ANNUAL REPORT | 2018

El Puerto de Liverpool

Financial *Highlights*

OPERATIONS	**2018**	2017	%VAR	2016	2015	2014
Number of Liverpool and Fábricas de Francia stores	**136**	131	11.0%	118	108	101
Number of Suburbia stores	**131**	124	5.6%			
Number of Galerías shopping centers	**27**	27	0.0%	25	25	24
Credit customers	**5,055,293**[1]	4,703,986	7.5%	4,364,874	3,954,716	3,767,900

RESULTS						
Total revenue	**135,534,751**	122,168,279	10.9%	100,441,536	91,292,889	81,213,589
Revenue from Retail	**120,276,234**	108,583,138	10.8%	87,897,130	79,242,312	70,067,517
Revenue from Credit	**11,786,071**	10,480,928	12.5%	9,365,108	9,029,746	8,439,018
Revenue from Real Estate	**3,472,446**	3,104,213	11.9%	3,179,298	3,020,831	2,707,054
Operating profit	**16,925,369**	15,231,684	11.1%	13,406,391	12,655,307	11,113,306
Net profit	**11,704,347**	9,885,690	18.4%	10,140,432	8,848,315	7,763,480
EBITDA	**20,236,643**	18,350,475	10.3%	16,050,912	14,870,389	13,023,604
EBITDA margin	**14.9%**	15.0%	-0.6%	16.0%	16.3%	16.1%
Profit per share	**8.72**	7.37	18.4%	7.56	6.59	5.78

[1] Includes Suburbia cards.

Figures in thousands of Mexican pesos, except EBITDA margin and Profit per share.

135,534*

total revenue

15,928*

taxes, contributions and tax withholdings paid in 2018

11,704*

net profit

20,236*

EBITDA

*Figures in millions of Mexican pesos.

Letter from the

Chairman of the Board

TO THE STOCKHOLDERS:
El Puerto de Liverpool continues to show great vitality. In 2018, it succeeded in completing its expansion plan with five new Liverpool stores and seven Suburbia stores.

Income reached $135,534 million pesos (10.9% growth); sales totaled $120,276 million pesos (10.8% above the preceding year); profits were $11,704 million pesos and EBITDA was $20,236 million pesos. The net debt/EBITDA ratio is less than 1.

Looking into the future, we will continue investing responsibly, placing particular care on not exceeding conservative debt levels. Three Liverpool stores, 18 Suburbia stores and one Shopping Center are slated to open in 2019.

The Group's most important project is the development of new logistics processes, including the construction of a large distribution center, which are expected to significantly improve the level of services involved in deliveries to clients.

The Divisions comprising the Group and each of us individually are committed to serve the customer everywhere, every day, anytime. We will strengthen our omnichannel culture and client service programs while improving our customer's individual knowledge.

The effort made by all the personnel is doubtless what drives success. We will make even further efforts to: attract talent, their training and human and technical development via the Virtual Liverpool University (UVL), aside from building an excellent working environment.

The advancement of the company and its Divisions has been possible thanks to the support of its stockholders, collaborators, suppliers, tenants, financial institutions, business partners, authorities and clients. We send our sincere appreciation to all.

Sincerely,

Max David
Chairman of the Board
Mexico City, March 7, 2019

Report from the *Chief Executive Officer*

For El Puerto de Liverpool, 2018 was a year of transformation, in which we set the basis for many of the results expected in the short and medium terms. These changes cover two important aspects: improving Liverpool's profitability and promoting growth at Suburbia.

At Liverpool, based on our customers' preferences, we restructured the Women's department and created a new concept in the Cosmetics area with BX. We also decided to concentrate on two commercial brands: Liverpool and Suburbia. In 2019, the image of the Fábricas de Francia stores will be changed to those two formats, while searching for synergies in an ever more digital-oriented world.

In this omnichannel strategy, online sales accounted for 5% of Liverpool sales. Implementation of the necessary technology has made it possible to track each of our customers at their many points of contact with the company and, by means of big data analysis, we can offer better and more customized service in each of said interactions. In light of the oncoming changes in worldwide trade and the consequent changes in our logistics, we completed the design of the company's most ambitious project in 2018: our Arco Norte distribution center, which, more than a logistics center, is a complete re-design of the Group's logistics, focused on an omnichannel world.

Liverpool and Liverpool Visa cards maintained adequate past-due portfolio levels. We also implemented systems to improve the process for granting and maintaining credit lines.

This was the first complete year that Suburbia was part of the Group. In mid 2018, we launched the Suburbia and Suburbia Visa cards. At year end, we had 245 thousand cardholders. Following our omnichannel strategy, we launched the *suburbia.com.mx* web page, made overall changes to Suburbia's critical systems and expect to complete the migration to SAP 4/Hana® by mid 2019, which will speed up growth of the division.

With respect to our debt, we decided to prepay the only variable-rate portion, as a result of which, 100% of the Group's current debt is in pesos, at a fixed rate of interest. At the year end, El Puerto de Liverpool's net debt / EBITDA ratio was less than 1.

At El Puerto de Liverpool, we are committed to sustainability: in education, we expect that, by 2021, more than 90% of our 75 thousand associates will have completed their high-school education. In terms of energy, as from 2019, more than 50% of the Group's consumption will come from clean and renewable sources.

Since the Group is formed by its people, we therefore reinforced our culture in 2018 based on the concept of Total Alignment, which we believe will ensure outstanding future results for our extraordinary group of people.

Thank you,

Graciano F. Guichard G.
Chief Executive Officer
December 31, 2018

Social Responsibility

The Board of *Directors' Report* to the Shareholders' Meeting

El Puerto de Liverpool is a socially responsible business. We understand sustainability to be the ability to maintain our operations over the long term, generating a positive impact on our associates, the communities in which we operate and the environment in general. We continue to pursue our mission to serve our customers everywhere, every day, at all times, while we promote the development and education of our associates and their families, maintaining responsible purchasing processes and decreasing our impact on the environment.

Our priority, in terms of our social responsibility strategy, is the development and education of our associates and the surrounding communities, which generate the best talent. We wish to point out that at year end, our workforce is made up of nearly 75 thousand associates. As part of the model of inclusive culture, we recognize the importance of our women and of the youth collaborators that currently comprise more than 60% of our workforce. This year, we offered more than one million eighty thousand hours of specialized training to over 37 thousand associates through the Liverpool Virtual University (91% in the virtual mode).

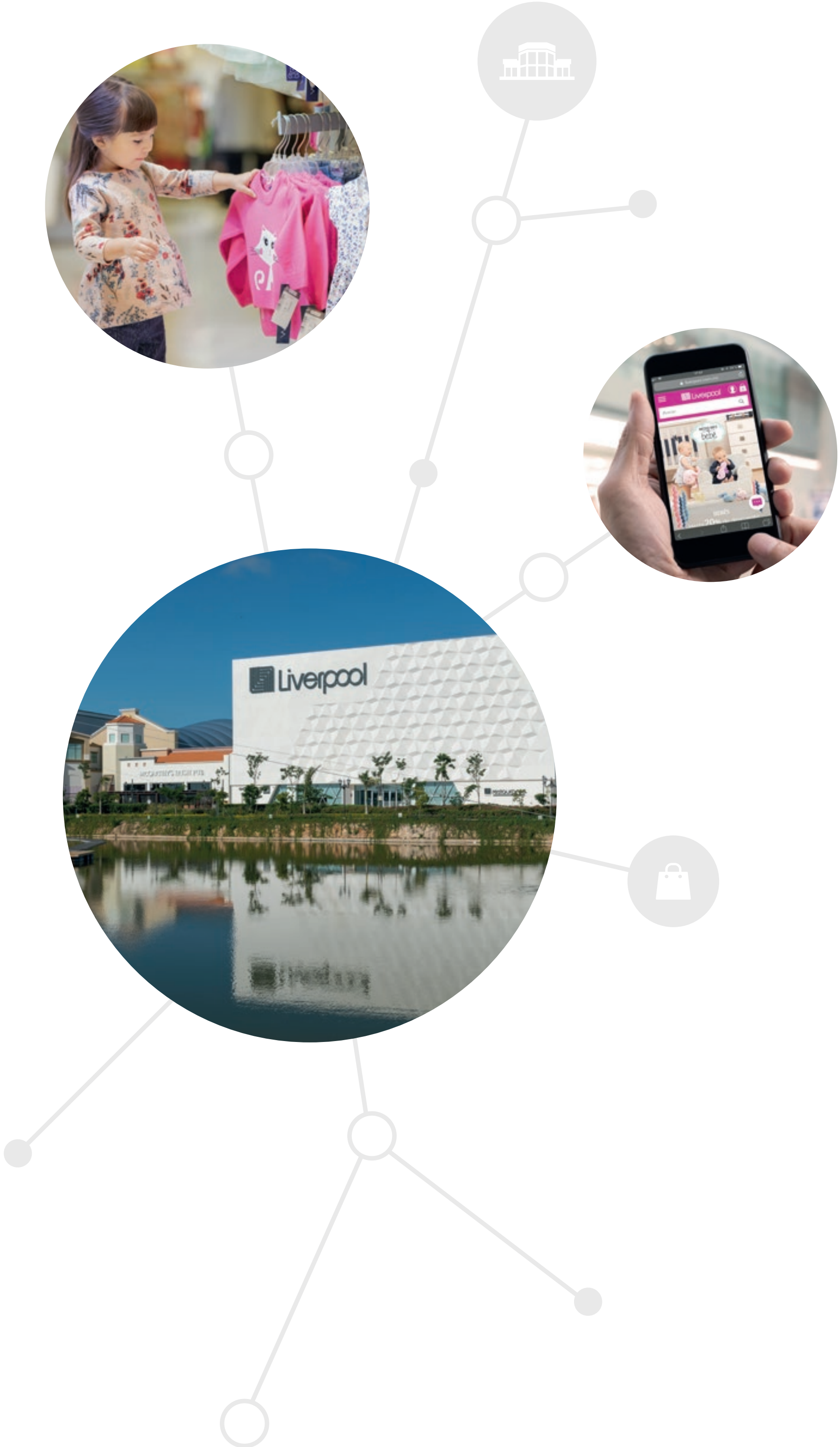
We promote a savings culture among our staff via attractive plans tailored to their needs and to those of their families. In 2018, we reached a level of over 60 thousand savers, a 4% increase over the prior year.

In order to promote balance between work and personal life, we have established a three-pillar operating model: proper and safe physical space, health and wellbeing, and proper time management between personal needs and those of the organization.

The second axis is the process for responsible purchasing. We understand that the value of decisions made in terms of investment in our chain of supply is fundamental in order to continue being the best option in service, variety and value. This year, we published the El Puerto de Liverpool Code of Conduct, which is supplementary to certifications and audits in effect. These certifications ensure compliance with the conventions of the International Labor Organization, human rights at the work place, environmental standards, Social Security for workers and occupational safety and health conditions.

Environmental protection is the third axis, which is why this year, we have committed to reducing our carbon footprint by signing solar and wind power contracts. At the year-end closing, 8% of our energy is provided by renewable sources. There are plans in place to ensure that this percentage reaches 50% by mid 2019. With this commitment, we prevented emissions of more than 30 thousand tons of CO_2 in 2018, as we join the fight against global climate change.

Lastly, we are aware of the fact that investing in our communities is key to business permanence and to increasing customer loyalty. Forty nine civil organizations benefited during the year and through our volunteer program, we invested more than two thousand hours of service in the communities.


Liverpool

Liverpool remains at the forefront of the Large Department Store market in Mexico, developing new concepts, continuing its plan for new stores and strengthening omnichannel retailing. We opened five new stores during the year.

The Women's department was modernized, incorporating new environments and space flexibility tailored to our customers' lifestyles. Contemporary Woman offers spaces that showcase new trends, which serve as a fashion reference in Mexico. The Urban Zone section was created based on current lifestyles, paying particular attention to the Athleisure and Sneaker Wall concepts.

In order to continue developing experiences, the BX (Beauty Experience) concept was implemented at the Santa Fe store. An increase in acceptance was immediately noticed among our customers, and consequently, we have implemented BX experience at six of our stores.

New store openings this year included Liverpool Parque Antenas in Mexico City; Fresnillo, Zacatecas; Paseo Querétaro, Querétaro; Atlixco, Puebla and Mérida Cabo Norte in Yucatán

Liverpool Coapa reopened on October 31, now that the damage resulting from the September 19, 2017 earthquake has been repaired and the facilities have been modernized.

Digital channels accounted for 5% of retail sales. For the Apparel, Footwear and Accessories categories, *liverpool.com.mx* has become a relevant player, securing 50% click share in the Mexican market.

In a project intended to expand the range of goods offered, we launched an omnichannel initiative (Marketplace), which seeks to develop a broad-based catalog that complements current supply. Marketplace products are available, along with Liverpool products, through *liverpool.com.mx*, the App, and at stores through the Sales Associate's App.

The Call Center (CAT Morelia), with a 1,150-person workforce, continued its development. Seven million customers were served there during the year.

The Unique Customer model was implemented at all El Puerto de Liverpool Divisions. We created a dynamic segmentation platform through analytical, descriptive and predictive models; machine learning is now a reality at Liverpool.

Also, after learning the results of market studies, which showed that our customers better identify the Liverpool and Suburbia brands, we have announced the conversion of 41 Fábricas de Francia stores. In 2019, two thirds of these locations will be converted into Liverpool stores and the rest into Suburbia stores. Our priority is to take into account each of our associates currently employed at Fábricas de Francia, so we will duly consider their labor preferences.

This year, the Liverpool Credit Card exceeded 4.1 million accounts, and continues to be the preferred form of payment at our stores and omnichannel points of sale. Due to multiple actions taken to manage credit risks and collections, the past-due portfolio index was maintained at 4.5%. We have adjusted our origination models, with strict rules for approving new cards. Additionally, we renewed some predictability models, which has made it possible to generate accounts with better risk indicators. We have especially reinforced pre-collections and financial education on informal profiles and have increased specialization of collection entities.

In turn, the Premium Card has reached 700 thousand holders. Promotion of this card demonstrates the multiple benefits of its points program and the fact that they can be easily redeemed at Liverpool stores.

In line with the Group's omnichannel strategy, a specific credit section was launched for the Liverpool mobile application; that section was also re-designed at *liverpool.com.mx*. At present, more than 1.8 million customers consult their balance, their available line of credit, transactions and statements of account online. We will continue to enable more digital features.

The Liverpool Insurance Center has initiated a new growth strategy based on product diversification and expansion of the digital channel. New alliances were established, that will enhance new protection programs, such as novel home insurance. Service and value will continue to be our competitive advantage in this operation.

The logistics network has achieved important advances, by reducing shipping time. During the year, we made more than four million home deliveries through our three distribution centers and 41 regional warehouses. Additionally, we have started work on construction of the new logistics center, which will be located in Arco Norte adjoining the Mexico-Querétaro highway. Its operating principles are flexibility, scalability and sustainability, and our target is that, from stage one, our customers will receive great benefits from implementation of the latest technology and automation systems.


Liverpool


Weekend

Suburbia is a leading chain of stores offering apparel for the whole family at affordable prices. Sales reached Ps. 17 billion in 2018. During the first quarter of the year, we completed implementation of all technological platforms in the El Puerto de Liverpool ecosystem, with no interruptions in our daily operations or significant effects for our customers.

We have achieved the permanence of our Suburbia associates throughout the implementation. We focused on building our talent base and on promoting a culture of leadership characterized by passion, trust and communication, which are critical to achieving our goals.

We focused on the following initiatives:

Strengthening private labels leadership (Weekend, Contempo and Non Stop), with a greater value proposition than that offered by our competitors, efficient operations and discipline in the chain of supply and the running of our stores. Additionally, we have identified categories where El Puerto de Liverpool knowledge can boost growth. One example is technology, particularly cell phone technology. In this category, we have re-designed the supply of goods and the schedule and implementation of promotions at stores. By strengthening the Suburbia business model, we hope to increase same-store sales consistently, above inflation, while at the same time increasing our margins and securing a greater market share.

We opened seven new stores during the year: Patio Tlalpan and Parque Antenas in Mexico City; Ámbar in Tuxtla Gutiérrez, Chiapas; Sentura in Zamora, Michoacán; Plaza Atlacomulco in the State of Mexico; Galerías San Juan del Río in Querétaro and Parque Puebla, in Puebla. Suburbia stores currently total 131 units.

In July, we launched the Suburbia credit card with two completely new products: a closed departmental card and an open card backed by Visa, aside from a number of insurance products. Design of these cards is tailored to the customer's profile, offering exclusive benefits, different payment schedules and credit assessment according to the target market.

Through CAT Morelia, new services are provided at Suburbia that support credit card placement, and processing in under fifteen minutes.

On October 2, we re-launched the *suburbia.com.mx* web page to allow for online purchases, taking advantage of El Puerto de Liverpool's technical know-how. This model offers home delivery as well as the Click and Collect service for in-store pick up. The Suburbia web page offers a broad selection of apparel for the entire family, as well as an extensive catalog of general goods such as multimedia, household goods, home, sports, etc. We expect e-commerce to generate an increase in sales and boost traffic at our physical stores.

Lastly, we are implementing a new technological platform to replace Suburbia's critical systems. This ambitious project includes merchandise, promotions, private label development, purchases, finance, e-commerce, logistics, CRM, credit and business intelligence.

We trust that with this new platform, along with our growth engines, we will accelerate Suburbia's profitable growth.

GALERÍAS

Galerías is a network of shopping malls located throughout Mexico. With 27 units and more than 600 thousand square meters of leasing space. These shopping malls offer our customers spaces for culinary, cultural and entertainment experiences, while they shop for goods at the different stores, including Liverpool.

Our shopping malls house a great variety of businesses, a minimum turnover, occupancy at 96% and sound collection levels.

We ensure a proper mix of tenants engaged in retail, entertainment and services.

Experiences at Galerías include a broad selection of artistic presentations, Christmas events and Go Fashion. The latter is a fashion event showcasing the most recent trends for the different seasons.

As per our continued growth plan, Galerías Santa Anita in Guadalajara, Jalisco is currently under construction and is scheduled to open in the last quarter of 2019.

Moreover, in order to keep current with concepts of variety and space, the Perisur, Plaza Satélite, Galerías Monterrey and Galerías Insurgentes malls are being remodeled and expanded.

On October 31, Galerías Coapa re-opened after repairs of damage from the September 19, 2017 earthquake and extensive remodeling.

Operating

Summary

In 2018, revenue totaled $135.53 billion, for a 10.9% increase over the prior year. Retail sales and services totaled $120.27 billion, for a 10.8% increase on a total-stores basis, whereas same-store sales increased by 6.5%, both with respect to the prior year. The fact that the Liverpool Coapa store re-opened on October 31 and that the Suburbia Coapa store remains closed after the September 19, 2017 earthquake were taken into account when calculating these figures.

