| Direct employee benefits (See note 19 clause e) | 218,870             | 449,862             | 259,283             |
| Accrued operating expenses                      | 382,595             | 243,529             | 232,374             |
| Accrued interest to be paid                     | 25,999              | 18,409              | 29,730              |
| Derivative financial instruments                | 166,284             | -                   | -                   |
| Accounts payable with associated entities       | 4,765               | 781                 | -                   |
| Advances received from customers                | 36,030              | 10,946              | 54,134              |
| Other accounts payable                          | <u>805,467</u>      | <u>874,787</u>      | <u>601,616</u>      |
|                                                 | <u>\$ 2,164,870</u> | <u>\$ 1,942,677</u> | <u>\$ 1,610,772</u> |

## 17. Lease Liabilities

The lease liability involves the leases contracted for the real property where the Entity has some of its stores and corporate offices; lease periods range from 1 to 25 years. All operating lease contracts executed for more than one year contain rental review clauses which are generally based on inflation.

|                                                                     | 2019                |
|---------------------------------------------------------------------|---------------------|
| Balance as of January 1, 2019                                       | \$ 5,792,224        |
| Additions                                                           | 275,762             |
| Increase per index or rate                                          | 80,919              |
| Repayment of lease liabilities                                      | (1,256,145)         |
| Expenses of lease liabilities                                       | <u>510,782</u>      |
| Balance as of December 31, 2019                                     | <u>\$ 5,403,542</u> |
| Current portion                                                     | \$ 724,874          |
| Long-term lease liabilities                                         | <u>4,678,668</u>    |
|                                                                     | <u>\$ 5,403,542</u> |
| Expense relating to short-term leases                               | \$ 129,446          |
| Expense relating to variable lease payments                         | <u>60,268</u>       |
| Total amount recognized in consolidated statement of profit or loss | <u>\$ 189,714</u>   |

At December 31, 2019, future financial lease payments are detailed in the following table:

|                                            | 2019                |
|--------------------------------------------|---------------------|
| Not more than 1 year                       | \$ 724,875          |
| More than 1 year and not more than 5 years | 2,442,187           |
| More than 5 years                          | <u>2,236,480</u>    |
|                                            | <u>\$ 5,403,542</u> |

## 18. Long-term debt

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 2019       | 2018       | 2017       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|------------|
| <b>Secured – at amortized cost</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |            |            |            |
| On June 23, 2010, Gigante, S.A. de C.V. (indirect subsidiary of Grupo Gigante, S.A.B. de C.V.), contracted an unsecured loan with a mortgage guaranty. The only disposal took place on June 25, 2010 for the amount of \$229,000, which will be settled through 108 monthly payments, with monthly interest accrued at the Interbank Interest Rate (TIIE) plus 3 percentage points. In December 2015, the credit was renegotiated, whereby the maturity date was extended to 2023 with an interest rate of 7.92%. (i) | \$ 113,189 | \$ 121,135 | \$ 128,360 |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 2019    | 2018    | 2017    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|---------|---------|
| <b>Secured – at amortized cost</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |         |         |         |
| On June 23, 2010, Inmobiliaria Lomo Lomas Verdes, S.A. de C.V. (indirect subsidiary of Grupo Gigante, S.A.B. de C.V.) contracted an unsecured loan with a mortgage guaranty. The first disposal of credit resources was for the amount of \$342,000, to be settled through 96 monthly payments, with interest accrued monthly at the TIIE rate plus 3 percentage points. In December 2015, the credit was renegotiated, whereby the maturity date was extended to 2023, with an interest rate of 7.92%. The second disposal occurred on February 9, 2016 for the amount of \$114,000, under the same conditions as the first disposal, albeit with the exception of the interest rate, which was set at 7.51%. (i)                                                                                                                                                                                                                                 | 272,410 | 291,751 | 309,377 |
| On October 26, 2012, Guadalajara, S.A. de C.V. (indirect subsidiary of Grupo Gigante, S.A.B. de C.V.), contracted an unsecured loan of \$130,000, with disposal on October 31, 2012. This loan was contracted for a seven-year period, with interest payable monthly at the fixed 7.50% rate and monthly payments of principal. On May 19, 2014, this credit was extended by \$31,000, under the conditions of the original credit, albeit with the exception of the interest rate, which was set at 7.55%. On October 21, 2019, the outstanding credit contract balance was refinanced and extended, with Guadalajara, S.A. de C.V. as the borrower. This credit was executed on October 26, 2012, for the amount of \$161,000. The refinancing was performed for the amount of \$165,000, for a 3-year period, with interest payable at the TIIE rate plus a sole applicable margin of 215 basis points throughout the entire credit period. (i) | 164,904 | 82,282  | 99,032  |

## Secured – at amortized cost

On October 26, 2012, Arbokel, S.A. de C.V. (indirect subsidiary of Grupo Gigante, S.A.B. de C.V.), contracted an unsecured loan for the amount of \$250,000, with disposal on October 31 of that year, for a seven-year period, with interest payable monthly at the fixed 7.50% rate and monthly payments of principal. On May 19, 2014, an additional disposal took place for the amount of \$124,000, under the same conditions as the original credit, albeit with the exception of the interest rate, which was set at 7.55%. On August 13, 2014, an additional disposal of \$95,000 took place under the same conditions as the original credit, albeit with the exception of the interest rate, which was set at 7.06%. On October 21, 2019, the outstanding credit contract balance was refinanced and extended, with Arbokel, S.A. de C.V. as the borrower. This credit was executed on October 26, 2012 for the amount of \$469,000. The refinancing was performed for the amount of \$426,000, for a 3-year period, with interest payable at the TIIE rate plus a sole applicable margin of 215 basis points throughout the credit period. (i)

424,039

297,325

335,352

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. (viii)

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-

9,825

On January 22, 2015, Gigante Grupo Inmobiliario, S.A. de C.V. (subsidiary of Grupo Gigante, S.A.B. de C.V.), contracted an unsecured loan for an amount of up to \$1,300,000, which is payable in seven years. The following disposals were made under the same contractual conditions: a) February 4, 2015, a disposal of \$336,000, with a 7.36% interest rate; b) February 4, 2015, a disposal of \$224,000, with a 7.36% interest rate; c) April 29, 2015, a disposal of \$225,000 were utilized, with a 7.80% interest rate; d) April 29, 2015, a disposal of \$150,000, with a 7.74% interest rate; e) July 10, 2015, a disposal of \$98,220, with a 7.96% interest rate; and f) July 10, 2015, a disposal of \$65,480, with a 7.90% interest rate (vii).

