# EXTERNAL AUDIT

This material references Disclosure 102-56 of GRI 102: General Disclosures 2016

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

Consolidated Financial Statements for the Years Ended December 31, 2020 and 2019, and Independent Auditors' Report Dated March 16, 2021

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

## Independent Auditors' Report and Consolidated Financial Statements for 2020 and 2019

Table of Contents | Page

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

### Opinion

We have audited the consolidated financial statements of Grupo Comercial Chedraui, S. A. B. de C. V. and Subsidiaries (the Entity) which include the consolidated statements of financial position as of December 31, 2020 and 2019, the related consolidated statements of profit or loss and other comprehensive income, changes in stockholders' equity and cash flows for the years then ended December 31, 2020 and 2019, as well as the explanatory notes to the consolidated financial statements, which include a summary of the significant accounting policies applied.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as of December 31, 2020 and 2019, as well as their financial performance and their cash flows for the years then ended, in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

### Bases for the opinion

We have performed our audits in conformity with International Auditing Standards (IAS). Our responsibilities under these standards are explained more extensively in the section Auditors' responsibilities in relation to the audit of the consolidated financial statements of our report. We are independent from the Entity in conformity with the Code of Ethics of the International Ethics Standards Board for Accountants (IESBA Code of Ethics) and that issued by the Mexican Institute of Public Accountants (IMCP Code of Ethics), and we have complied with the other ethical responsibilities in conformity with the IESBA Code of Ethics and the IMCP Code of Ethics. We believe that the audit evidence obtained provides a sufficient and adequate basis for our opinion.

### Key audit matters

The key audit matters are those matters which, in our professional judgment, have been most important in our audit of the consolidated financial statements for the current period. These matters have been dealt with in the context of our audit of the consolidated financial statements taken as a whole and in the formation of our opinion on the latter, and we do not issue a separate opinion on these matters. We have determined that the matters described below are the key audit matters which should be communicated in our report.

### Investment properties

To determine the fair value of the investment properties in accordance with International Accounting Standard 40 ("IAS 40"), certain judgments were used by management. There is a risk that the determination of the assumptions used by management to calculate future cash flows may not be reasonable based on current and future foreseeable conditions.

Our audit procedures to cover this risk included the following:

Control and substantive testing over the financial projections that were used to determine the fair value of the investment properties, for which we tested the reasonability of the revenues and expenses used to determine the discounted future cash flows, also, we tested the arithmetical accuracy of the projections, and evaluated the assumptions used by the Entity to determine them, and confirmed, based on our knowledge of the Entity and the audited historical information, that any nonrecurring effect will be normalized so that such effects will not be considered in the financial projections. Additionally, we evaluated the reasonableness of the discount rate used, for which purpose we involved our financial advisory specialists. The results of our audit procedures were reasonable.

Notes 3 and 11 to the consolidated financial statements include the Entity's disclosures regarding investment properties.

### Impairment of long-lived assets

The Entity has identified that the minimum cash generating units are the stores, for which an analysis is performed as required by International Auditing Standard 36 ("IAS 36"), in which the value in use, either using discounted future cash flows or fair value calculations, is calculated to determine if the carrying amount of the assets is impaired. There is a risk that the determination of the assumptions used by management to calculate future cash flows, as well as the appraisal value determined by the independent expert, may not be reasonable based on current and future foreseeable conditions.

Our audit procedures to test the risk in relation to the impairment of long-lived assets included:

Control and substantive testing where we detail tested the projected income and expenses, and based on discounted cash flows; we further verified, based on our knowledge of the Entity and the audited historical information, that any nonrecurring effect will be normalized in the financial projections. We also evaluated the reasonableness of the discount rate used, for which purpose we involved our financial advisory specialists. The results of our audit procedures were reasonable.

### Other Matter

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

### Information other than the Financial Statements and Auditor's Report

Management is responsible for the other information. The other information comprises two documents, the Entity's Annual Report and the information that will be incorporated in the Annual Report which the Entity is required to prepare in accordance with article 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 of the consolidated financial statements does not cover the other information and we do not express any form of security about it.

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 reasonable presentation of the accompanying consolidated financial statements in conformity with the IFRS, and for any internal control that management believes necessary to enable the preparation of the consolidated financial statements free from material misstatement due to fraud or error.

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

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

### Auditor's responsibilities in relation to the audit of the consolidated financial statements

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

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

- Identify and evaluate the risks of material misstatements in the consolidated financial statements, due to fraud or error, by designing and applying audit procedures which respond to these risks, and by obtaining audit evidence which is sufficient and appropriate to provide the basis for our opinion. The risk of not detecting material misstatements resulting from fraud is greater than those resulting from an error, because fraud may involve collusion, forgery, deliberate omissions, intentionally erroneous declarations or the evasion of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtained sufficient and adequate audit evidence related to the financial information of the entities and business activities which comprise the Entity in order to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the entities comprising the Entity. We are the only persons 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. Erick J. Calvillo Rello
March 16, 2021

This material references Disclosure 102-7 and 102-45 of GRI 102: General Disclosures 2016, and 201-1 of GRI 201: Economic Performance 2016

**Grupo Comercial Chedraui, S. A. B. de C. V. and Subsidiaries**

# Consolidated Statements of Financial Position

As of December 31, 2020 and 2019 (In thousands of Mexican pesos)

| Assets | Notes | 2020 | 2019 |
|---|---|---|---|
| **Current asset:** | | | |
| Cash | | $ 5,444,663 | $ 984,044 |
| Accounts and notes receivables – Net | 5 | 1,338,964 | 1,352,940 |
| Recoverable taxes | 6 | 1,990,822 | 2,253,490 |
| Accounts receivables from related parties | 26 | 34,132 | 59,195 |
| Inventories | 8 | 11,986,170 | 13,470,763 |
| Prepayments | | 483,003 | 478,596 |
| **Total current assets** | | **21,277,754** | **18,599,028** |
| **Non-current assets:** | | | |
| Property, equipment and right-of-use assets – Net | 10 | 51,917,399 | 52,183,713 |
| Investment properties | 11 | 9,810,731 | 9,511,675 |
| Investment in associates | | 139,335 | 6,413 |
| Other and intangible assets – Net | 9 | 5,970,254 | 5,372,151 |
| Long-term related parties | 26 | 37,035 | 37,035 |
| Long-term accounts receivable | | 300,000 | 470,863 |
| Derivative financial instruments | | - | 13,417 |
| Deferred income tax asset | 7 | 997,349 | 1,197,648 |
| **Total non-current assets** | 29 | **69,172,103** | **68,792,915** |
| **Total** | | **$ 90,449,857** | **$ 87,391,943** |

The accompanying notes are part of the consolidated financial statements.

| Equity and liabilities | Notes | 2020 | 2019 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Accounts and notes payable to suppliers | 14 | $ 18,450,947 | $ 17,451,230 |
| Factoring Corporativo, S.A. de C.V. – related party | 14 | 1,041,955 | 994,698 |
| Borrowings from financial institutions | 15 | 2,000,000 | 1,206,856 |
| Current portion of long-term liabilities | 15 | 1,161,899 | 560,809 |
| Current portion of obligations related to the right to collection trustor | 20 | - | 75,107 |
| Current portion of lease liabilities | | 602,107 | 560,233 |
| Payable taxes | 17 | 573,411 | 573,983 |
| Derivative financial instruments | | 54,622 | - |
| Accrued expenses and other liabilities | | 3,863,196 | 3,545,641 |
| **Total current liabilities** | | **27,748,137** | **24,968,557** |
| **Non-current liabilities:** | | | |
| Long-term debt | | 6,185,526 | 8,733,073 |
| Employee benefits | 16 | 1,073,138 | 891,639 |
| Collection rights of trust contracts | 18 | - | 314,962 |
| Deferred income tax liability | 20 | 2,607,595 | 2,855,780 |
| Derivative financial instruments | 29 | 253,193 | 34,881 |
| Lease liabilities | 19 | 22,330,604 | 21,761,469 |
| Other liabilities | 17 | 970,210 | 421,252 |
| **Total non-current liabilities** | | **33,420,266** | **35,013,056** |
| **Total liabilities** | | **61,168,403** | **59,981,613** |
| **Stockholders' equity:** | | | |
| Capital stock | 21 | 252,120 | 252,120 |
| Additional paid in capital | 21 | 3,474,014 | 3,498,726 |
| Retained earnings | 23 | 25,577,448 | 23,377,497 |
| Remeasurement of defined benefit obligations | 22 | (242,387) | (184,938) |
| Cumulative translation adjustment | 22 | 438,108 | 465,706 |
| Financial instruments measurement | 22 | (210,376) | (11,257) |
| **Equity attributable to owners of the Entity** | | **29,288,927** | **27,397,854** |
| Non-controlling interest | 24 | (7,473) | 12,476 |
| **Total stockholders' equity** | | **29,281,454** | **27,410,330** |
| **Total** | | **$ 90,449,857** | **$ 87,391,943** |

Grupo Comercial Chedraui, S. A. B. de C. V. and Subsidiaries

# Consolidated Statements of Profit or Loss and Other Comprehensive Income

For the years ended December 31, 2020 and 2019
(In thousands of Mexican pesos)

| | Notes | 2020 | 2019 |
|---|---|---|---|
| **Revenues:** | | | |
| Net sales | | $ 146,287,327 | $ 129,442,594 |
| Cost of sales | | 113,907,525 | 101,490,777 |
| **Gross profit** | | 32,379,802 | 27,951,817 |
| **Operating expenses:** | | | |
| Wages and employee benefits | | 14,113,827 | 11,839,389 |
| Professional services | | 1,406,739 | 1,502,701 |
| Marketing expenses | | 1,147,476 | 1,228,443 |
| Maintenance | | 1,178,089 | 1,026,353 |
| Gas and electricity | | 1,898,159 | 1,902,965 |
| Depreciation and amortization | | 3,854,953 | 3,550,964 |
| Other expenses - net | | 1,847,060 | 1,324,952 |
| **Total operating expenses** | | 25,446,303 | 22,375,767 |
| **Operating profit** | | 6,933,499 | 5,576,050 |
| Interest expense | | (2,306,195) | (2,344,403) |
| Interest income | | 136,066 | 63,122 |
| Exchange (loss) gain – Net | | (9,537) | 55,816 |
| Other financing expenses | | (1,006,283) | (885,465) |
| | | (3,185,949) | (3,110,930) |
| **Profit before tax** | | 3,747,550 | 2,465,120 |
| Income taxes | 29 | 1,073,108 | 928,085 |
| Consolidated profit for the year | | $ 2,674,442 | $ 1,537,035 |
| Owners of the Entity | | $ 2,589,117 | $ 1,566,131 |
| Non-controlling interest | 24 | 85,325 | (29,096) |
| Consolidated profit for the year | | $ 2,674,442 | $ 1,537,035 |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Remeasurement of defined benefit obligations | 22 | $ (57,449) | $ (128,416) |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Cumulative translation adjustment | 22 | (27,598) | (94,883) |
| Financial instruments measurement | 22 | (199,119) | (85,691) |

| | Notas | 2020 | 2019 |
|---|---|---|---|
| Total comprehensive income for the year | | $ 2,390,276 | $ 1,228,045 |
| Owners of the Entity | | $ 2,304,951 | $ 1,257,141 |
| Non-controlling interest | 24 | 85,325 | (29,096) |
| Total consolidated comprehensive income for the year | | $ 2,390,276 | $ 1,228,045 |
| Basic and diluted earnings per share (in pesos) | 25 | $ 2.71 | $ 1.64 |

*** The accompanying notes are part of the consolidated financial statements.**

Grupo Comercial Chedraui, S. A. B. de C. V. and Subsidiaries

# Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2020 and 2019
(In thousands of Mexican pesos)

| | | Stockholder' equity | | | Other items of comprehensive income | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Notes | Capital stock | Additional paid in capital | Retained earnings | Remeasurement of defined benefit obligations | Cumulative translation adjustment | Financial instruments measurement | Non-controlling interest | Total |
| **Balance as of January 1, 2019** | | $ 252,120 | $ 3,545,463 | $ 22,369,278 | $ (56,522) | $ 560,589 | $ 74,434 | $ 81,830 | $ 26,827,192 |
| IFRIC 23 fist time adoption impact | | | | (42,551) | | | | | (42,551) |
| Dividends paid | 23 | | | (392,218) | | | | | (392,218) |
| Comprehensive income for the year | 22 | | | 1,566,131 | (128,416) | (94,883) | (85,691) | (29,096) | 1,228,045 |
| Repurchase of shares | | | | (143,587) | | | | | (143,587) |
| Other | 23 and 24 | | (46,737) | 20,444 | | | | (40,258) | (66,551) |
| **Balance as of December 31, 2019** | | $ 252,120 | $ 3,498,726 | $ 23,377,497 | $ (184,938) | $ 465,706 | $ (11,257) | $ 12,476 | $ 27,410,330 |
| Dividends paid | 23 | | | (427,882) | | | | | (427,882) |
| Comprehensive income for the year | 22 | | | 2,589,117 | (57,449) | (27,598) | (199,119) | 85,325 | 2,390,276 |
| Repurchase of shares | | | | 49,052 | | | | | 49,052 |
| Other | 23 and 24 | | (24,712) | (10,336) | | | | (105,274) | (140,322) |
| **Balance as of December 31, 2020** | | $ 252,120 | $ 3,474,014 | $ 25,577,448 | $ (242,387) | $ 438,108 | $ (210,376) | $ (7,473) | $ 29,281,454 |

*The accompanying notes are part of the consolidated financial statements.