Credit card income grew 12.5%, and the portfolio increased by 5.2%. During the year, 45.4% of Liverpool retail sales were conducted via financing provided by the company.

Special attention has been paid to granting new credit, as well as to adjusting interest rates to market conditions. In order to mitigate the risks related to growth of the past-due portfolio, certain measures were taken, particularly as concerns credit granting and collections. At the year-end close, doubtful accounts were down to 4.5%.

Williams Sonoma, a chain that offers high-quality novelty home items through its Pottery Barn, PB Kids, PB Teen, West Elm and Williams Sonoma formats, operates 35 stores throughout the country. This year's restructuring allowed for positive EBITDA levels, a greater profit margin and renewed handling of inventory stock.

Income related to real estate activities underwent an 11.9% increase with respect to 2017 for a total of Ps. 3.47 billion, while occupancy remained at 96%. As mentioned, the Galerías Coapa shopping center reopened on October 31, after remaining closed since the September 19, 2017 earthquake.

During the period, we received payment from our insurance companies for 100% of the claims related to earthquake damages, as well as from interruption of operations.

As a result of the company's growth, the incorporation of Suburbia, and particular effects in the year, operating expenses increased by 10.3%.

Earnings before interest, taxes, depreciation and amortization (EBITDA) totaled Ps. 20.23 billion, for 10.3% growth over 2017.

The 2018 net financial expense totaled Ps. 1.80 billion.

Grupo Unicomer and affiliates, an operation in which we have an interest, is engaged in the sale of furniture, motorcycles, optics, household goods and consumer credit in 26 countries in Central and South America, and the Caribbean. Grupo Unicomer reached 1,141 locations. There are also 170 Radio Shack stores franchised to third parties.

Sfera apparel boutiques, with 46 stores in Mexico, reports positive results, consolidating an attractive and profitable operation in Mexico.

Income taxes totaled Ps. 4.03 billion, for a 35.1% increase over the prior year. All other taxes withheld or paid, import duties, as well as Social Security (IMSS), Retirement Savings System (SAR) and Workers' Housing Fund (INFONAVIT) dues totaled Ps.11.89 billion.

Net earnings totaled Ps.11.70 billion, exceeding prior year net income by 18.4%.

A Ps. 921 million bank loan was paid back in June 2018, and the Ps. 1,000 million LIVEPOL08 bond was settled on August 24.

The four-year Ps 5.0 billion peso syndicated loan drawn down in March 2017 used to finance growth activities was prepaid in June.

REPURCHASE OF SHARES

The share repurchase program was launched in November 2017 by acquiring 666,257 LIVEPOL C-1 titles and using Ps. 79 million from the repurchase fund.

DIVIDENDS

Dividends of Ps. 1.29 billion were declared at the March 15, 2018 Ordinary Shareholders' Meeting.

FINAL CONSIDERATIONS

2018 was significant for our organization due to the following events: consolidation of this conglomerate of companies, a record number of openings of new stores (five Liverpool stores and seven Suburbia stores), and continued growth of the omnichannel strategy.

We greatly appreciate our stockholders' support as well as the loyalty of our customers, suppliers, tenants and associates for one more year, in which El Puerto de Liverpool continued to grow profitably.

Yours sincerely,

Board of Directors
Mexico City, December 31, 2018

Board of Directors and Top Management

Max David[1]
Chairman

Madeleine Brémond S.[1]
Vice Chairman
Director of Orion Tours, S.A. de C.V.

Miguel Guichard[1]
Vice Chairman

Enrique Brémond S.[1]
Administrator, Victium, S.A. de C.V.

Jorge Salgado[2,3]
Independent Consultant and Chairman of the Audit and Societary Practices Committee

Juan David[1]
Director, Banco Invex, S.A.

Pedro Velasco[2,3]
Partner Emeritus and Board Member, Santamarina and Steta, S.C.

Juan Miguel Gandoulf[2,3]
Director, Sagnes Constructores, S.A. de C.V.

Armando Garza Sada[2]
Chairman, Alfa, S.A.B. de C.V.

Ricardo Guajardo[2]
Consultant

Graciano Guichard M.[1]
Director, M. Lambert y Cía. Sucs., S.A. de C.V.

Guillermo Simán[2]
Vicepresident, Grupo Unicomer

Esteban Malpica[2]
Directing Partner, Praemia, S.C.

Maximino Michel G.[1]
Independent Businessman

Luis Tamés[2]
Independent Businessman

Ignacio Pesqueira
Secretary
Partner, Galicia Abogados, S.C.

Norberto Aranzábal
Deputy Secretary
Legal Director, Servicios Liverpool, S.A. de C.V.

[1] Patrimony Board Member
[2] Independent Board Member
[3] Audit Committee Member

PATRIMONY BOARD

Enrique Brémond
Chairman

Juan David
Member of the Board

Miguel Guichard
Member of the Board

Magdalena Michel
Member of the Board

Madeleine Brémond
Alternate Board Member

Monique David
Alternate Board Member

Magdalena Guichard
Alternate Board Member

Bertha Michel
Alternate Board Member

Alejandro Duclaud
Secretary

HONORARY CHAIRMAN

Enrique Brémond

HONORARY BOARD MEMBERS

José Calderón
J. Claudio Montant
Pedro Robert

TOP MANAGEMENT

Graciano F. Guichard G.
Chief Executive Officer El Puerto de Liverpool

Santiago de Abiega
General Manager Credit Card

Norberto Aranzábal
Director Legal

José Rolando Campos
General Manager Liverpool

Zahié Edid
Chief Human Resources Development Officer

Juan Ernesto Gómez Enciso
Director Internal Audit

Enrique Güijosa
Chief Financial Officer

Laurence Pepping
General Manager Suburbia

Ernesto Ynestrillas
General Manager Real Estate

Independent *Auditors' Report*

To the Stockholders and Board Members of El Puerto de Liverpool, S. A. B. de C. V.

Opinion

We have audited the consolidated financial statements of El Puerto de Liverpool, S. A. B. de C. V. and its subsidiaries (the Company) which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of comprehensive income, at changes in equity and of cash flows for the year then ended and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's "Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Company in accordance with the Ethics Standards of Mexican Institute of Public Accountants together with other requirements applicable to our audit of the consolidated financial statements in Mexico. We have fulfilled our other ethical responsibilities in accordance with these requirements and standards. 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.

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T: (55) 5362 6000, www.pwc.com/mx

Provision for credit losses

As described in Notes 3.3.2 and 8 to the financial statements, the $40,140 million peso credit portfolio arises from goods and services acquired on credit by Company cardholders. The recoverability of the portfolio is periodically evaluated and the provision for impairment is recorded based on expected credit losses, as established in new IFRS 9 "Financial Instruments", in effect as from January 1, 2018. That criterion means identifying, for the portfolio, the likelihood of failure to make payments, the severity of the loss and exposure to noncompliance.

During our audit, we mainly focused on that caption considering the value of the credit portfolio and the provision for credit losses, since definition of the calculation parameters used makes it necessary for management to apply significant judgment, and the standard for determining that provision was modified in this period.

Specifically, we concentrated our audit efforts on: 1) the methodology used by management, 2) key entry data: portfolio segmentation, historical cardholder performance, portfolio classification, the behaviour score of credits, the credit limit established and the outstanding balance receivable or capital at the date of calculation and 3) the following key assumptions: prospecting economic scenarios (forward looking).

As part of our audit, we performed the following procedures:

- With the support of our systems specialist, we understood and evaluated the design and functioning of controls implemented by management in the credit revenue cycle by type of portfolio, as well as the credit system, particularly those pertaining to the accuracy and completeness of key entry data used in calculating that provision.
- With the support of our valuation experts, we analyzed the methodology applied by management when calculating the provision for credit losses, as prescribed by IFRS 9.
- We applied selective tests to evaluate key data used, as follows:
    - Segmentation of the portfolio. We checked it against the respective credit files; by type of card (Liverpool Credit Card and Liverpool Premium Card (LPC)).
    - We matched the historical behavior of the cardholder, classification of the portfolio and the behavior score, to the credit system.
    - We matched the established credit limit and the balance receivable or capital at December 31, to the credit system and the cardholder's statement of account.
- We used selective tests to evaluate key assumptions as follows:
    - Prospection of economic scenarios. We evaluated the changes in the calculation parameters against changes in the economic variables, in order to identify the variables of significant impact, such as the consumer price index and the consumer confidence index. And we compared these variables against public and recognized sources in this industry.
- With the support of our experts, we reprocessed the calculation of the provision for credit losses.
- We matched the consistency of disclosures made by the Company in the notes to financial statements, with the information obtained.

Other Information

Management is responsible for the other information. The other information comprises the annual report presented to the National Banking and Securities Commission (CNBV) and the annual information presented to shareholders (but does not include the consolidated financial statements and our auditor's report thereon), which are expected to be made available to us after the date of this report.

Our opinion on the consolidated financial statements does not cover the other information and we do and will 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 identified above when it becomes available 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.

When we read the other information not yet received, we will issue the report required by the CNBV and if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if required, describe the issue in our report.

Responsibilities of the Management and those Charged with the Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free of 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 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

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

As part of an audit in accordance with 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 Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinion.

We communicated 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 provided those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicated 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 determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determined 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 stated below.

PricewaterhouseCoopers, S. C.

José Luis Guzmán

José Luis Guzmán
Audit Partner
Mexico City, March 6, 2019

Report of the *Audit and Societary Practices Committee*

México City, February 22, 2019

To the Board of Directors of
El Puerto de Liverpool, S. A. B. de C. V.
We, the undersigned, appointed as members of the company's Audit and Corporate Practices Committee, present the report on the activities carried out, pursuant to article 43 of the Securities Market Act.

The Committee met four times during the year, addressing, among others, the following points:

I. The General Stockholders' Meeting held March 15, 2018, appointed Mr. Jorge Antonio Salgado Martínez chairman of the Audit and Corporate Practices Committee for fiscal year 2019.

II. On audit matters:

a) We evaluated the external auditing plan and the professional services accepted by Management, and recommended to the Board of Directors that the firm PricewaterhouseCoopers be hired as external auditor to audit the financial statements of the Company and its Subsidiaries for the fiscal year ended on December 31, 2018

b) We evaluated and found that the Company has internal and external mechanisms that provide reasonable certainty of compliance with the Laws and Regulations applicable to it.

c) We were apprised of the Company's bookkeeping policies, as well as their impact on the figures contained in the financial statements as of December 31, 2018 and 2017, ensuring that the financial information was duly presented.

d) We followed up on the organization and functions of the Company's Internal Audit Department; received its annual report of activities for 2018, the relevant findings, and its audit plan for the year 2019.

e) We evaluated and found that the Company has operating systems, policies and procedures by which it may be considered to have an appropriate climate of internal control and bookkeeping.

f) We were appraised of the Company's degree of adherence to the Code of Best Corporate Practices, recommended by the Mexican Stock Exchange, per the report with information at December 31, 2017, filed on May 31, 2018.

g) We were informed of any lawsuits and litigations in progress, as well as the results of those cases concluded during the period in question.

h) We reviewed the consolidated financial statements as of December 31, 2018, the notes thereto and audit report thereon, issued by the Independent Auditors.

i) We were appraised of the status of the reserves and estimates included in the financial statements at December 31, 2018.

j) We were informed of the observations and recommendations of the External Auditors, related to their examination of the consolidated financial statements at December 31, 2017.

k) We reviewed the statistics on transactions reported to the authorities pursuant to anti-money laundering regulations.

III. On the matter of corporate practices:

a) We consider the performance of senior management to have been appropriate and efficient, taking into account the circumstances under which they have discharged their responsibilities.

b) We were informed of transactions with related parties, and found that the amounts thereof were not significant with respect to the Company's operations, and that they were conducted in accordance with market conditions.

c) We performed an overall review of the criteria by which overall remuneration is determined for key Company directors; we consider such remuneration to be reasonable and consistent with market conditions.

As a result of the activities carried out by this Committee, and having heard the opinion of the Company's Independent Auditors, we hereby recommend that the Board of Directors submit the financial statements of El Puerto de Liverpool, S. A. B. de C. V. and Subsidiaries as of December 31, 2018, in the terms in which such statements have been prepared and presented by Company management to the General Shareholders' Meeting for its approval.

Sincerely,

The Audit and Corporate Practices Committee

Juan Miguel Gandoulf | **Jorge Salgado** | **Pedro Velasco**

Consolidated statements of *financial position*

(Notes 1, 2 and 3)
Thousands of pesos

	Note	December 31, 2018	2017
Assets			
CURRENT ASSETS:			
Cash and cash equivalents	7	$ 13,535,499	$ 16,635,078
Loan portfolio - Net	8	26,756,472	25,770,575
Value added tax recoverable		1,875,844	2,305,640
Income tax recoverable		359,808	-
Other accounts receivable - Net	9	1,993,437	2,183,187
Derivative financial instruments	10	19,917	56,593
Inventory		20,673,219	18,486,423
Prepaid expenses		1,544,752	1,913,794
Total current assets		66,758,948	67,351,290
NON - CURRENT ASSETS:			
Loan portfolio - Net	8	9,401,953	9,288,273
Other accounts receivable - Net	9	276,126	264,681
Derivative financial instruments	10	3,646,550	3,495,929
Investments in associates	11	8,510,207	7,414,960
Investment properties - Net	12	20,668,308	18,922,292
Property, furniture and equipment - Net	13	47,115,104	43,855,877
Intangible assets - Net	14	16,484,378	16,274,581
Deferred income tax	21.2	1,761,199	1,398,238
Total assets		$ 174,622,773	$ 168,266,121
Liabilities			
CURRENT LIABILITIES:			
Suppliers		$ 23,694,308	$ 22,535,802
Creditors		9,849,527	9,652,309
Provisions	15	2,323,693	2,074,419
Short – term debt	16	-	2,858,956
Deferred income	8	2,109,582	2,060,342
Derivative financial instruments	10	-	20,486
Income tax payable		-	131,435
Total current liabilities		37,977,110	39,333,749
Long – term debt	16	30,533,760	33,358,545
Employee benefits-Net	17	1,652,186	1,494,031
Deferred income tax	21.2	3,759,427	3,997,418
Total liabilities		73,922,483	78,183,743
Stockholders' equity			
Capital stock	20	3,374,282	3,374,282
Retained earnings		93,053,796	82,878,922
Capital reserves	20.2	4,041,759	3,604,887
Stockholders' equity attributable to parent company		100,469,737	89,858,091
Non-controlling interests		230,453	224,287
Total stockholders' equity		100,700,290	90,082,378
Total		$ 174,622,773	$ 168,266,121

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

Consolidated statements of *comprehensive*

income, by expenses function

(Notes 1, 2 and 3)
Thousands of pesos, except earnings per share

	Note	Year ended on December 31, 2018	2017
Operating revenue:			
Net sales of merchandise		$ 119,107,642	$ 107,207,837
Interest earn from customers		11,786,071	10,480,928
Leasing income		3,472,446	3,104,213
Services and others		1,168,592	1,375,301
Total revenue	2.22	135,534,751	122,168,279
Costs and Expenses:			
Cost of sales		81,620,873	73,387,487
Provision for impairment of the loan portfolio		3,355,378	3,081,018
Administrative expenses		33,633,131	30,468,090
Total costs and expenses	23	118,609,382	106,936,595
Operating income		16,925,369	15,231,684
Interest expense		(2,695,911)	(2,770,722)
Foreign exchange loss		(1,455,127)	(4,366,841)
Financing cost		(4,151,038)	(7,137,563)
Foreign exchange gain		1,513,495	3,471,895
Return on investments		836,244	681,631
Financial income		2,349,739	4,153,526
Equity in the results of associates	11	626,460	628,030
Profit before income tax		15,750,530	12,875,677
Income tax	21	4,038,457	2,989,340
Consolidated net income		11,712,073	9,886,337
Other comprehensive income, net of taxes:			
Components to be subsequently reclassified to income			
Cash flow hedges- Net of income tax		146,716	539,908
Translation effect of investment in associates- net		369,290	(503,105)
Components to not to be subsequently reclassified			
Remeasurement of the liability for defined benefits- Net of income tax	17	260,881	(130,520)
Consolidated comprehensive income		$ 12,488,960	$ 9,792,620
Net income attributable to:			
Controlling interest		$ 11,704,347	$ 9,885,690
Non-controlling interests		7,726	647
		$ 11,712,073	$,9,886,337
Basic and diluted earnings per share	20.4	$ 8.73	$ 7.37
Comprehensive income attributable to:			
Controlling interest		$ 12,482,754	$ 9,791,382
Non-controlling interests		6,206	1,238
		$ 12,488,960	$ 9,792,620
Basic and diluted earnings per share		$ 9.30	$ 7.3

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

Consolidated statements of *changes in stockholders' equity*

(Notes 1, 2, 3, 20 and 24)
Thousands of pesos; unless dividends paid

	Capital stock	Retained earnings	Capital reserves	Total stockholders' equity attributable to the controlling shareholders	Non-controlling interest	Total stockholders' equity
Transaction with owners:						
Balance at January 1, 2017	$ 3,374,282	$ 74,389,385	$ 3,568,084	$ 81,331,751	$ 3,745	$ 81,335,496
Comprehensive income:						
Net income	-	9,885,690	-	9,885,690	647	9,886,337
Remeasurement of the liability for defined benefits- Net of income tax	-	(131,111)	-	(131,111)	591	(130,520)
Translation effect of investment in associates- Net	-	-	(503,105)	(503,105)	-	(503,105)
Cash flow hedges, net of income tax	-	-	539,908	539,908	-	539,908
Total comprehensive income	-	9,754,579	36,803	9,791,382	1,238	9,792,620
Transaction with non-controlling interest	-	23,466	-	23,466	219,304	242,770
Dividends paid ($0.96 and $0.58 pesos per share)	-	(1,288,508)	-	(1,288,508)	-	(1,288,508)
Total transactions with stockholders	-	(1,265,042)	-	(1,265,042)	219,304	(1,045,738)
Balance at December 31, 2017 as originally presented	3,374,282	82,878,922	3,604,887	89,858,091	224,287	90,082,378
Change in accounting policy	-	(503,366)	-	(503,366)	(40)	(503,406)
Restated total equity at January 1, 2018	3,374,282	82,375,556	3,604,887	89,354,725	224,247	89,578,972
Comprehensive income:						
Net income	-	11,704,347	-	11,704,347	7,726	11,712,073
Remeasurement of the liability for defined benefits- Net of income tax	-	262,401	-	262,401	(1,520)	260,881
Translation effect of investment in associates- Net	-	-	369,290	369,290	-	369,290
Cash Flow hedges, net of income tax	-	-	146,716	146,716	-	146,716
Total comprehensive income	-	11,966,748	516,006	12,482,754	6,206	12,488,960
Transaction with owners:						
Repurchase of shares (Note 20.2)			(79,134)	(79,134)	-	(79,134)
Dividends paid ($0.96 and $0.58 pesos per share)	-	(1,288,508)	-	(1,288,508)	-	(1,288,508)
Total transactions with stockholders	-	(1,288,508)	(79,134)	(1,367,642)	-	(1,367,642)
Balance at December 31, 2018	$3,374,282	$93,053,796	$4,041,759	$100,469,837	$ 230,453	$100,700,290