941,513

979,051

1,013,657

| Secured – at amortized cost                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 2019      | 2018      | 2017      |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|
| 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 TIIE plus the applicable margin. This loan was paid off using the proceeds of a new bank loan entered into on May 24, 2018. (ix)                                                                                                                                                                                                           | -         | -         | 1,068,758 |
| On November 15, 2016, Office Depot de México, S.A. de C.V. (indirect subsidiary of Grupo Gigante, S.A.B. de C.V.), contracted an unsecured loan with disposal on November 17, 2016, for a 10-year period, a grace period of 24 months as regards principal and 96 monthly payments. Interest is payable monthly at the 28-day TIIE rate plus an applicable margin of 1.43% (ii).                                                                                                                                                                                                                                                                              | 2,556,259 | 2,925,838 | 2,951,667 |
| On July 12, 2017, Grupo Gigante, S.A.B. de C.V., contracted an unsecured loan of \$4,200,000, with disposal on July 14, 2017 for a three-year period, principal payable at maturity and interest payable monthly at the TIIE rate plus an applicable margin that increases each year. On May 14, 2018, an amendatory agreement was signed to the credit contract to extend its maturity to 2024, with a grace period of 36 months as regards principal, which begins as of the execution date of the amendatory agreement, together with 13 quarterly payments. Interest is payable monthly at the 28-day TIIE rate plus an applicable margin of 1.30%. (iii) | 4,183,178 | 4,179,369 | 4,185,735 |
| On May 24, 2018, Restaurantes Toks, S.A. de C.V. (indirect subsidiary of Grupo Gigante, S.A.B. de C.V.), contracted an unsecured loan of \$1,100,000, with disposal on May 28, 2018 for a seven-year period, a grace period of 36 months as regards principal and 13 quarterly payments. Interest is payable monthly at the 28-day TIIE rate plus an applicable margin of 1.30%. (iv)                                                                                                                                                                                                                                                                         | 1,097,919 | 1,097,951 | -         |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 2019                 | 2018                 | 2017                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|----------------------|
| <b>Secured – at amortized cost</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                      |                      |                      |
| On November 5, 2018, an unsecured loan was entered into for \$250,000 to be paid in one year after the disposition date. Interest is paid monthly and it is calculated using TIIE plus 1.25%. (v)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | -                    | 250,000              | -                    |
| On December 13, 2018, Covilla, S.A. de C.V. (indirect subsidiary of Grupo Gigante, S.A.B. de C.V.), contracted an unsecured loan with a mortgage guaranty for 39 months with payment at maturity. The first disposal took place on December 14, 2018 for the amount of \$300,000. On February 13, 2019, a second disposal of \$300,000 occurred under the same conditions as the first disposal. On May 13, 2019, a third disposal \$400,000 took place under the same conditions as the first two disposals. Interest is payable monthly at the fixed 10.89% rate for the first disposal, a fixed interest rate of 10.25% for the second disposal and a fixed interest rate of 10.00% for the third disposal. (i) | 995,106              | 292,931              | -                    |
| On January 28, 2019, Grupo Gigante, S.A.B. de C.V. contracted a credit line for the amount of \$1,000,000, to which expenses derived from the unused balance are applied. At December 31, 2019, the Entity has not utilized this credit line. (vi)                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | (2,778)              | -                    | -                    |
| Total debt                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <u>\$ 10,745,739</u> | <u>\$ 10,517,633</u> | <u>\$ 10,101,763</u> |
| Current portion                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | \$ 446,205           | \$ 1,058,348         | \$ 514,549           |
| Long-term debt                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <u>10,299,534</u>    | <u>9,459,285</u>     | <u>9,587,214</u>     |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <u>\$ 10,745,739</u> | <u>\$ 10,517,633</u> | <u>\$ 10,101,763</u> |

As of December 31, 2019, 2018 and 2017, TIIE was 7.56%, 8.60% and 7.62%, respectively.

- (i) These loans are guaranteed (Mortgage, Security and/or Trust) by five investment properties belonging to the Entity, of which four properties are currently operational, while one is under development. At December 31, 2019, the fair value of the four properties that are currently operational was \$3,360,333, while the fair value of the property under development was \$1,962,511. These loans are guaranteed by the joint and several liability of certain subsidiaries of Grupo Gigante, S.A.B. de C.V.

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 TIIE rates in order to manage the risk from the interest rates of the loans that were received. Accordingly, the Entity limits TIIE to levels from 7.50% to 7.92%, for the purpose of calculating interests with respect to the total balance from its bank loans.

- (ii) This loan is guaranteed by the joint and several liability of Grupo Gigante, S.A.B. de C.V. The contract establishes limitations as regards incurring additional liabilities, attaching liens or encumbrances to assets, reducing or modifying the shareholding structure of Office Depot de México, S.A. de C.V. Likewise, it establishes the causes of early expiration, including the following: default involving the payment of principal or interest; debt cross-default; noncompliance with affirmative or negative covenants; the delivery of information that is significantly false or contains errors; insolvency; the failure to pay taxes or tax debts. At the same time, a credit derivative contract was executed to manage the variable interest rate risk (TIIE). Under this scheme, the Interbank Interest (TIIE) rate is limited to 7.59%, plus a surcharge of 143 basis points.
- (iii) This loan is guaranteed by the 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, limitation to substantially modify the way in which business is conducted. The Entity entered into a hedge derivative contract, in order to cover the TIIE variable rate plus the 130 base points surcharge, in order to manage the interest rate risk of the loan received, setting the rate at 8.02. % during the entire term of the credit.
- (iv) This loan is guaranteed by the joint and several liability of Grupo Gigante, S.A.B. de C.V. (which executes this contract in its capacity as guarantor). The contract establishes a series of financial ratios and restrictions, together with limitations as regards incurring additional liabilities, attaching liens or encumbrances to assets, limitations with regard to consolidation, mergers, corporate breakups, dissolution and liquidation, the transfer, delivery, sale, lease or any other way of disposing of all or substantially all its goods or assets, as well as limitations involving the substantial modification of the way in which business activities are currently performed. A hedging derivative contract was executed to manage the loan interest rate risk, which was set at 9.46% for the entire credit period.
- (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.
- (vi) This loan is guaranteed by the joint and several liability of various subsidiaries of Grupo Gigante, S.A.B. de C.V. (which act as guarantors). The loan establishes different financial ratios and restrictions, including restrictions applicable to stockholders' equity and the level of leverage, the attachment of liens or encumbrances to assets, mergers, corporate breakups or consolidation, as well as the causes of early expiration, including the following: default involving the payment of principal or interest; debt cross-default; noncompliance with affirmative or negative covenants; the delivery of information that is significantly false or contains errors; insolvency and changes of control.