Grupo Comercial Chedraui, S. A. B. de C. V. and Subsidiaries

# Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019
(In thousands of Mexican pesos)

| | 2020 | 2019 |
|---|---|---|
| **Cash flow from operating activities:** | | |
| Profit before income tax | $ 3,747,550 | $ 2,465,120 |
| Adjustments for: | | |
| Depreciation and amortization | 3,798,854 | 3,550,061 |
| Other asset movements – mainly exchange fluctuation | 24,595 | (5,893) |
| Gain on revaluation of investment properties | - | (349) |
| Loss(gain) on disposal of property and equipment | 20,660 | (65,941) |
| Interest income | (136,069) | (63,122) |
| Measurement of derivative financial instruments | 87,231 | 30,666 |
| Interest expense | 2,306,196 | 2,344,403 |
| | **9,849,017** | **8,254,945** |
| Movements in working capital: | | |
| Accounts and notes receivables – Net | 74,818 | (262,065) |
| Inventories | 1,619,576 | (698,944) |
| Other assets – Net | 38,907 | (119,010) |
| Increase (decrease) in: | | |
| Accounts and notes payable to suppliers | 923,655 | (252,063) |
| Other account payables and taxes | (293,129) | (1,524,926) |
| Changes in benefit obligations | 104,707 | 156,217 |
| **Net cash generated by operating activities** | **12,317,551** | **5,554,154** |
| **Investing activities:** | | |
| Business acquisition | (22,500) | - |
| Acquisitions of property, equipment and investment property | (2,348,427) | (3,789,803) |
| Proceeds from disposal of property and equipment | 10,762 | 1,039,461 |
| Acquisition of other assets | (179,016) | (159,261) |
| Dividends received | 2,078 | 1,657 |
| Acquisition of shares in associate | (135,000) | - |
| Interest received | 136,069 | 63,122 |
| **Net cash used in investing activities** | **(2,536,034)** | **(2,844,824)** |

| | 2020 | 2019 |
|---|---|---|
| **Financing activities:** | | |
| Repayment of loans | $ (3,493,783) | $ (580,016) |
| Proceeds on issuances of loans | 2,000,000 | 1,206,855 |
| Interest payment | (2,306,195) | (2,344,403) |
| Dividends paid | (427,882) | (392,218) |
| Leases liability payment | (564,555) | (659,112) |
| Other movements in equity | (140,324) | (66,551) |
| Payment of obligations related to the right of trust contract collection | (390,069) | (99,911) |
| Proceeds from sale of treasury shares | 269,002 | 243,363 |
| Repurchase of treasury shares | (219,950) | (386,950) |
| **Net cash used in investing activities** | **(5,273,756)** | **(3,078,943)** |
| Net increase in cash | 4,507,761 | (369,613) |
| Effects of exchange rate changes on the balances of cash held in foreign currencies | (47,142) | 102,087 |
| Cash at the beginning of the year | 984,044 | 1,251,570 |
| **Efectivo al final del período (*)** | **$ 5,444,663** | **$ 984,044** |

(*) Includes current restricted cash of $106,155 as of December 31, 2019.

The accompanying notes are part of the consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019
(In thousands of Mexican pesos)

## 1. Activities

Grupo Comercial Chedraui, S. A. B. de C. V. and Subsidiaries (the Entity or the Group) are engaged in the operation of self-service stores and real estate companies; they specialize in the sale of electronic goods, perishables, clothing, groceries and general merchandise.

The Entity is incorporated in Mexico; its domicile is located at Constituyentes No. 1150, Col. Lomas Altas, Miguel Hidalgo, 11950 Mexico City, and conducts its business primarily in Mexico and the United States of America (USA).

The financial statements are presented in thousands of pesos and are rounded to the nearest monetary unit.

## 2. Adoption of new and revised International Financial Reporting Standards

***Application of new and revised International Financing Reporting Standards ("IFRS" or "IAS") that are mandatorily effective for the current year***

In the current year, the Entity has applied a number of amendments to IFRS issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2020.

***Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39 and IFRS 7.***

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The amendments are relevant to the Entity given that it applies hedge accounting to its benchmark interest rate exposures. The application of the amendments impacts the Entitiy's accounting in the following ways:

- The Entity will retain the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Entity consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9.

***Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16***

In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

a. The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b. Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

c. There is no substantive change to other terms and conditions of the lease

In the current financial year, the Entity has not applied the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date. The impact on accounting for changes in lease payments applying the exemption were not material in the rights of use and lease obligations.

***Impact of the initial application of other new and amended IFRS Standards that are effective for the current year***

In the current year, the Entity has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

| | |
|---|---|
| Amendments to References to the Conceptual Framework in IFRS Standards | The Entity has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. 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 IASC 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.<br><br>The Standards which are amended are 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 |
| Amendments to IFRS 3 Definition of a business | The Entity has adopted the amendments to IFRS 3 for the first time in the current year. 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.<br><br>The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance 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 1 January 2020. |
| Amendments to IAS 1 and IAS 8 Definition of material | The Entity has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments 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.<br><br>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. |

## New and revised IFRS Standards issued but not yet effective

At the date of authorization 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) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current |
| Amendments to IFRS 3 | Reference to the Conceptual Framework |
| Amendments to IAS 16 | Property, Plant and Equipment—Proceeds before Intended Use |
| Amendments to IAS 37 | Onerous Contracts – Cost of Fulfilling a Contract |
| Annual Improvements to IFRS Standards 2018-2020 | Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture |

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Entity in future periods.

### Annual Improvements to IFRS Standards 2018–2020

The Annual Improvements include amendments to four Standards

IFRS 9 Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the Entity first applies the amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements.

As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

The amendments are applied prospectively, for example, the fair value measurement on or after the initial date of application of the amendments applied to the Entity.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

## 3. Significant accounting polices

### a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards released by IASB.

### b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for investment property and 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 considers the characteristics of the asset or liability if market participants would consider 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 IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2, *Inventories* or value in use in IAS 36, *Impairment of assets.*

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

- Level 1. inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement 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 inputs are unobservable inputs for the asset or liability
- Level 3. inputs are not based on observable market data (unobservable inputs).

### Going concern basis

The consolidated financial statements have been prepared by management assuming that the Entity will continue operating as a going concern.

During the first months of 2020, the COVID-19 disease appeared, which was declared by the World Health Organization (WHO) as a Global Pandemic on March 11, 2020, its recent global expansion has motivated a series of measures of containment in the different geographies where the Entity operates and certain sanitary measures have been taken both by the Mexican and the USA authorities aimed to contain the spread of this virus. In connection with the uncertainty and duration of this pandemic, the Entity analyzed the applicability of the going concern assumption, concluding that there is not a significant doubt that the Entity will continue operating as a going concern for at least the next 12 months.

The retail segment is considered essential activity and therefore its operation has not been affected. Revenues in the retail segment increased 13% compared to the previous year; this growth was driven by higher demand, a consequence of the current context of COVID-19, along with a successful commercial strategy.

In the real estate segment, a total of 10,317 square meters of leasable area were incorporated; however, revenues decreased by 18.7%, compared to the previous year, due to temporary discounts negotiated with tenants during the year due to the context of COVID-19. As of December, 31, 2020, the real estate segment presents accounts receivable for $43,421, net of its impairment reserve.

The increase in total revenues resulted in a better financial position of the Entity, which allowed pre-payment of bank loans. See note 16 and the recovery of the real estate receivables for the settlement of the obligations under the collection trust. See note 20

## c. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Entity and entities (including structured entities) controlled by the Entity and its subsidiaries. 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.

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

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

Non-controlling interests in subsidiaries are identified separately from the Entity's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquirer's identifiable net assets. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Total comprehensive income is attributed to non-controlling interest even if this results in the non-controlling interests having a deficit balance.

### *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.

Subsidiaries listed below are companies incorporated and operating in Mexico, except for Bodega Latina Co., which has its registered and operations in the United States of America (USA).

The shareholding in its capital during presented periods for which country of incorporation and operations is Mexico is listed below:

| Company or Group | Participation rate | Activity |
|---|---|---|
| Tiendas Chedraui, S. A. de C. V. | 99.88% | A chain of 321 self-service stores specializing in the sale of groceries, perishables, electronic goods, clothing and general merchandise. These stores operate under the followings types of stores: 182 Tiendas Chedraui, 20 Tiendas Chedraui Selecto, 59 Super Chedraui, 5 Super Chedraui Selecto, 11 Super Che and 44 Supercito. |
| Real estate division | 99.99% | Five companies engaged in the acquisition, construction, sale and lease of real property used for real estate activities. |
| Services division | 99.99% | Nine companies providing administrative and personnel services |
| Bodega Latina Co. | 89.99% | A chain of self-service stores with 64 units located in the southern of the USA and that operate under the commercial name El Super, and 59 units located in Texas (USA) that operate under the commercial name Fiesta. |
| Grupo Crucero Chedraui, S. A. de C. V. | 99.99% | Sub-holding company. |
| Fundación Antonio Chedraui Caram, A.C. and Liceo de Artes y Oficios, A. C. | - | A foundation whereby the Entity has control and is established to help create institutes, scholarships and support the humanistic, scientific, educational, art and teaching activities related to health and social assistance. |
| Supervisión y Mantenimiento de Inmuebles, S.A. de C.V. (see Note 4a) | - | A company over which the Entity exercises control, which establishes the maintenance of the commercial squares. |

**d. Detail of the subsidiaries not completely owned but whereby the Entity has a significant non-controlling interest**

| Name of the subsidiary | Place of registration and operation | Proportion of shareholding and voting rights of the non-controlling interest | | Assigned income to the non-controlling interest | | Retained non-controlling interest | |
|---|---|---|---|---|---|---|---|
| | | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Bodega Latina Co. | USA | 10.01% | 10.02% | $ 80,903 | $ (34,478) | $ (66,007) | $ (26,980) |

(i) The Entity owns 89.99% of the equity of Bodega Latina Co. and based on the contractual arrangements between the Entity and other investors, the Entity has the power to appoint and remove a majority of the Board of Bodega Latina Co. the relevant activities of Bodega Latina Co. are determined by the Board of Bodega Latina Co. based on a simple majority vote. Therefore, Bodega Latina Co. is controlled by the Entity and is consolidated into these consolidated financial statements.

A summary of the Bodega Latina Co.'s financial information before intercompany eliminations is detailed below:

| | 2020 | 2019 |
|---|---|---|
| Current assets | $ 4,002,421 | $ 3,623,908 |
| Non-current assets | 21,784,099 | 21,255,895 |
| Current liabilities | 5,227,625 | 4,346,937 |
| Non-current liabilities | 21,218,296 | 20,802,125 |
| Equity attributable to owners of the Entity | (593,394) | (242,279) |
| Non-controlling interest | (66,007) | (26,979) |
| Incomes | 62,899,320 | 51,303,822 |
| Cost, expenses and taxes | 62,091,102 | 51,647,912 |
| Net income (loss) of the year | 808,217 | (344,090) |
| Net income (loss) profit of the year to owners of the equity of the Entity | 727,314 | (309,613) |
| Net income (loss) profit of the year to non-controlling interest | 80,903 | (34,477) |
| Net income (loss) of the year | 808,217 | (344,090) |
| Net cash flow from operating activities | 3,056,908 | 852,810 |
| Net cash flow from investing activities | 753,646 | 883,784 |
| Net cash flows from financing activities | (3,495,556) | (1,372,868) |
| Net increase in cash flow | 314,998 | 363,725 |

## e. Financial instruments

Financial assets and financial liabilities are recognized 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 recognized immediately in profit or loss.

## f. 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 (FVTOCI):

- 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 (FVTPL).

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 (iii) below); and
- The Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) 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 FVTOCI. 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" line item.

*ii. Equity instruments designated as at FVTOCI*

On initial recognition, the Entity may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI 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 FVTOCI 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' line item in profit or loss.

The Entity has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9.

iii. Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Entity designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (iii) above).
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria (see (i) and (ii) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL 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 FVTPL.

Financial assets at FVTPL 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 21.

*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 FVTOCI 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 FVTPL 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 FVTOCI, exchange differences are recognized in other comprehensive income in the investments revaluation reserve.

See hedge accounting policy regarding the recognition of exchange differences where the foreign currency risk component of a financial asset is designated as a hedging instrument for a hedge of foreign currency risk.

*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 FVTOCI, 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 ECL 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 ECL 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 ECL.

Lifetime ECL 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 ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

iv. *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 considered 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:

I. The financial instrument has a low risk of default,

II. The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

III. 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.

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.

v. *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 considering 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.

vi. *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.

vii. *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, considering legal advice where appropriate. Any recoveries made are recognized in profit or loss.

viii. *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 IFRS 16 Leases.

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 FVTOCI, 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 FVTOCI, 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 FVTOCI, 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.