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

Consolidated *cash flow statements*

(Notes 1, 2 and 3)
Thousands of pesos

	Note	2018	2017
		Year ended on December 31,	
Operating activities			
Profit before income tax		$ 15,750,530	$ 12,875,677
Adjustment from items not implying cash flows:			
Depreciation and amortization		3,311,275	3,423,103
Provision for impairment of the loan portfolio	8	3,355,378	3,081,018
Inventory reserve		883,854	832,139
Equity method on associates	11.2	(626,460)	(628,030)
Gain on sale of property, furniture and equipment		(1,929)	(370,588)
Net cost for the period of employee benefits	17	279,916	183,151
Interest earned		(6,711,280)	(5,708,985)
Accrued interest expense		2,695,911	2,770,722
		3,186,665	3,582,530
(Increase) decrease in:			
Interest earned from customers		6,659,083	5,672,913
Short - term loan portfolio		(5,008,230)	(5,258,035)
Inventory		(3,070,650)	(921,726)
Value added tax recoverable		429,796	1,296,974
Other accounts receivable		189,750	(908,773)
Prepaid expenses		369,042	133,095
Long - term loan portfolio		(113,680)	(408,910)
Other long-term accounts receivable		(11,445)	(39,922)
Increase (decrease) in:			
Suppliers		1,158,506	2,041,505
Provisions		249,274	6,954
Deferred income		49,240	129,180
Creditors		(1,277,558)	(451,761)
Employee benefits paid		140,640	48,949
Taxes paid		(3,704,181)	(4,438,208)
Net cash flows from operating activities		14,996,782	13,360,442
Investment activities			
Acquisition of subsidiary - net of cash		-	(17,532,852)
Dividends received from associates		211,611	120,102
Acquisition of property, furniture and equipment	13	(5,499,806)	(5,807,501)
Acquisition of investment property	12	(2,055,924)	(1,558,595)
Sale of property, furniture and equipment		68,076	815,193
Investment in new information technology developments	14	(1,036,732)	(1,051,703)
Net cash flows from investing activities		(8,312,775)	(25,015,356)
Cash to be applied in financing activities		6,684,007	(11,654,914)
Financing activities			
Dividends paid	20.1	(1,288,360)	(1,288,292)
Interest paid		(2,744,636)	(2,645,946)
Debt paid		(5,671,456)	(3,350,000)
Issuance of senior notes		-	10,000,000
Repurchase of shares	20	(79,134)	-
Net cash flows from financing activities		(9,783,586)	2,715,762
Net decrease of cash and temporary investments		(3,099,579)	(8,939,152)
Cash and cash equivalents at the beginning of the year		16,859,531	24,818,261
Effects of exchange rate changes on cash and cash equivalents		(224,453)	755,969
Cash and cash equivalents at end of year		$ 13,535,499	$ 16,635,078

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

Notes to the *consolidated financial statements*

December 31, 2018 and 2017
Thousands of pesos, unless otherwise specified

Note 1- General information:

El Puerto de Liverpool, S.A. B. de C.V. and subsidiaries ("the Company" or "Group") operate a chain of department stores, founded in 1847, engaged in selling a broad variety of products such as clothes and accessories for men, women and children, household goods, furniture, cosmetics and other consumer products. The Company is registered on the Mexican Stock Exchange and has an important presence in Mexico City and 31 states of the Mexican Republic. At December 31, 2018 and 2017, the Company operated a total 136 and 131 department stores, 95 and 90 under the name of Liverpool, 41 under the name Fabricas de Francia, and 115 and 121 specialized boutiques, 131 and 124 under the name Suburbia, respectively. In 2018, twelve new stores started operations, five with Liverpool format (Fresnillo, Zacatecas; Paseo Queretaro, Queretaro; Atlixco, Puebla; La isla Merida, Merida, Yucatan y Las Antenas, Cd. De Mexico) and seven with Suburbia format (Tuxtla Ambar, Tuxtla Gutierrez, Chiapas; Zamora, Michoacan; Atlacomulco, Edo. de México; San Juan del Rio, Queretaro; Parque Puebla, Puebla; Antenas y Patio Tlalpan, Cd. de México).

In 2017, eleven new stores started operations, four with Liverpool format: (Tlaxcala, Tlaxcala; Tuxtla Oriente, Chiapas; Parque Puebla, Puebla y Parque Toreo, Edo. de Mexico), seven with Fabricas de Francia format: (Buenavista, Cd. de Mexico; Apizaco, Tlaxcala; Tonala Plaza Lomas, Jalisco; Saltillo, Coahuila; Chalco, Edo. de México; Oaxaca Plaza Bella, Oaxaca y Comitan, Chiapas) and two with Suburbia format.

The Company grants its customers financing through the "Liverpool Credit Card", with which customers can make purchases at exclusively at Company stores. Additionally, the Company offers the "Liverpool Premium Card ("LPC")", with which cardholders can acquire goods and services at both stores and boutiques pertaining to the chain, and at any establishment affiliated to the VISA system worldwide. Financing of clients in the form of the Suburbia credit cards began in September 2018, for exclusive use at Suburbia stores, as well as the Suburbia VISA credit card, that can be used by cardholders to acquire goods and services at the chain of stores and at any of the establishments using the VISA system throughout the world.

Additionally at 31 december 2018 and 2017, the Company is a partner, stockholder or co-owner of shopping malls and holds an interest in 27 different malls, known as "Galerías", through which it leases commercial space to tenants engaged in a broad number of businesses.

The Company's headquarters and main place of business is:

Mario Pani 200
Col. Santa Fe, Cuajimalpa
05348 Mexico City

Business combination

Suburbia

On August 10, 2016, the Company reached an agreement with Wal-Mart de Mexico, S.A.B. de C.V., or Wal-Mex, to acquire its apparel retail business in Mexico under the brand Suburbia, which includes (i) 100.0% of the equity interests in four legal entities, (ii) the intellectual property rights of the "Suburbia" brand and its private labels, and (iii) 122 stores, (iv) knowledge of the operating process of purchases, commercial planning, product design and marketing (called CATMex), and (v) a distribution center located in a property rented to a third party. Suburbia has more than 45 years of experience in Mexico, and a human capital of approximately 8,500 employees.

The operation was definitively approved and without imposition of any condition by the Federal Competition Commission ("COFECE") on March 10, 2017, taking place on April 4, 2017. The Company entered into a contract for transition services with Wal-Mex for administration, financial and accounting services, as well as information technology processes, all of which will guarantee the continuity of Suburbia's operations. This agreement will remain in effect up to 12 months following the closing of the acquisition at the election of Liverpool.

In accordance with the requirements of IFRS, the Company acquired control of Suburbia from April 4, 2017, the date on which it had the capacity to direct its relevant activities.

Based on the provisions of the International Financial Reporting Standard 3 “Business Combinations” (IFRS 3), the acquisition was recorded using the purchase method, distributing the total consideration paid to the assets acquired and liabilities assumed, based on the fair values, and the difference between the assets acquired and liabilities assumed was recorded as goodwill.

Goodwill consists mainly of the market share obtained in a market segment that represents a high growth potential for the Company, arises from the acquisition and represents the excess of the consideration transferred and the fair value of the identifiable assets acquired and the liabilities assumed at the date of acquisition. Registered goodwill is not deductible for tax purposes.

The transaction was specified at the market value of the assets acquired, based on data derived from the valuation and studies carried out by independent experts. The total consideration paid amounted to $18,205 million, and the fair value of the assets acquired, assumed liabilities and goodwill, determined and recognized at the acquisition date amounted to $15,431 million, $4,708 million and $7,482 million, respectively.

The assets and liabilities recognized as a result of the acquisition are the following:

Thousands of pesos

	At April 4, 2017
Current assets [(1)]	$ 4,335
Property, furniture and equipment	5,319
Intangible assets [(2)]	5,777
Current liabilities [(3)]	(3,042)
Employee benefits	(341)
Deferred income tax	(1,325)
Total identifiable net assets acquired	10,723
Less: Purchase price	(18,205)
Goodwill	$ 7,482

(1) Current assets consist of cash for $672 million, other accounts receivable for $326 million, inventories for $2,349 million, value added tax for $783 million, prepaid expenses for $141 million and taxes recoverable for 64 million.

(2) Intangible assets consist of brands for $3,668 million and other intangibles (CATMex) for $2,109 million. See Note 14.

(3) Current liabilities consist of suppliers and accounts payable of $2,225 million, taxes payable and contributions of $469 million and other accounts payable of $348 million.

The consideration for the acquisition was paid in cash and the costs related to the purchase of Suburbia amounted to $119 million as of December 31, 2017, which were recorded in the expense line in the statement of income.

The Company has entered into land lease agreements with Wal-Mex, in which some of the Suburbia stores that it acquired are located. The terms of these leases are varied and the agreed rentals are agreed at market value.

The Company began to consolidate Suburbia's net assets in its consolidated statement of financial position as of April 30, 2017 and therefore, the net income of Suburbia is included in the consolidated statement of income as of December 31, 2017, for the nine months then ended. The Suburbia entities acquired from Wal-Mex contributed revenues of $12,764 million and a net profit of $745 million during the period from April 4 to December 31, 2017.

If the acquisition of Suburbia had occurred on January 1, 2017, the Company's total revenues and consolidated net profit for the year ended on December 31, 2017 would have been $126,368 and $10,813 million, respectively.

At the date of acquisition, the Company recognized a contingent liability of $62 million pesos derived from a lawsuit filed against Suburbia by New Fairsel (clothing supplier) prior to the acquisition.

Note 2 - Summary of significant accounting policies:

These policies have been consistently applied to all the years presented, unless otherwise stated.

The following is a summary of the main accounting policies applied in preparing the consolidated financial statements:

2.1 Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their Interpretations (IFRIC) issued by the International Accounting Standards Board (IASB). In accordance with the changes to the Rules for Public Companies traded on the Mexican Stock Exchange, as issued by the National Banking and Securities Commission on January 27, 2009, the Company is required to prepare its financial statements using IFRS as the regulatory framework for accounting purposes.

The consolidated financial statements have been prepared on a historical cost basis, except for cash flow hedging financial instruments, trading derivatives and investments in government securities that are measured at fair value.

Preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. The areas involving a greater degree of judgment or complexity or the areas in which the assumptions and estimates are significant for the consolidated financial statements are described in Note 4.

2.1.1 New standards and changes adopted by the Company

The company has applied the following standards and modifications for the first time for the annual reporting period beginning on January 1, 2018:

- IFRS 9 - Financial Instruments
- IFRS 15 - Income from contracts with clients

The Company has changed its accounting policies as a result of the adoption of IFRS 9 and IFRS 15. See information disclosed in Note 2.1.3.

2.1.2 New standards and interpretations not yet adopted

A number of new standards and interpretations have been published which are not effective for reporting periods at December 31, 2018, and have not been applied in advance by the Company. Following is an explanation of the Company's evaluation of the impact of these new standards and interpretations:

a.IFRS 16 - Leases

Nature of the change

IFRS 16 was published in January 2016. The result will be that almost all lease agreements will be recognized in the statement of financial position, as the difference between financial leasing and operating leasing has been eliminated. The new standard requires recognizing an asset (the right to use the leased goods) and a financial liability to cover lease payments. The only exceptions are short-term leases and leases involving insignificant lease payments.

Impact

The company has put together a team which has reviewed all leasing agreements in the light of the new accounting guidelines for leases contained in IFRS 16. The rule will principally affect the Company's accounting for operating leases.

As at the reporting date, the Company has non-cancellable operating lease commitments of $2,297,969. See Note 18. Of these commitments, approximately $48,106 relate to short-term leases and $112,116 to low value leases which will both be recognized on a straight-line basis as expense in profit or loss.

For the remaining lease commitments, the Company expects to record right-of-use assets amounting to approximately $11,501,604 on January 1, 2019 and lease liabilities of $11,501,604 (after adjustments for advance payments and lease payments recorded at December 31, 2018). It is expected that at the date of adoption the deferred tax effects will not be material.

No significant impact is expected on the financial statement and the activities of the Company as a lessor. However, certain additional disclosures will be required beginning next year.

Date of adoption by the Company

The Company will apply the standard as from the date of compulsory adoption, at January 1, 2019. The Company intends to apply the simplified transition approach and will not restate the comparative amounts for the year prior to application of the standard. Right-of-use assets for leasing will be measured in the transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the leasing liability in adoption of the new rules (adjusted for any leasing expenses accumulated or paid in advance).

The Company has identified no other standards that have not yet gone into effect and could have a significant impact on the entity in current and future reporting periods and transactions in the foreseeable future.

2.1.3 Changes in accounting policies

This note explains the impact of adopting IFRS 9 Financial Instruments and IFRS 15 Income from contracts with clients on the company's financial statements.

The following tables show the adjustments recognized derived from the adoption, the adjustments are explained below.

Consolidated statement of financial position

	December 31, 2017 as originally presented	Adoption of IFRS 9	January 1, 2018 restated
Current assets	$ 67,478,100	$ (719,152)	$ 66,758,948
Non-currente assets	107,777,778	86,047	107,863,825
Total assets	$ 175,255,878	$ (633,105)	$ 174,622,773
Liabilities	$ (74,052,182)	$ 129,699	$ (73,922,483)
Stockholders' equity	(101,203,696)	503,406	(100,700,290)
Total liabilities and equity	$ (175,255,878)	$ 633,105	$ (174,622,773)

a. Impact on the financial statements

IFRS 9 "Financial instruments"

IFRS 9 replaces the provisions of International Accounting Standards (IAS) 39, which deals with recognition, classification and measurement of financial assets and financial liabilities, the disposal of financial instruments, the impairment of financial assets and accounting for coverage. Adoption of IFRS 9 Financial Instruments as from January 1, 2018 resulted in changes in accounting policies and minor adjustments to the amounts recorded in the financial statements. The new accounting policies are explained in Notes 2.6 and 2.7. On the basis of the transitory provisions of IFRS 9 (7.2.15) and (7.2.26), comparative figures were not restated.

The total impact on the Company's retained earnings as at 1 January 2018 is as follows:

	2018
Opening retained earnings as of December 31, 2017	$ 82,878,922
Increase in provision for credit losses	(719,095)
Increase in deferred tax assets relating to provision for credt loss	215,729
Adjustment from adoption of IFRS 9 on January 1, 2018	(503,366)
Opening retained earnings as of January 1, 2018 - IFRS	$ 82,375,556

i. Classification and measurement

On January 1, 2018, Company management determined the business models to be applied to its financial assets and has classified its financial instruments in appropriate categories in the terms of IFRS 9. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method, financial assets are measured at amortized cost, which means that the new rule had no effect. Also, no fair value item was assigned to income. See Notes 2.5 and 5 The Company has decided to apply the limited exemption provided in IFRS 9, paragraph 7.2.15, dealing with the transition, for classification, measurement and impairment, and has therefore not restated comparative periods in the year of initial application.

ii. Derivatives and coverage operations

In the matter of accounting for coverage, this standard have no effect on the Company, as it continues to make use of IAS 39. See Note 2.7.

iii. Impairment of financial assets

The Company holds financial assets subject to the new credit loss model expected to be contained in IFRS 9, consisting of accounts receivable from customers on the sale of inventory. The Company required a review of its impairment methodology in the terms of IFRS 9 for this type of asset.

The Company applies the simplified approach contained in IFRS 9 for measuring expected credit losses, which makes use of an expected loss provision over the lifetime of the instrument for all accounts receivable. That gave rise to a $719,152 increase in the provision for losses for accounts receivable at January 1, 2018. Note 3.3.2 provides details concerning the calculation of that assignment.

The provision for losses increased from $3,804,833 to $3,982,292 during the period covered by this report.

b. IFRS 15 - Income from contracts with clients

The Company has adopted IFRS 15 Income from contracts with clients as from January 1, 2018, which gave rise to changes in accounting policies but required no adjustments to the figures contained in the financial statements. As provided in IFRS 15, the Company has adopted a simplified transition method and the practical solution for interest-free installment sales. See Note 2.22.

2.1.4 Going concern

The Company meets its working capital needs through reinvestment of a significant portion of its annual profits, as well as by contracting short and long-term credit lines, while respecting the debt ceiling approved by the Board of Directors. The Company's financial structure allows the Company to take on debt, despite its investments in capital expenditures carried out annually to increase the Company's total sales space by opening new stores and shopping malls. Interest payments are covered more than 5 times by operating income, which is an objective established by the Board of Directors. Taking into account the possible variations in operating performance, the Company believes its budget and projections allow it to operate with its current level of financing and meet all debt obligations. The Company is currently in compliance with its payment obligations and all debt covenants.

Management expects the Company to secure the resources necessary to continue operating as a going concern in the foreseeable future. Consequently, the consolidated financial statements were prepared on a going-concern basis.

2.2 Consolidation

a. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The balances and unrealized profits or losses in intercompany operations are eliminated in the consolidation process. When necessary, accounting policies have been modified in subsidiary entities in order to be consistency with the policies adopted by the Company.

The following is a summary of the Company's interest in subsidiaries at December 31, 2018 and 2017:

Company	Shareholding	Activity
Operadora Liverpool, S. A. de C. V.	99.99%	Sub-holding of Distribuidora Liverpool, S. A. de C. V. and other companies that operate the department stores.
Bodegas Liverpool, S. A. de C. V. y Almacenadora Liverpool, S.A. de C.V.	99.99%	Storage and distribution of merchandise.
Servicios Liverpool, S. A. de C. V.	99.99%	Advisory and administrative services provided to the Company's subsidiaries.
Banlieu, S. A. de C. V.	99.99%	Holding of Suburbia, S. de R. L. de C. V. and other companies that administrative services and real estate.
Ten real estate companies	99.93%	Development of real estate projects, mainly shopping malls.