- (vii) This loan is guaranteed by (based on a trust contract) 19 investment properties belonging to the Entity. At December 31, 2019, the fair value of the 19 investment properties is \$2,724,056.

The contract documenting this loan establishes a series of limitations including limitations as regards incurring additional liabilities, the attachment of liens or encumbrances to assets, dissolution and liquidation. Likewise, this contract establishes different financial ratios and restrictions, including financial restrictions and ratios applicable to interest rate hedges and the level of leverage, as well as the causes of early expiration, including: default involving the payment of principal or interest; debt cross-default; noncompliance with affirmative or negative covenants; the delivery of information that is significantly false or contains errors; insolvency. The contract also establishes limitations involving the payment of dividends if any of the causes of default and early expiration arise.

At the same time, hedging derivative contracts were executed to limit the use of the credit resources contracted at variable TIIE rates so as to manage the interest rate risk derived from the utilization of loan resources. Under these schemes, the TIIE rate is limited to levels of between 7.36% and 7.96% for the purpose of calculating the interest accrued by the total balance of utilized bank loan resources.

- (viii) The contract established limits regarding the payment of dividends in the event of any contractual noncompliance, together with limitations with regard to incurring additional liabilities, the attachment of liens or encumbrances to assets, mergers, corporate breakups, dissolution, liquidation or consolidation. It also established different financial ratios and restrictions, including restrictions applicable to stockholders' equity and the level of leverage, as well as limitations involving the payment of dividends if any of the causes of contractual noncompliance arise.
- (ix) This loan is guaranteed by the joint and several liability of Grupo Gigante, S.A.B. de C.V. The contract established limits with regard to incurring additional liabilities, the attachment of liens or encumbrances to assets, mergers, corporate breakups, dissolution, liquidation or consolidation. It also established different financial ratios and restrictions, including restrictions applicable to stockholders' equity and the level of leverage. Likewise, it established limitations involving the payment of dividends if any of the causes of contractual noncompliance arise, as well as the causes of early expiration, including: default involving the payment of principal or interest; debt cross-default; noncompliance with affirmative or negative covenants; the delivery of information that is significantly false or contains errors; insolvency; control changes; ceasing to pay taxes or tax debts. Prepayment was made by utilizing resources from the Unsecured Loan identified in the preceding point (iv).

The restrictive clauses contained in bank loan contracts establish the obligation to maintain certain financial ratios. The terms of these clauses have been fulfilled for all loans as of December 31, 2019.

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. As of December 31, 2019, 2018 and 2017, it has undrawn revolving lines of credit for sums of \$860,000, \$860,000 and \$476,000, respectively. The Entity does not have revolving credit lines denominated in US dollars. Additionally, the unused balance of the letters of credit as of December 31, 2019, 2018 and 2017 is, in thousands of US dollars, 5,021, 4,987 and 4,746, respectively, while outstanding balance of the letters of credit denominated in US dollars as of December 31, 2019, 2018 and 2017 were, in thousands of US dollars, 2,769, 1,513 and 1,754, respectively.

#### Reconciliation of obligations derived from financing activities

The table presented below details changes to the Entity's liabilities as a result of its financing activities, including changes in both cash and cash equivalents. The liabilities derived from financing activities are those in which cash flows were, or future cash flows will be classified as cash flows from financing activities in the Entity's consolidated statement of cash flows.

|                                                | 2019                 | 2018                 | 2017                 |
|------------------------------------------------|----------------------|----------------------|----------------------|
| Balance as of January 1                        | \$ 10,517,633        | \$ 10,101,763        | \$ 10,327,196        |
| Proceeds from borrowings net of issuance costs | 1,287,000            | 1,878,654            | 4,183,435            |
| Repayments of borrowings                       | (1,075,896)          | (1,482,225)          | (4,460,053)          |
| Amortization of issuance costs                 | <u>17,002</u>        | <u>19,441</u>        | <u>51,185</u>        |
| Balance as of December 31                      | <u>\$ 10,745,739</u> | <u>\$ 10,517,633</u> | <u>\$ 10,101,763</u> |

## 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 2019, 2018 and 2017 was \$58,252, \$53,243 and \$48,215, 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. The seniority premium considers all the years of service of each worker.
- c. Amounts recognized in comprehensive income in respect of these defined benefit plans are as follows:

|                                                                                                    | 2019             | 2018            | 2017             |
|----------------------------------------------------------------------------------------------------|------------------|-----------------|------------------|
| Service cost:                                                                                      |                  |                 |                  |
| Current service cost                                                                               | \$ 12,132        | \$ 15,134       | \$ 16,086        |
| Past service cost and curtailment gains                                                            | 6,062            | (221)           | (51)             |
| Net interest expense                                                                               | <u>9,268</u>     | <u>9,805</u>    | <u>9,131</u>     |
|                                                                                                    | 27,462           | 24,718          | 25,166           |
| Components of defined benefit costs recognized in other comprehensive income - Net actuarial gains | <u>5,313</u>     | <u>(17,839)</u> | <u>(4,041)</u>   |
| Total                                                                                              | <u>\$ 32,775</u> | <u>\$ 6,839</u> | <u>\$ 21,125</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:

|                                                         | 2019              | 2018             | 2017              |
|---------------------------------------------------------|-------------------|------------------|-------------------|
| Present value of defined benefit obligation             | \$ 230,065        | \$ 174,545       | \$ 168,576        |
| Fair value of plan assets                               | <u>(112,171)</u>  | <u>(100,601)</u> | <u>(95,204)</u>   |
| Net liability arising from defined benefit obligation   | 117,894           | 73,944           | 73,372            |
| Other long term benefits - Note 19e)                    | <u>32,472</u>     | <u>-</u>         | <u>134,233</u>    |
| Total liability arising from defined benefit obligation | <u>\$ 150,366</u> | <u>\$ 73,944</u> | <u>\$ 207,605</u> |

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, 2019, the liability related to this plan was 2019, 2018 and 2017 was \$32,472, \$188,453 and \$128,173, respectively.

