Management commentary

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In 2017 we faced several macroeconomic headwinds, natural disasters and temporary store closures due to protests related to gas price increases. Despite these challenges we were able to keep our growth momentum and more importantly, to maintain our customer's preference. The hard work and commitment of our associates, the focus on operating with excellence and a robust financial strategy allowed us to deliver solid results.

Not only our results were positive, but we also managed to improve our competitive position. We widened our price gap by 40bps and according to our Customer Experience Index, we are delivering a more enjoyable shopping experience.

During 2017 we also stepped up our efforts towards becoming the leading omnichannel retailer in Mexico, we continued to add critical capabilities by investing in key areas of the business such as logistics and eCommerce.

Disclosure of nature of business:

Walmart de México y Centroamérica is a leading retail sector companies in the region.

As of December 31, 2017, it operated 3,134 units, throughout 6 countries (Costa Rica, Guatemala, Honduras, El Salvador, México, and Nicaragua), including self-service stores, membership clubs, and pharmacies.

Walmart shares trade in the Mexican Stock Exchange since 1977; the ticker symbol is WALMEX.

Disclosure of management's objectives and its strategies for meeting those objectives:

The objective of the Company is to double total sales in 10 years and to leverage operating expenses to reinvest in the business.

Sales growth will come from:

- Same store sales
- Sales from new stores
- eCommerce

Disclosure of results of operations and prospects:

Note: The percentages of sales growth related to Central America are determined on a constant currency basis.

Total revenues grew 6.8% in the quarter and increased 7.7% for the year.

In Mexico, revenues grew 7.8% in the quarter and 7.6% in the year, while in Central America revenue grew 8.5% during the fourth quarter and 8.7% in the year.

Same store sales were the main growth driver.

In the fourth quarter, same stores sales in Mexico grew 6.4% and in Central America 4.8%.

During the year, same store sales grew 6.3% in Mexico and 4.9% in Central America. We surpassed the 3% to 5% guidance that we gave.

Two year stack growth for same store sales was 14.3% in Mexico and 9.8% in Central America. This is an indication of how consistent our results have been in the past years and clearly demonstrates the progress we have made in executing our strategy.

Growth was broad-based, sustainable and profitable.

In Central America all countries delivered positive same store sales growth. Nicaragua was the country with the highest growth while Guatemala had a lower, but yet strong growth.

We drove healthy growth across all regions in Mexico as well; the Northern region of the country had the highest same store sales growth followed by the Central, Southern and Metro regions.

Sam's Club had an outstanding performance in sales driven by continued strength in new member acquisition. Strategic investments in member value, merchandise relevance, and the integration of digital and physical, like the implementation of club pick-up, boosted their performance.

Bodega also posted strong results. Their signature campaign "Morralla" was recognized as Mexico's number one campaign by sales value, surpassing every competitor.

They also accelerated expansion, and reinforced their position as Mexico's largest retailer. During the year Bodega Aurrera opened store 500 and reached 1,820 stores in total.

Walmart Supercenter's results were robust. The focus on "Every Day Low Prices", constant innovation to improve customer experience and a solid execution of seasonal events were key to the formats performance.

Superama delivered a lower but still positive growth. We are constantly seeking opportunities to improve our business and we are implementing strategic initiatives in key departments such as Pharmacy and Fresh that will strengthen the value proposition of the format.

During the quarter our core division Food and Staples delivered the highest growth, followed by Apparel and General Merchandise which also posted robust results.

During 2017 we outpaced every ANTAD division. We surpassed ANTAD total, which comprises self-service, department and specialty stores, by 250bps; every month of the year we outpaced the market.

Specifically on the self-service side, we grew 160bps ahead of our competitors.

Every merchandise division individually grew ahead of ANTAD. The Apparel division grew 340bps above ANTAD, General Merchandise 200bps and Food and Staples 160bps.

We have outpaced ANTAD self-service division for the last 12 quarters.

We are moving fast to respond to the market opportunities as well as to innovate to transform the shopping experience and our customers are rewarding us with their loyalty.

During the year we opened 125 new stores; 78 in Mexico and 47 in Central America, which compares to 92 new stores opened in 2016.

We are accelerating expansion in a profitable and sustainable way. In 2017 the contribution from new stores was 2.2%, 40bps more than in 2016.