Additionally, up to December 31, 2017, the Company consolidated a trust over which it exercised control based on the indicators mentioned in IFRS 10 Consolidated Financial Statements. This trust was closed down in May 2018 See Note 12.

b. Associates

Associates are all those entities over which the Company exercises significant influence, but not control. Usually, associates are those of which the Company holds between 20% and 50% of the voting rights. Investments in associates are recorded by the equity method and are initially recognized at cost. The Company's investment in associates includes goodwill (net of any accumulated impairment loss, if any) identified at the time of the acquisition. The Company's equity in the profits or losses following acquisition of associates is recognized in the statement of income and its equity in the comprehensive results of an associated company, following its acquisition, is recognized in the Company's "Other comprehensive results". Post-acquisition accrued movements are adjusted against the book value of the investment. When the Company's equity in the losses of an entity equals or exceeds its interest in the entity, including any unsecured account receivable, the Company does not recognize a greater loss, unless it has incurred obligations or has made payments on behalf of the associated. The associated companies' accounting policies have been modified when necessary, for consistency with the policies adopted by the Company.

2.3 Segment information

Segment information is presented to be consistent with the internal reports provided to the Financial Review Committee, which is the body responsible for making operating decisions, of assigning the resources and evaluating the operating segments' yield.

2.4 Foreign currency transactions

a. Functional and presentation currency

The items included in each of the subsidiaries' financial statements are stated in the currency of the primary economic environment in which the entity operates (the "functional currency").

The currency in which the consolidated financial statements of the Company are presented is the Mexican peso, which in turn is also the functional currency.

b. Transactions and balances

Foreign currency transactions are converted to the functional currency using the exchange rates in effect on the transaction or valuation dates, when the items are re-measured. The profits and losses resulting from such transactions and from other conversion at the exchange rates in effect at the year-end close of all monetary assets and liabilities denominated in foreign currency are recognized as exchange fluctuations under foreign exchange loss or gain in the statement of comprehensive income.

2.5 Financial assets

2.5.1 Classification

From 1 January 2018, the group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value and
- Those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in income. See Note 2.7. The Company reclassifies debt investments when and only when its business model for managing those assets changes.

2.5.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

2.5.3 Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies its debt instruments according to the following categories:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in the income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss. Impairment losses are presented as separate line item in the statement of profit or loss.

The previous accounting policy for the financial assets.

2.5.1 Classification

The Company classifies its financial assets as loans and accounts receivable, and at fair value through profit and loss. Classification depends on the purpose of the financial assets. Management determines the classification of its financial assets at the date of initial recognition.

a. Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets allowing for fixed or determinable payments and which are not quoted on an active market. They are classified as current assets, except for those maturing in over 12 months, which are classified as non-current assets.

b. Financial assets held at fair value that affect profit and loss

Financial assets held at fair value that affect profit and loss are financial assets that are held for sale. A financial asset could be classified under such category only if it's acquired mainly with the purpose of selling in the short term. Derivative financial instruments are also classified as held for sale unless they are designated as cash flow hedges. Financial Assets held for sale are classified as current if they are expected to be recovered within a period of less than twelve months; otherwise, they will be classified as a non-current.

2.5.2 Recognition and measurement

a. Investments in highly liquid government bonds with a maturity of less than 28 days, they are included cash and cash equivalents. These assets are stated at fair value and value fluctuations are recorded in the results of the period.

b. Accounts receivable comprise loans granted by the Company to its customers to acquire goods and services at its department stores or establishments affiliated to the VISA system. If recovery of these receivables is expected in a year or less, these loans are classified as current assets; otherwise, they are shown as non-current assets.

c. Accounts receivable are initially recognized at fair value and subsequently measured at their amortized cost, using the effective interest rate method, less the reserve for impairment

d. Loans and accounts receivable are no longer recognized when the rights to receive cash flows from investments mature or are transferred and the Company has transferred all the risks and benefits arising from ownership. If the Company does not transfer or substantially retain all the risks and benefits inherent to ownership and continues to retain control of the assets transferred, the Company recognizes its equity in the asset and the related obligation with respect to the amounts it would be required to pay. If the Company substantially retains all the risks and benefits inherent to ownership of a financial asset that has been transferred, the Company continues to recognize the financial asset, as well as a liability for the resources received.

2.6. Impairment of non-financial assets

2.6.1 Assets carried at amortized cost

From 1 January 2018, the Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost over the life of the instrument, considering the results of the behavior of the portfolio. Increases in that provision are recorded within the provision for credit losses in the statement of income. See Note 3.3.2.

The previous accounting policy for the impairment of accounts receivable

At the end of every reporting period, the Company evaluates whether there is objective evidence of impairment of a financial assets or group of financial assets. Impairment of a financial asset or group of financial assets and the impairment loss are recognized only if there is objective evidence of impairment resulting from one or more events (a 'loss event') and the loss event or events have an impact on the estimated cash flows of the financial asset that can be reliably estimated.

The Company previously recorded a provision for impairment of its credit portfolio based on an individual analysis of each account and of the results of the evaluation of the portfolio performance. Increases in that provision are recorded under administrative expenses in the statement of income.

2.7 Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognized at fair value on the date on which the derivative financial instrument agreement was entered into and are subsequently re-measured at their fair value. The method for recognizing the profit or loss of changes in fair value of derivative financial instruments depends on whether or not they are designated as cash flow hedge, and if so, on the nature of the item being hedged. The Company has only contracted cash flow hedge derivative financial instruments.

At the outset of the transaction, the Company documents the relationship between the hedging instruments and the items covered, as well as the objectives and Risk Management's strategy to back its hedging transactions. The Company periodically documents whether or not the derivative financial instruments used in hedging transactions are highly effective in hedging the cash flows of the items hedged.

The fair value of the derivative financial instruments used as hedging instruments is disclosed in Note 10. The total fair value of the derivative financial instruments used as hedging instruments is classified as a non-current asset or liability when maturity of the remaining hedge amount is more than 12 months, and is classified as a current asset or liability when the remaining hedge amount is under 12 months.

When a hedging instrument matures or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time is recognized in the income statement.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is applied to other comprehensive income.

2.8 Cash and cash equivalents

For purposes of presentation in the statement of cash flows, cash and cash equivalents include cash in hand, demand deposits in financial institutions, other short-term investments, highly liquid with original maturities of three months or less that are easily convertible into cash and that are subject to insignificant risks of changes in value, and bank overdrafts. The cash equivalents are represented by investments in government instruments. See Note 7.

2.9 Inventories

Inventories are recorded at the lower of cost or its net realizable value. Cost of sales includes the cost of merchandise, plus costs related to importation, freight, handling, shipment, and storage at customs and at distribution centers, less the value of the returns. The net realization value is the selling price estimated in the normal course of operations, less sales costs. The cost is determined by the average cost method, except for the business of Suburbia that are valued at retail cost.

Physical inventory counts are conducted periodically at the stores, boutiques and distribution centers and inventory records are adjusted to the results of physical inventory counts. Historically, due to the Company's loss prevention programs and control procedures, shrinkage has been immaterial.

2.10 Investment properties

Investment properties are real property (land and buildings) held to obtain economic benefits through collection of rent or for the capital gains, and are initially valued at cost, including transaction costs. After their initial recognition, investment properties continue to be valued at cost, less accumulated depreciation and impairment losses, if any.

The Company owns shopping malls that house their department stores, as well as commercial space it leases to third parties. In such cases, only the portion leased to third parties is considered as Investment Property and the Company's stores are recorded as property, furniture and equipment, in the statement of financial position. See Note 12.

Depreciation is calculated by the straight-line method to distribute the cost at its residual value over their remaining useful lives, as follows:

Buildings:	
Shell and core stage of construction	75 years
Structural work	75 years
Fixed facilities and accessories	35 years

2.11 Property, furniture and equipment

The items comprising property, furniture and equipment are recognized at their historical cost, less depreciation and impairment losses. The historical cost includes expenses directly attributable to the acquisition of these assets and all expenses related to the location of assets at the site and in the conditions necessary for them to operate as expected by Management. For qualified assets, the cost includes the cost of loans capitalized in accordance with the Company's policies. (See Note 2.12).

Expansion, remodeling and improvement costs represent an increase in capacity and so they are recognized as an extension of the useful life of goods are they capitalized. Maintenance and repair expenses are charged to income for the period in which they are incurred. The carrying amount of replaced assets is derecognized when they are replaced, recording the entire amount in the income statement.

Works in progress represent stores under construction and includes investments and costs directly attributable to the startup of operations. These investments are capitalized upon opening the store and depreciation is computed from that point.

Land is not depreciated. Depreciation of other assets is calculated by the straight-line method to distribute the cost at its residual value over their remaining useful lives, as follows:

Buildings:	
Shell and core stage of construction	75 years
Structural work	75 years
Fixed facilities and accessories	35 years
Other assets:	
Operating, communications and security equipment	10 years
Furniture and equipment	10 years
Computer equipment	3 years
Transportation equipment	4 years
Leasehold improvements	Over the term of the lease agreement

The Company assigns the amount initially recorded with respect to an element of property, furniture and equipment, in its different significant parts (components) and depreciates separately each of those components.

The residual values and useful life of the Company's assets are reviewed and adjusted, if necessary, at the date of each statement of financial position. See Note 13.

The book value of an asset is written off at its recovery value if the book value of the asset is greater than its estimated recovery value. See Note 2.14.

Gains and losses from the sale of assets are due to the difference between income from the transaction and the book value of the assets. They are included in the statement of income as services income and other.

2.12 Borrowings Costs

Borrowing costs directly attributable to the acquisition and construction of qualified assets, which constitute assets requiring a substantial period of time up until they are ready for use or sale are added to the cost during that time, until such time as they are ready for use or sale.

Income obtained from the temporary investment of specific loans not yet used on qualified assets is deducted from the cost of loans eligible for capitalization.

At December 31, 2018 and 2017, there was no capitalization of comprehensive financing income due to the fact that during those periods, there were no assets that, according to the Company's policies, qualified as requiring a construction period longer than a year.

2.13 Intangible assets

i. Goodwill

Goodwill in acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortized but goodwill impairment reviews are carried out annually or more frequently if events or changes in circumstances indicate a possible impairment, and are recorded at cost less accumulated impairment losses. Gains and losses on the disposal of a Company include the carrying value of the goodwill related to the Company sold.

In order to verify impairment, the goodwill acquired in a business combination is assigned to each of the Cash Generating Units (CGU), which is expected to benefit from the synergies of the combination. Each unit to which the goodwill has been assigned represents the lowest level within the entity to which goodwill is controlled for internal management purposes. Goodwill is controlled at the operating segment level.

ii. Brands

The brands acquired individually are shown at historical cost, while those acquired through business combinations are recognized at their fair value at the date of acquisition. Brands are not amortized and subject to impairment tests annually. To date, no factors limiting the useful life of these assets have been identified. The brands are considered to have an indefinite useful life due to the positioning they have in the market, some of them, for more than 30 years and because the Company's experience and market evidence indicate that they will continue to generate cash flows for the Company in indefinite form. Additionally, the Company estimates that there are no legal, regulatory or contractual considerations that limit the useful lives of such brands.

iii. Development of computer systems and programs

Activities involved in the development of computer systems and programs include the plan or design and production of a new or substantially improved software or computer system. Expenses pertaining to the development of computer programs are only capitalized when they meet the following criteria:

- It is technically possible to complete the computer program so that it is available for use;
- Management intends to complete the computer program and use it;
- The Company has the capacity to use the computer program;
- It can be proven that the computer program will generate future economic benefits;
- The Company has the technical, financial and other resources necessary to conclude the development of the program for its use; and
- Expenses related to the development of the computer program can be reliably measured.

The licenses acquired for use of programs, software and other systems are capitalized at the value of the costs incurred for their acquisition and preparation for their use. Other development costs failing to meet these criteria and research expenses, as well as maintenance expenses are recognized and expensed as they are incurred. Development costs previously recognized as expenses are not recognized as assets in subsequent periods.

The costs incurred in the development of software recognized as assets are amortized over their estimated useful lives, which fluctuate between five (licenses and fees) and ten years. (New IT developments). They are included in the statement of income as administrative expenses. See Note 14.

iv. Other intangibles

As a result of the acquisition of Suburbia, the Company recognized an intangible derived from the knowledge of the operative process of purchases, commercial planning, product design and commercialization (CATMex). This intangible asset was recognized at fair value at the date of acquisition, has an indefinite useful life and is subject to impairment tests.

2.14 Impairment of non-financial assets

Non-financial assets subject to depreciation are subject to impairment testing. Impairment losses correspond to the amount at which the book value of the asset exceeds its recovery value. The recovery value of assets is the greater of the fair value of the asset less costs incurred for its sale and its value in use. For the purposes of impairment assessment, assets are grouped at the lowest levels at which they generate identifiable cash flows (cash-generating units). Non-financial assets subject to write-offs due to impairment are valued at each reporting date to identify possible reversals of the impairment.

Goodwill and intangible assets with an indefinite useful life are not subject to amortization and are subjected annually to impairment tests, or more frequently if there are events or circumstances that indicate that they could be affected. Other assets are subject to impairment tests when events or changes in circumstances indicate that the carrying amount may not be recovered. An impairment loss is recognized for the book value of the asset that exceeds its recoverable value. Recoverable value is the higher of the fair value of an asset less its disposal costs and its value in use. For purposes of assessing impairment, assets are grouped into the lowest levels for which there are separately identifiable cash flows, which are largely independent of the cash flows of other assets or groups of assets (cash generating units). Impaired non-financial assets other than goodwill are reviewed to determine the possible reversal of impairment at the end of each reporting period.

2.15 Accounts payable

Accounts payable are obligations of goods or services acquired from vendors in the normal course of operations. Accounts payable are classified as current liabilities if the payment is to be made within a year or less (or in the normal cycle of business operations if it is greater). Otherwise, they are shown as non-current liabilities.

Accounts payable are initially recognized at fair value and subsequently re-measured at their amortized cost, using the effective interest rate method.

2.16 Loans from financial institutions, issues of stock certificates and Senior Notes.

Loans from financial institutions, issues of stock certificates and Senior Notes are initially recognized at fair value, net of costs incurred in the transaction. This financing is subsequently recorded at its amortized cost. Differences, if any, between the funds received (net of transaction costs) and the redemption value are recognized in the statement of income during the period of the financing, using the effective interest rate method.

2.17 Cancellation of financial liabilities

The Company cancels financial liabilities if, and only if, the Company's obligations are met, cancelled or matured.

2.18 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of cash flows to settle the obligation and the amount can be estimated reliably required. The amount recognized as a provision is the best estimate on the reporting period, the expenditure required to settle the present obligation, the payment is made by the amount assessed rationally, the Company has to pay to settle the obligation to end of the reporting period under review, or to transfer it to a third party at that time. See Note 15.

2.19 Income tax

The income tax comprises currently-payable and deferred taxes. The tax is recognized in the statement of income, except when it relates to items applied directly to other comprehensive income or losses or to stockholders' equity. In this case, the tax is also recognized in other items pertaining to comprehensive income or directly to stockholders' equity, respectively.

Deferred income tax is recognized on temporary differences arising from comparing the book and tax values of all assets and liabilities of the Group. However, deferred tax liabilities are not recognized if it arises from initial recognition of goodwill; nor deferred income tax is recognized if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the end of the year and are expected to apply when the deferred income tax asset is realized or the deferred income tax liability is settled.

The charge corresponding to taxes on profits currently payable is calculated according to the tax laws approved as of the balance sheet date in Mexico and in the countries in which the Company's associates operate and generate a taxable base. Management periodically evaluates their tax positions with respect to tax refunds as tax laws are subject to interpretation. According to this assessment as of December 31, 2018 and 2017, there are no uncertain positions.

The deferred tax asset, tax-on-profits, is only recognized to the extent future tax benefits are likely to be achieved and can be applied against any temporary differences in liabilities.

The deferred tax on profits is generated on the basis of the temporary differences between investments in subsidiaries and associates, except when the Company can control when those temporary differences will be reinvested and the temporary difference is unlikely to be reinvested in the foreseeable future.

The balances of deferred asset and liabilities, tax-on-profits, are offset when there is a legal right to offset current tax assets against current tax liabilities and when the deferred tax-on-profit assets and liabilities relate to the same tax entity, or different tax entities where the balances are to be settled on a net basis. See Note 21.

2.20 Employee benefits

a. Pensions and seniority premium

The Company's subsidiaries operate pension plans and seniority premiums that are usually funded through payments to trust funds, based on annual actuarial calculations. The Company also has defined benefit plans and a defined benefit pension plan which is a plan that determines the amount of the pension benefits to be received by an employee upon retirement, which usually depends on one or more factors, such as the employee's age, years of service and compensation.

The liability or asset recognized in the consolidated statement of financial position with respect to defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, less the fair value of the plan assets, along with the adjustments arising from unrecognized actuarial profits or losses and the costs of past services. The defined benefit obligation is calculated annually by independent actuaries, using the projected unit credit method. The present value of defined benefit obligations is determined, discounting estimated cash flows at the interest rates of government bonds denominated in the same currency in which the benefits will be paid, and have expiration terms that approximate the terms of pension obligations.

Actuarial remeasurements arising from adjustments based on the experience and changes in actuarial assumptions are charged or credited to stockholders' equity in other comprehensive-income items in the period in which they arise.

The plans in Mexico generally expose the Company to actuarial risks, including investment risk, interest rate risk, longevity risk and risk of salary, according to the following:

Investment risk: The rate of return expected for the funds is equivalent to the discount rate, which is calculated using a discount rate determined by reference to long-term government bonds; if the return on assets is less than the fee, this will create a deficit in the plan. Currently the plan has a balanced investment in fixed income instruments and actions. Due to the long term nature of the plan, the Company considers it appropriate that a reasonable portion of the plan assets are invested in equities to leverage the yield generated by the fund, taking at least an investment in government instruments 30% stipulated in the Income Tax Law.

Interest Rate Risk: A decrease in the interest rate increase plan liabilities; volatility in rates depends exclusively on the economic environment.

Longevity risk: The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of plan participants. An increase in life expectancy of plan participants increased liabilities.

Risk salary: The present value of the defined benefit obligation is calculated by reference to future wages of participants. Therefore, an increase in expectation of salary increase participants plan liabilities.

b. Annual bonus for retaining executives

Some of the Company's executives receive an annual retainer bonus, calculated as a percentage of their annual compensation and depending on the completion of certain goals established for each officer at the beginning of the year. The Company has set up a reserve of $256,158 at December 31, 2018 ($263,946 at December 31, 2017), that is included in Note 15 within Bonds and Compensation paid to employees.

c. Employees' statutory profit sharing and bonuses

The Company recognizes a liability and a bonus expense and employees' statutory profit sharing based on a calculation that considers the profit after certain adjustments. The Company recognizes a provision when it is contractually obligated or when there is a past practice that generates an assumed obligation.

d. Other benefits granted to employees

The Company grants certain benefits to employees that leave the Company either by termination or voluntary decision after 20 years of service. In accordance with IAS 19 (revised) "Employee Benefits", this practice constitutes an assumed obligation of the Company with its employees, which is recorded based on annual actuarial studies prepared by independent actuaries. See Note 17.

e. Benefits paid to employees for severance required by the law

The Company recognizes and pays compensation in the first of the following dates: a) the Company may not withdraw the offer of those benefits and b) when the Company recognizes the costs of restructuring that is within the scope of IAS 37 and involves payment termination benefits.

