Report of Independent Auditors

To the Shareholders of
Wal-Mart de México, S.A.B. de C.V.

Opinion

We have audited the accompanying consolidated financial statements of Wal-Mart de México, S.A.B. de C.V. and subsidiaries (hereinafter "the Company"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Wal-Mart de México, S.A.B. de C.V. and subsidiaries as at 31 December 2018 and their consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for audit opinion

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of this report. We are independent from Wal-Mart de México, S.A.B. de C.V. within the meaning of the Code of Ethics for Accounting Professionals of the International Ethics Standards Board for Accountants (IESBA) and the ethical requirements applicable to our audit of the consolidated financial statements in Mexico established by the Code of Ethics of the Mexican Institute of Public Accountants (IMCP, Spanish acronym) and have fulfilled our other responsibilities under those relevant ethical requirements and the Code of Ethics of the IESBA.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

I. Leases

We have considered as a key audit matter the accounting of the leased real state due to the corresponding contracts could include specific or complex terms that could have an impact on the Company's evaluation and its classification in the consolidated statement of financial position, as required by the International Accounting Standard (NIC) 17 "Leases".

The Note 3k) of the accompanying consolidated financial statements describes the policy and criteria applied by the Company for the evaluation and classification of real estate lease contracts as financial or operational.

We evaluated the internal control established by the Company for this process and based on a random sample, we inspected real estate lease contracts and analyzed the Company's evaluation of the terms of such contracts and their classification in the consolidated statement of financial position.

Other information

The other information comprises the financial and non-financial information (other than the financial statements and our audit report) presented in the annual report by the Company submitted to the National Banking and Securities Commission (the Commission) and in the annual report submitted to the shareholders for the year ended as at 31 December 2018. Management is responsible for the other information. We expect to obtain the other information after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when we have access to it and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If we conclude that there is a material misstatement of the other information contained in the Annual Report filed with the Commission and/or in the annual report submitted to the Company's shareholders, we are required to report that fact to those charged with governance and to describe the matter in our statement on the Annual Report required by the Commission.

Responsibilities of Management and of those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

The objectives of our audit 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Carlos Carrillo.

Mancera, S.C. A Member Practice of
Ernst & Young Global Limited

Mexico City, February 13, 2019

Wal-Mart de México, S.A.B. de C.V. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Amounts in thousands of Mexican pesos)

	For the years ended December 31 2018	2017
Net sales	$ 612,186,302	$ 569,014,876
Other revenues (Note 20)	4,724,030	4,356,066
Total revenues	616,910,332	573,370,942
Cost of sales	(475,323,820)	(442,298,647)
Gross profit	141,586,512	131,072,295
General expenses (Note 21)	(92,597,690)	(86,921,411)
Income before other income and expenses	48,988,822	44,150,884
Other income	891,793	721,372
Other expenses	(690,827)	(1,034,717)
Operating income	49,189,788	43,837,539
Financial income (Note 22)	2,329,577	1,385,836
Financial expenses (Note 22)	(2,659,629)	(1,933,375)
Income before income taxes	48,859,736	43,290,000
Income taxes (Note 17)	(12,107,123)	(10,899,663)
Net income from continuing operations	36,752,613	32,390,337
Net income from discontinued operations, net of income taxes (Note 8)	–	7,474,618
Consolidated net income	$ 36,752,613	$ 39,864,955

	For the years ended December 31 2018	2017
Components of other comprehensive income:		
Items that do not reclassify to profit or loss of the year:		
Actuarial results on employee benefits, net of income taxes	$ 39,412	$ (260,303)
Items that may be reclassified subsequently to profit or loss:		
Cumulative translation adjustment	(4,132,164)	(4,103,030)
Other comprehensive (loss) income	(4,092,752)	(4,363,333)
Comprehensive income	$ 32,659,861	$ 35,501,622
Basic earnings per share from continuing operations (in pesos)	$ 2.105	$ 1.855
Basic earnings per share (in pesos)	$ 2.105	$ 2.283

The accompanying notes are an integral part of these financial statements.

Wal-Mart de México, S.A.B. de C.V. and Subsidiaries

Consolidated Statements of Financial Position

(Amounts in thousands of Mexican pesos)

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents (Note 5)	$ 38,829,598	$ 35,596,117
Accounts receivable, net (Notes 6 and 13)	12,035,029	10,834,460
Inventories (Note 7)	63,344,265	59,463,255
Prepaid expenses and other	1,405,924	982,374
Total current assets	115,614,816	106,876,206
Non-current assets:		
Property and equipment, net (Note 9)	126,643,278	122,252,752
Finance leases, net (Note 10)	12,724,731	12,709,974
Investment properties, net (Note 11)	4,853,970	5,118,707
Intangible assets, net (Note 12)	36,997,739	39,368,028
Deferred tax assets (Note 17)	7,467,622	6,882,422
Other non-current assets	2,226,677	2,047,575
Total assets	$ 306,528,833	$ 295,255,664

	December 31, 2018	December 31, 2017
Liabilities and equity		
Current liabilities:		
Accounts payable	$ 85,327,000	$ 80,099,063
Other accounts payable (Notes 13 and 14)	27,569,376	23,837,886
Income taxes payable	1,269,116	3,890,598
Total current liabilities	114,165,492	107,827,547
Long-term liabilities:		
Other long-term liabilities (Note 16)	20,019,308	19,815,114
Deferred tax liabilities (Note 17)	5,786,932	6,087,187
Employee benefits (Note 18)	1,643,027	1,991,863
Total liabilities	141,614,759	135,721,711
Equity (Note 19):		
Common stock	45,468,428	45,468,428
Retained earnings	104,638,687	96,413,711
Components of other comprehensive income items	15,918,446	20,011,198
Premium on sale of shares	4,014,804	3,559,058
Employee stock option plan fund	(5,126,291)	(5,918,442)
Total equity	164,914,074	159,533,953
Total liabilities and equity	$ 306,528,833	$ 295,255,664

The accompanying notes are an integral part of these financial statements.

Wal-Mart de México, S.A.B. de C.V. and Subsidiaries

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(Amounts in thousands of Mexican pesos)

	Common stock	Retained earnings: Legal reserve	Retained earnings: Retained earnings	Components of other comprehensive income	Premium on sale of shares	Employee stock option plan fund	Total equity
Balance at December 31, 2016	$ 45,468,428	$ 9,104,745	$ 90,545,819	$ 24,374,531	$ 3,108,097	$ (5,575,604)	$ 167,026,016
Movements in employee stock option plan fund					450,961	(342,838)	108,123
Dividends declared			(43,101,808)				(43,101,808)
Comprehensive income			39,864,955	(4,363,333)			35,501,622
Balance at December 31, 2017	45,468,428	9,104,745	87,308,966	20,011,198	3,559,058	(5,918,442)	159,533,953
Movements in employee stock option plan fund					455,746	792,151	1,247,897
Dividends declared			(28,527,637)				(28,527,637)
Comprehensive income			36,752,613	(4,092,752)			32,659,861
Balance at December 31, 2018	**$ 45,468,428**	**$ 9,104,745**	**$ 95,533,942**	**$ 15,918,446**	**$ 4,014,804**	**$ (5,126,291)**	**$ 164,914,074**

The accompanying notes are an integral part of these financial statements.

