

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS REGARDING OPERATION RESULTS AND FINANCIAL STANDING OF THE COMPANY

Sale of the restaurant division

As a respond to the announcement made on September 10, 2013, regarding the definite agreement reached with Alsea for it to acquire 100% of our restaurant division, on March 5, 2014 we received the notification from the Federal Economic Antitrust Commission (Cofece per its acronym in Spanish), through which this sale was approved, subject to certain conditions.

Upon compliance with the conditions established by Cofece, on May 12, 2014, we informed our shareholders and the investment community that the transaction regarding the sale of the restaurant division to Alsea had been approved, including a total of 361 restaurants, from which 263 belonged to the Vips chain, 92 to El Portón and 6 to Ragazzi. Additionally, the operation comprised intellectual property rights for the 4 chains, as well as menus, product development, operation processes and others.

Sale of Banco Walmart

On December 18, 2014, we reached an agreement with Grupo Financiero Inbursa for it to acquire 100% of Banco Walmart, and the creation of a commercial alliance to strengthen the offer of financial services to our clients. The closing of the transaction is subject to the approval of competent authorities and other conditions that are customary to these types of transactions.

I. Results

Mexico

Total income amounted to 378.8 billion pesos, a 3.4% increase over last year, and 85.9% of total consolidated income.

Gross margin was 22.1%, 20 basis points higher than the one posted in 2013.

General expenses rose 4.7%, representing 14.0% of total income.

Operating income and EBITDA increased at a faster pace than total income, 4.0% and 4.5%, respectively.

EBITDA amounted to 38.5 billion pesos and represented 10.2% of total income.

Central America

Central America reported total income of 62.2 billion pesos, an 8.3% increase in peso terms and a 7.3% increase on a constant currency basis. Total income represents 14.1% of total consolidated income.

Same-store sales rose to 4.1% on a constant currency basis.

Gross margin for the year 2014 was 22.4%, equivalent to the one reached in 2013, showing an 8.5% increase in peso terms and a 7.4% increase on a constant currency basis.

General expenses increased 2.1% on a constant currency basis with 90-basis point leverage.

Operating income and EBITDA increased 34.7% and 24.5%, respectively, both on a constant currency basis.

Consolidated

Total income amounted to 441.0 billion pesos, some 17.2 billion pesos more than the previous year. This represents a 4.1% increase over the total consolidated income reported in 2013.

On a consolidated level, gross margin was 22.1%, 20 basis points higher than the one reported in 2013.

General expenses increased 4.4%, slightly over the increase in total income.

Operating income totaled 34.7 billion pesos, representing a 9.7% increase compared to 2013. On the other hand, EBITDA registered 42.9 billion pesos, showing a 6.3% increase.

The Company reports its results separating Banco Walmart as discontinued operations, in conformity with the International Financial Reporting Standard 5.

Net income before discontinued operations increased 13.9% and net income increased 34.0% during the year. In 2014 we repurchased 123 million shares, 27 million more than in 2013. Earnings per share were 1.732 pesos.

	Mexico			Central America				Consolidated			
	2014	2013	% Increase	2014	2013	% Increase		2014	2013	% Increase	
						In pesos	Constant currency basis				
Total income (billion pesos)	378.8	366.4	3.4	62.2	57.4	8.3	7.3	441.0	423.8	4.1	
% of total income	Gross margin	22.1	21.9	4.5	22.4	22.4	8.5	7.4	22.1	21.9	5.0
	General expenses	14.0	13.8	4.7	17.7	18.6	3.1	2.1	14.5	14.5	4.4
	Operating income	8.1	8.1	4.0	4.6	3.7	36.0	34.7	7.9	7.5	9.7
	EBITDA	10.2	10.1	4.5	7.0	6.0	25.7	24.5	9.7	9.5	6.3

Financial information under International Financial Reporting Standards.

II. Balance Sheet

Cash and cash equivalents

Our cash position as of December 31, 2014, amounted to 28.0 billion pesos, some 6.9 billion pesos above our position in 2013, showing a 32.7% increase.

Cash is invested in short-term debt securities. The Company neither conducts transactions with derivatives, nor does it invest in the stock market. The Company has not conducted any transactions not recorded in the financial statements.

Cash generation and uses of cash

Cash generation amounted to 43.4 billion pesos. The uses of cash are investment in fixed assets, dividend payment and share repurchase.

Investment in fixed assets during the year totals 12.7 billion pesos. We continue reinvesting our earnings in projects that serve to modernize our operating structure –ranging from information systems to logistics networks and the renovations of our stores and clubs-, and we added over 2.9 million square feet in sales floor area, as a result of the opening of 132 new units. In Mexico, we opened 100 units from different business formats, increasing the sales floor area by 3.6%.

	% of total sales	sq. ft. of sales floor	Openings	Units	Cities
Bodega Aurrerá	39.4	27,490,378	79	1,660	433
Walmart	28.6	21,119,686	8	251	79
Sam's Club	24.1	12,163,215	4	159	86
Superama	4.4	1,633,137	1	93	18
Suburbia	3.5	4,807,154	8	116	44
Farmacias Medimart	-	28,686	-	10	1

In Central America we opened 32 units, increasing our installed capacity by 7.1%.

	% of total sales	sq. ft. of sales floor	Openings	Units	Cities
Costa Rica	42.7	2,267,824	4	217	15
Guatemala	27.7	2,284,059	9	217	39
Honduras	10.3	700,912	6	81	29
El Salvador	10.2	974,740	6	89	20
Nicaragua	9.1	522,916	7	86	23

After growth, the remaining cash generated is returned to our shareholders through dividends and repurchase of shares. This year we paid 21.6 billion pesos in dividends and repurchased 123 million own shares for the amount of 4.0 billion pesos

The following chart shows the dividends paid during the last 4 years, 2014 being a record in dividend payments.

Year	2014	2013	2012	2011
Dividend per share (pesos)	1.25	0.92	0.55	0.55
% of earnings from the previous year	95%	69%	44%	50%
Cash spent (million pesos)	21,643	16,056	9,612	9,659

Regarding share repurchase, the shareholders authorize the maximum amount available for the repurchase of shares. Shares repurchased are subtracted from shareholders' equity at the moment of repurchase and are formally cancelled each year during the Shareholders' Assembly.

The following chart shows the investment in the repurchase of shares during the last 4 years.

Program	Repurchased shares (million)	Invested amount (million pesos)
2014	123	3,996
2013	96	3,328
2012	27	1,088
2011	103	3,455

Working Capital

In 2014, the Company continued operating with negative working capital requirements, which has historically allowed for the self-financing of growth and modernization.

The inventory balance as of December 31, 2014, amounted to 47.2 billion pesos, a 7.7% increase compared to last year, while accounts payable to suppliers totaled 52.7 billion pesos, a 10.7% increase.

Walmex Share

We are the fourth most traded stock on the Mexican Stock Exchange –with a weight of 7.0%*- , where we have traded since 1977. For the third consecutive year we are included in the Dow Jones Sustainability Index for Emerging Markets, and for the fourth consecutive year we are included in the Mexican Stock Exchange Sustainability Index.

*As of March 2015