2.21 Capital stock

Common shares are classified as capital.

2.22 Revenue recognition

Income represent the value of the consideration to which the Company expects to be entitled in exchange for the sale of goods or services rendered in the normal course of the Company's operations. Revenue is shown net of discounts and discounts granted to customers.

The Company uses the IFRS 15 methodology for revenue recognition based on the following steps:

- Identification of the contract with the client.
- Identification of the performance obligations or obligations.
- Determination of the transaction price.
- Assignment of the transaction price to performance obligations.
- Recognize income as they meet performance obligations.

The Company considers the following concepts as performance obligations separately:

a. Sale of merchandise

Income from sales of merchandise are recognized when the client makes purchases in stores, by phone or via internet and takes possession of the goods at the moment of the merchandise is delivered. The Company does not consider the sale of merchandise and delivery thereof as separate performance obligations, because the client obtain control of the goods at the time of delivery. As a practical solution, the Company does not adjust the amount of such sales, in accordance with the provisions of the IFRS 15 norm. For sales to months without interest, due to sales promotions for months without interest for less than one year. For more than one year, the Company has assessed that the discount amount of said sales is not significant.

The Company's policy is to allow the return of certain items sold. Customer returns usually involve a change of size, color, etc.; however, in cases in which the customer definitively wishes to return the product, the Company allows customers to credit the value of the merchandise to their account, if the purchase was made with the Company's own cards, or to return the amount of the purchase in an electronic cash card or a credit to the customer's bank credit card, if the purchase was made in cash or with external cards, respectively.

The previous accounting policy for the sale of merchandise

Revenues from sales of goods is recognized when the customer purchases in stores or by phone and internet, and takes possession of the property, at the time of delivery of the goods. About half of merchandise sales are settled by customers with the cards operated by the Company, and the remainder is paid in cash or through bank debit and credit cards. In accordance with IAS 18 “Revenue”, the cash received from promotions involving interest free sales on credit for a determined number of months is deferred over time and therefore, its fair value can be less than the nominal amount of the sale. In these cases, the Company determines the fair value of the cash to be received, less all future cash flows, using an interest rate prevailing in the market for a similar instrument.

The difference between the nominal value of the sale at a certain number of months free of interest and the value discounted as per the above paragraph is recognized as interest income. See point c. of this Note.

b. E-wallets and gift certificates

• E-wallets

The Company offers promotions, some of which involve benefits granted to its customers represented by e-wallets, the value of which is referred to a percentage of the selling price. E-wallets can be used by customers to settle future purchases at the Company's department stores. Upon the time the electronic wallets are granted, they are recognized in the deferred income account in the consolidated financial position. The Company deducts the amount granted to its customers in e-wallets from revenue. In the Company's historical experience, the likelihood of customers using e-wallets accounts that have been inactive for 24 months is very low. Therefore, e-wallets showing these characteristics are cancelled, with a credit to sales.

• Gift certificates

The Company offers its customers gift certificates with no specific expiration date. Upon their sale, gift certificates are recognized in the deferred revenue account in the statement of consolidated financial position. This account is cancelled when the customer redeems the gift certificate; whether partially or entirely, through the acquisition of merchandise, recognizing revenue in the same amount. In the Company's historical experience, the likelihood of customers using gift certificates that have been inactive for 24 months being is remote. Therefore, certificates with these characteristics are cancelled against service income.

c. Interest income

In accordance with IAS 9 "Financial Instruments", interest income is recognized by the effective interest rate method. . Late payment of interest is recorded as income as it is collected.

Income from recovery of credits previously canceled is recorded under service income.

Previous accounting policy for interest earned from clients

In accordance with IAS 18 "Revenue", interest income is recognized by the effective interest rate method. Late payment of interest is recorded as income as it is collected. Income from the recovery of previously-cancelled credit is recorded as service income and other.

d. Lease revenue

The Company's policy for recognition of operating lease revenue is described in Note 2.25.1

e. Services and other

Income from service agreements is determined as follows:

- Service income is recognized when the customer receives the benefit of the service, such as: beauty salon, travel agency, opticians or interior design.

2.23 Deferred income

The Company records deferred income arising from different transactions in which cash was received, and in which the conditions for revenue recognition described in paragraph 2.22, b) have not been met. Deferred revenue is shown separately in the consolidated statement of financial position.

2.24 Other accounts receivable

The Company classifies as other accounts receivable all loans or advance payments made to employees and other parties or companies other than the general public. If collection rights or recovery of this amount is realized within 12 months from the period close, they are classified as short term; otherwise, they are shown as long term.

2.25 Leases

Leases are classified as capital leases when the terms of the lease transfer all the risks and benefits inherent in the property to the lessee. All other leases are classified as operating leasing.

2.25.1 Lessor

Rent income pertaining to the Company's Investment Property is recognized by the straight-line method over the term of the lease. Initial direct costs incurred in negotiating an operating lease are added to the book value of the leased asset, and are recognized by the straight-line method over the term of the lease. The Company has no assets leased through capital leasing plans.

2.25.2 Lessee

Rent payments under operating leases are charged to income by the straight-line method during the term of the lease. Variable rent is recognized as an expense in the period in which it is incurred.

2.26 Earnings per share

Basic earnings per ordinary share are calculated by dividing the holding interest by the weighted average of ordinary shares outstanding during the period. Earnings per diluted share are determined by adjusting the holding interest and ordinary shares, under the assumption that the entity's commitments to issue or exchange the Company's own shares would be realized. Basic earnings are the same as diluted earnings due to the fact that there are no transactions that could dilute earnings. See Note 20.

2.27 Supplier rebates

The Company receives rebates from suppliers as reimbursement of discounts granted to customers. Supplier reimbursements related to discounts granted to customers with respect to merchandise sold are negotiated and documented by the purchasing areas and are credited to the cost of sales in the period in which they are received.

2.28 Prepaid payments

The Company recognizes prepaid payments for television advertisement and insurance premiums. Those amounts are recorded at the value that was contracted and are recorded in income when the advertisements are broadcasted and on a straight line basis for insurance premiums. None of the insurance policies have a term exceeding twelve months.

2.29 Business combination

The Company uses the purchase method to recognize business acquisitions. The consideration for the acquisition of a subsidiary is determined based on the fair value of the net assets transferred, the liabilities assumed and the capital issued by the Company. The consideration of an acquisition also includes the fair value of those liabilities and assets resulting from a contingent consideration agreement. The identifiable assets acquired and the liabilities and contingent liabilities assumed in a business combination are initially recognized at their fair value at the date of acquisition. The Company recognizes the non-controlling interest in the acquired entity either at its fair value at the acquisition date or at the proportional value of the identifiable net assets of the acquired entity.

The costs related to the acquisition are recorded as an expense as incurred.

Any contingent consideration to be paid by the Company is recognized at fair value at the acquisition date. Changes subsequent to the fair value of the contingent consideration recognized as an asset or liability are recognized in accordance with IAS 39, either in profit or loss or in ORI. The contingent consideration that is classified as capital does not require adjustment, and its subsequent settlement is recorded within the capital.

2.30 Business combination or asset acquisition

An entity will determine whether a transaction is a business combination by applying the definition of IFRS 3 "Business Combinations" IFRS, which requires that the assets acquired and liabilities assumed constitute a business, provided that the following three are held elements; 1) input: any economic resource that elaborates, or has the capacity to elaborate, products if one or more processes are applied to them; 2) process: any system, norm, protocol, convention or rule that applied to a input or inputs, develops or has the ability to produce products, and 3) product: the result of in inputs and processes applied to them that provide or have the ability to provide profitability in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. When the acquired assets are not a business, the entity accounts for the transaction as the acquisition of an asset, and will distribute the cost of the transaction between individually identifiable assets and liabilities based on their relative fair values at the date of purchase. . This transaction will not give rise to goodwill, and in the event of incurring costs during the acquisition process, these are recognized as part of the asset.

Note 3 - Risk management:

The main risks to which the Company is exposed are:

3.1 Real estate risk

3.2 Market risks

3.2.1. Exchange rate risk
3.2.2. Interest rate risk
3.2.3. Inflation risk

3.3 Financial risks

3.3.1. Liquidity risk
3.3.2. Credit risk

3.1 Real estate risk

The Company owns department stores and either owns or co-owns 27 shopping malls. The Board of Directors is responsible for authorizing the purchase of land and buildings proposed by the Company's real estate area. For every real estate investment, sales are estimated per square meter and the return on the investment to be generated. The Company has no risk concentration in accounts receivable from lessees, as it has a diversified base and periodically evaluates their payment capacity, especially prior to renewing their lease agreements. Although the value of real property in Mexico is relatively stable, economic development and structural changes in the country are risk factors that could affect the supply and demand of real property, and affect rent levels and the risk of vacant commercial space. Commonly, real property in Mexico is quoted in US dollars, and thus an excessive rise in the exchange rate of the peso to the dollar or in the prices of property available to the Company or in construction materials could limit the Company's plans to expand, the rent-related uncollectible rate has historically remained below 2%, thus the credit risk related to lease agreements is considered low. The Company has insurance that duly covers its assets against the risk of fire, earthquake and other natural disasters. All insurance has been contracted with leading companies in the insurance market.

3.2 Market risks

The Company contracts derivative financial instruments to reduce the uncertainty of the return on its projects. The derivative financial instruments contracted are assigned for hedge accounting purposes and are closely linked to the financing contracted by the Company. The Company's policies require that quotes be obtained by three different financial instruments in order to guarantee the best rates on derivative contracts.

The Company's internal control policies require that the representatives of the finance and legal areas conduct an analysis prior to contracting financing or to conducting operations with derivative financial instruments. In evaluating the use of derivatives, to cover the financing risks, sensitivity analysis are conducted of the different variables and effectiveness testing is conducted to determine the book treatment of the derivative financial instrument, once contracted.

3.2.1 Exchange rate risk

Except as mentioned in note 16, the Company has not contracted financing in foreign currencies; however, the Company is exposed to risks related to movements in the exchange rate of the peso to the US dollar and the euro with respect to importations of merchandise mainly from Europe and Asia. Purchases of merchandise in a currency other than the Mexico peso represent approximately 20% of total purchases.

At December 31, 2018 and 2017, the Company's exposure to exchange rate risks amounted to US$1,023,350, €1,220 and US$1,054,179, €121, respectively. In the event of a 8% increase in the exchange rate of the peso to the US dollar, the Company's loss would approximate $1,598,692 and $2,073,107. The 8% represents the sensitivity rate used when the exchange risk is reported internally to the Operations Committee, and represents Management's assessment of possible changes in exchange rates. The sensitivity analysis includes only those monetary items not yet settled that are denominated in foreign currency at the period close.

Additionally, the Company maintains an investment in Grupo Unicomer Co. Ltd. (Unicomer), and the cash flows received are denominated in US dollars. The risk of conversion is the risk that the variations in exchange rates will cause volatility in the peso value of these cash flows. The Company has not hedged the cash flows that it receives from this investment.

The Company had the following foreign currency monetary assets and liabilities:

	December 31,			
Thousands of US dollars:		**2018**		2017
Monetary assets	US$	75,501	US$	48,726
Monetary liabilities		(1,098,851)		(1,102,905)
Net active position	US$	(1,023,350)	US$	(1,054,179)
Equivalent in pesos	$	(20,011,056)	$	(20,728,216)

	December 31,			
Thousands of Euros:		**2018**		2017
Monetary assets	€	10,421	€	10,555
Monetary liabilities		(9,201)		(10,676)
Net passive position	€	1,220	€	(121)
Equivalent in pesos	$	27,406	€	(2,852)

The exchange rates of the peso to the dollar, in effect at the date of the consolidated balance sheet and at the date of the independent auditor's report, were as follows:

		March 6 , 2019		December 31, 2018
US dollar	$	19.1394	$	19.6650
Euro	$	21.6993	$	22.4643

3.2.2 Interest rate risk

The contracted financings are subject to both fixed and variable interest rates and expose the Company to the risk of variability in interest rates and, therefore, to its cash flows. The Company's policy is to cover the majority of its financing towards a fixed rate profile. The main objective of the use of derivative financial instruments is to know with certainty the effective flows that the Company will pay to comply with its obligations. With interest rate swaps, the Company agrees with other parties to deliver or receive monthly the difference between the interest amount of the variable rates agreed in the debt contracts and the amount of the interest of the fixed rates contracted in derivative financial instruments, 86% of the debt is at a fixed rate and the rest at a variable rate. The Company continuously analyzes its exposure to interest rates. A number of different interest rate scenarios are evaluated such as, refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the corresponding impact on results or on its financial position.

Sensitivity analysis for interest rates

The following sensitivity analyses have been determined considering the current derivative financial instruments at December 31, 2018 and assuming the following:

If interest rates had been 10 basis points higher and all the other variables remained constant:

The other items comprising comprehensive income for the year ended December 31, 2018 and 2017 would have increased by $194,297 and $172,623 net of deferred taxes, mainly as a result of the changes in fair value of hedge derivative financial instruments contracted to hedge against exposure to changes in interest rates.

The information corresponding to interest rate derivative financial instruments contracted is shown in Note 10 to the consolidated financial statements.

3.2.3 Inflation risk

At December 31, 2018, the Company had financing denominated in Investment Units (UDIs, the monetary unit linked to inflation in Mexico). The Company contracted a swap to hedge against exposure to the risk that the value of the issuance of senior notes could be affected by the increase in the inflation rate in Mexico. Assuming inflation of 10% or higher in 2018 and lower in 2017 respectively in Mexico and maintaining all the other variables constant, the effect on the other comprehensive income items due to exposure of the debt in UDIs, net of deferred taxes, would be a loss of approximately $103,877 and $72,956, respectively.

3.3 Financial risks

3.3.1 Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its fund requirements. Company Management has established policies, procedures and limits that govern the Treasury function. The Treasury is responsible for ensuring the Company's liquidity and for managing its working capital to guaranty payments to vendors and fund the costs and expenses of the operation. The Company finances its operations through a combination of: 1) reinvestment of a significant portion of profits and 2) contracting financing and leasing denominated in pesos.

The Company has immediately available credit lines not used of approximately $10,350,000 as well as overdraft lines of credit to give the Company immediate access to short-term debt instruments.

The following table shows the contractual maturities of the Company's financial liabilities according to the expiration periods. The table was prepared on a cash flow basis without discounting, from the first date on which the Company will be required to pay. The table includes interest and the main cash flows:

	Between 1 months and 1 year	Between 1 and 5 years	More than 5 years
December 31, 2018			
Suppliers and creditors	$ 35,867,528	$ -	$ -
Senior notes and contractual interests	2,451,817	14,993,853	29,027,505
	$ 38,319,345	$ 14,993,853	$ 29,027,505
December 31, 2017			
Suppliers and creditors	$ 34,836,910	$ -	$ -
Senior notes and contractual interests	3,362,993	14,871,696	28,566,444
Bank borrowings	2,184,210	3,652,521	-
Derivative financial instruments	20,486	-	-
	$ 40,404,599	$ 18,524,217	$ 28,566,444

3.3.2 Credit risk

Credit risk is the risk of the Company suffering losses as a result of customers defaulting on payments, financial institutions in which it maintains investments or the counterparties with which derivative financial statements are contracted.

Loan portfolio

The Company's accounts receivable are comprised of loans granted to our customers through the use of credit cards issued by the Company to purchase merchandise, goods and services at our stores or at establishments affiliated to the Visa system.

Due to the fact that Company sales are made to the general public, there is no risk concentration on one particular customer or group of customers.

The Company has a risk management system for the loan portfolio, whose main components include: 1) the processes of granting credit, authorization of purchase transactions and collection management, 2) information security, technological infrastructure and processes and procedures in store and corporate, 3) the regulatory risk, which includes aspects related to compliance with the provisions issued by the Consumer Advocacy Agency, and 4) the risk of fraud.

Credit application forms are evaluated and approved through automated procedures using parameterized scorecards (grading factors) determined by the Company, both for applicants with credit experience in the credit bureau, and for those with none. Scorecard performance is reviewed periodically and, as required, evaluation of the credit application forms is complemented with a telephone check and visit to corroborate the veracity of the information provided by the applicant. Initial credit limits are also calculated individually and automatically by the Company's system and are periodically monitored by the corporate credit department to increase or decrease them based on the cardholder's record. The Company has a process in place for review of its customer's credit quality, for early identification of potential changes in payment capacity, prompt corrective decision taking and determination of current and potential losses.

Through automated systems, monthly account cutoffs are conducted and any accounts failing to show the requirement payment are detected. Accounts not receiving payment are immediately blocked to prevent the balance from continuing to grow and the automated computation of late-payment interest begins. Based on the evaluation of certain variables, late-payment risks of the accounts in default and the actions to be taken on those accounts are determined. The following actions are taken on accounts in default: telephone calls to customers, sending of letters and home visits, among others. Accounts showing no payment after 150 days are automatically assigned to collection agencies to take over collection efforts, and accounts showing more than 240 days default are written off.

The Company continuously monitors recovery of its portfolio based on a broad range of tools and mathematical models, as well as considering a number of factors that include historical trends of portfolio aging, record of cancellations and future expectations of performance, including trends in unemployment rates in Mexico. In times of economic crisis and with high unemployment indexes, the Company restricts approval of applications and loans made, as well as restricting credit limits of current customers. Given the Company's line of business, there are no real guarantees related to accounts receivable. The best way to represent the maximum exposure to credit risk is the carrying value of accounts receivable.