## 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 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:

|                                       | 2019              | 2018              | 2017              |
|---------------------------------------|-------------------|-------------------|-------------------|
| Cash and cash equivalents – Note 5    | \$ (1,686,783)    | \$ (2,049,520)    | \$ (1,926,334)    |
| Financial assets – Note 6             | (426,608)         | (426,113)         | (434,889)         |
| Long term restricted cash – Note 15   | (85,291)          | (77,599)          | -                 |
| Long-term debt – Note 18              | <u>10,745,739</u> | <u>10,517,633</u> | <u>10,101,763</u> |
| Net debt                              | 8,547,057         | 7,964,401         | 7,740,540         |
| Lease liabilities – Note 17           | <u>5,403,542</u>  | <u>-</u>          | <u>-</u>          |
| Subtotal –Net Debt with lease         | 13,950,599        | 7,964,401         | 7,740,540         |
| Stockholders' equity                  | <u>22,564,672</u> | <u>22,106,690</u> | <u>21,378,986</u> |
| Net debt to equity ratio              | <u>38%</u>        | <u>36%</u>        | <u>36%</u>        |
| Net debt ratio with lease and capital | <u>62%</u>        | <u>36%</u>        | <u>36%</u>        |

### 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:

|                                                                                                                                            | 2019         | 2018         | 2017         |
|--------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|
| i. Cash and cash equivalents                                                                                                               | \$ 1,686,783 | \$ 2,049,520 | \$ 1,926,334 |
| ii. Held for trading financial instruments                                                                                                 | 85,291       | 77,599       | -            |
| iii. Available-for-sale financial instruments                                                                                              | 426,608      | 426,113      | 434,889      |
| iv. Accounts receivable                                                                                                                    | 3,137,809    | 3,121,337    | 2,759,379    |
| v. Trade accounts payable                                                                                                                  | 4,773,714    | 5,329,197    | 4,303,164    |
| vi. Lease liabilities                                                                                                                      | 5,403,542    | -            | -            |
| vii. Long-term debt at amortized cost                                                                                                      | 10,745,739   | 10,517,633   | 10,101,763   |
| viii. Assets related to derivative financial instruments through profit and losses                                                         | (252,506)    | 271,445      | 147,119      |
| ix. Liability from derivative financial instrument (“purchase obligation”) at fair value through profit or loss. (See Note 16 and Note 23) | (166,284)    | (284,233)    | -            |

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 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. In addition, approximately 7%, 5% and 5% for the year ended December 31, 2019, 2018 and 2017, respectively, of total purchases of the Entity's inventories were imported by approximately 76,508, 62,661 and 59,259 (thousands of US dollars) for the years ended December 31, 2019, 2018 and 2017, respectively.

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

|                                          | 2019                | 2018                | 2017               |
|------------------------------------------|---------------------|---------------------|--------------------|
| <i>Thousands of U.S. dollars:</i>        |                     |                     |                    |
| Monetary assets                          | \$ 2,838            | 2,715               | 8,544              |
| Monetary liabilities                     | <u>15,393</u>       | <u>16,514</u>       | <u>12,073</u>      |
| Net liability position                   | <u>(12,555)</u>     | <u>(13,799)</u>     | <u>(3,529)</u>     |
| Equivalent in thousands of Mexican pesos | \$ <u>(236,947)</u> | \$ <u>(271,241)</u> | \$ <u>(69,646)</u> |

The exchange rates as of December 31, 2019, 2018, 2017 and as of the date of issuance of these consolidated financial statements were as follows:

|             | 2019              | 2018              | 2017              | March 31, 2020    |
|-------------|-------------------|-------------------|-------------------|-------------------|
| U.S. dollar | \$ <u>18.8727</u> | \$ <u>19.6566</u> | \$ <u>19.7354</u> | \$ <u>24.2853</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.

|                                                         | 2019                       | 2018                       | 2017                      |
|---------------------------------------------------------|----------------------------|----------------------------|---------------------------|
| Net position in thousands of U.S. dollar                | <u>(12,555)</u><br>19.8163 | <u>(13,799)</u><br>20.6394 | <u>(3,529)</u><br>20.7222 |
| Estimated exchanges rates:                              | <u>17.9291</u>             | <u>18.6738</u>             | <u>18.7486</u>            |
| Sensitivity + / -                                       | 5%                         | 5%                         | 5%                        |
| Change in total comprehensive income for the year + / - | \$ <u>11,847</u>           | \$ <u>13,562</u>           | \$ <u>3,483</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 and SWAPS) 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

If interest rates had been 5% higher/lower and all other variables were held constant, the Entity's:

Net income for the year ended December 31, 2019, 2018 and 2017 would decrease/increase by \$508, \$168 and \$20,068, respectively. This is mainly attributable to the Entity's exposure to interest rates on its variable rate borrowings.

As of December 31, 2019, all of the variable rate bank loans held by the Entity are covered by derivative financial instruments that limit the interest rate risk by converting it to a fixed rate, except for the bank loan contracted and arranged on October 21, 2019 (See Note 18, i), and, the bank loan contracted in January 28, 2019, which has not been drawn (See Note 18, vi).

#### 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 2019, 2018 and 2017, 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:

- The result of the period ended December 31, 2019 will not vary. This situation is primarily attributable to the Entity's exposure to the prices of shares classified as financial instruments valued at fair value through profit or loss.

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           | \$ 4,773,714     | \$ -                                   | \$ -              |
| Advances received from customers | 36,030           | -                                      | -                 |
| Other accounts payable           | 805,467          | -                                      | -                 |
| Long-term debt                   | 446,205          | 9,591,173                              | 708,361           |
| Interest to accrue               | 957,116          | 2,564,120                              | 88,182            |

The weighted average interest rate on the long-term debt as of December 31, 2019 was 9.17%. As of December 31, 2019, all of the variable rate bank loans held by the Entity are hedged by derivative financial instruments that limit the interest rate risk by converting it to a fixed rate, except for the bank loan contracted on January 28, 2019 (See Note 18, vi).

l. **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 2019 | Fair value hierarchy | Valuation techniques and key inputs   |
|----------------------------------------------------------|-----------------------|----------------------|---------------------------------------|
| Financial instrument available-for-sale financial assets | \$ 426,608            | Level 1              | Quoted bid prices in an active market |
| Derivative financial instruments                         | (418,790)             | Level 2              | Discounted cash flow                  |

| Assets/ liabilities                                      | Fair value as of 2018 | Fair value hierarchy | Valuation techniques and key inputs   |
|----------------------------------------------------------|-----------------------|----------------------|---------------------------------------|
| Financial instrument available-for-sale financial assets | \$ 426,113            | Level 1              | Quoted bid prices in an active market |
| Derivative financial instruments                         | (12,787)              | Level 2              | Discounted cash flow                  |

| Assets/ liabilities                                      | Fair value as of 2017 | Fair value hierarchy | Valuation techniques and key inputs   |
|----------------------------------------------------------|-----------------------|----------------------|---------------------------------------|
| Financial instrument available-for-sale financial assets | \$ 434,889            | Level 1              | Quoted bid prices in an active market |
| Derivative financial instruments                         | 147,119               | Level 2              | Discounted cash flow                  |

