Notes to the consolidated financial statements

For the years ended December 31, 2017, 2016 and 2015
(In thousands of Mexican pesos ($) and thousands of U.S. dollars (US$))

1. Activities

Grupo Sanborns, S.A. de C.V. ("Grupo Sanborns") and Subsidiaries (the "Entity") is a subsidiary of Grupo Carso, S.A.B. de C.V. ("Grupo Carso"). The Entity is the owner of a group of companies domiciled in Lago Zúrich number 245 seventh floor, Colonia Ampliación Granada in Mexico City, Postal Code 11529 and is primarily engaged in the operation of retail stores and restaurants, including a chain of department stores, fashion boutiques, Sanborns stores, the distribution and sale of latest generation Apple products, a network for the sale of recorded music and videos, a chain of luxury department stores, distribution of regional cosmetics and perfumes, a chain of traditional Mexican restaurants, a chain of industrial cafeterias and the management and leasing of two shopping malls. The detail of each of the Entity's subsidiaries and their primary activities is set out in Note 4c.

2. Significant events for the year

a. New openings - During 2017 the Entity opened 9 stores, 2 Sears' stores, 1 Sanborns' stores and 6 iShop's stores. During 2016 the Entity opened 17 stores, 6 Sears' stores, 7 Sanborns' stores and 4 iShop's stores. During 2015 the Entity opened 12 stores, 4 Sears' stores, 2 Sanborns' stores, 2 iShop´s stores, 1 Boutique Perfumery and 1 Philosophy boutique.

3. Application of new and revised International Financial Reporting Standards

Application of new and revised International Financing Reporting Standards ("IFRSs" or "IAS") that are mandatorily effective for the current year

In the current year, the Entity has applied a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2017.

Amendments to IAS 7, Disclosure Initiative

The Entity has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The application of these amendments has had no impact on the Entity's consolidated financial statements.

Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealized Losses

The Entity has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.

The application of these amendments has had no impact on the Entity's consolidated financial statements as the Entity already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs 2014-2016 Cycle

The Entity has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Entity.

IFRS 12 states that an entity does not need to provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Entity's consolidated financial statements as none of the Entity's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

a. New and revised IFRSs in issue but not yet effective

IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers [2]
IFRS 16	Leases[3]
Amendments to IFRS 2	Classification and measurement of share-based payments[1]
Amendments to IFRS 10 e IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle[1]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

[2] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

[3] Effective for annual periods beginning on or after a date to be determined.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities as for derecognition and in November 2014 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IFRS 9 Financial Instruments are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved by collecting contractual cash flows as selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the financial liability fair value that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Entity's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, has determined the impact of IFRS 9 on the Entity's consolidated financial statements as follows:

The main financial assets of the Entity are: cash and cash equivalents, investments in securities held to maturity, accounts receivable in the short and long term and accounts receivable from related parties, which are generated by the operation itself. As of the reporting date, the Entity does not have financial assets generated by debt investments, for which the management estimates that it will not have an impact in relation to the classification and measurement of financial assets, which will continue to be recognized at amortized cost.

As of December 31, 2017, the Entity does not have financial liabilities designated at fair value through results, therefore, no effects were identified with respect to the classification and measurement of financial liabilities.

For impairment of financial assets, the Entity chose to apply the simplified approach for accounts receivable, which consists in recognizing reserves for the life of the instrument, without evaluating increases in risk for its classification in stages, considering the following:

- Due to the type of business, the terms of accounts receivable from clients are greater than 30 days and a reserve methodology is used that is based on the days of delay that the account receivable presents.
- Percentages of the reserve will be established based on the historical experience of the portfolio, with methodologies that allow past behavior to be used to predict future behavior.
- Relevant prospective information is identified that allows to advance changes to the estimates made with respect to those constructed with historical information
- The business model of the entity is to maintain to collect, so the classification of accounts receivable are valued at amortized cost.

