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Business simplification and productivity



Walmart de México y Centroamérica focuses on building an increasingly efficient operation with the goal of responding to the changing and growing needs of the market. Our efforts this year have translated into the simplification of store, distribution center and office processes. Likewise, we were able to achieve considerable savings in labor expenses and in energy use. These initiatives, together with the sale of our restaurant division and Banco Walmart, have enabled us to cut operation costs and concentrate all our efforts on the retail business and therefore follow through on our commercial strategy and offer our customers Every Day Low Prices.

The low prices we offer our customers are a reflection of the initiatives we implement each year to achieve greater efficiency in the execution and operation of our activities.



4.2%
increase in units per
labor hour vs. 2013

Productivity

Our stores have a series of projects that were developed to improve headcount management and distribution, making changes in the number of hours per activity so as to better meet demand. These projects have brought about enhanced efficiency in our units. At the store level we have accomplished improvements in several indicators. We grew 4.2% in units per labor hour, as compared to 2013; this is equivalent to more than 27 million hours in savings. Moreover, on-shelf availability increased 80 basis points more than last year.

In 2014 we simplified processes to increase productivity in Logistics, thus reducing the number of empty hauls by 16.2%, lowering our cost per case transported below national inflation levels and at the same time reducing the environmental impact of our operations. As a result, we are among the 3 companies recognized in Mexico by Semarnat –the Secretary of the Environment and Natural Resources– and by the SCT –the Secretary of Communication and Transportation– with the *Clean Transportation* award. We transported over 900 million cases through our distribution network, traveling more than 200 million kilometers in over 700,000 hauls.

New refrigeration and lighting technologies have been incorporated to reduce energy use in both new and existing stores. These actions resulted in approximately 42 million kWh in savings.

Different initiatives in Systems have helped to simplify internal processes; once redesigned they are automated so as to achieve operating efficiencies. The technological capacity of our Company has been renovated, with the purpose of offering enhanced services and adapting to the changes in this industry.

This year we worked on a program for equipment replacement in stores, thereby reducing the incidence of device failures by 30%, as compared to last year. The Data Centers in our home offices underwent a 20% improvement in energy efficiency.

This year we received –ISO 9001:2008– *Quality Management* certification from The British Standards Institution, because of the Fonacot Loan Payment Compliance. With this latest certificate, we now have ISO certifications for a total of 16 processes in the areas of Logistics, Administration and Finance, Accounting, Operational Finance, and Payroll Taxes. Since last year, 6 more processes have migrated to our Shared Services Center for Latin America, located in San José, Costa Rica. These accomplishments are in line with our commitment to have efficient and certified processes, making Walmart de México y Centroamérica an increasingly productive company.



16.2%
reduction in empty
hauls



In Mexico we developed expert buyers by category

Self-service division, Sam's Club, and Central America

In keeping with our stated strategy of simplifying the business, in 2014 we bore the fruits of having centralized Merchandising with the Self-service division in Mexico. With this adjustment we developed expert buyers by category, capable of conducting the best sort of negotiation with suppliers, which translates to more and better savings for our customers. In parallel, we announced pathways towards reinforcing Sam's Club and recouping its value proposition, thus producing visible improvements in this format's results. A strategic plan with sights on the next few years was created in response to the areas of opportunity that were identified. We created solid groundwork, which by the end of this year will resort in enhanced results. The plan is to drive those initiatives that proved effective and to implement them in all our clubs throughout 2015. All this will provide us with the tools

needed to innovate and position ourselves as the best warehouse membership club in Mexico. On the other hand, the excellent performance achieved in Central America is a testimony to the successful integration of the region through the unification of processes, systems, and format standardization.

Our self-service stores were able to increase units per labor hour by 4.8%, equivalent to more than 22 million hours in savings. By the same token, we saved more than 32 million kWh, equivalent to a reduction of 2.3% in energy used during 2013. The implementation of assortment improvements and a more robust modular program served to create efficiencies in inventory management, thus providing a product mix more in line with the needs of our customers.



More than
32 million
kWh saved in
Self-service



This year we announced changes to reinforce Sam's Club

The organization changes in Sam's Club were performed to support the strategy, by:

- Adding a second Vice President for Merchandising, in charge of Groceries, Consumables, and Perishables, focusing on key traffic-generating areas.
- Creating a position for Director of Membership, so as to drive the attraction and retention of members through aggressive member acquisition programs and increase our member base.
- Implementing a new commercial planning process whose purpose is to better align Merchandising, Membership, Marketing, and Operations. This process will enable us to have the right products for our members through insight on how they think, communicate and execute, and then exceeding their expectations.

Nighttime receiving and storage has been implemented and in this manner our clubs are ready with the merchandise our members want to find, without affecting service. Changes have also been made to our packaging, such that items are been designed especially for us, thereby helping our members, and also our associates in product handling in the clubs.

We are fully aware that Central America has considerable potential for improvement in the field of expense reduction, so we undertook successful productivity initiatives at the store and distribution center levels. Those initiatives which proved useful in matters concerning work management are being implemented, distributing activities when and where needed. There are also programs now in place that reduce energy use, optimizing efficiency. Likewise we invested in the placement of curtains on refrigeration displays, and in new, more energy-efficient technologies for both existing and new stores.

We saved over 300 thousand hours through efficiencies at the checkout points in stores



80 million pesos in savings through productivity initiatives in Central America

Regarding labor, we have made use of a tool known as *Sister Stores*, whose purpose is to identify improvement opportunities by comparing indicators within similar stores. Efficiency improvements were also achieved at the front-end, with a 4.7% increase in units per labor hour, which represents savings of over 300 thousand hours. Labor and energy-related productivity initiatives have meant more than 80 million pesos in savings, a clear reflection of the excellent performance in expense control for the region.

Sale of the restaurant division and Banco Walmart

This year we devoted resources to adapt our value proposition to the ever changing market. Strategic decisions were made with the intent of concentrating our efforts on the retail sector and providing solutions that our customers currently seek.

In mid-2013 we announced the sale of our restaurant division -comprising Vips, El Portón, Ragazzi, and La Finca- with the transaction approved this year by the corresponding authorities.

Moreover, late in the year, we communicated the agreement reached with Banco Inbursa, concerning the sale of Banco Walmart, and the creation of a commercial alliance that will enable us to have a competitive offering of credit in our business formats. We are convinced that these initiatives will produce an increase in sales and improve the shopping capacity of our customers.

We made strategic decisions to focus on the retail sector