Wal-Mart de México, S.A.B. de C.V. and Subsidiaries

Consolidated Statements of Cash Flows

(Amounts in thousands of Mexican pesos)

	For the years ended December 31 2018	2017
Operating activities		
Income before income taxes	$ 48,859,736	$ 43,290,000
Items related to investing activities:		
Depreciation and amortization	12,557,588	11,644,876
Loss from disposal of property and equipment and impairment	101,230	245,619
Stock option compensation expense	307,379	250,513
Interest earned	(1,268,122)	(1,030,317)
Items related to financing activities:		
Interest paid under finance leases	1,553,237	1,436,653
Discontinued operations	–	371,824
Cash flow from operating activities	62,111,048	56,209,168
Variances in:		
Accounts receivable	(641,255)	(1,604,457)
Inventories	(4,476,889)	(6,468,291)
Prepaid expenses and other assets	(502,572)	(436,377)
Accounts payable	6,107,659	14,925,876
Other accounts payable	167,266	2,736,206
Income tax paid	(15,325,302)	(15,219,977)
Employee benefits	94,815	(19,674)
Discontinued operations	–	(987,109)
Net cash flow from operating activities	47,534,770	49,135,365

	For the years ended December 31 2018	2017
Investing activities		
Long-lived assets	$ (17,932,578)	$ (17,425,635)
Interest collected	1,268,122	1,030,317
Proceeds from sale of property and equipment	255,904	231,697
Employee stock option plan fund	940,518	(142,390)
Business disposal	–	20,229,114
Discontinued operations	–	(35,945)
Net cash flow (used in) from investing activities	(15,468,034)	3,887,158
Financing activities		
Dividends paid	(25,581,976)	(42,755,604)
Payment of finance leases	(1,557,334)	(1,609,939)
Discontinued operations	–	(15,583)
Net cash flow used in financing activities	(27,139,310)	(44,381,126)
Effect of changes in the value of cash	(1,693,945)	(1,020,816)
Net increase in cash and cash equivalents	3,233,481	7,620,581
Cash and cash equivalents at beginning of year	35,596,117	27,975,536
Cash and cash equivalents at end of year	$ 38,829,598	$ 35,596,117
Non-cash transactions:		
Finance leases	$ 1,205,197	$ 1,200,618

The accompanying notes are an integral part of these financial statements.

Wal-Mart de México, S.A.B. de C.V. and Subsidiaries

Notes to Consolidated Financial Statements

At December 31, 2018 and 2017

(Amounts in thousands of Mexican pesos, except where otherwise indicated)

1. Description of the business

GRI 102-5, 102-25

a) Corporate information

Wal-Mart de México, S.A.B. de C.V. (**WALMEX**, "the Company" or "the Group") is a Mexican company incorporated under the laws of Mexico and listed on the Mexican Stock Exchange, whose headquarters are located at Nextengo #78, Santa Cruz Acayucan, 02770, in Mexico City. The principal shareholder of **WALMEX** is Walmart, Inc., a U.S. corporation, through Intersalt, S. de R.L. de C.V., a Mexican company that holds equity interest of 70.51% in the Company.

WALMEX holds 100% of equity interest in the following groups of companies in Mexico and Central America:

Group	Line of business
Nueva Walmart	Operation of 1,910 Bodega Aurrerá discount stores, 274 Walmart hypermarkets 91 Superama supermarkets, and 163 Sam's Club membership self-service wholesale stores in 2018.
Import companies	Import of goods for sale.
Real estate	Property developments and management of real estate companies.
Service companies	Rendering of professional services to Group companies and not-for-profit services to the community at large, as well as shareholding.
Walmart Central America	Operation of 540 discount stores (Despensa Familiar and Palí), 97 supermarkets (Paiz, La Despensa de Don Juan, La Unión and Más x Menos), 143 Bodegas, Maxi Bodega and Maxi Palí), and 31 Walmart hypermarkets in 2018. These stores are located in Costa Rica, Guatemala, Honduras, Nicaragua and El Salvador.

2. New accounting pronouncements

a) International Financial Reporting Standards ("IFRS") effective as of January 1, 2018.

International Financial Reporting Standard (IFRS) 9, Financial instruments

Outlines the new requirements for classification, measurement, impairment and hedge accounting. Management has evaluated this standard and concluded it will not have a material effect on the consolidated financial statements with respect to its financial assets and liabilities. **WALMEX** will continue to use IAS 39 (Financial Instruments: Recognition and Measurement) for hedge accounting.

IFRS 15, *Revenue from contracts with customers*

According to IFRS 15, an entity recognizes revenue when the obligation is satisfied; that is, when the "control" of the goods or services underlying the performance obligation has been transferred to the customer. Likewise, guidance has been included to deal with specific situations. In addition, the number of disclosures required was increased. Management concluded that the application of this standard did not have a material impact on the consolidated financial statements. The adoption of this standard was made on January 1, 2018 under the modified retrospective method. The effect of adopting IFRS 15 is reflected in Note 20.

Amendments to IFRS 2, *Classification and Measurement of Share-based Payment Transactions*

Addresses three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. Management concluded that the application of these amendments does not have a material impact on the consolidated financial statements.

IFRIC Interpretation 22, *Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or portion thereof) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact to the Company's consolidated financial statements.

b) Standards that will be effective in 2019

IFRS 16, *Leases*

This standard is effective for annual periods beginning on or after January 1, 2019 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. **WALMEX** has decided to adopt IFRS 16, using the modified retrospective approach and, therefore, the comparative information will not be restated and will continue to be recorded under IAS 17. Additionally, the Company will use the exemptions proposed by the standard for lease agreements whose lease terms end within 12 months from the date of the initial request and lease agreements for which the underlying asset value is low.

Management currently estimates total assets and liabilities will increase approximately $35,700 million upon adoption, after considering deferred taxes. Management does not expect a material impact on the Company's Consolidated Statements of Comprehensive Income or Cash Flowsa.

IFRIC 23, *Uncertainty in relation to tax treatment of profits*

This interpretation seeks to clarify the application of the recognition and measurement criteria established in IAS 12 - "Income taxes", when there are uncertain tax positions. Uncertain tax positions are those tax positions where there is uncertainty about whether the competent tax authority will accept the tax position under the current tax laws.

The interpretation is effective for annual reporting periods beginning on or after January 1, 2019. Management estimates that the impact of the adoption of the interpretation will increase its liabilities by approximately $650 million.

3. Summary of significant accounting policies

A summary of the significant accounting policies is described below. These policies have been applied consistently with those applied in the year ended December 31, 2017, except for the revenue policy which was updated in accordance with the adoption of the new IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments".

a) Basis of preparation

The accompanying consolidated financial statements have been prepared in conformity with the IFRS issued by the International Accounting Standards Board (IASB), and the interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC), including those issued previously by the former Standard Interpretations Committee (SIC).

The consolidated statements of comprehensive income were prepared based on the function of the components, which allows disclosure of cost of sales separately from other costs, operating and administrative expenses, with both expenses recognized in the statement of income at the time they are incurred.

Prior to the consolidation process, the financial statements of the Company's foreign subsidiaries are prepared under IFRS and translated to Mexican pesos using the average exchange rate for the consolidated statement of comprehensive income and the year-end exchange rate for the consolidated statement of financial position.

The cumulative translation adjustment is the effect of translating the financial statements of the Company's foreign subsidiaries into Mexican pesos. This effect is recognized in equity.

The statement of cash flows is prepared using the indirect method.

The preparation of consolidated financial statements requires the use of accounting estimates and assumptions based on historical experience and other factors and therefore the actual results may differ from estimates. The estimates and assumptions are reviewed periodically and are as follows:

- Accounting estimates for inventory shrinkage; impairment of property and equipment, investment properties and goodwill.

- Assumptions such as discount rates used to determine finance leases; useful lives for property and equipment and intangible assets with definite lives; labor obligation present value factors determined through actuarial valuations using economic assumptions, such as discount rate, inflation rate, salary increase rate and minimum salary increase rate; and determination of the recoverable value involving significant judgments such as future cash flows, the discount rate and the interest rate; fair value of derivative financial instruments and investment properties.

WALMEX has sufficient resources to continue operating as a going concern. The accompanying consolidated financial statements have been prepared on a going-concern basis and on a historical-cost basis, except for financial assets and liabilities and derivative financial instruments, which are fair valued as of the end of every period. The Mexican peso is the Company's functional and reporting currency.

b) Consolidation

The accompanying consolidated financial statements include the financial statements of **WALMEX**, entities in which the Company was deemed the primary beneficiary and those of its Mexican and foreign subsidiaries in which has control, which are grouped as described in Note 1, and prepared considering the same accounting period.

Subsidiaries are consolidated from the date on which control is assumed by **WALMEX**, and until such control is lost. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the date of acquisition or up to the date of sale, as appropriate.

Transactions and related party balances are eliminated in the consolidation.

c) Financial assets and liabilities and fair value measurement

The Company determines the classification of financial assets and liabilities at initial recognition as described below:

I. **Financial assets.** These assets are classified in one of the following categories, as required: financial assets at fair value through profit or loss, accounts receivable, investments held to maturity. The Company's financial assets primarily consist of cash and cash equivalents, trade receivables and other accounts receivable which are initially recognized at fair value. Fair value of an asset is the price in which such asset would be sold in an ordinary transaction with third parties.