Considering this information, the Entity management anticipates that when applying the simplified approach and based on the information described above, it estimates that it will have an increase of approximately 20% in the consolidated financial statements in relation to the subject of impairment of financial assets to what is currently recognized.

The Entity's Management intends to use the prospective method for the transition and adoption of IFRS 9.

IFRS 15 *Revenue from Contracts with Customers*

In May 2014, IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contracts with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the Entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Entity recognizes the revenue coming from the sale mainly in department stores and restaurants, haute couture boutiques, Sanborns stores, the distribution and sale of products of the latest generation Apple brand, a network of sales of recorded music and video, a chain of department stores of luxury, distribution of cosmetics and perfumes of the region, a chain of restaurants of traditional food, a chain of industrial coffee shops, an electronic commerce platform, and the administration and leasing of two.

The Entity's management estimates that the application of IFRS 15 in the future will not have any material effect on the amounts reported and disclosures made in the consolidated financial statements of the Entity.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees.

La IFRS 16 was issued in January 2016 and will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. “Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and is replaced by a model where a right-of –use asset and a corresponding liability have to recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payment as well as the impact of lease modifications, among the others. Furthermore, the classification of cash flows will also affecte as operating lease payments under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments will be split into a principal and interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

The Entity is currently evaluating the two options allowed by IFRS 16 in the application of the accumulated retrospective method. Although the Entity is not yet in a position to evaluate the total impact of the application of this new standard, the Bank’s management expects that the impact of registering the lease liabilities and the right-of-use assets will increase its consolidated assets and liabilities, mainly in relation to lease commitments for the use of real estate. IFRS 16 will also affect the presentation of the consolidated statement of income, since the Entity will recognize a depreciation for the rights of use of long-term leases and a financial interest expense derived from the corresponding financial liabilities, instead of affecting the costs or expenses for these leases as currently recognized under the current regulations. The Entity’s management has already begun the analysis and evaluation of the impact of the new regulations in the consolidated financial statements, including the changes that must be made in the Group’s accounting policies as a lessee, as well as the design of effective controls over financial reports. , in the different segments of the Entity, related to the new measurement and the disclosures required for lessees by IFRS 16

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

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee’s tax obligation to meet the employee’s tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a ‘net settlement feature’, such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
   - (i) The original liability is derecognized;
   - (ii) The equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
   - (iii) Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply. The directors of the Entity do not anticipate that the application of the amendments in the future will have a significant impact on the Entity's consolidated financial statements as the Entity does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments.

Annual Improvements to IFRSs 2014 - 2016 Cycle

The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Entity. The package also includes amendments to IFRS 12 which is mandatorily effective for the Entity in the current year.

The amendments to IAS 28 clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted.

Both the amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018. The directors of the Entity do not anticipate that the application of the amendments in the future will have any impact on the Entity consolidated financial statements as the Entity is neither a first-time adopter of IFRS nor a venture capital organization. Furthermore, the Entity does not have any associate or joint venture that is an investment entity.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

La IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the Interpretation either retrospectively or prospectively. Specific transition provisions apply to prospective application.

The administration of the Entity do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements. This is because the Entity already accounts for transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the amendments.

4. Significant accounting polices

a. Statement of compliance

The consolidated financial statements of the Entity have been prepared in accordance with International Financial Reporting Standards released by IASB.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain long-term assets and financial instruments which are valued at restated or fair value at each period end, as explained in the accounting policies discussed below. The consolidated financial statements are prepared in Mexican pesos, the legal currency in Mexico, and are presented in thousands of Mexican pesos, unless otherwise stated.

i. Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

ii. Fair value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

c. Basis of consolidation of the financial statements

The consolidated financial statements incorporate the financial statements of Grupo Sanborns, S.A.B. de C.V. and entities (including structured entities) controlled by the Entity and its subsidiaries. Control is achieved when the Entity:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When Grupo Sanborns has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. Grupo Sanborns considers all relevant facts and circumstances in assessing whether or not the Entity's voting rights in an investee are sufficient to give it power, including:

- The size of Grupo Sanborns' holdings of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by Grupo Sanborns, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when Grupo Sanborns, obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Entity and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with Grupo Sanborns' accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Entity are eliminated in full on consolidation.