Accounting policy for the provision for credit losses

The Company applies the simplified approach specified in IFRS 9 to measure expected credit losses. The new model records future portfolio losses based on the level of impairment of credit risk. That calculation methodology principally considers the likelihood of noncompliance (PD) over the lifetime of the credits, the percentage of loss when noncompliance occurs (LGD), and analysis of parameters indicative of the significant increase in risk level. In order to measure expected credit losses, accounts receivable have been grouped based on shared credit risk features (Liverpool credit card, Liverpool Premium Card (LPC) and Suburbia and Suburbia VISA), days of noncompliance and historical portfolio performance. Historical loss rates are adjusted to reflect current and prospective information on macroeconomic (forword looking) factors affecting client capacity for covering accounts receivable. For its calculation parameters, the Company has identified the National Consumer Price Index (NCOI), the Consumer Confidence Index, at which it sells its goods and services as the most relevant factor, and therefore adjusts historical loss rates based on expected changes to those factors. On that basis, the provision for losses at December 31, 2018 and at January 1, 2018 (for adoption of IFRS 9) was determined as follows for accounts receivable:

December 31, 2018	From 0 to 29 days	From 30 to 89 days overdue	More than 90 days overdue	Total
Expected loss rate	4%	26%	52%	
Loan portfolio	$ 31,828,919	$ 6,517,453	$ 1,794,345	$ 40,140,717
Provision for credit losses	$ 1,376,201	$ 1,678,306	$ 927,785	$ 3,982,292

January 1, 2018	From 0 to 29 days	From 30 to 89 days overdue	More than 90 days overdue	Total
Expected loss rate	5%	23%	46%	
Loan portfolio	$ 29,475,538	$ 6,957,276	$ 1,701,788	$ 38,134,602
Provision for credit losses	$ 1,418,193	$ 1,598,188	$ 788,452	$ 3,804,833

The balance of the provision for expected losses for the loan portfolio as December 31, 2018 and 2017 is shown below:

	December 31, 2018	2017
December 31 – calculated as per IAS 39	$ 3,085,681	$ 2,516,143
Restated amounts affecting opening retained earnings	719,152	-
Balance at January 1, 2018 under IFRS 9	3,804,833	2,511,480
Increase in the provision for credit losses recorded under income for the year	3,355,378	3,081,018
Loans portfolio canceled during the year as uncollectible	(3,177,919)	(2,511,480)
Balance at December 31, 2018	$ 3,982,292	$ 3,085,681

Accounts receivable are canceled when there is no reasonable expectation of recovery. Indicators showing that there is no reasonable expectation of recovery include the fact that the debtor suggests no payment plan to the Company and the impossibility of making contractual payments over a period of more than 240 days. See Note 8.

Impairment losses from accounts receivable are shown as net impairment losses under operating income. Subsequent recovery of amounts previously canceled is credited to the same line.

The previous accounting policy for the impairment of accounts receivable

In the preceding year, impairment of accounts receivable was evaluated on the basis of the incurred loss model. The Company previously recorded a provision for impairment of its credit portfolio based on an individual analysis of each account and of the results of the evaluation of the portfolio performance. Increases in that provision are recorded under administrative expenses in the statement of income.

Financial institutions and counterparties in derivative operations

Cash surpluses are invested in credit institutions with a high credit rating such as in government instruments and counterparties in derivative operations are high credit quality financial institutions. It should be mentioned that none of the Company's derivative financial instruments require the Company to keep cash deposits in margin accounts to guarantee these operations.

3.4 Fair value estimate

The financial instruments in the statement of financial position are recorded at fair value based on the following hierarchy.

- Level 1 fair values are derived from prices quoted (not adjusted) in active markets for identical liabilities or assets.
- Level 2 fair values are derived from indicators different from the quoted prices included in Level 1, but that include indicators that are observable directly to quoted prices or indirectly, that is to say, derived from these prices; and
- Level 3 fair values are derived from valuation techniques that include indicators for assets or liabilities that are not based on observable market information.

December 31, 2018	Book value	Level 1	Level 2	Level 3
Assets arising from hedge derivative financial instruments	$ 3,646,550	$ -	$ 3,646,550	$ -
Assets by financial instruments				
Trading derivatives	19,917	-	19,917	-
Cash and cash equivalents	10,159,108	10,159,108	-	-
Total	$ 13,825,575	$ 10,159,108	$ 3,666,467	$ -

December 31, 2017		Book value		Level 1		Level 2		Level 3
Assets arising from hedge derivative financial instruments	$	3,253,940	$	-	$	3,253,940	$	-
Cash and cash equivalents		13,381,138		13,381,138		-		-
Liabilities arising from hedge derivative financial instruments		(20,486)		-		(20,486)		-
Total	$	16,614,592	$	13,381,138	$	3,233,454	$	-

During the years ended December 31, 2018 and 2017, there were no transfers between levels 1 and 2. The carrying amount of short-term financial instruments is similar to its fair value due to materialize in the short term.

Financial derivative instruments that are classified at level 2, for determining fair value, the pricing model recognized in the financial sphere was used, (estimated future cash flows brought to present value) using available market information to the valuation date. The key assumptions of market inputs used were as follows: a) futures curve US government bonds b) futures curve Mexican government.

Note 4 - Key sources of uncertainty in estimates:

In applying the Company's accounting policies, which are described in Note 2, Management makes judgments, estimates and assumptions on the book figures of assets and liabilities. The related estimates and assumptions are based on historical experience and other factors considered relevant. Actual results could differ from those estimates.

Estimates and underlying assumptions are analyzed on a regular basis. The reviews of book estimates are recognized in the review period or future periods, if the review affects both the current period and subsequent periods.

Following are the key sources of uncertainty in the estimates made at the date of the statement of financial position and that represent a significant risk of leading to an adjustment to the book values of assets and liabilities during the following financial period.

4.1. Provision for impairment of loan portfolio

The methodology applied by the Company in determining the balance of this provision is described in Note 2.6., also see Note 8.

4.2. Estimate of useful lives and residual values of property, furniture and equipment

As described in Note 2.14, the Company reviews the estimated useful life and residual values of property, furniture and equipment at the end of every annual period. During this period, it was determined that the life and residual values do not need to be modified, as according to Management's assessment, the useful lives and residual values reflect the economic conditions of the Company's operating environment.

4.3. Estimated impairment of intangible assets with an indefinite useful life

The identification and measurement of impairment of intangible assets with indefinite lives involves the estimation of reasonable values. These estimates and assumptions could have a significant impact on the decision to recognize or not an impairment charge and also on the magnitude of such charge. The Company performs a valuation analysis and considers relevant internal information, as well as other public market information. Fair value estimates are mainly determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projected future cash flows (including maturities), discount rates that reflect the risk inherent in future cash flows, multiples of outflow cash flows, perpetual growth, determination of appropriate market comparable and the determination of whether a premium or discount should be applied to comparable.

4.4. Business combinations - purchase price allocation

For business combinations, IFRS requires a fair value calculation to be carried out by assigning the purchase price to the fair value of the assets and liabilities acquired. Any difference between the consideration paid and the fair value of the identifiable net assets acquired is recognized as goodwill or income in profit or loss if it is a bargain. The fair value calculation is carried out on the date of acquisition.

As a result of the nature of the fair value assessment at the acquisition date, the allocation of the purchase price and the fair value measurements require significant judgments based on a wide range of complex variables at a certain time. Management uses all available information to make fair value determinations. As of December 31, 2017, the Administration has determined on this basis the preliminary values of the assets acquired and the liabilities assumed in the acquisition of Suburbia, as shown in Note 1.

4.5. Estimation of useful lives of brands and other intangible assets with an indefinite life

The brands acquired as part of Suburbia have demonstrated their longevity by having been successful in the market for several decades and are well recognized in Mexico. The knowledge of the operative process of procurement, commercial planning, product design and marketing (called CATMex) is unique in the Mexican market and has generated economic benefits for Suburbia for several decades. Based on our own experience, during 170 years of operating in Mexico, the Company believes that CATMex will continue to generate cash flows for the Company indefinitely.

To date, no factors limiting the useful life of the aforementioned intangible assets have been identified and there are no legal, regulatory or contractual considerations that limit them, so in the opinion of the Company's Management, it was determined to appoint the brands of Suburbia and CATMex as having an indefinite useful life.

Note 5 - Category of financial instruments:

December 31, 2018	Amortized cost (receivables)	Fair value through profit or loss	Derivatives used for hedging	Total
Financial assets:				
Cash and bank deposits	$ 3,376,391	$ -	$ -	$ 3,376,391
Investments	10,159,108	-	-	10,159,108
Short and long-term loan portfolio	36,158,425	-	-	36,158,425
Other short and long-term accounts receivable	2,269,563	-	-	2,269,563
Short-term derivative financial instruments	-	19,917	-	19,917
Long-term derivative financial instruments	-	-	3,646,550	3,646,550

	Amortized cost (loans/ other liabilities)	Fair value through profit or loss	Derivatives used for hedging	Total
Financial liabilities:				
Issuance of long-term senior notes	$ 30,533,760	$ -	$ -	$ 30,533,760
Short and long-term bank borrowings	-	-	-	-
Suppliers and creditors	35,867,531	-	-	35,867,531

December 31, 2017	Loans and accounts receivable	Financial assets at fair value through profit and loss	Derivatives used for hedging	Total
Financial assets:				
Cash and bank deposits	$ 3,253,940	$ -	$ -	$ 3,253,940
Investments	13,381,138	-	-	13,381,138
Short and long-term loan portfolio	35,058,848	-	-	35,058,848
Other short and long-term accounts receivable	2,447,868	-	-	2,447,868
Short and long-term derivative financial instruments	-	-	3,552,522	3,552,522

	Loans and accounts receivable	Financial assets at fair value through profit and loss	Derivatives used for hedging	Total
Financial liabilities:				
Issuance of long-term senior notes	$ 31,546,045	$ -	$ -	$ 31,546,045
Short and long-term bank borrowings	4,671,456	-	-	4,671,456
Suppliers and creditors	30,533,068	-	-	30,533,068
Short and long-term derivative financial instruments	-	20,486	-	20,486

Note 6 - Credit quality of financial instruments:

	December 31, 2018	2017
Loan portfolio		
Counterparties without external risk ratings:		
Group 1 - Customers with Liverpool credit card	$ 30,629,824	$ 29,512,599
Group 2 - Customers with Visa credit card	8,901,615	8,631,930
Group 3 – Customers with credit card Suburbia	573,076	-
Group 4 – Customers with VISA Suburbia credit card	36,202	-
Total loan portfolio	40,140,717	36,144,529
Cash and short-term bank deposits [1]		
AAA	13,490,013	16,601,908
AA	-	-
A	-	-
	13,490,013	16,601,908
Financial assets - derivative financial instruments [2]		
AAA	3,666,467	3,552,522
AA	-	-
	3,666,467	3,552,522
	$ 57,292,197	$ 58,298,959

- Group 1 and 3 – For the Company, credits granted through the Liverpool and Suburbia credit cards represent a lesser risk due to the fact that its use is sporadic and seasonal and is restricted to the products on sale at Company stores.
- Group 2 and 4 – The Visa credit cards operated by the Company imply a different risk level, due mainly to the fact that they can be used at a broad number of establishments, allow their holders to draw cash from ATMs and are intended for continuous use.

1 The rest of cash equivalents in the balance sheet correspond to petty cash.

2 The Company does not consider there are risk factors arising from default on counterparty obligations, due to which, it has not been necessary to set up reserves in this regard at December 31, 2018 and 2017.

Note 7 - Cash and cash equivalents:

	December 31, 2018	2017
Cash and bank deposits	$ 3,376,391	$ 3,253,940
Investments	10,159,108	13,381,138
Total	$ 13,535,499	$ 16,635,078

Note 8 - Loan portfolio and liabilities related to contracts with customers:

	December 31, 2018	2017
Credits related to customer contracts	$ 40,140,717	$ 38,144,529
Provision for impairment of loan portfolio (Note 3.3.2)	(3,982,292)	(3,085,681)
Balance at end of year	$ 36,158,425	$ 35,058,848
Total short-term	$ 26,756,472	$ 25,770,575
Total long-term	$ 9,401,953	$ 9,288,273

The fair value of the short-term accounts receivable portfolio at December 31, 2018 and 2017 closely resembles their book value.

The fair value of the long-term loan portfolio until December 31, 2018 and 2017, as established in $ 8,512,397 and $7,817,575, will be considered level 3 and will be determined using the technique of effective yield at present value at a current discount rate according to the average term of the portfolio and the risk of it.

	December 31, 2018		December 31, 2017	
Contract liability – deferred income	$	2,109,582	$	2,060,342
Total current contract liabilities	$	2,109,582	$	2,060,342

8.1 The following table shows how much of the recognized income was included in the balance of the liability for contracts at the beginning of the period:

	December 31, 2018		December 31, 2017	
Deferred income (see Note 2.22.b)	$	1,891,570	$	1,716,305
Total current contract liabilities	$	1,891,570	$	1,716,305

Note 9 - Other accounts receivable - Net:

	December 31, 2018		December 31, 2017	
Short-term accounts receivable:				
Other debtors (1)	$	1,572,597	$	1,388,367
Prestaciones Universales, S. A. de C. V. (2)		201,860		156,099
IB Enterprises, S. A. de C. V.		144,847		261,234
Insurance companies (3)		39,962		324,174
Short - term loans to employees		34,171		53,313
		1,993,437		2,183,187
Long-term accounts receivable:				
Long - term loans to employees		276,126		264,681
Total	$	2,269,563	$	2,447,868

(1) Includes accounts receivable to tenants, companies that issue coupons and other recoverable taxes.

(2) Includes accounts receivable for coupons issued by the Government of Mexico City.

(3) At December 31, 2018 the Company had received from insurance companies reimbursements amounting to $1,001 million in connection with the earthquake occurred in September 2017. The Company has insured both its properties and business interruption.

Note 10 - Derivative financial instruments:

The Company uses hedge derivative financial instruments ("DFI") to reduce the risk of adverse movements in the interest rates of its long-term debt and inflationary increases in Mexico, to reduce the volatility of the cash flows to be paid for compliance with its contractual obligations. The main instruments used are interest rate swaps and foreign exchange and the positions contracted at the close of each year are as follows:

Assets

		Dates	Interest rate		Fair value at December 31,	
Notional amount [1]	Contracting	Maturity	Contracted by DFI	Agreed in the debt	**2018**	2017
USD$ 300,000	October 2014	October 2024	6.81%	3.95%	$ 2,449,472	$ 2,611,903
750,000	June 2010	May 2020	8.48%	4.22%	296,563	266,836
1,000,000	September 2008	August 2018	TIIE + 0.18%	9.36%	-	34,274
USD$ 250,000	September 2016	October 2026	8.88%	3.88%	229,090	169,305
USD$ 350,000	September 2016	October 2026	8.59%	3.88%	407,183	270,015
USD$ 50,000	October 2016	October 2026	8.87%	3.88%	55,391	34,726
USD$ 50,000	October 2016	October 2026	8.76%	3.88%	55,871	35,320
USD$ 50,000	October 2016	October 2026	8.84%	3.88%	72,776	53,731
1,500,000	September 2017	August 2022	7.84%	TIIE + 0.25%	80,205	54,093
USD$ 19,129	Several (2018)	Several (2019)	Several	N/A	10,006	-
USD$ 15,435	Several (2018)	Several (2019)	Several	N/A	9,910	22,319
	Total				$ 3,666,467	$ 3,552,522
Less long-term portion					(3,646,550)	(3,495,929)
Current portion					$ 19,917	$ 56,593

Liabilities

		Dates	Interest rate		Fair value at December 31,	
Notional amount [1]	Contracting	Maturity	Contracted by DFI	Agreed in the debt	**2018**	2017
$1,000,000	April 2009	August 2018	TIIE + 0.18%	7.95%	$ -	$ (20,486)
Less long-term portion					-	-
Current portion					$ -	$ (20,486)

[1] The notional amounts related to derivative financial instruments reflect the reference volume contracted; however, they do not reflect the amounts at risk as concerns future flows. Amounts at risk are generally limited to the unrealized profit or loss in from valuation to market of those instruments, which can vary depending on changes in the market value of the underlying item, its volatility and the credit rating of the counterparties.

Note 11 - Investments in associates:

Concept	Activity	Place of incorporation and operations	Proportion of shareholding and voting rights December 31, **2018**	2017	December 31, **2018**	2017
Investment in associates (i) and (ii)	Sales	Mexico and Central America	50%	50%	$ 7,577,641	$ 6,631,287
Other investments (iii) in associates	Malls	Mexico	Several	Several	932,566	783,673
					$ 8,510,207	$ 7,414,960

(i) Grupo Unicomer Co. Ltd. (Unicomer)

Unicomer is a private company that operates a chain of stores engaged in the sale of furniture and household appliances through a chain of more than 1,154 stores, with different formats in Central America, South America and the Caribbean. The Company has a 50% equity interest in Unicomer. This acquisition gave rise to goodwill of $757,623, which is included as part of the investment value. The Company does not exercise joint control over Unicomer because the criteria for control is not met. Under IFRS it exercises significant influence over Unicomer, due to the fact that it owns 50% of the voting rights and is entitled to designate 2 members of the Board of Directors.

(ii) Moda Joven Sfera México, S. A. de C. V.

In 2006, the Company incorporated an entity in association with El Corte Inglés, S. A. with 49% of the capital (the leading department store chain in Spain). This entity operates a chain of 46 stores in Mexico, specialized in family clothing and accessories under the commercial name Sfera.

(iii) Other investments

Mainly correspond to the Company's equity in the following malls: Angelópolis in the city of Puebla, Plaza Satelite in the state of Mexico and Galerías Queretaro in the city of Queretaro.

11.1 Following is a summary of the combined financial information pertaining to the Company's associates:

	December 31,			
		2018		2017
Total assets	$	42,615,196	$	37,650,965
Total liabilities		29,426,546		26,219,580
Net assets	$	13,188,650	$	11,431,385
Equity in net assets of associates	$	6,585,062	$	6,024,028
Total income	$	33,897,495	$	33,113,789
Net income for the year	$	1,275,075	$	1,333,035
Company's equity in profits of associates	$	626,460	$	628,030

11.2 The reconciliation of movements in the investment in associates is as follow:

		Amount
Balance at January 1, 2017	$	7,228,797
Translation effect of investment in associates		(503,105)
Equity method		628,030
Other - net		61,238
Balance at December 31, 2017		7,414,960
Translation effect of investment in associates		369,290
Equity method		626,460
Other - net		99,497
Balance at December 31, 2018	$	8,510,207

Note 12 - Investment properties - Net:

		Amount
Balance at January 1, 2017	$	17,594,019
Acquisitions		1,760,723
Disposals		(171,940)
Depreciation		(260,510)
Balance at December 31, 2017		18,922,292
Acquisitions		2,055,924
Disposals		(33,807)
Depreciation		(276,101)
Balance at December 31, 2018	$	20,668,308

Investment properties include shopping malls, works in progress and other land intended for construction of future shopping malls.

In May 2008, the Company sold its interest in the shopping malls in Merida, Yucatan and Puerto Vallarta, Jalisco to a Trust set up for these purposes. In May 2018, the entire trust loan of $921,456 was paid back, and resulted in the acquisition of the rights to the two commercial centers.

The fair value of investment properties of the Company at December 31, 2018, and 2017 amounts to $57,658,052 and $52,475,781, respectively, through discounted cash flows, the key assumptions used were the projected annual growth of business and the expected useful life, using an average discount rate of 7.20% (6.04% in 2017), classified as level 2.