II. **Financial liabilities.** These liabilities are classified in accounts payable, other accounts payable and finance leases; these liabilities are initially recognized at fair value and subsequently valued to amortized cost using the effective interest rate method. The liabilities from derivatives are recognized initially and subsequently at fair value. Fair value of a liability is the amount that would be paid to transfer the responsibility to a new creditor in an ordinary transaction among those parties.

Assets and liabilities carried at fair value are measured using the fair value hierarchy, which prioritizes the inputs used in measuring fair value. The levels of the fair value hierarchy are as follows:

- Level 1. Quoted prices for identical instruments in active markets,
- Level 2. Other valuations including quoted prices for similar instruments in active markets that are directly or indirectly observable, and
- Level 3. Unobservable data inputs, for which the Company develops its own assumptions and valuations.

Subsequent measurement of the Company's financial assets and liabilities is determined based on their classification.

The Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

d) Cash and cash equivalents

Cash and cash equivalents principally consist of bank deposits, credit and debit card transfer transactions that process in less than seven days, and highly liquid investments with maturities of less than 90 days, plus accrued interest. Cash is stated at fair value.

Cash that is restricted and cannot be exchanged or used to settle a liability for a minimum period of twelve months is presented in a separate line item in the statement of financial position and is excluded from cash and cash equivalents in the cash flow statement.

e) Derivative financial instruments

The Company has entered into currency hedging through Over the Counter (OTC) currency forward transactions (Fx-forwards) to mitigate the effects caused by variability in the exchange rate of foreign currency on its accounts payable related to import goods for sale. The maximum length of these contracts is six months.

Derivatives are initially recognized at fair value at the date the derivative contract is subscribed and subsequently revalued at fair value at the end of the reporting period. The resulting gain or loss is recognized immediately as a part of the financial income (expense) line in the consolidated statement of comprehensive income.

In accordance with our standards of corporate governance, the Company manages only Fx-forwards as derivative financial instruments.

f) Accounts receivable and provision for impairment of other accounts receivable

WALMEX recognizes the impairment of its receivables by applying the simplified approach allowed by IFRS 9 "Financial Instruments", recognizing the expected credit losses as of the creation of the account receivable. These assets are grouped according to the characteristics of credit risk and the days past due, with the expected loss provision for each risk group determined based on the historical credit loss and experience of the Company, adjusted for specific factors for debtors and effects in the economic environment.

g) Inventories

Inventories are valued using the retail method, except for merchandise for the Sam's Club, distribution centers, Agro-Industrial development (grains, edibles and meat) and perishable divisions, which are stated using the weighted average cost method. These methods are consistent with those applied in the prior year. Inventories, including obsolete, slow-moving and defective items or items in poor condition, are stated at the lower of cost and net realizable value.

Freight and buying allowances are capitalized in inventory and are recognized in the cost of sales based on the turnover of the inventories that gave rise to them.

h) Prepaid expenses

Prepaid expenses are recorded at cost and recognized as current assets in the consolidated statement of financial position as of the date the prepayments are made. Once the goods or services related to the prepayments are received, they should be charged to the income statement or capitalized in the corresponding asset line when there is certainty that the acquired goods will generate future economic benefits.

i) Property and equipment

Property and equipment are recorded at acquisition cost and are presented net of accumulated depreciation.

Depreciation of property and equipment is computed on a straight-line basis at the following annual rates:

Buildings, facilities and leasehold improvements:

• Constructions and structures	2.5%	to	5.0%
• Facilities and adaptations	5.0%	to	12.5%
• Construction finishes	10.0%	to	25.0%
• Furniture and equipment	5.0%	to	33.3%
• Computer equipment	12.5%	to	33.3%
• Transportation equipment	10.0%	to	33.3%

Construction in progress mostly consists of investments in the construction of new stores and is recognized at cost. Upon completion of each project, the Company reclassifies work in process to property and the depreciation begins.

Properties and equipment acquired under finance leases are depreciated at the shorter between the useful life of the asset and the term of the contract including the lessee's unilateral right to renewal.

j) Investment properties

Investment properties consist of land, buildings and constructions and facilities in properties that are leased to others and are maintained to obtain economic benefits through the collection of rent. Investment properties are measured initially at cost, including transaction costs. After initial recognition, they continue to be valued at cost less depreciation and accumulated losses due to impairment.

Depreciation of investment properties is computed on a straight-line basis at the following annual rates:

Constructions and structures	2.5%	to	5.0%
Facilities and adaptations	5.0%	to	12.5%
Finishes of construction	10.0%	to	25.0%

k) Leases

The Company classifies its property lease agreements as either finance or operating leases.

WALMEX as a lessee

WALMEX considers as finance leases those where substantially all of the risks and rewards of ownership are transferred. Finance leases are recorded at the lower of the fair value of the leased property and the present value of the minimum lease payments, and are amortized over the shorter of the estimated useful life of the asset or the remaining expected lease term, including unilateral renewals contemplated in each lease agreement.

Lease agreements that do not qualify as finance leases are treated as operating leases. Payments made under operating leases are recognized in the income statement on a straight-line basis over the remaining expected lease term. The starting date of a lease is considered the possession date of the leased property, including the lessee's rights to renewal. Variable lease payments are based on a percentage of the Company's sales, and are recognized as an expense in the period in which they are incurred.

The Company analyzes its service agreements that do not have the legal form of a lease, but which involve obtaining the right of use of an asset in exchange for payment.

WALMEX as a lessor

WALMEX obtains rental income from investment properties: the variable rental income is recognized as revenue in the period in which it is earned. This revenue is presented under the other revenue line within the consolidated statement of comprehensive income.

l) Impairment of long term definite useful life assets

The long-term finite useful life assets are subject to impairment tests only when there is objective evidence of impairment.

The Company recognizes impairment in the value of this type of assets by applying the expected present value technique to determine value in use, considering each store as the minimum cash-generating unit.

The present value technique requires detailed budget calculations, which are prepared separately for each cash-generating unit. These budgets generally cover five years and, if necessary, are projected beyond five years using an expected growth percentage.

Impairment losses are recognized in the consolidated statement of comprehensive income as a part of other expenses.

m) Intangible assets

Intangible assets are recognized when they have the following characteristics: they are identifiable, they give rise to future economic benefits and the Company has control over such benefits.

Intangible assets are valued at the lower of acquisition cost or fair value at the acquisition date and are classified based on their useful lives, which may be definite or indefinite. Indefinite-lived assets are not amortized; however, they are subject to annual impairment tests. Definite-lived assets are amortized using the straight-line method at rates between 7.7% and 33.3%.

n) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets of Walmart Central America at the acquisition date.

Goodwill was assigned applying the perpetuity value technique to determine the goodwill's value in use, considering each Central American country (Costa Rica, Guatemala, Honduras, Nicaragua and El Salvador) as a minimum cash generating unit.

Goodwill is tested for impairment annually. The Company engages the services of an independent expert to test its goodwill for impairment. 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 value of money over time and the specific risks affecting such assets.

Future cash flows consider the business plan and projections used by management in its decision making for the following five years.

Goodwill is translated at the closing exchange rate and the effect is recognized in other comprehensive income.

o) Discontinued operations

Revenue, expenses and costs related to such transactions are separately disclosed and recognized for comparability as part of the discontinued operations line in the consolidated statement of comprehensive income.

p) Liabilities and provisions

Accrued liabilities represent current obligations (legal or assumed) for past events where an outflow of economic resources is possible and can be reasonably estimated. These provisions have been recorded based on management's best estimation. Reimbursements are recognized net of any related obligation when it is certain that the reimbursement will be obtained. Provision expenses are presented in the consolidated statement of comprehensive income net of any corresponding reimbursements.

q) Income taxes

Income taxes are classified as current and deferred, and are recognized in the consolidated statement of comprehensive income in the year they are expensed or accrued, except when they come from items directly recognized in other comprehensive income, in which case, the corresponding taxes are recognized in equity.

Current income taxes are determined based on the tax laws approved in the countries where **WALMEX** has operations, and are the result of applying the applicable tax rates at the date of the consolidated financial statements on the taxable profits of each entity of the Group. Current income taxes are presented as a current liability/asset net of prepayments made during the year.