## g. Financial liabilities and equity

*Classification as debt or equity*

Debt and equity instruments are classified either as 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.

### Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Entity, are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of an Entity of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship (see Hedge accounting policy). The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item (Note 21) in profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Entity that are designated by the Entity as at FVTPL are recognized in profit or loss.

Fair value is determined in the manner described in note 19.

*Financial liabilities measured subsequently at amortized cost*

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently 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 amortized cost of a financial liability.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss (note 22) for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognized in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

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

When the Entity exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Entity accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

## h. 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, options and interest rate swaps. Further details of derivative financial instruments are disclosed in notes 7.

Derivatives are recognized initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. 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. Derivatives are not offset in the financial statements unless the Entity has both legal right and intention to offset.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realized or settled within 12 months.

## i. Hedge accounting

The Entity designates certain derivatives as hedging instruments in respect of interest rate risk in fair value hedges, cash flow hedges.

At the inception of the hedge relationship, the Entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Entity documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Entity actually hedges and the quantity of the hedging instrument that the Entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Entity adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Entity designates the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

Note 19 sets out details of the fair values of the derivative instruments used for hedging purposes.

Movements in the hedging reserve in equity are detailed in note 22.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Entity expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Entity discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognized in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

## j. Inventories and cost of goods sold

Inventories are stated at the lower of cost and net realizable value. Costs, including an appropriate portion of indirect fixed and variable costs are assigned to inventories by using the method most applicable to the inventory in question, which is valued at its 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. Property, equipment and right-of-use

Property and equipment are initially recorded at cost.

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. After the adoption of IFRS 1, the buildings are valued at historical cost and depreciated on a straight line.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized to write off the cost or valuation of assets (other than freehold land and properties under construction) 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 estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Right-of-use assets are depreciated over the shorter period of the lease term and the 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.

## l. Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

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

## m. 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. Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and separately recognized from goodwill, its initial cost will be 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.

3. 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, are recognized in profit or loss when the asset is derecognized.

## n. Impairment 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 (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) 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 (see Note 13).

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

## o. Goodwill

Goodwill originated from a business acquisition is recognized at cost determined at the business acquisition date (see Note 12) 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 groups 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 an 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. An impairment loss recognized for goodwill is not reversed in subsequent periods.

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

## p. Investment in associates

An associate is an entity 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.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, 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. When necessary, the entire carrying amount of the investment including goodwill is tested for impairment in accordance with IAS 36, as a single asset by comparing its recoverable 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. When the Entity retains an interest in the former associate or a 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 a 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 a 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 on the same basis as would be required if that associate 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 associate or joint venture is disposed of.

The Entity continues using 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 revaluation at fair value on these changes in the participation.

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 an 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 Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Entity.

The Entity applies IFRS 9, including the impairment requirements, to long-term interests in an associate or joint venture to which the equity method is not applied and which form part of the net investment in the investee. Furthermore, in applying IFRS 9 to long-term interests, the Entity does not take into account adjustments to their carrying amount required by IAS 28.

## q. 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.

The non-controlling interests that are shareholdings and that grant their holders a proportional share of the Entity's net assets in the event of liquidation, can be measured initially at either fair value or at the value of the proportional participation of the non-controlling interest. In the recognized amounts of the net identifiable assets of the acquired company. The base measurement option is performed in each transaction. Other types of non-controlling interests are measured at fair value or, when applicable, based on what is specified by another IFRS.

When a business combination is achieved in stages, the Entity's 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.

## r. Leasing

- The Entity as lessee

The Entity assesses whether a contract is or contains a lease, at inception of the contract. The Entity recognizes 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 recognizes 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 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 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 recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other expenses" in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Entity has not used this practical expedient.

- The Entity as 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 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 added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

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

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

### s. Foreign currencies

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 when they arise from exchange rate differences arising from transactions related to exchange rate risks.

For the purposes of presenting these 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.

The adjustments corresponding to the goodwill and the fair value of identifiable acquired assets and assumed liabilities generated in the acquisition of an operation abroad are considered as assets and liabilities of said operation and are converted at the exchange rate in effect at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income.

### t. Conversion of financial statements of subsidiaries in foreign currency

In preparing the financial statements of each individual group 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.

For the purposes of presenting these 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 (and attributed to non-controlling interests as appropriate).

### u. Borrowing cost

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 are recognized in profit or loss in the period in which they are incurred.

### v. Employee benefits

Retirement benefits costs from termination benefits

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, and
- Remeasurement.

The Entity presents the first two components of defined benefit costs in profit or loss in the line item. 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 employee benefits and others long-term 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 Entity 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 in the consolidated statement of profit or loss and other comprehensive income.

As established by the Income Tax Law ("LISR"), as of December 31, 2020 and 2019, PTU is determined based on taxable income, according to the established legislation.

### w. Income taxes

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

1. 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.

2. 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 Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, the Entity has recognized any deferred taxes on changes in fair value of the investment properties.

3. Current and deferred tax

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.

## x. Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and 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, considering account the risks and uncertainties surrounding 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 cash value over time 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.

## y. Revenue recognition

The entity recognizes income from the following sources:

- Sales of goods and dividend income.
- income from the rental of premises.

- Sales of goods

The Entity sells clothes, general merchandise, electronic goods, groceries and perishable foods, mainly as retail sales and directly with customers through its points of sale.

Revenues are recognized when the benefits and risks of the goods have been transferred to the buyer. The buyer has the right to return the goods within 15 days after the sale. The Entity uses its historical experience to estimate the number of products returned to a portfolio level using an expected value method. It is considered highly probable that there will not be a significant reversal in the accumulated income recognized, consequently, a provision for refunds is not recognized
.

- Loyalty programs

The Entity operates the 'Monedero Chedraui' and 'Cupones Chedraui' loyalty programs through which customers accumulate benefits in goods purchases or receive discount coupons, which provides them with a discount on future purchases. These points provide a discount to customers, which they would not receive if they did not buy the goods sold by the entity (they have a material right). The promise to give customers a discount is a separate performance obligation

The selling prices for points are valued, based on the discounts granted when the benefits are exchanged by the client, considering the probability of redemption, being evidence of this, the historical experience of the Entity. A liability is recognized by income related to the loyalty program at the point of the initial sale. The loyalty program income is recognized when the client exchanges the benefits. The liabilities generated by the loyalty program are determined at fair value in proportion to the pattern of rights exercised by customers. As of December 31, 2020 and 2019, a balance of $350,515 and $294,496, respectively, is included in the balance sheet in creditors and accumulated expenses.

## 4. Critical accounting judgments and key sources of estimation uncertainty

When applying the Entity's accounting policies, as described in Note 3, the Entity's management must utilize its judgment, estimates and assumptions regarding the book values of assets and liabilities in the consolidated financial statements. The estimates and relative assumptions are based on experience and other factors that are considered relevant, the context of the COVID-19 pandemic has a short-term impact, the estimates are long-term, so the main impact is on the financial inputs that capture the uncertainty of the current moment. Actual results could differ from these estimates.

Underlying estimates and assumptions are periodically reviewed. Accounting estimate reviews are recognized in the review period and future periods if they affect current and future periods.

**a. Essential judgments when applying accounting policies**

Below we present essential judgments, apart from those involving estimates, made by management during the application of the Entity's accounting policies and, which have a significant effect on the consolidated financial statements.

- The defined benefit obligation of the Entity is discounted at a rate set at market rates of high-quality corporate bonds at the end of the reporting period. Are required to use professional judgment in establishing criteria for the bonuses it must include on the population from which the yield curve is derived. The most important criteria considered for the selection of bonds include the size of the issuance of corporate bonds; the classification and identification of atypical bonds are excluded.

- The calculation of the value in use to perform the impairment tests requires the Entity's base on its judgments to determine the future cash flows that should arise from the cash generating units and an appropriate discount rate to calculate the present value. Goodwill is assigned to each of the Entity's cash generating units which expects to obtain benefits from the synergies of this combination.

**Control over Supervisión y Mantenimiento S.A. de C.V and Liceo de Artes y Oficios A.C.**

Based on the contractual agreements between the Entity and other investors, the Entity has the power to appoint and remove the majority of the members of the Board of Directors of Supervisión y Mantenimiento S.A. de C.V and Liceo de Artes y Oficios A.C., which has the power to direct its relevant activities. Therefore, as of December 31, 2019, the Entity's management concluded that the Entity has the capacity to direct the relevant activities unilaterally and therefore has control over these entities.

**b. Key sources of estimation uncertainty**

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

***Estimation of useful life***

The Entity reviews the estimate of the useful life, residual value and amortization method for its fixed assets at the end of each reporting period and the effect of any change in the estimate is recognized prospectively. Furthermore, at the end of each reporting period the Entity reviews the book values of its tangible and intangible assets to determine whether there is any indication that they have suffered a loss from impairment.

***Fair value of investment properties***

The Entity reviews the fair value of the investment properties based on future cash flows, applying an appropriate discount rate. At the end of each period, if applicable, it makes the respective adjustments in results for the year.

***Fair value measurements and valuation processes***

In estimating the fair value of an asset or a liability, the Entity uses observable market data to the extent they are available. When the input data of level 1 are not available, the Entity hires qualified professional to perform independent valuation appraiser.

***Assessment as to whether the right-of-use assets is impaired***

When estimating the amount of the lease liability, the Entity uses estimates such as discount rates and the exercise of contract extension periods. These estimates have a significant impact in determining the values of these liabilities and assets.

| | 2020 | 2019 |
|---|---|---|
| Costumers | $ 463,963 | $ 686,647 |
| Allowance for doubtful accounts | (62,591) | (30,537) |
| | **401,372** | **656,110** |
| Sundry debtors | 914,421 | 649,975 |
| Advance payments | 3,222 | 27,076 |
| Notes receivable | 19,949 | 19,779 |
| | $ **1,338,964** | $ **1,352,940** |

## 5. Accounts and note receivable – Net

**a. Accounts receivable from customers**

The customer balances disclosed in the table above are classified as accounts receivable and therefore are valued at amortized cost, which is similar to their book value. 99% of the retail sales are made in cash and during 2019, the real estate portfolio was assigned to the collection trust (see Note 20). As of December 31, 2020, the accounts receivable related to the real estate segment increased due to the context of COVID-19, closing with a net balance of $44,290.

The accounts receivable from customers detailed in this Note included the amounts overdue at the end of the reporting period (see aging analysis below) for which the Entity has recognized an allowance for doubtful accounts because it is highly likely that customers will default on their payments. This provision is recorded following its determination, while the reserve amount is updated at least on every reporting date. The additional disclosures required by IFRS 7, "Presentation of financial instruments", for estimating the allowance for doubtful accounts have not been included, as they are considered immaterial.

The accounts receivable aging past due but not fully included in the reserve is as follows:

| | 2020 | 2019 |
|---|---|---|
| Up to 30 days | $ 17,266 | $ 5,647 |
| 31 – 60 days | 8,736 | 2,214 |
| 61 – 90 days | 6,131 | 146,839 |
| More than 90 days | 29,929 | 5,728 |
| **Total** | $ **62,062** | $ **160,428** |

The reserve of uncollectible accounts as of December 31 is integrated as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance at the beginning of the year | $ (30,537) | $ (26,958) |
| Reserve increases | (40,709) | (8,401) |
| Reservation application | 8,655 | 4,822 |
| **Balance at the end of the year** | $ **(62,591)** | $ **(30,537)** |

## 6. Recoverable taxes

| | 2020 | 2019 |
|---|---|---|
| Income tax | $ 247,634 | $ 373,160 |
| Tax credits, mainly value added tax (VAT) | 1,209,609 | 1,350,718 |
| Recoverable tax (employment subsidy) | 1,313 | 1,725 |
| Recoverable tax for production and services (IEPS) | 532,266 | 527,887 |
| **Total** | $ **1,990,822** | $ **2,253,490** |

## 7. Derivative financial instruments

The Entity has contracted derivatives to manage the loan interest rate risk, while also controlling the movement of the debt from fixed to variable rates and vice versa.

At the end of 2020, there is one swap to fix the Inter bank interest rate ("TIIE") rate due on November 2022 with a notional of $500,000 and a fixed rate of 6.31% that covers a long-term loan contracted by the Entity.

In October 2017, it was contracted a swap to fix the TIIE rate and cover long-term loans that were held at that date, with a variable rate; the first is a Swap with a notional amount of $1,004,000 due on November 12, 2022 and a fixed rate of 7.15%. The second is a Swap with a notional amount of $345,833, due on November 2027 and a fixed rate of 7.169%.

Finally, during the month of April 2020, a Swap with a notional of $250 million dollars, was contracted, with a maturity date of October 31, 2021 and a fixed rate of 1.42%, this derivative covers a credit for the same amount as the notional.

The Entity obtains financing under different conditions, when they are floating rate, in order to reduce their exposure to risks of volatility in interest rates and foreign currency, the entity contracts financial derivatives instruments to interest rate that convert the profile interest payments from variable to fixed converting the foreign currency debt into local currency rate. The negotiations with derivatives are conducted only with institutions of recognized solvency and limits have been established for each institution. The policy or the Entity is to not trade for speculative purposes with derivative financial instruments.