The operating costs directly related to the income from leasing investment properties is comprised as follows:

	December 31, 2018	December 31, 2017
Repairs and maintenance	$ 649,668	$ 582,613
Advertising	145,053	136,056
Personnel compensation and benefits	78,171	73,151
Real estate taxes and water	99,414	81,225
Hired services	27,259	18,396
Other expenses	7,250	7,660
Electrical power and utilities	7,133	5,616
Rent of equipment	3,838	3,573
Travel expenses	3,805	3,901
Total	$ 1,021,591	$ 912,191

Note 13 - Property, furniture and equipment - Net:

	Land	Buildings	Furniture and equipment	Leasehold improvements	Computer equipment	Transportation equipment	Works in progress	Total
At December 31, 2018								
Beginning balance	$ 6,654,689	$ 23,237,060	$ 5,590,837	$ 4,184,977	$ 936,489	$ 138,435	$ 3,113,390	$ 43,855,877
Acquisitions	22,787	558,642	94,825	36,746	73,040	84,082	4,629,280	5,499,402
Transfers	100,288	2,522,975	1,574,244	204,465	248,507	12,050	(4,662,529)	-
Disposals	(17,464)	-	-	(6,672)	(2,383)	(5,850)	-	(32,369)
Depreciation	-	(445,744)	(914,060)	(402,326)	(387,237)	(58,439)	-	(2,207,806)
Ending balance	6,760,300	25,872,933	6,345,846	4,017,190	868,416	170,278	3,080,141	47,115,104
At December 31, 2018								
Cost	6,760,300	30,650,228	14,927,193	7,247,314	3,273,152	482,760	3,080,141	66,421,088
Accumulated depreciation	-	(4,777,295)	(8,581,347)	(3,230,124)	(2,404,736)	(312,482)	-	(19,305,984)
Ending balance	$ 6,760,300	$ 25,872,933	$ 6,345,846	$ 4,017,190	$ 868,416	$ 170,278	$ 3,080,141	$ 47,115,104
At December 31, 2017								
Beginning balance	$ 3,674,933	$ 20,896,005	$ 4,184,501	$ 2,174,213	$ 722,151	$ 152,777	$ 3,658,931	$ 35,463,511
Acquisitions by business Combination (Note 1)	1,025,565	1,809,986	1,451,449	921,603	59,794	25,953	24,903	5,319,253
Acquisitions	924,740	-	287,069	1,906,329	329,860	33,330	2,326,170	5,807,498
Transfers	1,030,975	1,108,487	230,955	370,780	149,942	5,475	(2,896,614)	-
Disposals	(1,524)	(285,402)	(116,660)	-	(5,297)	(35,722)	-	(444,605)
Depreciation	-	(292,016)	(446,477)	(1,187,948)	(319,961)	(43,378)	-	(2,289,780)
Ending balance	6,654,689	23,237,060	5,590,837	4,184,977	936,489	138,435	3,113,390	43,855,877
At December 31, 2017								
Cost	6,654,689	27,568,611	13,258,124	7,012,775	2,953,988	392,478	3,113,390	60,954,055
Accumulated depreciation	-	(4,331,551)	(7,667,287)	(2,827,798)	(2,017,499)	(254,043)	-	(17,098,178)
Ending balance	$ 6,654,689	$ 23,237,060	$ 5,590,837	$ 4,184,977	$ 936,489	$ 138,435	$ 3,113,390	$ 43,855,877

The balance of work in progress at the 2018 period close corresponds to several projects in which the Company is building stores and remodeling existing ones.

Note 14 - Intangible assets - Net:

	Indefinite useful life [1]			Definite useful life		
	Goodwill [1]	Trademarks [1]	Other intangible [2]	Licenses and fees	New IT developments	Total
At January 1, 2017	$ -	$ -	$ -	$ 569,875	$ 2,096,956	$ 2,666,831
Movements of 2017:						
Investments	7,481,553	3,668,021	2,108,566	571,184	467,190	14,296,514
Disposals	-	-	-	-	-	-
Amortization	-	-	-	(181,624)	(507,140)	(688,764)
At December 31, 2017	7,481,553	3,668,021	2,108,566	959,435	2,057,006	16,274,581
Movements of 2018:						
Investments	-	-	-	247,892	751,335	999,227
Disposals	-	-	-	(3,007)	(596)	(3,603)
Amortization	-	-	-	(203,693)	(582,134)	(785,827)
At December 31, 2018	$ 7,481,553	$ 3,668,021	$ 2,108,566	$ 1,000,627	$ 2,225,611	$ 16,484,378

(1) Corresponds to the acquisition of Suburbia. See Note 1.

(2) Intangibles of indefinite life were acquired through the business combination with Suburbia (see Note 1). The other intangibles of indefinite life are represented by the knowledge of the operating process of procurement, commercial planning, product design and marketing (called CATMex).

Impairment test of goodwill, brands and other intangibles

The Company conducts annual tests to determine whether the goodwill, brands and other intangibles, the rights of its brands and other intangible (CATMex) have suffered any impairment in their value. As of December 31, 2018, the Company performed the respective tests without determining any adjustment for impairment.

The Company identified the Suburbia segment as the Cash Generating Unit (CGU), in which the goodwill, brands and other intangible assets of indefinite life were assigned. The recoverable value of the CGU is based on calculations of the fair value less disposal cost, which are prepared based on historical results and expectations on the development of the market in the future included in the business plan. The determination of the fair value less disposal cost requires the use of estimates that consider the following assumptions:

	2018	2017
Discount rate post taxes	12.76%	11.58%
EBITDA margin (average budgeted)	14.1%	12.80%
The expected medium-term growth rate used to calculate the planned future results	12.2%	9.1%
Residual growth rate	3.5%	3.5%

If the discount rates in the year ended December 31, 2018, were 1 percentage point higher / lower, there would be no deterioration.

If the EBITDA for the year ended December 31, 2018 was 1 percentage point higher / lower, it would not result in an impairment provision recognition.

Note 15 - Provisions:

	Bonds and compensation paid to employees [1]	Other provisions [2]	Total
At January 1, 2017	$ 1,357,661	$ 248,466	$ 1,606,127
Charged to income statement	2,534,214	4,607,539	7,141,753
Used during the year	(2,349,274)	(4,324,187)	(6,673,461)
At December 31, 2017	1,542,601	531,818	2,074,419
Charged to income statement	4,295,333	4,014,803	8,310,136
Used during the year	(4,153,298)	(3,907,564)	(8,060,862)
At December 31, 2018	$ 1,684,636	$ 639,057	$ 2,323,693

(1) Includes provisions for sales commissions, holiday and other fringe benefits.

(2) Other provisions include liabilities for services rendered by consultants and maintenance of stores and offices.

Note 16 - Debt:

The Company's debt is comprised as follows:

	December 31	
	2018	2017
Short-term debt:		
Bank borrowings	$ -	$ 1,858,956
Stock certificates	-	1,000,000
	$ -	$ 2,858,956
Long-term debt:		
Bank borrowings	$ -	$ 2,812,500
Stock certificates	9,900,000	9,900,000
Senior Notes	20,633,760	20,646,045
	$ 30,533,760	$ 33,358,545

	31 de diciembre de	
	2018	2017
Deuda a corto plazo:		
Préstamos de instituciones financieras	$ -	$ 1,858,956
Emisión de certificados bursátiles	-	1,000,000
	$ -	$ 2,858,956
Deuda a largo plazo:		
Préstamos de instituciones financieras	-	$ 2,812,500
Emisión de certificados bursátiles	9,900,000	9,900,000
Senior Notes	20,633,760	20,646,045
	$ 30,533,760	$ 33,358,545

16.1 Bank Borrowings:

	December 31,	
	2018	2017
Borrowing received by Citibanamex, payable from March 2018 to December 2021, subject to a variable interest rate TIIE 28 days + 0.85% [2]	$ -	$ 3,750,000
Borrowings received by the trust F/789, mentioned in Note 12, from Credit Suisse, payable in June 2018 and bearing a fixed monthly interest rate of 9.31% [1]	-	921,456
Long-term liabilities	-	(2,812,500)
Less - Current portion	$ -	$ 1,858,956

1 In May 2018, the $921,456 loan received by Trust F/789 was paid back and the trust acquired the rights to the shopping malls in Merida, Yucatan and Puerto Vallarta, Jalisco.

2 In November 2016, the Company signed contracts with CitiBanamex and other banks in order to exercise a syndicated loan of up to $10,000,000. In March 2017, the Company drew down $5,000,000 of that credit line and on July 28, 2017, it agreed with the bank syndicate to cancel the remainder of the line. On December 21, 2017, the Company prepaid $1,250,000, equivalent to 25% of the exercised portion of the loan. In January, March and June 2018, the Company made prepayments of $1,250,000, $156,250 and $2,343,750, thus settling the entire loan.

16.2 Debt securities certificates:

Based on a Revolving Stock Certificates Program authorized by the National Banking and Securities Commission (CNBV), the Company may issue debt securities certificates up to the amount of $30,000 million pesos for a term of up to 5 years as from July 21, 2017. Currently, the Company has placed the following unsecured issues:

Maturity	Interest payable	Interest rate	December 31 2018	2017
Aug 2018	Semiannually	Fixed at 9.36%	$ - (**)	$ 1,000,000
May 2020	Semiannually	Fixed at 4.22%	750,000	750,000 (*)
May 2020	Semiannually	Fixed at 8.53%	2,250,000	2,250,000
Mar 2022	Semiannually	Fixed at 7.64%	1,900,000	1,900,000
Aug 2022	Monthly	TIIE at 28 days plus 0.25 basis points	1,500,000	1,500,000
Aug 2027	Semiannually	Fixed at 7.94%	3,500,000	3,500,000
			9,900,000	10,900,000
Long-term portion			(9,900,000)	(9,900,000)
Current portion			$ -	$ 1,000,000

(*) Issuance of debt securities certificates equivalent to 169,399,100 UDIs.

(**) In August 2018, the Company settled its debt instrument amounting to $1,000,000.

Maturities pertaining to the long term portion of this liability at December 31, 2018 are as follows:

Year	Amount
2020	$ 3,000,000
2022	1,900,000
2027	5,000,000
	$ 9,900,000

The issuances of debt securities certificates and other financing contracted by the Company do not establish the obligation to maintain certain proportions in its financial structure or compliance with financial ratios; however, they require that the Company and the significant subsidiaries defined in the respective contracts comply with certain restrictions for the payment of dividends, mergers, divisions, change of corporate purpose, issuance and sale of capital stock, capital investments and liens. As of December 31, 2018 and 2017, the Company complied with the aforementioned conditions.

The Company has contracted a swap to cover the exposure to the UDI exchange rate on the issuance of unsecured notes denominated in UDIs and interest rate derivative financial instruments on the financings mentioned above. See Note 10.

The fair value of the senior notes is as follows:

	December 31, 2018		2017	
Maturity date	Book Value	Fair value (1)	Book Value	Fair value
Aug 2018	$ -	$ -	$ 1,000,000	$ 1,007,432
May 2020	750,000	1,041,295	750,000	1,002,524
May 2020	2,250,000	2,225,286	2,250,000	2,255,522
Mar 2022	1,900,000	1,794,501	1,900,000	1,827,678
Aug 2022	1,500,000	1,497,809	1,500,000	1,498,778
Aug 2027	3,500,000	3,118,766	3,500,000	3,311,448
	$ 9,900,000	$ 9,677,657	$ 10,900,000	$ 10,903,382

(1) The fair value of debt securities certificates is determined based on reference to price quotations published in an active market (classified as level 1 in the fair value hierarchy).

16.3 Senior Notes

Below are the details of the Senior Notes as of December 31, 2018 and 2017:

Maturity date	Interest payable	Interest rate	December 31, 2018	2017
Oct 2024 (1)	Semiannually	Fixed at 3.95%	$ 5,895,360	$ 5,898,870
Oct 2026 (2)	Semiannually	Fixed at 3.875%	14,738,400	14,747,175
			$ 20,633,760	$ 20,646,045

(1) In September 2014, the Company issued Senior Notes for an amount of US$300 million, with an interest rate of 3.95% per annum and maturing in 2024. The Securities constitute obligations payable by the Company and have the unconditional guarantee of Distribuidora Liverpool, S. A. de C. V. (subsidiary).

(2) In September 2016, the Company issued Senior Notes for an amount of US$750 million, with an interest rate of 3.875% per annum and maturing in 2026. The Securities constitute obligations payable by the Company and have the unconditional guarantee of Distribuidora Liverpool, S. A. de C. V. (Subsidiary). The Company used these proceeds to repay the acquisition of Suburbia.

A significant part of the exchange rate loss in 2017 was due to the fact that these resources were invested in dollars and during the first months of 2017 the price appreciated against the US dollar.

The aforementioned securities were the subject of a private offering to institutional investors in the United States and other foreign markets under the Rule 144A and Regulation S under the Securities Act 1933 of the United States of America (US Securities Act of 1933).

The fair value of issuances of senior notes is as follows:

	December 31, 2018		2017	
Maturity date	Book value	Fair value (1)	Book value	Fair value
Oct 2024	$ 5,895,360	$ 5,560,262	$ 5,898,870	$ 5,942,994
Oct 2026	14,738,400	13,505,706	14,747,175	14,490,132
	$ 20,633,760	$ 19,065,968	$ 20,646,045	$ 20,433,126

(1) The fair value of Senior Notes is determined based on reference to price quotations published in an active market (classified as level 1 in the fair value hierarchy).

A reconciliation of debt as required by IAS 7 “Cash flow statement” is as follows:

	December 31, 2018	2017
Beginning balance of debt and interest	$ 36,820,533	$ 31,050,082
Issuance of debt	-	10,000,000
Repayments	(5,671,456)	(3,350,000)
Foreign exchange variation	(12,285)	(1,004,325)
Interest accrued	2,695,911	2,770,722
Interest paid	(2,744,636)	(2,645,946)
Closing balance of debt and interest	$ 31,088,067	$ 36,820,533

Note 17 - Employee benefits:

The value of employee benefit obligations at December 31, 2018 and 2017, amounted to $1,652,186 and $1,494,031, as follows:

	December 31, 2018	2017
Pension plans	$ (851,287)	$ (709,005)
Seniority premium	(245,959)	(212,322)
Other employee benefits	(554,940)	(572,704)
	$ (1,652,186)	$ (1,494,031)

The net cost for the period ended at December 31, 2018 and 2017 are as follows:

		December 31, 2018		2017
Pension plans	$	115,819	$	60,817
Seniority premium		60,292		46,048
Other employee benefits		103,805		76,286
	$	279,916	$	183,151

The amount included as a liability in the consolidated statements of financial position is integrated follows:

		December 31, 2018		2017
Defined benefit obligations	$	(2,009,044)	$	(2,069,030)
Fair value of plan assets		356,858		574,999
Liability in the consolidated balance sheet	$	(1,652,186)	$	(1,494,031)

The movement in the defined benefit obligation is a follows:

		2018		2017
Beginning balance at January 1	$	(2,069,030)	$	(1,928,583)
Service cost		(149,757)		(129,718)
Interest cost		(174,437)		(155,071)
Actuarial loss		244,005		24,271
Benefits paid		140,175		120,071
Ending balance at December 31	$	(2,009,044)	$	(2,069,030)

The movement in the liability is a follows:

		2018		2017
Beginning balance at January 1	$	(1,494,031)	$	(1,128,297)
Provision of the year		(279,916)		(183,152)
Actuarial remeasurements		262,527		(131,137)
Company contributions		(164,847)		(74,931)
Benefits paid		24,081		23,486
Ending balance at December 31	$	(1,652,186)	$	(1,494,031)

The movement in plan assets is a follows:

		2018		2017
Beginning balance at January 1	$	574,999	$	800,286
Return plan assets		62,799		(68,048)
Transfer of assets		(164,847)		(74,931)
Benefits paid		(116,093)		(82,308)
Ending balance at December 31	$	356,858	$	574,999

Principal categories of plan assets at the end of the reporting period are as follows:

		Fair value of plan assets December 31, 2018		2017
Debt instruments	$	299,761	$	143,750
Equity instruments		57,097		431,249
	$	356,858	$	574,999

The expected return on plan assets represents the weighted average expected return for the different categories of plan assets. The Company's assessment of expected yields is based on historical trends and analyst' predictions on the market of assets for the life of related obligations.

The significant actuarial assumptions in nominal and real terms are as follows:

	2018	2017
Discount rate	10.75%	9.00%
Inflation rate	3.50%	3.50%
Salary growth rate	4.75%	4.75%
Pension growth rate	7.00%	5.31%

Assumptions concerning future mortality are established on the basis of the actuarial study as per

statistics and the published experience of each territory. Those assumptions give rise to average life expectancy of an individual retiring at age 65.

Retiring at year-end:

	2018	2017
Men	17 years	17 years
Woman	20 years	20 years

Sensitivity of the obligation for defined benefits resulting from changes in the weighted average of the main assumptions is as follows:

	Change in assumptions		Increase (decrease) in assumptions	
	2018	2017	2018	2017
Discount rate	.5%	.5%	$ 79,639	$ 54,383
Rate of salary increases	.5%	.5%	$ 95,376	$ 103,769
Pension increase rate	.5%	.5%	$ 4,178	$ 4,478
Life expectancy	1	(1)	$ 12,854	$ 13,238

The aforementioned sensitivity analyses are based on a change in one assumption, with all other assumptions remaining constant. In practice, this is unlikely and changes in other assumptions can be correlated. The same method (present value of defined benefit obligations calculated by the projected unit credit method at the end of the reporting period) was applied in calculating the sensitivity of the obligation for defined benefits to significant actuarial assumptions.

The methods and types of assumptions used in the sensitivity analysis were the same as those used in the preceding period.

Note 18 - Operating leases:

18.1 The Company as lessee

The Company has signed operating lease contracts for 166 department stores, 1 duty-free store, 47 commercial locales connected to stores, 4 distribution centers, 64 commercial locales for boutiques and 2 real estate firms. It has also signed lease agreements for tractor trailers and trailers for delivery of merchandise to the stores, and has acquired computer equipment and servers. The lease periods range from 1 to 5 years. All straight lease agreements for more than 5 years contain clauses for review of market rent every five years. The Company has no option to buy the space leased at the date of expiration of the lease terms.

The following table summarizes the lease expenses recognized in 2018 and 2017:

	December 31, 2018	2017
Fixed rent	$ 806,051	$ 709,938
Variable rent	1,168,655	1,063,374
	$ 1,974,706	$ 1,773,312

The following table summarizes the minimum annual payments stipulated in lease agreements entered into at terms of over one year:

Up to 1 year	$ 886,656
From 1 to 5 years	5,319,937
Over 5 years	6,649,921
Total minimum payments agreed	$ 12,856,514

18.2 The Company as lessor

Operating leases are related to the leasing of commercial space. The lease periods range from one to five years. All operating lease agreements for more 5 years contain clauses for the review of market rent every two years. The agreements do not establish the option for tenants to buy the space leased at the date of expiration of the lease terms.