Deferred income taxes result from applying the applicable enacted or substantively enacted income tax rate at the reporting date to all temporary differences between the financial reporting and tax values of assets and liabilities.

Deferred tax assets are only recognized when it is probable that sufficient taxable profit will be available against which the deductions for temporary differences can be taken. The deferred tax liabilities are generally recognized for all taxable temporary differences.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the deferred assets to be used. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

The deferred income tax on temporary differences arising from investments in subsidiaries and associates is recognized, unless the period of reversal of temporary differences is controlled by **WALMEX** and it is probable that the temporary differences will not reverse in the near future.

Deferred tax assets and liabilities are offset when a legal right exists and when the taxes are levied by the corresponding tax authority.

r) Employee benefits

Employees in Mexico are entitled to a seniority premium in accordance with the Mexican Federal Labor Law. Also, **WALMEX** employees in each of the six countries are entitled to termination benefits to be paid in accordance with each country's respective labor laws. These employee benefits are recognized as expenses during the years in which services are rendered, based on actuarial computations performed by independent experts using the projected unit credit method.

In Mexico, the seniority premium is granted to employees who retire from the Company with a minimum of fifteen years of seniority. The amount paid to the associate is equivalent to twelve days for each year worked, without exceeding the amount for each day of twice the minimum wage. The Company has set up a defined benefits trust fund to cover seniority premiums accruing to employees. Employees make no contributions to this fund.

In Central America, the termination benefits for associates are paid when required in the case of unjustified dismissal or death, in accordance with the Labor Law of each country where the Company operates. The benefits range from 20 days to one month of salary for each year of uninterrupted service.

All other payments to which employees or their beneficiaries are entitled in the event of involuntary retirement or death are expensed as incurred, in accordance with the federal labor laws of each country.

Actuarial gains and losses are recognized as they accrue directly in the consolidated statement of comprehensive income, and in the statement of change in equity.

s) Equity

Legal reserve:

At December 31, 2018, the Company's legal reserve amounts to $9,104,745, which represents 20% of its equity, which under the Mexican Corporations Act is the maximum level the balance of the reserve can reach.

Employee stock option plan fund and stock option compensation:

As of December 31, 2017, the employee stock option plan fund is comprised of **WALMEX** shares which are acquired in the secondary market and are presented at acquisition cost. The plan is designed to grant stock options to executives of the companies of the Group, as approved by the Mexican National Banking and Securities Commission.

The shares subject to the plan are assigned, taking as a reference the weighted average price of the purchase and sale transactions in the secondary market of such shares.

According to the previous policy, **WALMEX** executives may exercise their option to acquire shares in equal parts over five years. The right to exercise an employee stock option expires after ten years as of the grant date or after sixty days following the date of the employee's termination.

In 2018, the policy was modified to add the "restricted shares" and modify the vesting period. According to the current policy, executives may exercise their option to acquire shares over four years divided in two equal parts, 50% in two years and the remaining 50% by the end of the fourth year. The term to exercise the rights is 10 years from the grant date.

The vesting period for the restricted shares plan is 3 years and the term to exercise the option is up to 10 years starting from the date of the assignment. The amount of the restricted shares is subject to compliance with certain metrics that are evaluated for assignment after the first year, which may cause the original allocation to decrease or increase within a range of 0% to 150%.

The compensation cost of stock options is recognized in general expenses in the consolidated statement of comprehensive income at fair value.

Premium on sale of shares:

The premium on sale of shares represents the difference between the cost of shares and the value at which such shares were sold, net of the corresponding income tax.

t) Revenue recognition

Revenue from merchandise sales, including online sales ("e-commerce") is recognized in the consolidated statement of comprehensive income at the time ownership and risks of the products sold are transferred to the customer. Revenue from services is recognized at the time the service is provided.

Extended warranties, service commissions and cell phone airtime are recognized in the net sales line in the consolidated statement of comprehensive income at time the service is provided.

Sam's Club membership income is deferred over the twelve-month term of the membership and presented in the other revenue line in the consolidated statement of comprehensive income.

Rental income is recognized as it accrues over the terms of the lease agreements entered into with third parties and presented in the other revenue line in the consolidated statement of comprehensive income.

Revenue from the sale of waste and parking is recognized in the other revenue line in the consolidated statement of comprehensive income at the time ownership of the products sold is transferred to the customer.

u) Basic earnings per share

Basic earnings per share is the result of dividing the net income of the year attributable to owners of the parent by the weighted average number of outstanding shares. Diluted earnings per share are the same as basic earnings per share since there is currently no potentially dilutive common stock.

v) Operating segments

Segment financial information is prepared based on the information used by the Chief Operating Decision Maker "CODM" to make business decisions and assess the Company's performance. Segment information is presented based on the geographical zones in which the Company operates.

w) Foreign currency transactions

The Company's foreign currency denominated assets and liabilities are translated to the functional currency at the prevailing exchange rate at the date of the consolidated statement of financial position. Exchange differences are recognized in the consolidated statement of comprehensive income in the financial income (expenses) lines.

4. Risk management

a) General risk factors

The Company is exposed to the effects of future events that could affect the purchasing power and/or buying habits of the population. These events may be economic, political or social in nature and some of the most important are described below:

I. **Changes in exchange rates.** Exchange rate fluctuations tend to put upward pressure on inflation and reduce the population's purchasing power, which could ultimately adversely affect the Company's sales, in particular due to the purchase of import goods.

II. **Competition.** The retail sector has become very competitive in recent years, which has led to the need for all the players in the market to constantly look for ways to set themselves apart from the competition. This puts the Company's market share at risk. Other factors affecting the Company's market share could be the business expansion of its competitors and the possible entrance of new competitors into the market.

III. **Inflation.** A significant increase in inflation rates could have a direct effect on the purchasing power of the Company's customers and the demand for its products and services, as well as employment and salaries.

IV. Changes in government regulations. The Company is exposed to the changes in different laws and regulations, which, after becoming effective, could affect the Company's operating results, such as an impact on sales, expenses for payroll indirect taxes and changes in applicable rates. Currently, the level of scrutiny and discretion by the tax authorities has greatly increased. Mexican legal courts have changed their position favoring the authorities with respect to ignoring violations of form and procedure.

b) Financial risk factors:

The Company's activities are exposed to various financial risks such as market risk, exchange rate risk and interest rate risk. The Company's risk management plan seeks to minimize the potential negative effects of these risks.

Exchange rate risk:

The Company operates with foreign companies and therefore is exposed to the risk of exchange rate operations with foreign currencies, particularly the US dollar ("USD").

At December 31, 2018, the exchange rate used to translate assets and liabilities denominated in US dollars was $19.66 per dollar ($19.65 in 2017).

Considering the net monetary position in dollars at December 31, 2018, if there was an increase or decrease in the exchange rate of the US dollar against the Mexican peso of 5%, there would be a favorable or unfavorable effect on the financial income (expenses) and equity of the Company of $190,624.

The Company has entered into Fx-forward contracts for foreign currency in order to protect itself from exposure to variability in the exchange rate for the payment of liabilities in Mexico related to the purchase of imported goods agreed in US dollars.

The valuation techniques used by the Company to determine and disclose the fair value of its financial instruments are based on the fair value hierarchy level 2. (See Note 3 "Summary of significant accounting policies - Financial assets and liabilities and fair value measurement").

At December 31, 2018 and 2017, the Company has Fx-forward contracts for an average period of three months as shown below:

	2018		2017	
Current contracts		90		39
Notional amount (millions of USD)	US$	191.96	US$	62.32
Fair value (millions of pesos)	$ (	72.74)	$	25.45

Interest rate risk:

The Company has temporary investments which generate financial income. By reducing the interest rate, the financial income of the Company also decreases. The interest rate of these investments fluctuated during the year between 4.20% and 8.18%. As of December 31, 2018 the financial income amounted to $1,268,122 ($1,030,317 in 2017).

Considering the highly liquid instruments as of December 31, 2018, if there was an increase or decrease in the interest rate of 0.50%, there would be a favorable or unfavorable effect on the financial income of the Company of $74,683.