In case of any of its subsidiaries does not have necessary conditions to be able to contract a derivative that mitigates an exchange rate or interest risk rate, will be Grupo Comercial Chedraui, S. A. B. de C. V. who will contract it.

The Entity recognizes all the assets or liabilities that arise from operations with derivative financial instruments in the balance sheet at fair value, regardless of the purpose of their holding. The fair value is determined based on recognized market prices and when they are not listed on a market, it is determined according to valuation techniques accepted in the financial field.

When derivatives are contracted in order to hedge risks and comply with all hedging requirements, their designation is documented at the beginning of the hedging operation, describing the objective, characteristics, accounting recognition and how the measurement of the effectiveness, applicable to that operation.

Derivatives designated as hedges recognize changes in valuation according to the type of hedge in question: (1) when they are at fair value, fluctuations in both the derivative and the hedged item are valued at fair value and are recognized in profit or loss; (2) the present value of the cash flow is recognized in comprehensive income and is applied to results when the hedged item affects them; the ineffective portion is recognized in results;

The Entity suspends hedge accounting when the derivative has expired, has been sold, is canceled or exercised, when the derivative is not highly effective to offset changes in the fair value or cash flows of the hedged item or when the derivative entity decides to cancel the coverage designation.

By suspending hedge accounting, in the case of cash flow hedges, the amounts that have been recorded in stockholders' equity as part of comprehensive income, remain in the capital until the time when the effects of the forecasted transaction or firm commitment affect the results. In the event that the firm commitment or forecast transaction is no longer likely to occur, the gains or losses that were accumulated in the comprehensive income account are immediately recognized in results. When the coverage of a forecasted transaction was satisfactory and subsequently does not meet the effectiveness test, the accumulated effects on comprehensive income in stockholders' equity are carried proportionally to the results, to the extent that the forecasted asset or liability affect the results.

## 8. Inventories

| | 2020 | 2019 |
|---|---|---|
| Finished goods | $ 11,575,735 | $ 13,065,117 |
| Raw materials | 286,051 | 301,326 |
| Productions in process | 16,839 | 17,917 |
| Others | 107,545 | 86,403 |
| | $ 11,986,170 | $ 13,470,763 |

## 9. Other and intangible assets - Net

| | 2020 | 2019 |
|---|---|---|
| Guarantee deposits | $ 489,934 | $ 499,957 |
| Goodwill (1) – Note 13 | 2,310,527 | 2,184,948 |
| Other long-terms receivables | 5,693 | 11,397 |
| Advances for acquisition of property and equipment (2) | 747,828 | 54,239 |
| Other non-current assets, mainly prepaid expenses | 79,914 | 341,928 |
| **Other assets** | **3,633,896** | **3,092,469** |
| Intangibles: | | |
| Software and licenses | 2,194,813 | 2,009,027 |
| Accumulated software and licenses amortization | (1,807,442) | (1,570,520) |
| | 387,371 | 438,507 |
| Fiesta Mart trademark | 1,948,987 | 1,841,175 |
| **Total other and intangible assets – Net** | **5,970,254** | **5,372,151** |

(1) Represents the excess of the price paid for the market value of the assets and assumed liabilities of 29 stores located in southern Los Angeles California, and 3 stores located in Baja California Sur, Mexico, and 61 store located in Texas, so they have been considered as an asset intangible. Goodwill is subject to impairment testing at least annually.

(2) Advance for the purchase of property under construction from Puerta Aragón, S.A. de C.V. for $694,356. As of December 31, 2020, the entity holds an investment in shares on this associate for $135,000.

| | 2020 | 2019 |
|---|---|---|
| Cash generating units to which goodwill is assigned: | | |
| 29 stores in the south of Angeles USA | $ 975,984 | $ 921,996 |
| 61 stores in Texas USA | 1,108,227 | 1,046,926 |
| 3 stores in Baja California Sur Mexico | 216,026 | 216,026 |
| 5 stores in the center of Mexico | 10,290 | - |
| **Total** | **$ 2,310,527** | **$ 2,184,948** |
| The reconciliation of intangibles is as follows: | | |
| Cost: | | |
| Balance at beginning of January | $ 2,009,027 | $ 1,856,432 |
| Disposals | - | - |
| Acquisitions | (543) | (610) |
| Foreign currency | 179,017 | 159,261 |
| translation effect | 7,312 | (6,056) |
| **Balance as of December:** | **$ 2,194,813** | **$ 2,009,027** |
| Amortization: | | |
| Balance at beginning of January | (1,570,520) | (1,385,985) |
| Amortization cost | (237,011) | (185,139) |
| Disposals | 89 | 604 |
| **Balance as of December:** | **$ (1,807,442)** | **$ (1,570,520)** |
| **Intangible – Net** | **$ 387,371** | **$ 438,507** |

## 10. Property and equipment - Net

a. The reconciliation of property and equipment is as follows:

| Cost | Building | Store equipment | Furniture and fixtures | Vehicles | Construction in process | Land | Total |
|---|---|---|---|---|---|---|---|
| Balance as of January 1, 2019 | $ 25,932,904 | $ 12,957,235 | $ 2,382,037 | $ 502,553 | $ 847,931 | $ 6,278,769 | $ 48,901,429 |
| Incorporation of companies by control | - | 2,917 | 6,648 | 363 | - | - | 9,928 |
| Acquisitions | 1,040,396 | 1,247,888 | 137,269 | 49,728 | 1,156,771 | 99,813 | 3,731,865 |
| Net effect of foreign currency exchange differences | (71,087) | (113,627) | (4,142) | (1,277) | (378) | - | (190,511) |
| Business acquisition | - | - | - | - | - | - | - |
| Disposals | (391,371) | (173,819) | (192,481) | (304,821) | (1,916) | (74,702) | (1,139,110) |
| Transfers | (132,555) | 399,605 | 12,059 | 509 | (795,742) | (220,264) | (736,388) |
| Balances as of December 31, 2019 | 26,378,287 | 14,320,199 | 2,341,390 | 247,055 | 1,206,666 | 6,083,616 | 50,577,213 |
| Acquisitions | 758,678 | 922,706 | 162,216 | 10,129 | 481,789 | 12,909 | 2,348,427 |
| Net effect of foreign currency exchange differences | 93,774 | 129,913 | 4,765 | 1,077 | 631 | - | 230,160 |
| Business acquisition | - | 31,554 | - | - | - | - | 31,554 |
| Disposals | (30,642) | (436,047) | (268,872) | (30,424) | (4,181) | - | (770,166) |
| Transfers | 195,670 | 126,845 | 17,749 | 32,122 | (694,713) | 23,273 | (299,054) |
| Balances as of December 31, 2020 | $ 27,395,767 | $ 15,095,170 | $2,257,248 | $ 259,959 | $ 990,192 | $ 6,119,798 | $ 52,118,134 |

| Depreciation | Building | Store equipment | Furniture and fixtures | Vehicles | Construction in process | Land | Total |
|---|---|---|---|---|---|---|---|
| Balance as of January 1, 2019 | (6,614,324) | (6,697,687) | (1,982,310) | (178,062) | - | - | (15,472,383) |
| Incorporation of companies by control | - | (1,865) | (5,613) | (362) | - | - | (7,840) |
| Depreciation expenses | (686,946) | (1,369,562) | (174,814) | (28,116) | - | - | (2,259,438) |
| Transfers | - | 474 | (474) | - | - | - | - |
| Disposals | (193,674) | 104,128 | 188,327 | 29,025 | - | - | 127,806 |
| Balances as of December 31, 2019 | (7,494,944) | (7,964,512) | (1,974,884) | (177,515) | - | - | (17,611,855) |
| Depreciation expenses | (774,736) | (1,451,578) | (180,209) | (26,470) | - | - | (2,432,993) |
| Transfers | (2,882) | 2,150 | 737 | (5) | - | - | - |
| Disposals | 44,313 | 412,538 | 266,833 | 15,056 | - | - | 738,740 |
| Balances as of December 31, 2020 | (8,228,249) | (9,001,402) | (1,887,523) | (188,934) | - | - | (19,306,108) |
| Total as of December 31, 2019 | 18,883,343 | 6,355,687 | 366,506 | 69,540 | 1,206,666 | 6,083,616 | 32,965,358 |
| Total as of December 31, 2020 | $ 19,167,518 | $ 6,093,768 | $ 369,725 | $ 71,025 | $ 990,192 | $ 6,119,798 | $ 32,812,026 |

b. The Entity leases various assets, including buildings and computer equipment. The average lease term is as follows:

| Leased assets | Average lease term 2020 | Average lease term 2019 |
|---|---|---|
| Vehicles | 3 years | 3 years |
| Buildings | 25 years | 30 years |
| Airplane | 10 years | 10 years |
| Computer equipment | 5 years | 5 years |

The Entity has the option to purchase certain equipment for a nominal amount at the end of the lease period. The Entity's obligations are covered by the title to the assets leased that is maintained by the lessor.

The expired contracts were replaced by new leases with identical underlying assets. This resulted in the addition of rights-of-use assets of $1,390 and $54,674 in 2020 and 2019, respectively.
The analysis of the maturity of the lease liabilities is presented in note 17.

c. **The following useful lives are used in the calculation of depreciation:**

| | Years |
|---|---|
| Buildings [3] | 60 |
| Improvements to lease properties | 30 in average |
| Store equipment | 12 in average |
| Furniture and fixtures | 10 |
| Computer equipment [1] | 3 |
| Vehicles | 4 |
| Airplane [2] | 15 |

[1] Presented within the furniture and fixtures heading
[2] Presented within the vehicles heading
[3] Improvements to leased properties are included in buildings and are amortized using the short of the life of the asset and the lease term.

d. **The reconciliation of rights-of-use is as follows:**

| Gross right-of-use assets | Building | Store equipment | Vehicles | Airplane | Computer equipment | Intangible | Total |
|---|---|---|---|---|---|---|---|
| Balance as of January 1, 2019 | $ 24,315,780 | $ 114,870 | $ 182,549 | $ 584,978 | $ 337,079 | $ 14,012 | $ 25,549,268 |
| Acquisitions | 342,572 | 3,150 | 41,773 | 213,829 | 49,008 | - | 650,332 |
| Disposals | (283,382) | - | (4,931) | - | - | - | (288,313) |
| Reevaluations | 188,290 | 5 | - | - | - | - | 188,295 |
| Exchange effects | (627,062) | - | (757) | - | - | - | (627,819) |
| **Balances at December 31, 2019** | **$ 23,936,198** | **$ 118,025** | **$ 218,634** | **$ 798,807** | **$ 386,087** | **$ 14,012** | **$ 25,471,763** |
| Acquisitions | 282,703 | - | 32,170 | - | 2,021 | | 316,894 |
| Others | (89,198) | 11 | 80 | (2,523) | - | - | (91,630) |
| Disposals | (239,264) | - | (11,555) | - | - | - | (250,819) |
| Reevaluations | 221,619 | 3 | | - | - | - | 221,622 |
| Exchange effects | 782,688 | - | 1,036 | - | - | - | 783,724 |
| **Balances at December 31, 2020** | **$ 24,894,746** | **$ 118,039** | **$ 240,365** | **$ 796,284** | **$ 388,108** | **$ 14,012** | **$ 26,451,554** |
| **Depreciation** | | | | | | | |
| Balance at January 1, 2019 | (4,362,682) | (73,342) | (117,384) | (313,067) | (267,475) | (14,012) | (5,147,962) |
| Depreciation expenses | (933,980) | (36,304) | (36,616) | (48,164) | (50,382) | - | (1,105,446) |
| **Balances at December 31, 2019** | **(5,296,662)** | **(109,646)** | **(154,000)** | **(361,231)** | **(317,857)** | **(14,012)** | **(6,253,408)** |
| Disposals | 27,602 | - | 8,475 | - | - | - | 36,077 |
| Depreciation expenses | (977,275) | (3,580) | (37,001) | (64,051) | (46,943) | - | (1,128,850) |
| **Balances at December 31, 2020** | **(6,246,335)** | **(113,226)** | **(182,526)** | **(425,282)** | **(364,800)** | **(14,012)** | **(7,346,181)** |
| Total at December 31, 2019 | **$ 18,639,536** | **$ 8,379** | **$ 64,634** | **$ 437,576** | **$ 68,230** | **$ -** | **$ 19,218,355** |
| Total at December 31, 2020 | **$ 18,648,411** | **$ 4,813** | **$ 57,839** | **$ 371,002** | **$ 23,308** | **$ -** | **$ 19,105,373** |

e. Amounts recognized in the consolidated financial statements for

| Total Property, equipment and right-of-use | Building | Store equipment | Furniture and fixtures | Vehicles | Construction in process | Land | Intangibles | Total |
|---|---|---|---|---|---|---|---|---|
| Property, equipment and right-of-use at December 31, 2019 | $ 50,314,485 | $ 14,438,224 | $ 2,727,477 | $ 1,264,496 | $ 1,206,666 | $ 6,083,616 | $ 14,012 | $ 76,048,976 |
| Property, equipment and right-of-use at December 31, 2020 | 52,290,513 | 15,213,209 | 2,645,356 | 1,296,608 | 990,192 | 6,119,798 | 14,012 | 78,569,688 |
| Depreciation of property, equipment and right-of-use at December 31, 2019 | (12,791,606) | (8,074,158) | (2,292,741) | (692,746) | - | - | (14,012) | (23,865,263) |
| Depreciation of property, equipment and right-of-use at December 31, 2020 | (14,474,584) | (9,114,628) | (2,252,323) | (796,742) | - | - | (14,012) | (26,652,289) |
| Total of property, equipment and right-of-use at December 31,2019 | $ 37,522,879 | $ 6,364,066 | $ 434,736 | $ 571,750 | $ 1,206,666 | $ 6,083,616 | $ - | $ 52,183,713 |
| Total of property, equipment and right-of-use at December 31, 2020 | $ 37,815,929 | $ 6,098,581 | $ 393,033 | $ 499,866 | $ 990,192 | $ 6,119,798 | $ - | $ 51,917,399 |

f. Amounts recognized in the consolidated financial statements for leases:

| | 2020 | 2019 |
|---|---|---|
| Depreciation of lease right-of-use assets | $ 1,187,419 | $ 1,120,703 |
| Interest accrued on lease liabilities | 1,573,309 | 1,428,177 |
| Expense related to short-term lease | 69,137 | 48,512 |
| Expense related to leasing of low value assets | 9,162 | 5,606 |
| Expense related to variable lease payments not included in the measurement of lease liabilities | 95,325 | 66,935 |

The Entity has commitments of $602,107 and $560,233 as of December 31, 2020 and 2019, respectively, for short-term leases.