The ownership percentages over the capital stock of its subsidiaries as of December 31, 2017, 2016 and 2015 are shown below:

Subsidiary	Activity	% de Ownership		
		2017	2016	2015
Sanborn Hermanos, S.A. and Subsidiaries ("Sanborns")	Operation of department stores, gifts, records and restaurants under the Sanborns brand	99.23	99.23	99.23
Sears Operadora México, S.A. de C.V. and Subsidiaries ("Sears")	Operation of department stores under the Sears brand	98.94	98.94	84.94
Promotora Comercial Sanborns, S.A. de C.V. and Subsidiaries	Operation of record stores, restaurants and coffee shops under the iShop, Mix-up, Sanborns Café brands and Sanborns store in Panama	99.96	99.96	99.96
Operadora de Tiendas Internacionales, S.A. de C.V. and Subsidiary	Operation of department stores under the Saks Fifth Avenue brand	100.00	100.00	100.00
Servicios Corporativos de Grupo Sanborns, S.A. de C.V. and Subsidiaries	Boutiques operator and subholding	100.00	100.00	100.00
Corporación de Tiendas Internacionales, S.A. de C.V. ("Corpti")	Sanborns and Sears stores in El Salvador	100.00	100.00	100.00
Comercializadora Dax, S.A. de C.V. and Subsidiary	Operation of department stores under Dax brand	100.00	100.00	100.00
Grupo Inmobiliario Sanborns, S.A de C.V.	Sale, lease or sublease of fixed assets.	100.00	100.00	100.00
Claroshop.Com Holding, S.A. de C.V.	E-commerce	56.54	56.54	–

i) Changes in the Entity's ownership interests in existing subsidiaries

Changes in the Entity's ownership interests in subsidiaries that do not result in losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of Grupo Sanborns.

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

ii) Seasonality

Historically, the Entity has experienced seasonal patterns of sales in stores due to increased consumption activity during the Christmas and New Year period, in the months of May and June, because of Mother's Day and Father's Day, respectively, and at the start of the school year in September. During these periods it promotes products such as toys or winter clothes, and school utensils and articles during the back-to-school period. By contrast, it suffers a drop in sales in July and August.

The Entity seeks to reduce the effect of seasonality in its results through commercial strategies such as agreements with suppliers, competitive pricing and intensive promotion, for which reason its impact in the statements of comprehensive income and of financial position is insignificant.

d. Cash and cash equivalents

Consist mainly of bank deposits in checking accounts and short-term investments, highly liquid and easily convertible into cash or with a maturity up to three months upon its acquisition and are subject to insignificant value change risks. Cash is stated at nominal value and cash equivalents are valued at fair value; any fluctuations in value are recognized in results of the period. Cash equivalents are represented by money market funds and short-term bank investments in pesos and U.S. dollars.

e. Other cash equivalents

Correspond to daily investments available that are used primarily to fund the expansion plan and remodeling of the main formats Grupo Sanborns (Sears, Sanborns, iShop) and also other purposes as prepayment of debt and working capital.

f. Investment in shares and others

Permanent investments made by the Entity in companies where there is no control, joint control or significant influence are initially recorded at cost and dividends received are recognized in current earnings unless from earnings from previous periods acquisition, in which case they are deducted from the permanent investment. If impairment indicators are present investments are subject to impairment tests.

g. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable considering the amount of sales returns, discounts and other similar discounts or rebates. Revenues are recognized based on the criteria outlined below:

i. Sale of goods - The sale of goods is recognized when the significant risks and rewards are transferred to the customer, provided the respective income can be reliably measured, it is likely that the Entity will receive the economic benefits associated with the transaction, the costs that have been or will be incurred to perform the transaction can be reliably measured, the Entity is not continuously involved in the ownership of the goods and does not retain effective control over them. Generally, revenues recognition coincides with the date on which the goods are delivered and ownership is legally transferred to the customer.