5. Cash and cash equivalents

An analysis of cash and cash equivalents as of December 31, 2018 and 2017, is as follows:

	2018		2017	
Cash and cash in banks	$	14,625,147	$	16,690,567
Highly marketable investments		24,204,451		18,905,550
	$	38,829,598	$	35,596,117

6. Accounts receivable

An analysis of accounts receivable at December 31, 2018 and 2017, is as follows:

	2018	2017
Recoverable taxes	$ 7,865,937	$ 6,878,768
Trade receivables	2,745,233	2,414,224
Other accounts receivable	1,495,376	1,628,462
Related parties (Note 13)	83,000	108,052
Provision for impairment of other receivables	(154,517)	(195,046)
	$ 12,035,029	$ 10,834,460

Average aging to collect the accounts receivable to customers is 30 to 90 days.

7. Inventories

An analysis of inventories as of December 31, 2018 and 2017, is as follows:

	2018	2017
Merchandise for sale	$ 59,696,445	$ 56,640,916
Agro-industrial development	914,688	909,313
	60,611,133	57,550,229
Merchandise in transit	2,733,132	1,913,026
	$ 63,344,265	$ 59,463,255

As of December 31, 2018 and 2017, the effect of inventory impairment is $1,155,004 and $1,134,477, respectively, which was included in cost of sales in the income statement.

8. Discontinued operations

On April 4, 2017, **WALMEX** sold to Liverpool 100% of the shares held by **WALMEX** in the legal entities comprising the Suburbia group, as well as certain intangible assets, furniture and **WALMEX**'s interest in owned and leased assets for the net amount of $16,269,000. As part of this transaction, Liverpool assumed debt of $1,392,000 under finance leases. In addition, Suburbia (now a subsidiary of Liverpool) paid **WALMEX** $3,293,000 in dividends and a capital reduction.

In 2017, the Company obtained a net result for discontinued operations of $7,474,618 (includes the gain on the sale of Suburbia of $7,225,000). It also recognized $5,047,000 as deferred revenue, which will be recognized in income through rental agreements for approximately 20 years (Notes 14 and 16).

The summary of discontinued operations reported in the consolidated statement of comprehensive income for the year ended December 31, 2017, that includes the results of operations of the Suburbia stores are as follows:

	2017
Total revenue	$ 12,688,568
Costs and expenses	(2,658,436)
Income tax	(2,555,514)
Net income from discontinued operations	$ 7,474,618

Legal, consulting, advisory and other expenses related to the disposal of Suburbia, are recognized in the year they are incurred in the discontinued operations line in the consolidated statement of comprehensive income.

In 2017, the Company applied tax benefits of $3,063,000 that had been recognized in deferred tax assets as of December 31, 2016.

The net cash flows of Suburbia for the period from January 1 to April 4, 2017 were $(666,813)

9. Property and equipment

An analysis of property and equipment at December 31, 2018 and 2017, is as follows:

	December 31, 2016	Additions	Disposals	Transfers	Translation effect	December 31, 2017	Additions	Disposals	Transfers	Translation effect	**December 31, 2018**
Land	$ 31,023,378	$ 306,878	$ (203,763)	$ (774,690)	$ (420,098)	$ 29,931,705	$ 161,016	$ (7,703)	$ 402,095	$ (306,839)	$ 30,180,274
Buildings	48,873,293	2,489,449	(221,205)	9,430,500	(937,869)	59,634,168	1,788,325	(653,538)	3,086,509	(767,054)	63,088,410
Facilities and leasehold improvements	53,720,104	2,245,950	(747,229)	(11,337,835)	(311,966)	43,569,024	977,017	(706,321)	1,268,176	(260,999)	44,846,897
Furniture and equipment	63,670,932	6,776,701	(2,283,249)	1,508,929	(943,481)	68,729,832	5,789,288	(1,052,006)	2,740,692	(833,648)	75,374,158
Subtotal	197,287,707	11,818,978	(3,455,446)	(1,173,096)	(2,613,414)	201,864,729	8,715,646	(2,419,568)	7,497,472	(2,168,540)	213,489,739
Accumulated depreciation	(78,883,025)	(10,510,223)	2,696,170	1,943,700	620,159	(84,133,219)	(11,309,228)	2,080,436	(106,245)	661,052	(92,807,204)
Construction in progress	3,285,624	5,124,437	(237,638)	(3,981,714)	330,533	4,521,242	8,922,590	3,416	(7,502,528)	16,023	5,960,743
Total	$ 121,690,306	$ 6,433,192	$ (996,914)	$ (3,211,110)	$ (1,662,722)	$ 122,252,752	$ 6,329,008	$ (335,716)	$ (111,301)	$ (1,491,465)	$ 126,643,278

Depreciation expense for the years ended December 31, 2018 and 2017, was $11,154,800, and $10,396,379, respectively, and is included in the general expenses line in the consolidated statement of comprehensive income. The depreciation included in cost of sales was $154,428 and $113,844, respectively.

As of December 31, 2017, the transfer column included the reclassification of the initial balance of the property and equipment held for the sale of Suburbia of $2,129,746.

Property and equipment impairment for the years ended December 31, 2018 and 2017, was $216,004 and $46,243, respectively, and is presented in the disposals column. Also, impairment reversal amounted to $128,270 and $26,774, respectively.

10. Finance leases

An analysis of finance leases as of December 31, 2018 and 2017, is as follows:

	December 31, 2016	Additions	Disposals	Transfer	Translation effect	December 31, 2017	Additions	Disposals	Transfer	Translation effect	**December 31, 2018**
Buildings	$ 14,168,689	$ 1,071,885	$ (205,285)	$ (25,875)	$ (121,250)	$ 14,888,164	$ 1,084,781	$ (931,954)	$ 297,828	$ (85,631)	$ 15,253,188
Furniture and equipment	2,248,595	128,733	(19,409)	(23,918)	–	2,334,001	120,416	(23,880)	(77,744)	–	2,352,793
Subtotal	16,417,284	1,200,618	(224,694)	(49,793)	(121,250)	17,222,165	1,205,197	(955,834)	220,084	(85,631)	17,605,981
Accumulated depreciation	(4,073,180)	(697,522)	59,727	168,660	30,124	(4,512,191)	(687,704)	552,424	(257,521)	23,742	(4,881,250)
Total	$ 12,344,104	$ 503,096	$ (164,967)	$ 118,867	$ (91,126)	$ 12,709,974	$ 517,493	$ (403,410)	$ (37,437)	$ (61,889)	$ 12,724,731

Amortization expense for the years ended December 31, 2018 and 2017, was $687,704 and $697,522, respectively, and is included in the general expenses line in the consolidated statement of comprehensive income.

Finance lease impairment for the years ended December 31, 2018 and 2017, was $57,656 and $5,713, respectively, and is presented in the disposals column. Also, impairment reversal amounted $41,494 and $28,434, respectively.

11. Investment properties

An analysis of investment properties as of December 31, 2018 and 2017 is as follows:

	December 31, 2016	Additions	Disposals	Transfers	December 31, 2017	Additions	Disposals	Transfers	**December 31, 2018**
Land	$ 1,353,370	$ –	$ (5,580)	$ 1,244,990	$ 2,592,780	$ –	$ (39,246)	$ –	$ 2,553,534
Buildings	810,646	–	(59,783)	1,929,137	2,680,000	39,984	(63,476)	–	2,656,508
Facilities and improvements	489,603	–	(215)	1,861,807	2,351,195	1,630	15,478	–	2,368,303
Subtotal	2,653,619	–	(65,578)	5,035,934	7,623,975	41,614	(87,244)	–	7,578,345
Accumulated depreciation	(338,426)	(215,274)	–	(1,951,568)	(2,505,268)	(233,422)	14,315	–	(2,724,375)
Total	$ 2,315,193	$ (215,274)	$ (65,578)	$ 3,084,366	$ 5,118,707	$ (191,808)	$ (72,929)	$ –	$ 4,853,970

Depreciation expense for the years ended December 31, 2018 and 2017, was $233,422, and $215,274, respectively, and is included in the general expenses line in the consolidated statement of comprehensive income.

The fair value of investment properties as of December 31, 2018 and 2017 is $8,028,001 and $8,325,199, respectively.

The investment properties of the Company consist of commercial properties located in Mexico. The administration determined that the investment properties are grouped according to the nature, characteristics and main client of each property.