Some of the leases of properties in which the Entity is a lessee contain variable lease payment terms that are related to sales generated in the leased stores. Variable payment terms are used to link lease payments to store cash flows and reduce fixed cost. The composition of the lease payments is detailed in the following table:

| | 2020 | 2019 |
|---|---|---|
| Fixed payments | $ 2,108,217 | $ 2,087,289 |
| Variable payments, short-term and low-value leases | 173,624 | 121,052 |
| Total lease payments | $ 2,281,841 | $ 2,208,341 |

As of December 31, 2020 and 2019, variable payments constitute 7.6% and 5.8%; respectively of the Entity's total lease payments. The Entity expects this proportion to remain constant in future years. Variable payments depend on sales and consequently, on economic development during the following years. Taking into consideration the development of expected sales in the following years, it is expected that the expense for variable leases will continue in a similar proportion of store sales.

## 11. Investment property

| | 2020 | 2019 |
|---|---|---|
| Balances as of the beginning of the year | $ 9,511,675 | $ 8,679,203 |
| Acquisitions | - | 201,115 |
| Disposals | - | (105,380) |
| Transfers from property and equipment | 299,056 | 736,388 |
| Net gains on property revaluation | - | 349 |
| Balances as of year end | $ 9,810,731 | $ 9,511,675 |

All the Entity's investment properties are free from third-party interests.

There has been no change in valuation technique on the current year. The fair value of the Entity's investment properties, considered the highest and best use of the property in its current use. The net gain on property revaluation is presented under other expenses-net in the consolidated statements of profit or loss and other comprehensive income.

The real estate segment is affected by the current COVID19 pandemic mainly due to temporary discounts in lease revenue. During 2020, lease revenue decreased by 18.7%, compared to the previous year. The fair value of the investment properties is determined using long-term assumptions and the effect of the pandemic is envisioned only in the short-term, therefore management carried out the valuation as of December 31, 2020 considering a constant recovery.

The following information is relevant to investment properties classified as Level 3 fair value hierarchy:

| Property | Fair Value hierarchy | Valuation Technique | Significant unobservable inputs | Value / Range | Relationship unobservable inputs of fair value |
|---|---|---|---|---|---|
| Land and construction | Level 3 | Cash flows | Discount rate | 10.95% | At higher discount rate, lower fair value. |
| | | | Earnings before interest, taxes, depreciation and amortization | Based on the contractual rent at market price. | At higher earnings before interest , taxes, depreciation and amortization, fair value increased. |
| | | | Growth rates | Mexico: 3.5% | At higher inflation rate, higher fair value. |
| | | | Occupancy rate | 95%, depending on location | A higher occupancy rate results in higher fair value |

There were no transfers between levels of the fair value hierarchy during the year.

## 12. Business combinations

*a. Subsidiaries acquired*

| Entity name | Main activity | Date of acquisition | Stores acquired (%) | Consideration transferred |
|---|---|---|---|---|
| Tiendas Soriana, S.A. de C.V. | Self-service stores - Retail | May 18, 2020 | 5 stores | 22,500 |

*b. Assets acquired and liabilities recognized at the date of acquisition*

| | Tiendas Soriana, S.A. de C.V. 2020 |
|---|---|
| **Non-current assets:** | |
| Plant and equipment | $ 31,554 |
| Right of use assets | 168,788 |
| | 200,342 |
| **Non-current liabilities:** | |
| Lease liabilities | (168,788) |
| Other liabilities (Employee benefits) | (19,344) |
| | (188,132) |
| Net assets acquired | $ 12,210 |

*c. Goodwill arising on acquisition*

| | Tiendas Soriana, S.A. de C.V. |
|---|---|
| Consideration transferred | $ 22,500 |
| Less: fair value of identifiable net assets acquired | (12,210) |
| Goodwill arising on acquisition | $ 10,290 |

The goodwill that arose from the acquisition is not amortizable for tax purposes.

*d. Net cash flows over the acquisition of subsidiaries*

| | 2020 |
|---|---|
| Consideration paid in cash | $ 22,500 |
| Less: cash and cash equivalent balances acquired | - |
| | $ 22,500 |

*e. Business acquisition*

During 2020, the Entity acquired 5 stores that until that date were owned by Tiendas Soriana, S.A. de C.V. The acquisition was carried out to expand the geographical footprint of the Entity. Additional disclosures required by IFRS 3 Business Acquisitions are considered immaterial.

## 13. Goodwill

| | 2020 | 2019 |
|---|---|---|
| **Cost:** | | |
| Balance at the beginning of the year | $ 2,184,948 | $ 2,297,975 |
| Additional amounts recognized from business combinations occurring during the year | 10,290 | - |
| Disposals | - | (25,505) |
| Effect of foreign currency exchange differences | 115,289 | (87,522) |
| Balance at the end of the year | $ 2,310,527 | $ 2,184,948 |

*a. Allocation of goodwill to cash-generating units*

Goodwill has been allocated for impairment testing purposes to the cash-generating units disclosed in note 9.

## 14. Accounts and notes payable to suppliers

The amount recognized for suppliers is based on source documentation, whether the amount indicated by the respective receipt or contract at the balance sheet date, or the disbursement required to settle the current obligation. The Entity has implemented financial risk management policies to ensure that all accounts payable is settled according to pre-agreed credit terms.

The debt with suppliers (including liabilities to affiliated parties related to suppliers) is calculated according to agreed contractual maturities. At December 31, 2020 and 2019, the Entity's debt obligation is composed as follows:

| | 2020 | 2019 |
|---|---|---|
| Current | $ 6,100,690 | $ 5,683,239 |
| Up to 30 days | 8,242,474 | 7,276,792 |
| Up to 60 days | 2,410,899 | 2,653,193 |
| Up to 90 days | 2,336,755 | 2,466,154 |
| More than 90 days | 402,084 | 366,550 |
| | $ 19,492,902 | $ 18,445,928 |

## 15. Borrowings with financial institutions

| | 2020 | 2019 |
|---|---|---|
| - Credit line contracted by Tiendas Chedraui, S. A. de C.V. with Banco Santander, S.A., contracted on December 31, 2020 at an annual fixed rate of 8.65%, due on January 2, 2020. | $ - | $ 10,053 |
| -Credit line contracted by Tiendas Chedraui, S. A. de C.V. with INBURSA, S.A., contracted on December 30, 2020 at an annual fixed rate of 8.03%, due on January 2, 2020. | - | 700,000 |
| -Credit line contracted by Tiendas Chedraui, S. A. de C.V. with INBURSA, S.A., contracted on December 31, 2020 at an annual fixed rate of 8.03%, due on January 2, 2020. | - | 154,000 |
| -Credit line contracted by Tiendas Chedraui, S. A. de C.V. with INBURSA, S.A., contracted on December 30, 2020 at an annual fixed rate of 8.03%, due on January 2, 2020. | - | 50,000 |
| -Credit line contracted by Bodega Latina Co. with Bank of America, N.A, for 15,537,000 US dollar, due on September 2020. The rate as of December 31, 2020 was Libor + 1.125%. | - | 292,803 |
| - More circulating portion | 1,161,899 | 560,809 |
| **Short-term liabilities** | $ 1,161,899 | $ 1,767,665 |

| | 2020 | 2019 |
|---|---|---|
| **Public debt certificates (CEBURES)** | | |
| Public debt certificates were issued on November 26, 2020 that allow the Entity to use them as working capital. CEBURES accrue interest at a variable rate of TIIE + 0.36% due on November 25, 2021. The rate as of December 31, 2020 is 4.85% | $ 1,000,000 | $ - |
| Public debt certificates were issued on December 3, 2020 that allow the Entity to use them as working capital. CEBURES accrue interest at a variable rate of TIIE + 0.34% maturing on October 2, 2021. The rate as of December 31, 2020 is 4.83% | 1,000,000 | - |
| **Short term debt certificates** | $ 2,000,000 | $ - |

## 16. Long-term debt

| | 2020 | 2019 |
|---|---|---|
| Loan entered into by Tiendas Chedraui, S. A. de C. V. warranted by Grupo Comercial Chedraui S.A.B. de C.V. and Inmobiliaria Kira S.A de C.V. from Scotiabank Inverlat, S.A., at an annual fixed rate of 7.65%, with payment of principal beginning on August, 2020, with expiration on July 27, 2023. | $ - | $ 431,250 |
| Loan from Banco Nacional de Comercio Exterior, S. N. C. warranted by Tiendas Chedraui, S. A. de C. V. and Inmobiliaria Kira, S. A. de C. V. at an annual rate of TIIE plus 0.98% with expiration on 10 years, with payment of principal beginning on July 4, 2017. The rate as of December 31, 2020 and 2019 was 8.95% and 9.13%, respectively. | 1,068,533 | 1,169,113 |
| Loan from Banco Nacional de Comercio Exterior, S. N. C. warranted by Tiendas Chedraui, S. A. de C. V. and Inmobiliaria Kira, S. A. de C. V. at an annual rate of TIIE plus 0.95% with expiration on 10 years from September, 2016 and payment of principal beginning on October 12, 2019. The rate as of December 31, 2020 and 2019 was 8.89% and 9.48%, respectively. | 179,217 | 553,125 |
| Loan entered into by Tiendas Chedraui, S. A. de C. V. from Banco Nacional de México, S.A., at an annual rate TIIE plus 1.33%, with two-year grace period for payments of principal as of December 8, 2019, ending on September 8, 2023. The rate as of December 31, 2020 and 2019 was 9.27% and 9.68%, respectively. | - | 431,250 |

| | 2020 | 2019 |
|---|---|---|
| Loan entered into by Comercial Chedraui, S.A.B. de C.V. from Banco Nacional de Comercio Exterior, S. N. C, warranted by Tiendas Chedraui, S. A. de C. V. at an annual rate TIIE plus 0.95%, with ten years as of November 2017 and payments of principal as of December 2020. The rate as of December 31, 2020 and December 31, 2019 was 8.89% and 9.48% respectively. | 1,112,500 | 1,187,500 |
| Line of Credit entered into by Bodega Latina Co. with Bank of America, N.A. for $ 60,000 US dollars, due in April 2021. The rate as of December 31, 2020 is Libor + 1,125%. The rate as of December 31,2020 was 2.82% | - | 810,343 |
| Syndicated Loan (intervention of 8 banks) entered into by Bodega Latina Co. with Bank of America, N.A. with endorsement granted by Grupo Comercial Chedraui, S.A.B de C.V., Tiendas Chedraui, S.A. de C.V., Inmobiliaria Kira, S.A. of C.V. and Fiesta Mart, L.L.C. at a Libor rate plus 1.25% with the first amortization as of October 30, 2021 and with a term of 5 years. | 4,987,175 | 4,711,301 |
| **Long-term liabilities** | 7,347,425 | 9,293,882 |
| Less - current portion see Note 15 | 1,161,899 | 560,809 |
| | **$ 6,185,526** | **$ 8,733,073** |

At December 31, 2020 and 2019, the Entity was in compliance with the covenants set forth in each of the contracts.