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.

| 2019                                                 |                 |              |              |                                             |
|------------------------------------------------------|-----------------|--------------|--------------|---------------------------------------------|
|                                                      | Carrying amount | Fair value   |              |                                             |
| <b>Financial liabilities held at amortized cost:</b> |                 |              |              |                                             |
| Long-term debt                                       | \$ 10,745,739   | \$           | 11,024,542   |                                             |
|                                                      | Level 1         | Level 2      | Total        | Valuation techniques and significant inputs |
| <b>Financial liabilities held at amortized cost:</b> |                 |              |              |                                             |
|                                                      |                 |              |              | Discounted cash flows using market rates    |
| Long-term debt                                       | \$ -            | \$11,024,542 | \$11,024,542 |                                             |
| 2018                                                 |                 |              |              |                                             |
|                                                      | Carrying amount | Fair value   |              |                                             |
| <b>Financial liabilities held at amortized cost:</b> |                 |              |              |                                             |
| Long-term debt                                       | \$ 10,517,633   | \$           | 10,213,959   |                                             |
| 2017                                                 |                 |              |              |                                             |
|                                                      | Carrying amount | Fair value   |              |                                             |
| <b>Financial liabilities held at amortized cost:</b> |                 |              |              |                                             |
| Long-term debt                                       | \$ 10,213,959   | \$           | 10,213,959   |                                             |

## 21. Stockholders' equity

- a. Common stock as of December 31, 2019, 2018 and 2017 consists of the following:

|                  | Outstanding number of shares | Nominal value     |
|------------------|------------------------------|-------------------|
| Fixed capital    | 176,734,102                  | \$ 18,922         |
| Variable capital | 817,493,226                  | 87,525            |
|                  | <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.

On November 21, 2018, the procedure for the termination of the Level I programs for 416 ADRs and Rule 144 A for 588 ADRs, which together represented 10,040 single, ordinary, nominative shares without par value of the common stock was definitively concluded.

- b. As of December 31, 2019, 2018 and 2017, Grupo Gigante, S.A.B. de C.V. had 500 shares repurchased with recorded against to stockholders' equity. The market price of such shares as of December 31, 2019, 2018 and 2017, was \$35.41, \$36.50 and \$39.60 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, 2019, 2018 and 2017, 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:

|                                                        | 2019                 | 2018                 | 2017                 |
|--------------------------------------------------------|----------------------|----------------------|----------------------|
| Contributed capital account                            | \$ 13,849,086        | \$ 13,469,253        | \$ 12,848,663        |
| Net consolidated tax income account (CUFIN) after 2014 | 521,381              | (168,382)            | (123,338)            |
| CUFIN before 2014                                      | <u>14,387,177</u>    | <u>12,051,544</u>    | <u>10,899,127</u>    |
| Total                                                  | <u>\$ 28,757,644</u> | <u>\$ 25,352,415</u> | <u>\$ 23,624,452</u> |

## 22. Other comprehensive income

|                                                        | 2019              | 2018              | 2017              |
|--------------------------------------------------------|-------------------|-------------------|-------------------|
| Balance at beginning of year                           | \$ 455,280        | \$ 641,477        | \$ 667,692        |
| Exchange differences on translating foreign operations | <u>(170,768)</u>  | <u>(186,197)</u>  | <u>(26,215)</u>   |
| Total                                                  | <u>\$ 284,512</u> | <u>\$ 455,280</u> | <u>\$ 641,477</u> |

## 23. Non-controlling interests

|                                                                    | 2019              | 2018              | 2017              |
|--------------------------------------------------------------------|-------------------|-------------------|-------------------|
| Balance at beginning of year                                       | \$ 259,570        | \$ 515,505        | \$ 507,350        |
| Profit allocated to non-controlling interest                       | 28,287            | 84,459            | 80,685            |
| Dividends paid                                                     | (8,460)           | -                 | (83,559)          |
| Put option for Grupo Prisa (a)                                     | -                 | (293,030)         | -                 |
| Exchange differences arising on translating the foreign operations | <u>8,073</u>      | <u>(47,364)</u>   | <u>11,029</u>     |
| Balance at end of year                                             | <u>\$ 287,470</u> | <u>\$ 259,570</u> | <u>\$ 515,505</u> |

- a. Initial recognition of the probability to be required to acquire the remaining 49% of the stock equity of Grupo Prisa established in the acquisition contracts of the Entity Grupo Prisa.

## 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:

|                                                      | 2019    | 2018      | 2017      |
|------------------------------------------------------|---------|-----------|-----------|
| Purchases of fixed assets - other related parties    | \$ -    | \$ 37,068 | \$ 34,917 |
| Purchase of inventory - other related parties        | 30,874  | 26,223    | 15,451    |
| Rental expense - shareholders                        | 113,779 | 128,999   | 80,798    |
| Rental income - other related parties                | 45,266  | 37,789    | 22,268    |
| Sales of inventory - other related parties           | 17,234  | 9,908     | 9,158     |
| Consulting services received - other related parties | 113,796 | 103,958   | 127,208   |
| Consulting services provided - other related parties | 117,339 | 107,454   | 61,132    |
| Charitable contributions - other related parties     | 12,283  | 41,856    | 9,221     |
| Other income                                         | 18,381  | 8,852     | 36,611    |
| Other expenses                                       | 2,909   | 3,188     | 5,288     |

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

- b. As of December 31, 2019, 2018 and 2017, the Entity has accounts receivable due from related parties for \$1,461, \$47,278 and \$89,622. As of December 31, 2019, 2018 and 2017, there are accounts payable to related parties for \$4,765, \$781 and \$5,273, respectively.