As of December 31, 2018 and 2017, the fair values of the properties are based on management valuations. To calculate the value of a commercial property, the rental approach was used, applying the corresponding gross rent multiplier (GRM).

12. Intangible assets

An analysis of intangible assets at December 31, 2018 and 2017, is as follows:

	December 31, 2016	Additions	Disposals	Transfers	Translation effect	December 31, 2017	Additions	Disposals	Transfers	Translation effect	**December 31, 2018**
Goodwill	$ 39,420,548	$ –	–	$ –	$ (2,047,352)	$ 37,373,196	$ –	$ –	$ –	$ (2,383,986)	**$ 34,989,210**
Trademarks	974,126	–	–	–	(59,853)	914,273	–	–	–	(46,027)	**868,246**
Licenses and software	2,159,949	482,220	(1,353)	14,533	(33,094)	2,622,255	252,728	(4,223)	148,651	(10,594)	**3,008,817**
Customer base	250,366	–	–	–	(20,576)	229,790	–	–	–	(14,766)	**215,024**
Subtotal	42,804,989	482,220	(1,353)	14,533	(2,160,875)	41,139,514	252,728	(4,223)	148,651	(2,455,373)	**39,081,297**
Accumulated amortization	(1,465,457)	(335,701)	1,871	(6,566)	34,367	(1,771,486)	(327,234)	70	500	14,592	**(2,083,558)**
Total	$ 41,339,532	$ 146,519	$ 518	$ 7,967	$ (2,126,508)	$ 39,368,028	$ (74,506)	$ (4,153)	$ 149,151	$ (2,440,781)	**$ 36,997,739**

As a result of its impairment testing, the Company concluded that there was no impairment in the value of the Company's Goodwill as of December 31, 2018 and 2017.

Trademarks represents the trademarks acquired at the time of the acquisition of Walmart Central America, including: Palí, Despensa Familiar, Maxi Bodega, among others. Trademarks are translated at the year-end exchange rate and the corresponding effect is recognized as a component of other comprehensive income.

Licenses, software and customer amortization expense for the years ended December 31, 2018 and 2017, was $327,234 and $335,701, respectively, and is included in the general expenses line of the consolidated statement of comprehensive income.

13. Related parties

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a) Related party balances

As of December 31, 2018 and 2017, the consolidated statement of financial position includes the following balances with related parties:

	2018		2017	
Accounts receivable:				
Walmart, Inc. (holding company)	$	83,000	$	108,052
Accounts payable:				
C.M.A. - U.S.A., L.L.C.	$	689,282	$	712,442
Swiss Asia Minor GmbH		120,005		207,225
	$	809,287	$	919,667
Other accounts payable:				
Walmart Inc.	$	1,143,739	$	716,406

As of December 31, 2018 and 2017, balances with related parties consist of current accounts that bear no interest, are payable in cash and have no guarantees.

b) Related party transactions

WALMEX has entered into the following open-ended agreements with related parties:

- Imports of goods for sale, which are interest-free and payable monthly.
- Purchase commissions with Swiss Asia Minor GmbH that are payable on a recurring basis.
- Technical assistance and services with Walmart, Inc. that are payable monthly.
- Royalties for trademark use with Walmart, Inc., payable quarterly based on a percentage of sales of the retail businesses.

The terms of the related party transactions are consistent with those of an arm's length transaction.

The Company had the following transactions with related parties during the years ended December 31, 2018 and 2017:

	2018		2017	
Purchases and commissions related to the import of goods for sale:				
C.M.A. - U.S.A., L.L.C.	$	4,644,211	$	4,389,784
Swiss Asia Minor GmbH		247,429		218,174
	$	4,891,640	$	4,607,958
Costs and expenses related to technical assistance, services and royalties:				
Walmart Inc.	$	4,225,378	$	3,284,545

c) Remuneration of principal officers

Remuneration to the Company's principal officers and Board of Directors for the years ended December 31, 2018 and 2017 is as follows:

	2018		2017	
Short-term benefits	$	1,238,960	$	1,255,014
Termination benefits		60,081		86,076
Share-based payments		126,434		82,942
	$	1,425,475	$	1,424,032

14. Other accounts payable

An analysis of other accounts payable as of December 31, 2018 and 2017, is as follows:

	2018	2017
Accrued liabilities and others	$ 17,002,963	$ 16,969,500
Dividends	5,831,387	2,874,633
Contingencies (Note 15)	1,699,542	1,513,403
Deferred revenue [(a)]	1,583,393	1,382,740
Related parties (Note 13)	1,143,739	716,406
Finance lease (Note 16)	308,352	381,204
	$ 27,569,376	$ 23,837,886

[(a)] Deferred income represents SAM's club memberships, unredeemed gift cards and deferred income for rentals related to the sale of Vips and Suburbia.

15. Commitments and contingencies

a) Commitments

As of December 31, 2018, the Company has entered into agreements with suppliers for the acquisition of inventories, property and equipment, maintenance services, as well as renewable energy supply services, as shown below:

Year	Amount
2019	$ 21,532,340
2020	1,874,216
2021	1,950,337
2022	2,025,661
2023	2,103,907
2024 and thereafter	19,001,366

The Company has lease commitments as explained in Note 16.

b) Contingencies

The company is subject to several lawsuits and contingencies for legal proceedings (labor, civil, commercial and administrative proceedings) and tax proceedings. The Company has recognized a provision of $1,699,542 as of December 31, 2018 ($1,513,403 in 2017), which is presented in other accounts payable. In the opinion of the Company, none of the legal proceedings are significant either individually or as a whole.

The tax authorities have conducted a review on the sale operation of the Vips restaurant to Alsea and issued a termination document, in which they claim the payment of alleged differences in tax payments of $3,665,000, which includes taxes, fines and other surcharges. An appeal for revocation was filed with the tax authorities, in order to make an adequate assessment of all the arguments, before going to the competent courts.

The Company has not recognized a provision for this contingency, since the external attorneys and the Company's Management consider that there are sufficient elements available to sustain the validity of the operations carried out and to prevail, either by administrative or judicial means.

c) Legal proceedings

WALMEX is a subsidiary of Walmart, Inc. ("WMT"). WMT owns approximately 70% of the shares and voting power in **WALMEX** and has the ability to designate at least a majority of the directors of **WALMEX**. The remaining shares of **WALMEX** are publicly traded on the Mexican Stock Exchange and, to the best of the knowledge of **WALMEX**, no shareholder other than WMT and its affiliates owns more than 2% of the outstanding shares of **WALMEX**.

Currently, the Board of Directors of **WALMEX** is composed of 11 directors. The Audit Committee and the Corporate Governance Committee of the Board of Directors are composed exclusively of independent directors.

WMT is subject to a wide variety of laws and regulations in the United States of America and in the countries in which it operates, including but not limited to the U.S. Foreign Corrupt Practices Act (the "FCPA").

As **WALMEX** publicly disclosed on April 23, 2012, WMT is the subject of an investigation under the FCPA by the U.S. Department of Justice and the U.S. Securities and Exchange Commission following a disclosure that WMT made to those agencies in November 2011.

The Audit Committee of the Board of Directors of WMT, which is composed solely of independent directors, is conducting an internal investigation into, among other things, alleged violations of the FCPA and other alleged crimes or misconduct in connection with foreign subsidiaries, including **WALMEX** and whether prior allegations of such violations and/or misconduct were appropriately handled by WMT. The Audit Committee of WMT and WMT have engaged outside counsel from a number of law firms and other advisors who are assisting in the on-going investigation of these matters. **WALMEX** has also engaged outside counsel to assist in these matters.

WMT is also conducting a voluntary global review of its policies, practices and internal controls for FCPA compliance. WMT is engaged in strengthening its global anti-corruption compliance programs through appropriate remedial anti-corruption measures. **WALMEX** is taking part in such voluntary global review and strengthening of programs.

Furthermore, lawsuits relating to the matters under investigation have been filed by several of WMT's shareholders against it and against **WALMEX**, its current directors, certain of its former directors, certain of its current and former officers and certain of **WALMEX**'s current and former officers. **WALMEX** is cooperating with WMT in the review of these matters and it intends to continue fully cooperating in such regard.

A number of federal and local government agencies in Mexico have also initiated investigations of these matters. **WALMEX** is cooperating with the Mexican governmental agencies conducting these investigations.