2017 was a year of building foundations for our eCommerce business. We made key steps towards achieving our goal of developing the best omnichannel experience through a low cost platform.

At the beginning of the year we announced the launch of club pick-up, and considering the pick-up locations of our self-service formats, we ended the year with more than 500 stores offering pick-up service throughout the country. By leveraging our assets we are being able to give a fresher and quicker service to our customers.

Another milestone in our omnichannel journey was the launch of a marketplace offering through our walmart.com.mx site. We are expanding our reach to new customers through differentiated merchandise in an asset light way. As of December 2017 we had enrolled more than 230 sellers and increased our catalogue almost 3 times. We have strategic plans for each category to continue expanding the online assortment.

This year the eCommerce business, which comprises Grocery Home Shopping and General Merchandise operations grew 34%, eCommerce sales contributed 30bps to sales growth and represented 1% of total sales.

Fourth quarter results

Mexico:

Total revenues grew 7.8%, gross margin contracted by 20bps to 21.5% primarily due to price investments during the holiday period, and expenses grew 6.0%, significantly below total revenues growth.

We achieved expense leverage by operating with discipline and solid sales growth.

Operating income grew 8.6% and EBITDA margin expanded by 10bps to reach 10.3%.

Central America:

During the quarter total revenues grew 8.5% on a constant currency basis.

Gross profit margin expanded by 100bps to 24.2% and SG&A grew 10.7%.

Operating income grew 19.3% and EBITDA 17.6% to reach an 8.9% margin, 60bps more than last year.

Operating income and EBITDA doubled total revenues growth.

Consolidated:

Total revenues grew 6.8%.

We achieved expenses leverage by growing expenses 5.7%, 110bps below total revenues growth.

Operating income grew 9.2% and EBITDA grew 9.1% which led to a 20bps margin expansion. We reached a double digit margin on a consolidated basis of 10.0%.

Income from continuing operations posted a strong 12.5% growth.

2017 Results

Mexico:

Total revenues grew 7.6%.

Gross margin expanded 20bps to reach 21.9%. We widened our price gap by 40bps and we were able to do so without impacting profitability.

As a result of our strong focus on productivity and disciplined expenses management, we achieved expense leverage in Mexico by growing SG&A 60bps below revenues.

Operating income increased 10.6% and EBITDA 10.0% to reach a 9.9% margin.

Central America:

Total revenues grew 8.7% on a constant currency basis.

Gross margin improved 60bps to 24.1% and SG&A grew 10.0%.

Operating income and EBITDA grew 14.7% and 14.4% respectively.

We achieved an 8.5% EBITDA margin in the region.

Consolidated:

Total revenues grew 7.7%.

Gross profit margin expanded by 20bps to 22.3%.

We achieved 20bps of expenses leverage on a consolidated basis.

EBITDA grew 10.6%, above total revenue growth to reach a 9.7% margin.

Net income grew 19.5%, which is above total revenues growth.

Financial position, liquidity and capital resources

Throughout the year we invested $17.4 billion pesos in high return projects to strengthen our business. This amount represented 21.7% more than in 2016 and is in line with our guidance.

Disciplined capital allocation is key to achieve our long-term goals. We are becoming more productive in remodels and new stores construction and thereby freeing capital to build foundations to become a more digitally enabled company.

In order to fund these strategic investments, we managed to leverage our base expenses; we are committed to driving productivity and to managing expenses with discipline.

We were able to reduce our expenses base by 44bps, expenditures related to store remodeling and maintenance increased by 4bps and we invested 15bps in new stores and eCommerce.

An accounting reclassification of vendor allowances represented 8bps and one-time effects related primarily to the earthquakes that took place in September represented 10bps.

Driven by strong cash generation from our operations, our cash position increased by 27.2% to $35.6 billion pesos, $7.6 billion pesos more than last year.

Inventories increased 10.8%, primarily due to acceleration in new store openings during the quarter where we opened 58 new stores, 13 more than in 4Q16.

Accounts payable grew 21.5% which led to improvements in working capital.

For the year we generated $54.4 billion pesos, $3.1 billion pesos more than last year.

Working capital has been a focus for us and we are really pleased with our discipline, especially in managing inventory and payables.

During the year we returned $42.8 billion pesos in dividends to our shareholders and invested $17.4 billion pesos back into the business.