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

|                          | 2019       | 2018       | 2017       |
|--------------------------|------------|------------|------------|
| Short-term benefits      | \$ 196,692 | \$ 185,153 | \$ 182,755 |
| Other long term benefits | 35,658     | 60,280     | 68,105     |
| Termination benefits     | 22,889     | 19,824     | -          |
| Post employee benefits   | 978        | 6,347      | 7,790      |

## 25. Cost of sales and operating expenses

- a. Cost of sales is as follow:

|                                             | 2019                 | 2018                 | 2017                 |
|---------------------------------------------|----------------------|----------------------|----------------------|
| Cost of merchandise sold                    | \$ 18,791,711        | \$ 19,667,912        | \$ 19,020,876        |
| Employee benefits                           | 537,397              | 491,475              | 459,052              |
| Rental expense                              | 80,354               | 181,159              | 155,353              |
| Electricity, water, gas and other utilities | 108,105              | 189,409              | 171,399              |
| Depreciation and amortization               | 209,579              | 211,408              | 194,114              |
| Right-of-use asset depreciation             | <u>38,842</u>        | <u>-</u>             | <u>-</u>             |
| Total cost of sales                         | <u>\$ 19,765,988</u> | <u>\$ 20,741,363</u> | <u>\$ 20,000,794</u> |

- b. Operating expenses are as follows:

|                                                                      | 2019                | 2018                 | 2017                |
|----------------------------------------------------------------------|---------------------|----------------------|---------------------|
| Employee benefits                                                    | \$ 4,458,890        | \$ 4,397,380         | \$ 4,187,947        |
| Rental expense                                                       | 109,360             | 1,118,620            | 1,084,976           |
| Insurance                                                            | 76,256              | 84,899               | 66,951              |
| Electricity, water, gas and other utilities                          | 541,506             | 458,951              | 444,118             |
| Maintenance                                                          | 578,922             | 405,033              | 414,724             |
| Marketing                                                            | 397,773             | 359,983              | 300,976             |
| Depreciation and amortization                                        | 638,424             | 672,210              | 648,870             |
| Right-of-use asset depreciation                                      | 840,882             | -                    | -                   |
| Loss (reversal) impairment of property and equipment and intangibles | (31,000)            | 31,000               | -                   |
| Other operating expenses                                             | <u>2,266,264</u>    | <u>2,695,237</u>     | <u>2,363,545</u>    |
| Total operating expenses                                             | <u>\$ 9,877,277</u> | <u>\$ 10,223,313</u> | <u>\$ 9,512,107</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:

|                                            | 2019                |
|--------------------------------------------|---------------------|
| Not more than 1 year                       | \$ 1,142,699        |
| More than 1 year and not more than 5 years | 2,291,995           |
| More than 5 years                          | <u>1,330,970</u>    |
| Total                                      | <u>\$ 4,765,664</u> |

## 27. Income taxes

The Entity is subject to ISR. Under the ISR Law the rate for 2019 and 2018 was 30% and will continue at 30% thereafter. The rate of current income is 30%. The Entity incurred ISR on a consolidated basis until 2013 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.

During 2018 the tax authorities exercising its faculties of verification to two subsidiaries of Grupo Gigante, S.A.B. de C.V., as a result of one these verifications, Office Depot de México, S.A. de C.V., filed complementary returns to amend its previous returns, making a payment of \$117,900, including interest. Likewise, on February 2019, a final agreement related to this review was signed. Currently, the tax authorities continue faculties of verification in the other subsidiary, without a tax credit being determined as of the date of the financial statements.

*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:

|                        | 2019              | 2018              | 2017              |
|------------------------|-------------------|-------------------|-------------------|
| ISR expense (benefit): |                   |                   |                   |
| Current                | \$ 751,203        | \$ 820,912        | \$ 754,045        |
| Deferred               | <u>(61,031)</u>   | <u>(72,040)</u>   | <u>(21,266)</u>   |
|                        | <u>\$ 690,172</u> | <u>\$ 748,872</u> | <u>\$ 732,779</u> |

- b. The effective ISR rate for fiscal 2019, 2018 and 2017 differ from the statutory rate as follow:

|                                                               | 2019<br>% | 2018<br>% | 2017<br>% |
|---------------------------------------------------------------|-----------|-----------|-----------|
| Statutory rate                                                | 30        | 30        | 30        |
| Permanent differences                                         | 5         | 3         | 5         |
| Effects of inflation                                          | (3)       | (4)       | (4)       |
| Effect of future tax loss carry forwards partially recognized | <u>20</u> | <u>8</u>  | <u>2</u>  |
| Effective rate                                                | <u>52</u> | <u>37</u> | <u>33</u> |

- c. The main items originating deferred taxes are:

|                                                | 2019                  | 2018                  | 2017                  |
|------------------------------------------------|-----------------------|-----------------------|-----------------------|
| Deferred ISR assets (liabilities):             |                       |                       |                       |
| Property and equipment and investment property | \$ (2,159,218)        | \$ (2,042,029)        | \$ (2,202,695)        |
| Inventories                                    | (11,841)              | 5,946                 | (3,995)               |
| Accrued expenses and provisions                | 180,932               | 287,965               | 324,687               |
| Prepaid expenses and advances from customers   | (73,178)              | (87,352)              | (88,177)              |
| Intangible assets and others                   | <u>31,803</u>         | <u>(263,636)</u>      | <u>(197,363)</u>      |
|                                                | (2,031,502)           | (2,099,106)           | (2,167,543)           |
| Effect of tax loss carry forwards              | <u>119,704</u>        | <u>118,710</u>        | <u>115,107</u>        |
| Total deferred tax liability – Net             | <u>\$ (1,911,798)</u> | <u>\$ (1,980,396)</u> | <u>\$ (2,052,436)</u> |

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

|                                    | 2019                  | 2018                  | 2017                  |
|------------------------------------|-----------------------|-----------------------|-----------------------|
| Deferred tax asset                 | \$ 484,915            | \$ 495,946            | \$ 418,451            |
| Deferred tax liability             | <u>(2,396,713)</u>    | <u>(2,476,342)</u>    | <u>(2,470,887)</u>    |
| Total deferred tax liability – Net | <u>\$ (1,911,798)</u> | <u>\$ (1,980,396)</u> | <u>\$ (2,052,436)</u> |

In the determination of the deferred ISR liability as of December, 31, 2019, 2018 and 2017, a total of \$610,383, \$422,404 and \$265,576, 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, 2019, the Entity's has tax losses carryforwards related to its operations in Colombia for \$614,934 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, 2019, 2018 and 2017, are \$184,480, \$170,948 and \$185,330, respectively.