The Audit Committee and the Corporate Governance Committee of the Board of Directors of **WALMEX**, as well as the Board of Directors of **WALMEX**, have been informed about these matters and have determined, by an unanimous vote of the independent directors only, that it is in the best interest of **WALMEX** to continue to cooperate at this time with WMT and the U.S. and Mexican agencies conducting these investigations.

WALMEX could be exposed to a variety of negative consequences as a result of the matters noted above. There could be one or more enforcement actions in respect of the matters that are the subject of some or all of the ongoing government investigations, and such actions, if brought, may result in judgments, settlements, fines, penalties, injunctions, cease and desist orders or other relief, criminal convictions and/or penalties. The shareholder lawsuits may result in judgments against WMT and **WALMEX** and to current and former directors and current and former officers of WMT and **WALMEX** named in those proceedings. **WALMEX** cannot predict accurately at this time the outcome or impact of the government´s investigations, the shareholder lawsuits, the internal investigation and review. In addition, **WALMEX** expects to incur costs in responding to requests for information or subpoenas seeking documents, testimony and other information in connection with the government investigations, and it cannot predict at this time the ultimate amount of all such costs. These matters may require the involvement of certain members of **WALMEX**'s senior management that could impinge on the time they have available to devote to other matters relating to the business. **WALMEX** may also see ongoing media and governmental interest in these matters that could impact the perception among certain audiences of its role as a corporate citizen.

WALMEX, its Board of Directors and its Audit Committee and Corporate Governance Committee will at all times ensure compliance with applicable Mexican law and ensure that they create value to **WALMEX**, acting diligently and adopting reasoned decisions, without favoring any shareholder or group of shareholders.

Although **WALMEX** does not presently believe, based on the information currently available and the advice of its external Mexican counsel, that these matters will have a material adverse effect on its business, given the inherent uncertainties in such situations, **WALMEX** can provide no assurance that these matters will not be material to its business in the future.

16. Other long-term liabilities

In other long-term liabilities as of December 31, 2018 and 2017, include:

	2018	2017
Finance leases	$ 14,167,265	$ 13,726,180
Deferred rental income (Note 14)	4,881,202	5,211,739
Operating leases	962,218	868,360
Others	8,623	8,835
	$ 20,019,308	$ 19,815,114

The Company has entered into property lease agreements with third parties with compulsory terms from 1 to 15 years in average.

In addition, the Company has also entered into finance leases for the rental of residual water treatment plants used to meet environmental protection standards. The terms of these agreements are between 7 to 10 years.

Future rental payments are as follows:

Year	Operating leases (compulsory term)	Finance leases (minimum payments)	
		Present value	Future value
2019	$ 1,365,404	$ 308,352	$ 1,859,380
2020	1,357,628	319,446	1,839,689
2021	1,384,446	376,897	1,860,861
2022	1,263,451	360,986	1,804,969
2023	1,232,395	357,649	1,763,767
2024 and thereafter	8,526,296	12,752,287	29,527,034

Total rent under operating leases charged to the income statement during the years ended December 31, 2018 and 2017 was $6,775,941 and $6,101,990, respectively, and is included in the general expenses line in the consolidated statement comprehensive income.

The Company analyzes its services agreements that do not have the legal form of a lease to determine if the supplier transfers the use of an asset to **WALMEX**. After this analysis, **WALMEX** has determined that there are no material service agreements that must be classified as a lease.

17. Income taxes

Through December 31, 2018, **WALMEX** as an integrating entity and its integrated subsidiaries in Mexico, determine and pay income tax under the optional integration regime for groups of companies. Also, the tax provision includes the taxable income of subsidiaries located abroad, which is determined in accordance with the applicable tax laws of each country.

An analysis of income taxes charged to the income statement for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Current year tax	$ (13,034,909)	$ (15,741,002)
Deferred tax	927,786	4,841,339
Total	$ (12,107,123)	$ (10,899,663)

As of December 31, 2018 and 2017, the Company's effective tax rate is 24.8% and 25.2%, respectively. The difference between the statutory tax rate and Company's effective tax rate is due to inflationary effects and other permanent items.

The income tax rates applicable to each country are shown below:

	Rate
Mexico	30%
Costa Rica	30%
Guatemala	25%
Honduras	30%
Nicaragua	30%
El Salvador	30%

An analysis of the effects of the temporary differences giving rise to deferred tax assets and liabilities at December 31, 2018 and 2017, is as follows:

	2018	2017
Deferred tax assets:		
Other long-term liabilities	$ 3,729,985	$ 2,950,192
Other accounts payable	1,852,480	2,146,325
Inventories	750,551	820,468
Labor obligations	553,700	688,823
Tax losses carryforward from subsidiaries	529,079	253,029
Provision for impairment of other receivables	51,827	23,585
	$ 7,467,622	$ 6,882,422
Deferred tax liabilities:		
Property and equipment	$ 5,190,660	$ 5,472,622
Prepaid expenses	234,830	280,678
Other items	361,442	333,887
	$ 5,786,932	$ 6,087,187

Deferred income tax assets on tax loss carryforwards are recognized to the extent that realization of the related tax benefit through future taxable income is probable.

The Company has the following tax losses from subsidiaries, which in conformity with the current Mexican Income Tax Law may be carried forward against the taxable income generated in future years.

Year of expiration	Amount
2024	$ 161,645
2025	90,045
2026	211,740
2027	434,501
2028	865,665
	$ 1,763,596

18. Employee benefits

As of December 31, 2018 and 2017, an analysis of the Company's assets and liabilities for seniority premiums and retirement benefits is as follows:

	Seniority premiums		Retirement benefits	
	2018	2017	**2018**	2017
Defined benefit obligations	$ 1,015,698	$ 1,020,340	$ 1,446,924	$ 1,728,121
Plan assets	(819,595)	(756,598)	–	–
Net projected liability	$ 196,103	$ 263,742	$ 1,446,924	$ 1,728,121

Changes in the net present value of the defined benefit obligations (DBO) as of December 31, 2018 and 2017, are shown below:

	Seniority premiums		Retirement benefits	
	2018	2017	**2018**	2017
DBO at beginning of year	$ 1,020,340	$ 856,129	$ 1,728,121	$ 1,538,632
Net period cost charged to results:				
Labor cost from actual services	152,112	128,762	180,208	141,040
Interest cost on DBO	78,675	66,974	144,023	89,817
Other comprehensive income items	(99,520)	75,090	29,142	245,110
Benefits paid	(135,909)	(106,615)	(568,705)	(243,609)
Translation impacts	–	–	(65,865)	(42,869)
DBO at year end	$ 1,015,698	$ 1,020,340	$ 1,446,924	$ 1,728,121

Changes in the net present value of the plan assets (PA) as of December 31, 2018 and 2017, are shown below:

	Seniority premiums	
	2018	2017
PA at beginning of year	$ (756,598)	$ (709,437)
Return on plan assets	(58,228)	(55,601)
Components of other comprehensive income	31,776	41,821
Plan contributions	(172,278)	(139,961)
Benefits paid	135,733	106,580
PA at year end	$ (819,595)	$ (756,598)

The valuation techniques used by the Company to determine and disclose the fair value of its financial instruments are based on a level 1 hierarchy.

As of December 31, 2018 and 2017, the plan assets have been invested through the trust mostly in money market instruments.

As of December 31, 2018 and 2017, actuarial gains/losses from labor obligations, net of taxes are recognized as a component of other comprehensive income in the amount of $451,458 and $412,046, respectively.

As of December 31, 2018, the assumptions used in the actuarial valuations of Mexico and Central America, are as follows:

	Mexico		Central America	
	2018	2017	**2018**	2017
Financial:				
Discount rate	9.50%	7.75%	3.80%-13.56%	6.86%-11.45%
Salary increase rate	5.25%	5.25%	2.50%-7.51%	2.50%-7.66%
Minimum salary increase rate	4.00%	4.00%	2.00%-7.01%	2.00%-7.16%
Inflation rate	4.00%	4.00%	2.00%-7.01%	2.00%-7.16%
Biometrics:				
Mortality	IMSS-97 (1)	IMSS-97 (1)	RP-2000 (2)	RP-2000 (2)
Disability	21.07%	21.07%	15.40%	15.40%
Retirement age	60 years	60 years	50-65 years	50-65 years

(1) Mexican Social Security Institute experience for males and females.