**a. Reconciliation of obligations derived from financing activities**

| | Balance as of January 1, 2020 | Acquisitions | Other | Payments | Exchange effect | Balance as of December 31, 2020 |
|---|---|---|---|---|---|---|
| Borrowings from financial institutions | $ 10,500,738 | $ 2,000,000 | $ - | $ (3,493,783) | $ 340,470 | $ 9,347,425 |
| Leases obligations | 22,321,702 | 316,894 | (90,262) | (564,555) | 948,932 | 22,932,711 |

| | Balance as of January 1, 2019 | Acquisitions | Payments | Exchange effect | Balance as of December 31, 2019 |
|---|---|---|---|---|---|
| Borrowings from financial institutions | $ 10,126,883 | $ 1,206,855 | $ (580,016) | $ (252,984) | $ 10,500,738 |
| Leases obligations | 23,146,173 | 546,545 | (659,112) | (711,904) | 22,321,702 |

## 17. Lease liabilities

| | 2020 Liabilities | 2020 Interest | 2019 Liabilities | 2019 Interest |
|---|---|---|---|---|
| Maturity | | | | |
| 1 year | $ 602,107 | $ 1,442,142 | $ 560,233 | $ 1,405,733 |
| 2 years | 626,363 | 1,405,257 | 572,070 | 1,371,279 |
| 3 years | 612,872 | 1,367,914 | 586,059 | 1,336,051 |
| 4 years | 648,557 | 1,329,562 | 575,370 | 1,300,603 |
| 5 years | 700,149 | 1,288,280 | 609,585 | 1,264,214 |
| Subsequent years | 19,742,663 | 15,457,965 | 19,418,385 | 15,874,656 |
| | **$ 22,932,711** | **$ 22,291,120** | **$ 22,321,702** | **$ 22,552,536** |
| Maturity of short-term | $ 602,107 | $ 1,442,142 | $ 560,233 | $ 1,405,733 |
| Maturity of long-term | $ 22,330,604 | $ 20,848,978 | $ 21,761,469 | $ 21,146,803 |

The Entity does not face a significant liquidity risk regarding its lease liabilities. Lease liabilities are monitored through the Entity's Treasury.

## 18. Employee benefits

**a. Defined contribution plans**

The Entity by law make payments equivalent to 2% of wage workers integrated (ceiling) plan defined contribution savings system of retirement establish by the law. The related expense was $88,881 and $81,140, respectively.

**b. Defined benefit plans**

The Entity maintains a defined benefit pension plan, which covers all employees who reach 65 and 60 years of age, according to the benefit plan defined by the Entity.

This plan also provides seniority premium benefits, which consist of a lump sum payment of 12 days' wage for each year worked, calculated using the most recent salary, not to exceed twice the minimum wage established by law. The related liability and annual cost of such benefits are calculated by an independent actuary on the basis of formulas defined in the plans using the projected unit credit method.

The plans typically expose the Group to actuarial risks such as, investment risk, interest rate risk, longevity risk and salary risk.

| | |
|---|---|
| Investment risk | The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and real estates. |
| Interest risk | A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments. |
| Longevity risk | The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability. |
| Salary risk | The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability. |

The present value of the defined benefit obligation and the labor cost of the current service and past service cost were calculated using the method of projected unit credit.

The main assumptions used for the purposes of actuarial valuation are the following:

**c. Nominal rates used in actuarial calculations are as follows:**

| | 2020 % | 2019 % |
|---|---|---|
| Discount of the projected benefit obligation at present value | 6.75 | 7.00 |
| Salary increase | 4.50 | 4.50 |
| Salary increase (minimum by law) | 3.50 | 3.50 |

Unamortized items are applied during the year.

**d. The amounts recognized in the results of these defined benefits plan, are:**

| | 2020 | 2019 |
|---|---|---|
| **Service cost:** | | |
| Current service cost | $ 76,180 | $ 47,204 |
| Net interest expense | 59,044 | 54,022 |
| | **$ 135,224** | **$ 101,226** |

| | 2020 | 2019 |
|---|---|---|
| **Remeasurement on the net defined benefit liability:** | | |
| Actuarial gains arising from changes in demographic assumptions | $ 82,071 | $ 201,531 |
| Total | $ 82,071 | $ 201,531 |

The remeasurement of the net defined benefit liability is included in other comprehensive income.

**e. Changes in present value of the defined benefits obligations:**

| | 2020 | 2019 |
|---|---|---|
| Present value of the defined benefit obligation as of January 1, | $ 891,639 | $ 609,401 |
| Incorporation of companies | 19,344 | 9,556 |
| Current service cost | 135,224 | 101,226 |
| Payments made against the reserve | (55,140) | (30,075) |
| Cost recognized through comprehensive income | 82,071 | 201,531 |
| Present value of the defined benefit obligation as of December 31. | $ 1,073,138 | $ 891,639 |

The Entity engaged independent professionals to measure the present value of the defined benefit obligation and the market value of the respective assets for the pension plan, death or disability and seniority premium.

The appointed consultants issued their report in conformity with the guidelines of IFRS.

Adjustments to actuarial assumptions, including the change in the discount rate for valuing employee benefits, are recognized directly in other comprehensive income in stockholders' equity without affecting profit or loss.

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate had been 100 basis points lower, the defined benefit obligation would have increased by $86,624.

If the expected salary growth had decreased by 100 basis points, the defined benefit obligation would have decreased by $68,384.

If the life expectancy had increased by one year for both men and women, the defined benefit obligation would have increased by $2,240.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the consolidated statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

## 19. Financial instruments

### a. Capital management risk

The Entity manages its capital to ensure that the Entity and its subsidiaries will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Entity's overall strategy remains unchanged from 2019.

The Entity's management reviews the capital structure when presenting his financial projections as part of the business plan to the Board of Directors and shareholders of the Entity. As part of this review, the Board considers the cost of capital and the associated risks.

The Entity is constituted as a S.A.B. de C.V. according to the terms of the Mexican Securities Exchange Commission and in accordance with the General Law of Commercial Companies; the fixed minimum capital is $183,436.

The capital structure of the Entity consists of net debt (borrowings as detailed in note 15 and 16 offset by cash and cash equivalents) and equity of the Entity (comprising issued capital, reserves, and retained earnings as detailed in Note 21).

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

The Entity's Boards of Directors reviews the capital structure of the Entity on a quarterly basis.

*1. Gearing ratio*

The gearing ratio at end of the reporting period was as follows

| | 2020 | 2019 |
|---|---|---|
| Debt (i) | $ 9,347,425 | $ 10,500,738 |
| Cash | 5,444,663 | 984,044 |
| Net debt | $ 3,902,762 | $ 9,516,694 |
| Controlling interest (ii) | 29,288,927 | 27,397,854 |
| Net debt to equity ratio | 13.33% | 34.73% |

(i) Debt is defined as long- and short-term borrowings, as described in Notes 15 and 16.
(ii) The controlling interest includes all capital and reserves of the Group that are managed as capital.

### b. Financial instruments categories

| | 2020 | 2019 |
|---|---|---|
| **Financial assets** | | |
| Cash | $ 5,444,663 | $ 984,044 |
| **Loans and receivables:** | | |
| Accounts and notes receivable - Net | $ 1,338,964 | $ 1,352,940 |
| Current accounts receivable from related parties | 34,132 | 59,195 |
| Non-current accounts receivable from related parties | 37,035 | 37,035 |
| Long-term accounts receivable | 300,000 | 470,863 |
| Guarantee deposits (***) | 489,934 | 499,957 |
| **At fair value** | | |
| Current derivative financial instruments | $ - | $ - |
| Long term derivative financial instruments | - | 13,417 |
| **Financial liabilities:** | | |
| **At amortized cost:** | | |
| Accounts and notes payable to suppliers | $ 19,492,902 | $ 18,445,928 |
| Other accounts payables (*) | 3,651,349 | 3,053,933 |
| Current portion of deferred revenue (*) | 106,290 | 6,286 |
| Current borrowing with financial institutions | - | 1,206,856 |
| Deb securities listed in the current stock exchange | 2,000,000 | - |
| Current portion of long-term debt | 1,161,899 | 560,809 |
| Current portion of lease obligations | 602,107 | 560,233 |
| Long-term debt | 6,185,526 | 8,733,073 |
| Current portion obligations related to the right to collection trustor | - | 75,107 |
| Collection rights of trust contracts | - | 314,962 |
| Long-term deferred revenue (**) | 333,394 | 32,333 |
| Lease obligations | 22,330,604 | 21,761,469 |
| Derivative financial instruments | 54,622 | - |
| Long-term derivative financial instruments | 253,193 | 34,881 |

(*) Included in the balance into the accrued taxes and expenses.
(**) Included in the balance into the other long-term liabilities.
(***) Included in the balance into the other assets and intangibles – net.

### c. Financial risk management objectives

The activities carried out by the Entity expose it to a number of financial risks, including market risk (which encompasses foreign exchange, interest rate and price risks – such as investment in share certificates and commodity prices futures), credit risk and liquidity risks.

The Entity seeks to minimize the potential negative effects of these risks on its financial performance through an overall risk management program. Both, financial risk management and the use of derivative and non-derivative financial instruments are ruled by Entity policies approved by the Board of Directors and are carried out by the Entity's treasury, identifying, evaluating and covering the financial risks in cooperation with its subsidiaries.

In addition, the Board of Directors has approved the permissible limits associated losses.

### d. Market risk

The Entity's activities mainly expose it to exchange rate and interest rate financial risks.

### e. Exchange risk management

The Entity carries out transactions in foreign currency, thereby generating exposure to exchange rate fluctuations, which are handled within the parameters of the approved policies using foreign currency forwards.

The book values of the foreign currency-denominated monetary assets and liabilities at the end of the reporting period are as follows:

| | 2020 | 2019 |
|---|---|---|
| Assets | $ 216,607 | $ 230,282 |
| Liabilities | (1,307,276) | (1,384,363) |
| Net US dollar liabilities | $ (1,090,669) | $ (1,154,081) |
| Year-end exchange rate ($ per 1 dollar) | 19.95 | 18.80 |

The book values of the foreign currency-denominated monetary assets and liabilities different its functional currency at the end of the reporting period are as follows:

| | 2020 | 2019 |
|---|---|---|
| Assets | $ 9,222 | $ 11,719 |
| Liabilities | (28,791) | (40,510) |
| Net US dollar assets (liabilities) | $ (19,569) | $ (28,791) |
| Year-end exchange rate ($ per 1 dollar) | 19.95 | 18.80 |

- Approximately 1.72% and 2.28% of goods inventories were imported by the Entity in 2020 and 2019, respectively.

- Transactions in thousands of US dollars as of December 31, 2020 and 2019 include import purchases of $64,675 and $88,232, respectively.

**Foreign currency sensitivity analysis**

The Entity performs transactions in different currencies; however, its most significant exposure is with the US dollar.

The following analysis details the Entity's sensitivity to an increase and/or decrease of 20% in the exchange rate of the Mexican peso against the US dollar. Such fluctuation represents management's assessment of the possible reasonable change in the exchange rate.

The sensitivity analysis includes only the monetary position at the close of the period, eliminating the commitments covered with financial instruments, and the transactions performed in a functional currency comparable with the dollar.

When the peso appreciates, the results and stockholders' equity will increase; conversely, when the peso depreciates it would result in a decrease in results and stockholders' equity.

The exchange-parity variance results in an adjustment of $78,076 and $108,518 for the years ended December 31, 2020 and 2019, respectively. The sensitivity analysis may not be representative of the exchange risk during the period due to variances in the net foreign currency-denominated position.

The most important commitments carried out in foreign currency are covered by a cash flow hedge instrument; consequently, the Entity does not expect significant adverse effects even if the exchange rate suffers major changes. Additionally, the Entity maintains a "natural" hedge when maintaining operations in areas whose operating currency is equivalent to that of exposure.

### f. Interest rate risk management

The Entity is exposed to interest rate risks because it obtains loans at both fixed and variable interest rates. The risk is managed by the Entity by maintaining an appropriate combination of fixed rate and variable rate loans and by using interest rate collars. Hedging activities are regularly assessed to align them with interest rates and the defined risk appetite, ensuring the application of more profitable hedging strategies.

The Entity's exposures to the interest rates of financial assets and liabilities are detailed in the following liquidity risk management section in this note.

- *Interest rate sensitivity analysis*

The following sensitivity analyses have been determined based on the exposure to interest rates both for the derivative instruments and non-derivative instruments at the end of the reporting period. For variable-rate liabilities, an analysis is prepared on the basis that the liability amount remains in effect at the close of the period.

Management evaluates the rates based on the historical behavior of the market and projections obtained from public and private financial institutions. Based on these and the cash flows generated by its operation, it visualizes risks when the rates have a variance equivalent to 100 basis points above the average annual rate handled.

If the exchange rates had been 100 points above or below the real rate obtained and all the other variables remained constant, the result and stockholders' equity would have varied $18,973 and $28,987 as of December 31, 2020 and 2019, respectively, if such a situation should arise, the management would have to evaluate the option of contracting an instrument to cover the rates contracted or seek to renegotiate different payment or collection conditions. The sensitivity analysis may not be representative of the interest rate risk during the period due to variances in debt balances.

### g. Credit risk management

Credit risk refers to the risk that the counterparties may default on their contractual obligations, resulting in a loss for the Entity. The main credit risk relates to cash and cash equivalents, accounts receivable and derivative financial instruments. The Entity's policy is only to execute transactions with renowned institutions with a high credit rating, thereby minimizing the exposure to risks derived from cash and cash equivalents and derivative financial instruments.

The Entity only carries out transactions with entities that have a risk rating equivalent to the investment grade or higher. This information is provided by independent rating agencies and, if not available, the Entity uses other publicly available financial information and its own business records to qualify its principal customers. The Entity's exposure and the credit ratings of its counterparties are continuously monitored and the cumulative value of the completed transactions is distributed among the approved counterparties. The credit exposure is controlled by the counterparty limits that are reviewed and approved annually by the risk management committee.