ii. Finance income on credit sales - Finance income on credit sales recognized when it is accrued and is generated by credit card transactions (Sanborns, Sears, Saks, Mixup, Corpti and Claroshop).

iii. Services - They are recognized when the service is rendered.

iv. Rentals - They are recognized on a straight-line basis as lease services are provided and maintenance fees are collected; these amounts are recognized throughout the period of the lease contract from which they are derived.

h. Loyalty programs for customers

Awards are accounted for as a separate component of the initial sale transaction, measured at their fair value and recognized as deferred income in the statement of financial position, within other accounts payable and accrued liabilities. Deferred revenue is recognized in results once the award is redeemed or expires.

i. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are initially recognized as assets of the Entity at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they can be directly attributable to qualifying assets, in which case they are capitalized in accordance with the general policy of the Entity for borrowing costs.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

j. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

– Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

– Exchange differences on transactions entered into in order to hedge certain foreign currency risks and

– Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in the other comprehensive income and are reclassified from the stockholders' equity to profits or losses when selling, totally or partially, the net investment.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Entity's foreign operations are translated into Mexican pesos using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used.

Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

The corresponding adjustments to goodwill and fair value generated in the acquisition of a foreign operation are treated as assets and liabilities of this operation and translated at the rate prevailing at the closing date. The resulting exchange differences are recognized in other comprehensive income.

The functional and recording currency of Grupo Sanborns and its subsidiaries is the Mexican peso, except for certain subsidiaries whose currencies recording and / or functional are different as follows:

Entity	Recording currency	Functional currency
Sanborns Panamá, S.A.	US Dollar	US Dollar
Corporación de Tiendas Internacionales, S.A. de C.V. (El Salvador)	US Dollar	US Dollar

The entities listed above are considered foreign operations under IFRS.

k. Direct employee benefits, employee retirement benefits and statutory employee profit sharing (PTU)

The costs of direct employee benefits and defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

The seniority premium liability for all personnel, non-union personnel pensions and retirement payments treated as pensions are considered in defined benefit plans. The cost of these benefits is determined by using the projected unit credit method and the actuarial valuations prepared at the end of each reporting period. Actuarial gains and losses are immediately recognized in other comprehensive income, net of deferred tax, based on the net asset or liability recognized in the consolidated statement of financial position, so as to reflect the over- or underfunded status of employee benefit plan obligations. Similarly, past service costs are recognized in results when the plan is modified or when restructuring costs are incurred.

Retirement benefit obligations recognized in the statement of financial position represent the current value of the defined benefit obligation adjusted according to actuarial gains and losses and the past service costs, less the fair value of plan assets. When plan assets exceed the liabilities of the defined benefit plan, they are valued according to the lower of: i) the defined benefit plan surplus, and ii) the present value of any economic benefits derived from the plan and available as future plan contribution reimbursements or reductions.

Statutory employee profit sharing (PTU)

PTU is recorded in the results of the year in which it is incurred.

As result of the 2014 Income Tax Law, as of December 31, 2017, 2016 and 2015, PTU is determined based on taxable income, according to Section I of Article 10 of the that Law.

l. Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

i. Current tax

The tax calculated corresponds to income tax (“ISR”) and recorded in the income year in which it is incurred.

ii. Deferred income taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The Administration estimates to recover the total fair value through the sale.

iii. Current and deferred tax

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

m. Inventories and cost of sales

Are stated at the lower of cost of acquisition and / or construction or net realizable value (estimated selling price less all costs to sell), as follows:

They are valued using the average cost method, including the cost of materials and direct expenses that are incurred in the acquisition of inventory by the Entity. Impairments are reflected as reductions in the carrying amount of inventories.

n. Property, plant and equipment

As of January 1, 2011, date of transition to IFRS, property, plant and equipment were valued at deemed cost (depreciated cost adjusted for an inflation index), or fair value determined through appraisals for certain items of property, machinery and equipment. Subsequent acquisitions are recorded at acquisition cost. Depreciation is calculated using the straight-line method based on the remaining useful lives of the related assets which are reviewed yearly; the effect of any change in the accounting estimate is recognized on a prospective basis.