(2) RP-2000 for Costa Rica, Guatemala, Honduras, Nicaragua and El Salvador.

A sensitivity analysis of the DBO at December 31, 2018, is as follows:

		Amount
DBO at December 31, 2018	$	2,462,622
DBO at discount rate +1%		2,306,136
DBO at discount rate -1%		2,642,379
Effects over DBO:		
Discount rate +1%		(156,483)
Discount rate -1%		179,759

The discount rate in Mexico is determined using the curve of government bonds issued by the Federal Government known as M. Bonds. In Central America, the discount rate is determined using the curve of government bonds of United States of America plus the risk of each country.

19. Equity

a) At an ordinary meeting held on March 22, 2018, the shareholders adopted the following resolutions:

1. Approval of a cap of $5,000,000 on the amount the Company would use in 2018 to repurchase its own shares.

2. The shareholders declared an ordinary cash dividend of $0.76 pesos per share, paid in four installments of $0.19 pesos each on April 26, 2018; August 30, 2018; November 28, 2018; and February 27, 2019; and an extraordinary dividend to be paid in cash at a rate of $0.89 pesos per share in four installments: $0.20 pesos on April 26, 2018, $0.10 pesos on August 30, 2018, $0.45 pesos on November 28, 2018 and $0.14 pesos on February 27, 2019.

   After the dividend declared is approved at the shareholders' meeting, the Company reduces retained earnings and recognizes the accounts payable in the consolidated statement of financial position

b) Common stock is represented by one series of nominative, common or ordinary registered shares with no par value that can be freely subscribed. The Company's common stock must be represented by a minimum of three billion shares and a maximum of one hundred billion shares.

As of December 31, 2018 and 2017, an analysis of paid-in stock and the number of shares representing it is as follows:

Common stock		Amount
Fixed minimum capital	$	5,591,362
Variable capital		36,935,265
Subtotal		42,526,627
Inflation effects		2,941,801
Total	$	45,468,428
Number of freely subscribed common shares		17,461,402,631

During the years ended December 31, 2018 and 2017, **WALMEX** did not repurchase its own shares.

c) Distributed earnings and capital reductions that exceed the net taxed profits account (CUFIN per its acronym in Spanish) and restated contributed capital account (CUCA per its acronym in Spanish) balances, are subject to income tax, in conformity with Articles 10 and 78 of the Mexican Income Tax Law.

As of December 31, 2018 and 2017, the total balance of the tax accounts related to equity is $77,766,617 and $71,829,298, respectively, in conformity with the current tax laws.

d) The employee stock option plan fund consists of 165,158,920 **WALMEX** shares, which have been placed in a trust created for the plan.

The total compensation cost charged to operating results in the years ended December 31, 2018 and 2017 was $307,379 and $250,513, respectively, which represented no cash outflow for the Company.

Changes in the stock option plan are as follows:

	Number of shares	Weighted average price per share (pesos)
Balance as of December 31, 2016	199,218,066	33.90
Granted	46,668,006	38.64
Exercised	(47,228,029)	30.38
Cancelled	(13,695,569)	37.35
Balance as of December 31, 2017	184,962,474	35.73
Granted	35,274,409	45.62
Exercised	(46,694,684)	33.39
Cancelled	(13,989,997)	34.50
Balance as of December 31, 2018	**159,552,202**	**38.38**
Shares available for option grant:		
As of December 31, 2018	**5,606,718**	
As of December 31, 2017	13,321,130	

As of December 31, 2018, the granted and exercisable share under the stock option plan fund is 159,552,202 and 60,060,863, respectively.

20. Other disclosures of revenue

a) An analysis of the other revenue that forms part of the main activity of the Company is as follows:

	For the years ended December 31, **2018**	2017
Memberships	$ 1,600,375	$ 1,480,819
Rental	1,996,618	1,787,025
Sale of waste	580,113	665,430
Bank bonuses	494,658	351,305
Parking	52,266	71,487
Total	$ 4,724,030	$ 4,356,066

As of December 31, 2018, rental income includes investment properties of $575,280 ($465,546 in 2017).

b) The Company analyzes and manages its operation through its geographical location and format.

An analysis of income from contracts with customers is as follows:

	For the years ended December 31, **2018**	2017
Mexico:		
Self-service	61.2%	60.9%
Price clubs	20.4%	20.3%
Central America:	18.4%	18.8%

Of **WALMEX**'s total net sales, approximately $7.1 billion and $4.8 billion relates to electronic commerce for the years ended December 31, 2018 and 2017, respectively.

21. Cost of sales and general expenses

Cost of sales and general expenses are presented in the consolidated statement of comprehensive income and mainly include the purchase of merchandise, personnel expenses, depreciation and amortization, rent, advertising, maintenance, utilities, royalties, and technical assistance.

22. Financial income (expenses)

An analysis of financial income (expenses) for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Financial income:		
Financial income	$ 1,268,122	$ 1,052,093
Currency exchange gain	805,203	201,452
Income on changes in fair value of derivatives	256,252	132,291
	$ 2,329,577	$ 1,385,836
Financial expenses:		
Interest on finance leases	$ (1,553,237)	$ (1,436,653)
Currency exchange loss	(630,197)	(192,428)
Loss on changes in fair value of derivatives	(354,448)	(116,596)
Other	(121,747)	(187,698)
	$ (2,659,629)	$ (1,933,375)

Financial income primarily consists of interest earned on investments.

23. Segment financial information

Segment financial information is prepared based on the information used by the CODM to make business decisions.

An analysis of financial information by operating segments and geographical zones is as follows:

Segment	Operating income	Financial expenses - net	Income before income taxes
	Year ended December 31, 2018		
Mexico	$ 41,981,265	$ (255,091)	$ 41,726,174
Central America	7,208,523	(74,961)	7,133,562
Consolidated	$ 49,189,788	$ (330,052)	$ 48,859,736
	Year ended December 31, 2017		
Mexico	$ 37,221,878	$ (473,024)	$ 36,748,854
Central America	6,615,661	(74,515)	6,541,146
Consolidated	$ 43,837,539	$ (547,539)	$ 43,290,000

Segment	Purchase of long term definite-lived assets	Depreciation and amortization	Total assets	Current liabilities
	Year ended December 31, 2018			
Mexico	$ 11,694,003	$ 9,681,218	$ 213,528,655	$ 95,519,391
Central America	6,238,575	2,876,370	58,010,968	18,646,101
Goodwill	–	–	34,989,210	–
Consolidated	$ 17,932,578	$ 12,557,588	$ 306,528,833	$ 114,165,492
	Year ended December 31, 2017			
Mexico	$ 11,259,484	$ 9,088,722	$ 202,122,787	$ 88,272,139
Central America	6,166,151	2,556,154	55,759,681	19,555,408
Goodwill	–	–	37,373,196	–
Consolidated	$ 17,425,635	$ 11,644,876	$ 295,255,664	$ 107,827,547

24. Reclassification of presentation

The Company has made certain reclassifications in the consolidated income statement for the year that ended on December 31, 2017, mainly related to contributions from suppliers that were reclassified from general expenses to cost of sales as follows:

	December 31, 2017	Reclassification	December 31, 2017
Net sales	$ 569,366,181	$ (351,305)	$ 569,014,876
Other revenue	3,898,839	457,227	4,356,066
Total revenue	573,265,020	105,922	573,370,942
Cost of sales	(445,569,672)	3,271,025	(442,298,647)
Gross profit	127,695,348	3,376,947	131,072,295
General expenses	(83,684,158)	(3,237,253)	(86,921,411)
Income before other income and expenses	44,011,190	139,694	44,150,884
Other income	861,066	(139,694)	721,372

25. Subsequent event

As of January 1, 2019, **WALMEX** and its subsidiaries in Mexico will determine and pay income tax under the general regime of the Mexican Income Tax Law, abandoning the optional integration regime for groups of companies. The change does not represent a material effect in the financial statements.

26. Approval of the financial statements

The consolidated financial statements and accompanying notes for the years ended December 31, 2018 and 2017 were approved by the Company´s management and Board of Directors on February 13, 2019, and are subject to approval by the Shareholders meeting. Subsequent events are considered through this date.