In regard to accounts receivable, the Entity has credit and collection policies, which include the periodic review and the creation of allowances in accordance with such policies. The maximum exposure to credit risk as of December 31, 2020 and 2019 is $2,268,353 and $2,273,608, respectively.

### h. Liquidity risk management

The Entity manages liquidity risk by maintaining adequate reserves, banking facilities and for obtaining loans, by continuously monitoring projected and real cash flows. The consolidated statement of financial position presents negative working capital; However, this situation does not represent a material risk of ongoing business since the Entity generates cash flows derived from its operation each year that are used to meet its obligations. Likewise, as of December 31, 2020, there are credit lines available for $9,280 million, as well as a current program of Stock Certificates of up to $10,000 million, including the short and long-term portion.

- Interest and liquidity risk tables

The following tables as of December 31, 2020 and 2019 show the Entity's remaining contractual maturities for non-derivative financial liabilities with agreed-upon payment periods. The tables have been designed based on the non-discounted cash flows of the financial liabilities as of the most recent date on which the Entity must make payments. The tables include both cash flows of interest and capital. To the extent that interest is at a variable rate, the undiscounted amount is derived from the curves in the interest rate at the end of the reporting period. The contractual maturity is based on the minimum date on which the Entity must make the payment.

| 2020 | One year | Two years | Three years | More than three years | Total |
|---|---|---|---|---|---|
| Borrowings with financial institutions | $ 2,086,134 | $ - | $ - | $ - | $ 2,086,134 |
| Long-term liabilities (including current portion) (*) | 1,376,583 | 3,088,880 | 2,231,817 | 1,202,453 | 7,899,733 |
| Various debtors | 3,651,349 | - | - | - | 3,651,349 |
| Accounts and notes payable to suppliers | 19,492,899 | - | - | - | 19,492,899 |
| Lease obligations | 2,044,249 | 2,031,621 | 1,980,786 | 39,167,176 | 45,223,832 |
| Total | $ 28,651,214 | $ 5,120,501 | $ 4,212,603 | $ 40,369,629 | $ 78,353,947 |

(*) TIIE 4.48% and LIBOR 0.76% for interest projection plus spread of each credit.

| 2019 | One year | Two years | Three years | More than three years | Total |
|---|---|---|---|---|---|
| Borrowings with financial institutions | $ 1,210,780 | $ - | $ - | $ - | $ 1,210,780 |
| Long-term liabilities (including current portion) (*) | 1,062,209 | 2,587,895 | 3,364,901 | 3,832,284 | 10,847,289 |
| Various debtors | 3,053,933 | - | - | - | 3,053,933 |
| Accounts and notes payable to suppliers | 18,445,928 | - | - | - | 18,445,928 |
| | 114,552 | 78,645 | 78,043 | 316,746 | 587,986 |
| Lease obligations | 1,965,967 | 1,943,350 | 1,922,110 | 39,042,811 | 44,874,238 |
| Total | $ 25,792,097 | $ 4,609,890 | $ 5,365,054 | $ 43,191,841 | $ 79,020,154 |

(*) TIIE 7.55% and LIBOR 2.37% for interest projection plus spread of each credit.

The following tables as of December 31, 2020 and 2019 presents the liquidity analysis of the Entity's derivative financial instruments. The table has been designed based on non-discounted contractual cash inflows and outflows, which are settled on a net basis, and non-discounted gross cash inflows and outflows of those derivatives that require a gross settlement. When the amount payable or receivable is not fixed, the amount disclosed was determined in reference to projected interest rates, as shown by the yield curves as of the end of the reporting period.

| 2020 | Less than 1 year | More than 1 year and less than 5 | More than 5 years | Total |
|---|---|---|---|---|
| Derivative financial instruments | $ 36,371 | $ 45,420 | $ 625 | $ 82,416 |

| 2019 | Less than 1 year | More than 1 year and less than 5 | More than 5 years | Total |
|---|---|---|---|---|
| Derivative financial instruments | $ (10,157) | $ (15,532) | $ (376) | $ (26,065) |

i. Fair value of financial instruments

1. Fair value of financial instruments recorded at amortized cost

Except for what is detailed in the following table, Entity's management believe that the book values of the financial assets and liabilities recognized at amortized cost in the consolidated financial statements are approximate to fair value.

| | 2020 | 2019 |
|---|---|---|
| **Financial Assets:** | | |
| Accounts and notes receivable - Net | $ 1,338,964 | $ 1,352,940 |
| Long term receivables | 305,693 | 470,863 |
| Current accounts receivable from related parties | 34,132 | 59,195 |
| Non-current accounts receivable from related parties | 37,035 | 37,035 |
| **Financial Liabilities:** | | |
| Current portion obligations related to the right to collection trustor | - | 75,107 |
| Current portion of deferred revenue | 106,290 | 6,286 |
| Collection rights of trust contracts | - | 314,962 |
| Deferred revenue | 333,394 | 32,333 |
| Borrowings with financial institutions | - | 1,206,856 |
| Debt securities | 2,001,133 | - |
| Current portion of long-term liabilities | 1,161,899 | 560,809 |
| Long-term debt | 6,185,526 | 8,733,073 |

2. Valuation techniques and assumptions used to determine fair value

Financial instruments are shown at market value indicated by the financial institution with whom it was hired at the end of the year by which it is reported.

As of December 31, 2020:

| Type of derivative contract or value | Notional amount | Reference variable | Fair Value | Amount due by year | Collateral |
|---|---|---|---|---|---|
| Interest rate TIIE Swap | $ 134,430 | TIIE at 28 days | $ (2,643) | $ 64,042 in 2020<br>70,313 in 2021<br>106,250 in 2022<br>64,117 in 2023 | No collateral while the credit line or "Threshold" is not exceeded $27 million of US dollars. |
| Interest rate TIIE Swap | 345,833 | TIIE at 28 days<br><br>As of December 31 the TIIE was 4.4842% | (27,983) | $ 50,000 in 2020<br>50,000 in 2021<br>50,000 in 2022<br>50,000 in 2023<br><br>$ 200,000 in 2024 onwards | |
| Interest rate LIBOR Swap | 250,000 USD | LIBOR at 28 days | (248,671) | 250,000 in 2021 | |
| Interest rate TIIE Swap | 636,188 | TIIE at 28 days | (28,518) | 106,798 in 2020<br>116,106 in 2021<br>691,343 in 2022 | No collateral while the credit line or "Threshold" is not exceeded $27 million of US dollars. |
| | | **Total** | $ **(307,815)** | | |

As of December 31, 2019:

| Type of derivative contract or value | Notional amount | Reference variable | Fair Value | Amount due by year | Collateral |
|---|---|---|---|---|---|
| Interest rate TIIE Swap | $ 431,250 | TIIE at 28 days | $ 3,248 | $ 56,250 in 2020<br>81,250 in 2020<br>106,250 in 2021<br>131,250 in 2022<br>112,500 in 2023 | No collateral while the credit line or "Threshold" is not exceeded $27 million of US dollars. As of December 31, 2019, no collateral was held for these derivatives. |
| Interest rate TIIE Swap | 198,492 | TIIE at 28 days | 1,373 | $ 90,056 in 2020<br>64,062 in 2020<br>70,313 in 2021<br>64,118 in 2022 | No collateral while the credit line or "Threshold" is not exceeded $27 million of US dollars. |
| Interest rate TIIE Swap | 395,833 | TIIE de 28 días<br>As of December 31 the TIIE was 7.5555% | (6,643) | 50,000 in 2020<br>50,000 in 2020<br>50,000 in 2022<br>50,000 in 2023<br>$ 200,000 in 2024 onwards | |
| Interest rate LIBOR swap | USD 125 millions | LIBOR at 28 days | 8,796 | 18,750 in 2021<br>62,500 in 2022<br>43,750 in 2023 | |
| Interest rate TIIE Swap | 914,248 | TIIE at 28 days | (10,383) | 106,798 in 2020<br>116,106 in 2021<br>691,643 in 2022<br>691,643 in 2022 | No collateral while the credit line or "Threshold" is not exceeded $27 million of US dollars. As of December 31, 2019, no collateral was held for these derivatives. |
| Swaption | 609,498 | TIIE at 28 days | (17,855) | 52,095 in 2020<br>71,198 in 2020<br>77,404 in 2021<br>460,896 in 2022 | |
| | | Total | **$ (21,464)** | | |

## 20. Collection rights of trust contracts

The Entity together with six group subsidiaries (trustors) established a non-business trust with Supervisión y Mantenimiento de Inmuebles, S.A. de C.V. (Supermant), in which a multiple banking institution was designated as the trustee and was instructed by Supermant to execute a loan with another multiple banking institution and to acquire a loan by subscribing the trustor assignment agreement, the accounts receivable, the existing and future collection rights of certain lease, advertising, and parking contracts. In the month of July 2020, the advance payment of the obligations related to the trust collection rights was made for $ 309,579 and the guarantee deposit for $ 96,703 was recovered, the foregoing achieving an efficiency in the financial costs of the Entity. As of December 31, 2020, the trust continues to manage the transferred portfolio, sending the 100% of the cash flows to the Entity. In the first quarter of 2021, the Trust will be extinguished.

## 21. Stockholders' equity

Common stock as of December 31, 2020 and 2019 is composed of 963,917,211 no-par value common shares. Fixed capital shares are non with draw able and variable capital may not exceed ten times the fixed capital.

a. A Stockholders' Ordinary General Meeting held on April 6, 2020 approved a cash dividend payable to the Entity's shareholders in the amount of $0.4439 (zero dot four four three nine cents) for each share released and outstanding at the dividend payment date. The payment was made against the net tax income account of the Entity, through S.D. Indeval, S.A. de C.V., Institución para el Depósito de Valores, and the dividend amount paid was $427,882.

b. A Stockholders' Ordinary General Meeting held on April 3, 2019 approved a cash dividend payable to the Entity's shareholders in the amount of $0.4069 (zero dot four zero six nine cents) for each share released and outstanding at the dividend payment date. The payment was made against the net tax income account of the Entity, through S.D. Indeval, S.A. de C.V., Institución para el Depósito de Valores, and the dividend amount paid was $392,218.

c. Retained earnings include the statutory legal reserve. The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value. The legal reserve may be capitalized but may not be distributed unless the Entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. As of December 31, 2020 and 2019, the legal reserve at par value was $36,687.

d. Stockholders' equity, except for restated paid-in capital and tax retained earnings will be subject to income tax payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated income tax of the year in which the tax on dividends is paid and the following two fiscal years, against the tax of the year and the provisional payments thereof..

e. The balance of the tax income account as of December 31, are:

| | 2020 | 2019 |
|---|---|---|
| Contributed capital account (CUCA) | $ 7,231,441 | $ 7,010,607 |
| Net tax profit account (CUFIN) | 15,002,098 | 13,803,859 |

Capital risk management

The Entity manages its capital to ensure that it will continue as a going concern while maximizing stockholder profits by optimizing its capital structure.

The Entity's management reviews the capital structure when presenting its financial projections as part of the business plan to the Board of Directors and the Entity's stockholders. As part of this review, the Board of Directors considers the cost of capital and the associated risks.

The Entity is incorporated as an "S.A.B. de C.V." (Public Stock Entity with variable capital) pursuant to the Mexican Securities Act and, in conformity with the General Corporate Law, the minimum fixed capital is $183,436.

In 2010, the Entity signed an agreement with the minority shareholders of its subsidiary Bodega Latina Co., for the purchase of its shares to acquire all of them, starting in 2010 for USD $14 million and from 2012 for an amount of USD $10 million. The agreement does not require the sale of shares and only constitutes an offer to purchase. At December 31, 2020, no liability related to this agreement has been recorded.