e. Tax consolidation

ISR liability as of December 31, 2019 related to the tax deconsolidation which will be paid in the following years is as follows:

| Year     |                   |
|----------|-------------------|
| 2020 (i) | 56,181            |
| 2021     | 56,180            |
| 2022     | 56,180            |
| 2023     | <u>56,180</u>     |
|          | <u>\$ 224,721</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

The amounts used to determinate basic and diluted earnings per share were as follows:

|                                       | 2019<br>Mexican pesos per<br>share | 2018<br>Mexican pesos per<br>share | 2017<br>Mexican pesos per<br>share |
|---------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Basic and diluted earnings per share: | <u>0.60</u>                        | <u>1.18</u>                        | <u>1.41</u>                        |

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

For the years ended December 31, 2019, 2018 and 2017, 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:

|                                                                                                     | 2019                  | 2018                | 2017                |
|-----------------------------------------------------------------------------------------------------|-----------------------|---------------------|---------------------|
| Earnings used in the calculation of basic and diluted earnings per share from continuing operations | <u>\$ 600,850</u>     | <u>\$ 1,169,836</u> | <u>\$ 1,400,358</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>994,227,328</u>  |

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

For the years ended December 31, 2019, 2018 and 2017, 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.

c. **Basic and diluted earnings per share determination**

|                                      | As of December 31, 2019 |                                   |                         |
|--------------------------------------|-------------------------|-----------------------------------|-------------------------|
|                                      | Profit                  | Weighted average number of shares | Mexican pesos per share |
| Basic and diluted earnings per share | \$ 600,850              | 994,227,328                       | 0.60                    |
|                                      |                         |                                   |                         |
|                                      | As of December 31, 2018 |                                   |                         |
|                                      | Profit                  | Weighted average number of shares | Mexican pesos per share |
| Basic and diluted earnings per share | \$ 1,169,836            | 994,227,328                       | 1.18                    |
|                                      |                         |                                   |                         |
|                                      | As of December 31, 2017 |                                   |                         |
|                                      | Profit                  | Weighted average number of shares | Mexican pesos per share |
| Basic and diluted earnings per share | \$ 1,400,358            | 994,227,328                       | 1.41                    |

**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. Ideas and solutions for home furniture and décor based on an offering of novelty products and goods.
- ii. Prisa distribution – Institutional distribution and retail specialized in office goods, furniture and electronics products
- iii. Restaurants – Family restaurant chain, which stands out for its innovative dishes, excellent service in a young and casual environment.
- iv. 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.
- v. Corporate – Entity management and corporate administration.
- vi. Other – The Entity groups its other operations like information technology software, parking lot operations and other subholdings.

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:

|                                                                    | <b>Revenues by segment</b> |                      |                      |
|--------------------------------------------------------------------|----------------------------|----------------------|----------------------|
|                                                                    | <b>2019</b>                | <b>2018</b>          | <b>2017</b>          |
| Retail                                                             | \$ 21,811,985              | \$ 22,249,661        | \$ 21,579,478        |
| Prisa distribution                                                 | 3,903,243                  | 4,489,478            | 4,302,696            |
| Restaurants                                                        | 5,005,897                  | 4,765,510            | 4,562,566            |
| Real Estate                                                        | 1,735,684                  | 1,575,998            | 1,605,175            |
| Corporate                                                          | -                          | 420                  | -                    |
| Other                                                              | (11,182)                   | 107,728              | 101,796              |
|                                                                    | <u>\$ 32,445,627</u>       | <u>\$ 33,188,795</u> | <u>\$ 32,151,711</u> |
|                                                                    | <b>Profit by segment</b>   |                      |                      |
| Retail                                                             | \$ 1,284,188               | \$ 1,091,386         | \$ 1,470,115         |
| Prisa distribution                                                 | 39,293                     | 180,927              | 210,282              |
| Restaurants                                                        | 601,542                    | 402,997              | 361,454              |
| Real Estate                                                        | 1,243,558                  | 1,168,330            | 1,088,344            |
| Corporate                                                          | (332,999)                  | (386,851)            | (291,480)            |
| Other                                                              | 103,420                    | 57,882               | 31,820               |
|                                                                    | <u>\$ 2,939,002</u>        | <u>\$ 2,514,671</u>  | <u>\$ 2,870,535</u>  |
| Interest expense                                                   | \$ 1,549,737               | \$ 1,036,244         | \$ 1,008,809         |
| Interest income                                                    | (190,175)                  | (179,808)            | (116,267)            |
| Exchange (gain) loss – Net                                         | (416)                      | (4,432)              | 25,346               |
| Loss (gain) on revaluation of financial instruments                | 443,467                    | (151,813)            | (19,834)             |
| Share of profit of joint venture and associates                    | (182,920)                  | (188,687)            | (241,341)            |
| Profit for the year from continuing operations before income taxes | <u>\$ 1,319,309</u>        | <u>\$ 2,003,167</u>  | <u>\$ 2,213,822</u>  |

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

|             | Inter-segment revenues |           |           |
|-------------|------------------------|-----------|-----------|
|             | 2019                   | 2018      | 2017      |
| Retail      | \$ 70,268              | \$ 20,803 | \$ 19,282 |
| Restaurants | 37,209                 | 49,579    | 41,321    |
| Real Estate | 289,628                | 250,402   | 255,352   |
| Corporate   | 472,503                | 520,332   | 434,230   |

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 and bank loans**

|                    | Total segment assets |                      |                      |
|--------------------|----------------------|----------------------|----------------------|
|                    | 2019                 | 2018                 | 2017                 |
| Retail             | \$ 16,365,176        | \$ 14,212,759        | \$ 13,285,599        |
| Prisa distribution | 2,350,423            | 2,667,624            | 2,844,236            |
| Restaurants        | 5,947,096            | 3,556,740            | 3,405,405            |
| Real Estate        | 20,868,094           | 18,986,384           | 17,508,324           |
| Corporate          | 1,035,377            | 1,301,991            | 1,161,422            |
| Other              | 2,263,459            | 2,576,541            | 2,363,376            |
| Total assets       | <u>\$ 48,829,625</u> | <u>\$ 43,302,039</u> | <u>\$ 40,568,362</u> |

Intercompany balances are not included.