Following is an analysis of lease income:

	December 31, 2018	2017
Fixed rent	$ 2,230,067	$ 2,090,980

Following is an analysis of the minimum annual payments agreed with the lessees in the lease agreements entered into at terms of over one year:

Up to 1 year	$ 2,346,107
From 1 to 5 years	7,065,088
Over 5 years	5,746,564
Total minimum payments agreed	$ 15,157,759

Note 19 - Balances and transactions with related parties:

During 2018 and 2017, Grupo Financiero Invex, S. A. de C. V. ("Invex") provided the Company with pension plan and workers' savings fund administration services, as well as with fiduciary services. Invex and the Company share some stockholders. Fees paid to Invex for these services totaled $12,782 and $6,500 in 2018 and 2017 respectively. At December 31, 2018 and 2017 there were no outstanding balances for these items. During 2018 and 2017, the Company contracted corporate travel services for its employees with Orion Tours, S. A. de C. V. ("Orión"), whose General Director is Vice-Chairman of the Company's Board of Directors. These services were contracted using market conditions. Fees paid to Orion for these services totaled $74,203 and $67, 604 in 2018 and 2017 respectively. At December 31, 2018 and 2017 there were no balances pending to be paid for these items.

Compensation for directors and other key members of management during the year was as follows:

	December 31, 2018	2017
Total	$ 46,678	$ 36,200

Compensation paid to directors and key executives is determined by the Operations Committee, based on their performance and market trends.

Note 20 - Stockholders' equity:

20.1 Capital stock at December 31, 2018 and 2017, is comprised of the follows:

	Minimum fixed Capital
1,144,750,000 Series "1" shares with no par value, entirely subscribed and paid in	
197,446,100 Series "C-1" shares with no par value,	
entirely subscribed and paid in	$ 269,112
Cumulative inflation increase at December 31, 1997	3,105,170
Total	$ 3,374,282

The Board of Directors approved on March 15, 2018 the payment of dividends from the income tax earnings ("CUFIN") in the amount of $1,288,508, which was paid $778,474 on May 25 ($0.58 by action) and $510,034 on October 12 ($0.96 by action) of the same year, through the Society for the Securities Depository.

The Board of Directors approved on March 2, 2017 the payment of dividends from the income tax earnings ("CUFIN") in the amount of $1,288,508, which was paid $778,474 on May 26($0.58 by action) and $510,034 remainder, October 6 ($0.96 by action) of the same year, through the Society for the Securities Depository.

In accordance with IAS 29 "Hyperinflation", an entity must recognize the effects of inflation in the financial information when an economy accumulates 100% inflation in a three year period. Mexico was considered a hyperinflationary economy until 1997, and for that reason the Company recognized all the cumulative inflation effects up to that year.

The entities and trusts mentioned below hold approximately 85% of all outstanding Series-1 shares as of December 31, 2018 and 2017.

Shareholder	Number of Shares of Common Stock	Percentage Ownership of Common Stock (%)
Banco Nacional de México, S. A., Institución de Banca Múltiple, Grupo Financiero Banamex-Trust No. 15228-3	278,691,361	20.8
Banco INVEX, S.A., Institución de Banca Múltiple, INVEX Grupo Financiero-Trust No. 0327	218,319,810	16.3
Banco Nacional de México, S. A., Institución de Banca Múltiple, Grupo Financiero Banamex-Trust No. 504288-5	109,114,664	8.1
Banco INVEX, S.A., Institución de Banca Múltiple, INVEX Grupo Financiero-Trust No. 0387	101,178,030	7.5
UBS - Zurich	96,234,447	7.2
BBVA Bancomer Servicios, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer-Trust No. 25078-7	65,467,083	4.9
Pictec and Cie	57,137,573	4.3
Scotiabank Inverlat S. A., Institución de Banca Múltiple-Trust No. 11033735	36,839,656	2.7
BBVA Bancomer Servicios, S. A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer-Trust No. 4078358	19,011,892	1.4
Citiacciones Flexible, S. A. de C. V. Sociedad de Inversión de Renta Variable	10,546,487	0.8
Pictet Bank & Trust Limited	2,479,879	0.2
Other	347,175,218	25.9
Total	1,342,196,100	100%

20.2 Capital reserves

Capital reserves are comprised as follows:

	December 31, 2018	December 31, 2017
Reserve for translation effects	$ 1,449,832	$ 1,080,542
Legal reserve	582,500	582,500
Reserve for repurchase of shares [1]	388,298	467,432
Investment reserve	94,319	94,319
Reserve for valuation of derivative financial instruments	1,526,810	1,380,094
	$ 4,041,759	$ 3,604,887

[1] In November and December 2018, the Company purchased 666,257 series C-1 shares at prices ranging from $118.59 to $120.99. The overall cost of the repurchase was $79,134, to which $577 of before tax transaction costs were added. The cost of the shares was subtracted from the reserve for repurchase of shares, whose balance then stood at $388,298.

The reserve for repurchase of shares represents the reserve authorized by the Stockholders in order for the Company to be able to acquire its own shares, provided the criteria set out in the bylaws and in the Securities Market Law are met.

20.3 The reconciliation of the reserve for valuation of derivative financial instruments is as follows:

At January 1, 2017	$ 840,186
Valuation effect	539,908
At January 1, 2018	1,380,094
Valuation effect	146,716
At December 31, 2018	$ 1,526,810

The Company's Stockholders have authorized a reserve for the acquisition of its own shares. The Company must comply with its bylaws and the provisions of the Securities Market Law, in order to acquire its own shares.

According to the Corporations Law, a minimum of 5% must be set aside from net earnings for the period in order to meet the legal reserve until funds in reserve reaches 20% of the capital stock. The legal reserve can be capitalized, but must not be distributed unless the Company is dissolved, and the difference must be made up if the reserve falls below 20% of capital stock for any reason.

20.4 The balances of the tax accounts of stockholders' equity are

	December 31, 2018	December 31, 2017
Capital contributions account	$ 87,835,339	$ 70,984,102
After-tax earnings account (CUFIN)	117,478,918	103,120,964
Reinvested after tax earnings account (CUFINRE)	149,719	142,820
Total	$ 205,463,976	$ 174,247,886
Average weighted number of ordinary shares to determine the basic earnings per share at December 31, 2018 and 2017	$ 1,342,196,100	$ 1,342,196,100

20.5 Tax provisions related to stockholders' equity

Dividends to be paid will be free from income tax if they come from Net Tax Profit Account (CUFIN, by its Spanish acronym). Any dividends paid in excess of CUFIN and reinvested CUFIN (CUFINRE) will cause a tax equivalent to 42.86%. The current tax is payable by the Company and may be credited against its current income tax of the year or the year on which it is paid. The remaining amount may be credited in the following two fiscal years against the tax of the year or against the provisional payments. Dividends paid coming from profit previously taxed by income tax will not be subject to tax withholding or additional tax payment. Income tax law sets the obligation of keeping CUFIN with profit generated up to December 31, 2013, and starting another CUFIN with profit generated from January 1, 2014.

In the event of a capital reduction, any excess of stockholders' equity over the capital contributions account is given the same tax treatment as dividends.

Note 21 - Income Tax:

21.1 The income tax for the period is calculated by applying a 30% rate on the taxable profit. The income tax are integrated as follows.

	December 31, 2018	December 31, 2017
Income tax	$ 4,567,635	$ 4,106,309
Deferred income tax	(529,178)	(1,116,969)
	$ 4,308,457	$ 2,989,340

Movements in deferred tax were as follows:

	December 31, 2018	December 31, 2017
At January 1	$ (2,636,752)	$ (2,495,971)
Effect on the statement of income	387,146	(1,465,880)
Deferred tax on the business combination (Note 1)	-	1,325,099
Adjustment on adoption of IFRS 9 (Note 3.3.2)	215,746	-
At December 31	$ (2,033,860)	$ (2,636,752)

21.2 The deferred tax balance is composed as follows

	December 31, 2018	December 31, 2017
Tax loss carry-forwards	$ 77,124	$ 276,511
Provision for impairment of loan portfolio	1,552,283	1,233,543
Provisions	1,805,270	1,691,540
Inventories	204,344	234,183
Other items	97,906	96,469
	3,736,927	3,532,246
Deferred income tax liability		
Real estate and property, furniture and equipment	3,186,971	3,269,318
Investment in share of associates	169,202	265,171
Intangible assets	1,985,066	1,964,403
Other items	429,548	670,106
	5,770,787	6,168,998
Deferred income tax	2,033,860	2,636,752
Asset tax recoverable	(35,632)	(37,572)
Total deferred income tax Liability	$ 1,998,228	$ 2,599,180

Net movements of deferred tax assets and liabilities during the year are explained below:

	Tax loss carryforward	Provision for impairment of portfolio	Provisions	Investment properties, furniture and equipment	Investment in shares of associates	Inventories	Intangibles	Other	Total
At January 1, 2017	$ 118,407	$ 999,152	$ 1,362,830	$ (3,624,548)	$ (316,872)	$ 169,019	$ (625,705)	$ (578,254)	$ (2,495,971)
Charged / credited to the Statement of income	158,104	234,391	439,701	202,116	51,701	65,164	(2,621,674)	4,617	(1,465,880)
Tax deferred Business combination	-	-	(110,991)	153,114	-	-	1,282,976	-	1,325,099
At December 31, 2017	$ 276,511	$ 1,233,543	$ 1,691,540	$ (3,269,318)	$ (265,171)	$ 234,183	$ (1,964,403)	$ (573,637)	$ (2,636,752)
Adjustment on adoption of IFRS 9 (note 3.3.2)	-	215,746	-	-	-	-	-	-	215,746
Charged / credited to the Statement of income	(199,387)	102,994	113,730	82,347	95,969	(29,839)	(20,663)	241,995	387,146
At December 31, 2018	$ 77,124	$ 1,552,283	$ 1,805,270	$ (3,186,971)	$ (169,202)	$ 204,344	$ (1,985,066)	$ (331,642)	$ (2,033,860)

The deferred tax due to the existence of undistributed earnings in the subsidiaries has not been recognized because the Company is able to control the timing of the reversal of the temporary differences associated with the investments or such gains are not subject to IT payment come from the CUFIN.

At December 31, 2018, the Company has unamortized tax loss carry-forwards for income tax purposes, to be indexed in the year in which they are applied, for a restated amount of:

Year	Amortizable tax loss carry-forwards
2019	$ 78
2020	11,698
2021	14,777
2022	16,908
2023	106,163
2024	14,993
2025	17,978
2026	70,852
2027	4,605
2028	71
	$ 258,123

In determining deferred income tax at December 31, 2018 and 2017, the Company applied to temporary differences, the applicable rates according to their estimated date of reversal.

21.3 The reconciliation of the legal income tax rate and the effective rate, stated as a percentage of the profit before income tax, is as follows:

	December 31, 2018		December 31, 2017	
Pre - tax income	$	15,750,530	$	12,875,677
Statutory rate		30%		30%
Income tax at statutory rate		4,725,159		3,862,703
Plus (less) effects of taxes of the following items:				
Non-deductible expenses		284,290		328,364
Non-taxable income		(81,858)		(91,416)
Annual adjustment for cumulative inflation (deductible)		86,216		95,440
Share of profit of associates		(187,938)		(188,409)
Investment property, furniture and equipment - net		(613,499)		(866,975)
Cost of sales update		(91,757)		(96,539)
Other permanent items		(82,156)		(53,828)
Income tax in the income statement	$	4,038,457	$	2,989,340
Effective income tax rate		26%		23%

Note 22 - Segment information:

Segment information is reported on the basis of the information used by the Operations Committee in making strategic and operating decisions. An operating segment is defined as a component of an entity in which there is separate financial information which is evaluated on a regular basis.

IFRS 8 requires disclosure of assets and liabilities pertaining to one segment, if measurement is regularly provided to the decision making body; however, with respect to the Company, the Operations Committee only evaluates the performance of the operating segments based on an analysis of income and operating profit, but not of each segment's assets and liabilities.

Derived from the acquisition of Suburbia in 2017, the Company modified the presentation of its segment information as follows:

Liverpool commercial segment

Includes the sale of clothing and accessories for men, women and children, household goods, furniture, cosmetics and other consumer products through department stores that operate under the name "Liverpool, Fábricas de Francia, Liverpool Duty Free and boutiques such as "Banana Republic", "GAP", "Pottery Barn", "West Elm" and "Williams-Sonoma". It also includes the operations of our website www.liverpool.com.mx. The store formats of this segment are mainly focused on the income population A, B and C +, according to the National Statistical and Geography Institute (INEGI) criteria.

Likewise, with the aim of encouraging the sale of products from this segment, the Company grants financing to its customers through credit cards "Liverpool" and "Fábricas de Francia", with which customers can buy exclusively in the stores of the Company. Additionally, the Company operates the "Liverpool Premium Card (LPC)" credit card, with which cardholders can purchase goods and services both in the chain's large stores and boutiques and in any of the establishments affiliated worldwide with the VISA payment system.

Suburbia commercial segment

It includes the Suburbia stores and the operative division of purchases, commercial planning, product design and commercialization (CATMex). Suburbia offers a wide selection of products but mainly its own brands such as Weekend, Non Stop, Contempo, La Mode, Metropolis and Gianfranco Dunna, focused on the population of income C and D +, according to the INEGI criteria.

As from September 2018, the Company finances its clients in the form of Suburbia and Suburbia VISA credit cards. The former can be used to acquire items exclusively at Company stores and the VISA card can be used to acquire goods and services at the store or at any store throughout the world operating with VISA cards.

The digital segment

The digital segment includes online sales www.liverpool.com.mx and www.suburbia.com.mx, and sales made over the telephone. The offer of products in this segment is comparable to the offer of the commercial segments of Liverpool and Suburbia.

Real estate segment

The real estate segment is an important complement for the Liverpool commercial segment. The Company operates commercial centers known as "Galerías", through which it leases commercial spaces to tenants dedicated to a wide variety of businesses that provide a greater number of potential customers for departmental warehouses.

22.1 Income and results per segment

The Company reports its results for each operating segments at the income, costs and expenses, and operating profit level. The other income statement items are not assigned, as they are managed on a corporate level. The following is an analysis of income and results per segment to be reported:

	Comercial				
At December 31, 2018	Liverpool	Digital	Suburbia	Real Estate	Consolidated
Net income	$ 114,919,337	$ 4,915	$ 17,138,053	$ 3,472,446	$ 135,534,751
Cost and expenses	(102,004,661)	(4,081)	(15,228,465)	(1,372,175)	(118,609,382)
Operating income	$ 12,914,676	$ 834	$ 1,909,588	$ 2,100,271	$ 16,925,369
Timing of revenue recognition					
At a point in time	$ 114,919,337	$ 4,915	$ 17,138,053	$ 3,472,446	$ 135,534,751
Over time	-	-	-	-	-
	$ 114,919,337	$ 4,915	$ 17,138,053	$ 3,472,446	$ 135,534,751

	Comercial				
At December 31, 2017	Liverpool	Digital	Suburbia	Real Estate	Consolidated
Net income	$ 106,396,432	$ 3,546	$ 12,664,088	$ 3,104,213	$ 122,168,279
Cost and expenses	(94,427,092)	(3,052)	(11,199,107)	(1,307,344)	(106,936,595)
Operating income	$ 11,969,340	$ 494	$ 1,464,981	$ 1,796,869	$ 15,231,684
Timing of revenue recognition					
At a point in time	$ 106,396,432	$ 3,546	$ 12,664,088	$ 3,104,213	$ 122,168,279
Over time	-	-	-	-	-
	$ 106,396,432	$ 3,546	$ 12,664,088	$ 3,104,213	$ 122,168,279

The information disclosed in each segment is shown net of eliminations corresponding to transactions conducted between Group companies. Inter-segment results and transactions are eliminated at the consolidated level, forming part of the Group's final consolidation. This form of presentation is the same as that used by management in its periodic review processes of the Company's performance.

Taxes and financing costs are viewed at the Group level and not within the reporting segments. As a result, this information is not shown in each reporting segment. Operating income is the key performance metric for management, which is reported on a monthly basis to the Company's Corporate Governance.

22.2 Geographic information

The information by geographic segments of the Company is reported only by the commercial segment using the following zones.

	December 31,	
	2018	2017
Ciudad de Mexico y Estado de Mexico	$ 44,218,930	$ 39,133,121
Hidalgo, Puebla, Morelos, Guerrero, Veracruz y Tlaxcala	18,552,248	16,813,712
Nuevo Leon, Tamaulipas, Chihuahua, Coahuila, Sinaloa, Sonora y Durango	17,158,015	15,599,033
Jalisco, Michoacan, Colima y Nayarit	13,625,237	12,433,188
Chiapas, Tabasco, Quintana Roo, Yucatan, Campeche y Oaxaca	12,191,639	10,917,215
Guanajuato, Queretaro, Aguascalientes, Zacatecas y San Luis	11,862,999	10,722,088
Other	14,453,237	13,445,709
Total	$ 132,062,305	$ 119,064,066

Note 23 - Costs and expenses by nature:

The cost of sales and administration expenses are comprised as shown below:

	December 31,	
	2018	2017
Cost of merchandise	$ 77,879,159	$ 70,150,818
Cost of distribution and logistics	2,857,860	2,404,530
Inventory reserve	883,854	832,139
	81,620,873	73,387,487
Personnel compensation and benefits	14,934,947	13,292,947
Services contracted	5,777,907	4,694,951
Depreciation and amortization	3,311,275	3,423,103
Provision for impairment of loan portfolio	3,355,378	3,081,018
Leases	2,135,740	2,051,036
Repairs and maintenance	1,907,996	1,420,770
Electrical power and utilities	1,281,824	1,013,845
Other (1)	4,283,442	4,571,438
Total	$ 118,609,382	$ 106,936,595

Personnel compensation benefits are comprised as follows:

	December 31,	
	2018	2017
Salary and bonds	$ 12,484,894	$ 10,864,521
Commissions paid to sales staff	2,095,926	2,143,767
Other payments	354,127	284,659
	$ 14,934,947	$ 13,292,947

Note 24 - Contingencies and commitments:

24.1 Contingencies

The Company is party to a number of lawsuits and claims arising from the normal course of its operations. Management does not expect these lawsuits will have a significant adverse effect on its consolidated financial statements.

24.2 Commitments

In 2018, the Company and one of the subsidiaries of Infraestructura Energética Nova, S.A.B. de C.V. signed a 15 year contract for the purchase of electric energy beginning in the second half of 2019.

Note 25 – Subsequent events:

In 2019, the Company will begin the conversion of 41 Fábricas de Francia stores which will operate under the name of Liverpool or Suburbia.

Note 26 - Authorization of issuance of consolidated financial statements:

The consolidated financial statements were authorized for issuance on February 8, 2019 by the Board of Directors, and are subject to approval by the stockholders meeting.

Information for

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