## 22. Other comprehensive income

| | 2020 | 2019 |
|---|---|---|
| Cumulative translation adjustment | $ 438,108 | 465,706 |
| Financial instruments measurement, net of deferred taxes | (210,376) | (11,257) |
| Remeasurement of defined benefit obligations, net of deferred taxes | (242,387) | (184,938) |
| **Total** | **$ (14,655)** | **$ 269,511** |

a. Cumulative translation adjustment

| | 2020 | 2019 |
|---|---|---|
| Balance at beginning of the year | $ 465,706 | $ 560,589 |
| Cumulative translation adjustment | (27,598) | (94,883) |
| **Balance at end of the year** | **$ 438,108** | **$ 465,706** |

b. Effect for financial instruments measurement

| | 2020 | 2019 |
|---|---|---|
| Balance at beginning of the year | $ (11,257) | $ 74,434 |
| Net profit for financial instruments measurement | (284,456) | (122,418) |
| Income taxes related to valuation of derivative instruments | 85,337 | 36,727 |
| **Balance at end of the year** | **$ (210,376)** | **$ (11,257)** |

c. Remeasurement of defined benefit obligations

| | 2020 | 2019 |
|---|---|---|
| Balance at beginning of the year | $ (184,938) | $ (56,522) |
| Remeasurement of defined benefit obligations | (82,071) | (183,449) |
| Income taxes related to remeasurement of defined benefit obligations | 24,622 | 55,033 |
| **Balance at end of the year** | **$ (242,387)** | **$ (184,938)** |

## 23. Retained earnings

| | 2020 | 2019 |
|---|---|---|
| Balance at beginning of the year | $ 23,377,497 | $ 22,369,278 |
| Net income attributable to owners of the Entity | 2,589,117 | 1,566,131 |
| IFRIC 23 adoption | - | (42,551) |
| Dividends paid | (427,882) | (392,218) |
| SIBRA tax effect | | - |
| Purchase of non-controlling interest | 49,052 | (143,587) |
| Changes on non-controlling interest | (10,336) | 20,444 |
| **Balance at end of the year** | **$ 25,577,448** | **$ 23,377,497** |

## 24. Non-controlling interest

| | 2020 | 2019 |
|---|---|---|
| Balance at beginning of year | $ 12,476 | $ 81,830 |
| Participation in comprehensive income | 85,325 | (29,096) |
| Dividends paid | (84,182) | - |
| Acquisition of non-controlling interest | (21,092) | (40,258) |
| **Balance at end of the year** | **$ (7,473)** | **$ 12,476** |

## 25. Earnings per share

| | 2020 Earnings per share | 2019 Earnings per share |
|---|---|---|
| Basic and diluted earnings per share | $ 2.71 | $ 1.64 |

The income and weighted average numbers of ordinary shares used in calculating basic and diluted earnings per share are as follows:

| | 2020 | 2019 |
|---|---|---|
| Net income attributable to owners of the Entity | $ 2,589,117 | $ 1,566,131 |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 954,544,885 | 957,996,114 |
| Treasury shares as of December 31, | $ 8,002,389 | $ 8,721,398 |

## 26. Transactions and balances with related parties

The balances and transactions between the Entity and its subsidiaries, which are related parties of the Entity, have been eliminated in the consolidation and are not disclosed in this note. The transactions between the Entity and other related parties are detailed below.

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

| | 2020 | 2019 |
|---|---|---|
| Leases revenues | $ 30 | $ 182 |
| Administrative revenues | 9,740 | 7,091 |
| Financial portal revenues | 6,240 | 6,240 |
| Air transportation revenues | 18,240 | 28,646 |
| Concrete sale revenues | 636 | 2,048 |
| Interest revenues | 537 | 214 |
| Leases expenses | (35,315) | (33,217) |
| Maintenance expenses | (335) | (529) |
| Advertising expense | (12,095) | (15,075) |

b. Balances receivable from related parties are as follows:

| | 2020 | 2019 |
|---|---|---|
| Operadora de Inmobiliarias del Sureste, S. A. de C. V. | $ - | $ 428 |
| Hípico Coapexpan, S.A. de C.V. | - | 279 |
| Others | 34,132 | 58,488 |
| **Total** | **$ 34,132** | **$ 59,195** |

c. Balances receivable from related parties long-term are as follows:

| | 2020 | 2019 |
|---|---|---|
| Operadora de Inmobiliarias del Sureste, S. A. de C. V. | $ 37,035 | $ 37,035 |
| Total | $ 37,035 | $ 37,035 |
| Accounts receivables from related parties | $ 34,132 | $ 59,195 |

d. Average employee benefits granted to the Entity's key personnel were as follows:

| | 2020 | 2019 |
|---|---|---|
| Direct benefits | $ 615,091 | $ 570,205 |
| Variable benefits | 274,145 | 235,102 |
| | $ 889,236 | $ 805,307 |

The compensation of the directors and key executives is determined by the Compensations' committee based on the performance of the individuals and market trends.

## 27. Operating lease agreements

***a. The Entity as Lessor***

*Lease agreements*

Operating leases relate to leases of investment properties owned by the Entity with lease terms from 1 to 20 years, with the option of extending them for up to 20 additional years. All operating lease agreements include market and inflation lease review clauses with a variable rent for all the revenues generated. The lessee has no option to purchase the property at the date of expiry of the lease period.

The properties rental income earned by the Entity on its investment properties, all of which are leased under operating leases, amounted to $811,908 and $1,012,017, as of December 31, 2020 and 2019, respectively.

The operating expenses related to the rental income earned from the investment properties amounted to $347,247 and $329,884 as of December 31, 2020 and 2019, respectively.

- The Entity has non-cancellable operating leases receivable, as follows:

| | 2020 | 2019 |
|---|---|---|
| No more than one year | $ 797,427 | $ 735,280 |
| More than 1 year and no more than 5 years | 1,556,758 | 1,499,616 |
| More than 5 years | 882,023 | 963,545 |
| | $ 3,236,208 | $ 3,198,441 |

This includes obligations related to trust receivables for $390,069 in 2019.

## 28. Financing cost

In 2020 and 2019, acquired qualifying assets amounted to $1,153,799 and $1,402,133, respectively, and capitalized comprehensive financing cost was $54,209 and $82,350, respectively. The capitalization of comprehensive financing cost was determined using an annualized average rate of 6.99% and 8.88% and in 2020 and 2019, respectively.

## 29. Income taxes

The Entity is subject to ISR. According to the Income Tax Law, the rate for 2020 and 2019 was 30% without foreseen changes for subsequently years.

As a result of repeal of Income Tax Law in effect until December 31, 2013, the tax consolidation regime was eliminated, therefore, the Entity and its subsidiaries has the obligation of pay the deferred income tax determined at that date during the following next five years as of 2014, as follows: Pursuant to Transitory Article 9, section XV, subsection d) of the 2014 Tax Law, given that as of December 31, 2013, the Entity was considered to be a holding company and was subject to the payment scheme contained in Article 4, Section VI of the transitory provisions of the ISR law published in the Federal Official Gazette on December 7, 2009, or article 70-A of the ISR law of 2014 which was repealed, it must continue to pay the tax that it deferred under the tax consolidation scheme in 2007 and previous years based on the aforementioned provisions, until such payment is concluded.

The initial adoption of IFRIC 23, the Entity recognized a liability of $42,551 related to a position that was taken in 2016 related to a guarantee of debt between related parties within the Entity. The authority reviewed this transaction and derived from this review, the Entity self-corrected and made a payment of $330,670 during the month of April 2020; however, this self-correction had a favorable effect on deferred ISR, so the amount of the liability recognized in the initial adoption of IFRIC 23 represents the net of these effects.

The cash flows of payments related to income tax increased during the year ended December 31, 2020 and 2019 were $1,503,968 and $1,121,129, which are presented within operating activities in the statement of cash flows.

The foreign subsidiary is subject to a federal income tax of 21% with no change foreseen for subsequent years; however, the state taxes of California, Texas, New Mexico, Nevada and Arizona (locations with presence of their stores) represent; on average, an additional rate of 5%, which may vary in subsequent years depending on the business loans for employment and incentives granted by the state government. The average state rate for 2020 and 2019 was 6% and 8% respectively.

In March 27, 2020, in the foreign subsidiary, the US Congress enacted the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. The CARES Act is an emergency economic stimulus package of approximately $2 billion dollars in response to the COVID-19 Pandemic, which among other things contains numerous provisions on income taxes. These tax provisions applied retroactively for the years ending before December 31, 2020. The Entity has evaluated the provisions of the CARES Act and has incorporated their impact in the consolidated financial statements, having a benefit in the income tax provision of $160,827 as of December 31, 2020.

a. Income taxes for the year ended December 31, are as follows:

| | 2020 | 2019 |
|---|---|---|
| **ISR expense:** | | |
| Incurred | $ 962,294 | $ 1,209,710 |
| Deferred | 110,814 | (281,625) |
| | $ 1,073,108 | $ 928,085 |

b. The reconciliation of the legal and effective ISR rates expressed as a percentage of profit before taxes as of December 31 is as follows:

| | 2020 | 2019 |
|---|---|---|
| Legal rate | 30% | 30% |
| Effects of inflation | (3%) | 1% |
| Not deductible items | 4% | 6% |
| CARES Act | (5%) | - |
| Differences in statutory rates in other | 1% | - |
| jurisdictions | 2% | 1% |
| Others | | |
| Effective rate | 29% | 38% |

c. The main items that give rise to the deferred ISR liability are:

| | 2020 | 2019 |
|---|---|---|
| Deferred ISR asset: | | |
| Effect of tax loss carryforwards | $ 239,556 | $ 590,888 |
| Allowance for doubtful accounts | 17,230 | 11,498 |
| Inventories | 223,671 | 40,201 |
| Accrued expenses | 844,339 | 842,938 |
| Deferred ISR asset | $ 1,324,796 | $ 1,485,525 |
| Deferred ISR liability: | | |
| Other assets | $ (130,962) | $ (208,432) |
| Property and equipment | (2,804,080) | (2,649,758) |
| Deferred ISR liability | $ (2,935,042) | $ (2,858,190) |
| **Total liability** | **$ (1,610,246)** | **$ (1,372,665)** |
| Deferred tax assets | $ 997,349 | $ 1,197,648 |
| Deferred tax liabilities | (2,607,595) | (2,855,780) |
| **Total liability** | **$ (1,610,246)** | **$ (1,658,132)** |

As of December 31, 2020 and 2019, the subsidiaries of the Entity, based on their tax-projections, recorded a deferred income tax asset corresponding to the tax loss carryforwards, because it is more likely than not that with the future fiscal profits, the deferred income tax recorded will be recovered.

The benefits of restated tax loss carryforwards for which the deferred ISR asset and tax credit, respectively, have been recognized, can be recovered subject to certain conditions. Expiration dates and restated amounts as of December 31, 2020, are:

| Expiration year | Tax loss carryforwards |
|---|---|
| 2021 | $ 19,031 |
| 2022 | 60,419 |
| 2023 | 76,473 |
| 2024 | 16,721 |
| 2025 | 97,003 |
| 2026 | 43,786 |
| 2027 | 30,885 |
| 2028 | 42,664 |
| 2029 | 915 |
| 2030 | 5,333 |
| Total | $ 393,230 |

As of December 31, 2020 and 2019 there is an asset for net operating losses related to our operations in the US for $26,931 and $290,932 respectively; these net operating losses do not expire.

## 30. Contingencies

a. The Entity, as well as its assets, are not subject, with exception as indicated in the preceding paragraphs, to any legal action other than owns of its routing and activity.

b. According to Income Tax Law, companies that carry out transactions with related parties are subject to limitations and fiscal obligations, in the determination of agreed prices, since these must be equivalent to the prices used between independent parties in similar transactions. As of December 31,2020 and 2019 the Entity prepared an study with an independent third party to ensure that the transactions between related parties are equivalent.

c. The Entity is involved in many lawsuits and claims, arising from the normal course of its operations, which are expected that not have material effects in its financial position and future operating profit.

## 31. Reportable segments

IFRS 8 requires the classification of segments of operation identified based on internal reports about components of the Entity, which are regularly reviewed by the officer making the operational decisions of the Entity in order to allocate resources to the segments and assessing their performance.

The Entity's main business is the sale of electronic goods, groceries, and general goods in its stores, as well as operating real property.

a. Analytical information by operating segment:

| Segments | Revenues (*) 2020 | 2019 |
|---|---|---|
| Domestic supermarkets | $ 82,535,668 | $ 77,090,351 |
| US supermarkets | 62,899,320 | 51,303,822 |
| Real estate | 852,339 | 1,048,421 |
| Consolidated | $ 146,287,327 | $ 129,442,594 |

* There are no individual clients that have contributed 10% or more to the Entity's revenues in 2020 and 2019.

| Segments | Profit before financing cost, and income taxes 2020 | 2019 |
|---|---|---|
| Domestic supermarkets | $ 4,081,633 | $ 3,749,376 |
| US supermarkets | 2,356,965 | 1,118,554 |
| Real estate | 494,901 | 708,120 |
| Consolidated | $ 6,933,499 | $ 5,576,050 |
| **Segments** | **Total assets** | |
| Domestic supermarkets | $ 46,528,937 | $ 49,875,131 |
| US supermarkets | 25,786,521 | 22,903,212 |
| Real estate | 10,039,640 | 9,880,461 |
| Non-assignable items | 8,094,759 | 4,733,139 |
| Consolidated | $ 90,449,857 | $ 87,391,943 |
| **Segments** | **Depreciation and amortization** | |
| Domestic supermarkets | $ 1,986,403 | $ 1,839,638 |
| US supermarkets | 1,849,984 | 1,692,762 |
| Real estate | 18,566 | 18,564 |
| Consolidated | $ 3,854,953 | $ 3,550,964 |
| **Segments** | **Net fixed asset investments** | |
| Domestic supermarkets | $ 1,219,699 | $ 2,717,324 |
| US supermarkets | 829,672 | 871,365 |
| Real estate | 299,056 | 201,114 |
| Consolidated | $ 2,348,427 | $ 3,789,803 |

## 32. Authorization to issue the consolidated financial statements

The issuance of the accompanying consolidated financial statements was authorized on March 16, 2021 by Entity's Board of Directors; consequently, these consolidated financial statements do not include the events occurred after that date, is subject to the approval of the Entity's ordinary stockholders' meeting, where they may be modified, based on provisions set forth in the Mexican General Corporate Law.