|                  | Bank loans           |                      |                      |
|------------------|----------------------|----------------------|----------------------|
|                  | 2019                 | 2018                 | 2017                 |
| Retail           | \$ 2,556,258         | \$ 2,925,837         | \$ 2,951,667         |
| Restaurants      | 1,097,919            | 1,097,950            | 1,068,758            |
| Real Estate      | 2,911,162            | 2,314,475            | 1,885,778            |
| Corporate        | 4,180,400            | 4,179,371            | 4,185,735            |
| Other            | -                    | -                    | 9,825                |
| Total bank loans | <u>\$ 10,745,739</u> | <u>\$ 10,517,633</u> | <u>\$ 10,101,763</u> |

c. **Other segment information**

|                    | Depreciation and amortization |                   |                   |
|--------------------|-------------------------------|-------------------|-------------------|
|                    | 2019                          | 2018              | 2017              |
| Retail             | \$ 1,156,693                  | \$ 493,392        | \$ 439,270        |
| Prisa distribution | 37,098                        | 37,033            | 34,429            |
| Restaurants        | 437,450                       | 250,131           | 233,197           |
| Real Estate        | 24,012                        | 11,153            | 7,994             |
| Corporate          | 10,260                        | 2,069             | 6,886             |
| Other              | 62,214                        | 89,840            | 121,207           |
| Total              | <u>\$ 1,727,727</u>           | <u>\$ 883,618</u> | <u>\$ 842,983</u> |

|                    | Additions to long-term assets |                     |                     |
|--------------------|-------------------------------|---------------------|---------------------|
|                    | 2019                          | 2018                | 2017                |
| Retail             | \$ 822,914                    | \$ 1,080,281        | \$ 540,832          |
| Prisa distribution | 34,742                        | 74,878              | 28,754              |
| Restaurants        | 347,601                       | 407,670             | 430,595             |
| Real Estate        | 1,049,227                     | 929,791             | 496,456             |
| Corporate          | -                             | 38,808              | -                   |
| Other              | 10,985                        | 3,969               | 156,773             |
| Total              | <u>\$ 2,265,469</u>           | <u>\$ 2,535,397</u> | <u>\$ 1,653,410</u> |

d. **Geographical information**

The Entity operates in four principal geographical areas, Mexico, Central America, Colombia, the Caribbean and Chile. Until December 2018, it operated in the same way in the Caribbean. 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 |                      |                      |
|-----------------|---------------------------------|----------------------|----------------------|
|                 | 2019                            | 2018                 | 2017                 |
| Mexico          | \$ 26,123,379                   | \$ 26,035,374        | \$ 25,085,997        |
| Chile           | 3,903,244                       | 4,489,478            | 4,302,696            |
| Central America | 1,711,273                       | 1,784,795            | 1,799,779            |
| Colombia        | 707,731                         | 804,455              | 822,124              |
| Caribbean       | -                               | 74,693               | 141,115              |
| Total           | <u>\$ 32,445,627</u>            | <u>\$ 33,188,795</u> | <u>\$ 32,151,711</u> |

|                 | Non-current assets   |                      |                      |
|-----------------|----------------------|----------------------|----------------------|
|                 | 2019                 | 2018                 | 2017                 |
| Mexico          | \$ 35,118,760        | \$ 29,234,200        | \$ 26,932,596        |
| Chile           | 765,476              | 731,127              | 780,156              |
| Central America | 797,262              | 613,445              | 680,420              |
| Colombia        | 124,861              | 141,484              | 163,669              |
| Caribbean       | -                    | 4,897                | 23,180               |
| Total           | <u>\$ 36,806,359</u> | <u>\$ 30,725,153</u> | <u>\$ 28,580,021</u> |

**31. Events after the reporting period**

Beer Factory de México, S.A. de C.V., a subsidiary of Grupo Toks, S.A. de C.V., acquired from certain subsidiaries of Fine & Casual Dining, S.A.P.I. de C.V., an entity controlled by private capital funds administered by Nexxus Capital, S.A.P.I. de C.V., all the assets, including the brand and franchise contract rights of the "El Farolito" taco restaurants. According to the terms agreed in the purchase-sale contract, Beer Factory de México, S.A. de C.V. assumed the operation of the "El Farolito" restaurants on March 4, 2020. Based on this transaction, the assets of 6 units and the rights derived from the franchises of 5 units were acquired. The transaction of \$150,000 was paid by Beer Factory de México, S.A. de C.V.

On January 28, 2019, Grupo Gigante, S.A.B. de C.V. contracted a credit line of \$1,000,000 (see Note 17 (vi)). On March 27, 2020, Grupo Gigante, S.A.B. de C.V. utilized funds of \$650,000. This loan is guaranteed by the joint and several liability of certain subsidiaries of Grupo Gigante, S.A.B. de C.V. and will pay interest at the Interbank Interest Rate (THIE) plus an applicable margin determined according to the variation of the leverage ratio.

The emergence of the coronavirus (COVID-19) is having a significant effect on the majority of markets and economies in a large number of countries. Certain effects on public health conditions, which are specific to COVID-19, could affect the operation of the entities. The scope of this impact on the Entity's financial performance will largely depend on the evolution and spread of COVID-19 in the coming months, as well as the reaction and adaptation capacity of all the economic agents affected by future events, including among others: (i) the duration and spread of the outbreak; (ii) the restrictions and recommendations issued by Health and Government Organizations; (iii) the effects on financial markets, and (iv) in general terms, the effects arising for the domestic and international economy, which are currently highly uncertain and cannot be predicted. In recent days, this contingency has reduced the average traffic in some of our subsidiaries' units and has even resulted in the temporary closure of other units. Our primary focus and attention are centered on the health and safety of our subsidiaries' employees and customers.

Accordingly, given a) the uncertainty surrounding the evolution of COVID-19 in the coming months, and b) the impossibility of determining the effect of this evolution on the Entity's financial performance, elements that will be continually monitored by the latter, we have implemented and will continue to implement a series of preventive measures in all action areas to offset the contingency, including, among others, financing decisions and the strengthening of the Entity's cash position, while making substantial savings, renegotiating contracts and suspending or canceling any projects that are not "indispensable".

### **32. Authorization to issue the Consolidated Financial Statements**

On March 31, 2020, 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.

# INVESTOR INFORMATION



**GIGANTE**



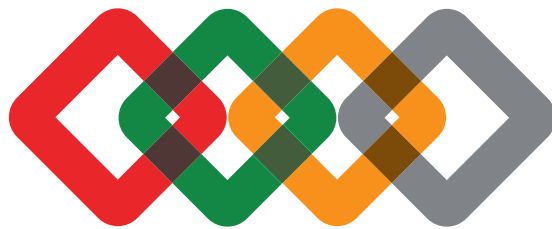
**EMPRESA  
SOCIALMENTE  
RESPONSABLE**

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