	Year life
Buildings and leasehold improvements	10 to 50 years
Machinery and equipment	20 years
Vehicles	4 and 5 years
Furniture and fixtures	20 years
Computers	4 and 6 years

Borrowing costs incurred during the period of construction and installation of qualifying property, machinery and equipment are capitalized.

The gain or loss on the sale or retirement of an item of property, plant and equipment is calculated as the difference between the resources received from sale and the carrying value of the asset, and is recognized in results.

o. Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise. Properties which are held as investments mainly include two shopping malls.

Investment property acquired and improvements are recorded at cost, including transaction costs related to the acquisition of assets.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

p. Other assets

Include mainly guarantee deposits, shopping center's operating rights and installation expenses for a new system which is in the testing stage; consequently, they are expected to be amortized once the implementation is concluded.

The shopping center's operating rights are amortized over the term established in the contract. The costs incurred for the installation of a new system, with regard to a recognized intangible asset, are recorded in the financial statements.

q. Impairment of tangible assets

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the value of money over time and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable value amount, so that the increased carrying amount does not exceed the carrying amount that would have resulted if it had not recognized an impairment loss for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized in earnings.

r. Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

s. Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

i. Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

– Financial assets at FVTPL

Financial assets are classified as of FVTPL when the financial asset is either held for trading or it is designated as of FVTPL.

A financial asset is classified as held for trading if:

- It is purchased primarily for the purpose of selling in the near term; or
- Upon initial recognition, is part of a portfolio of identified financial instruments that the Entity manages together and for which there is a recent actual pattern of making short-term profits; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as of FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire hybrid contract (asset or liability) to be designated as fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other income, Net' line item. Fair value is determined in the manner described in Note 11.

- Held to-maturity investment

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Entity has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to maturity investments are measured at amortized cost using the effective interest method less any impairment.

- Financial assets classified as available-for-sale (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Dividends on equity instruments available for sale are recognized in income when the right of the Entity is set to receive dividends.

The fair value of monetary assets available for sale denominated in foreign currency is determined in that foreign currency and translated at the closing rate at the end of the reporting period. Gains and losses on foreign exchange recognized in income are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Capital investments available for sale that do not have a quoted market price in an active market and whose fair value cannot be estimated reliably and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are stated at cost less impairment losses identified at the end of each reporting.

- Loans and receivables

Loans, accounts receivable from customers and other accounts receivable with fixed or determinable payments which are not traded on an active market are classified as loans and accounts receivable. Loans and accounts receivable are valued at their amortized cost by using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, while excluding short-term accounts receivable when interest recognition is inmaterial.

- Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received), that form an integral part of the effective interest rate, transaction costs and other premiums or discounts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as of FVTPL.

- Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed equity instruments quoted or not in an active market, classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or;
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Entity's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, as well as observable changes in national or local economic conditions that correlate with default on collection payments.

ii. Financial liabilities and equity instruments

Classification as debit or equity - Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

Equity Instruments - An equity instrument is any contract that evidences a residual interest in the assets of an entity. Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issuance costs.

Repurchase of the Entity's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Entity's own equity instruments.

Financial liabilities - Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

iii. Other financial liabilities

Other financial liabilities including loans are initially valued at their fair value, net of transaction costs. They are subsequently valued at their applied cost by using the effective interest rate method, while interest expenses are recognized on an effective return basis.

iv. Derecognition of financial liabilities

The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

t. Statements of cash flows

The indirect method is used for presenting cash flows from operating activities, such that the net consolidated profit is adjusted for changes in operating items not resulting in cash receipts or disbursements, and for items corresponding to cash flows from investing and financing activities. Interest received is presented as an investing activity and operating activity and interest paid is presented as a financing activity.

u. Earnings per share

The basic earnings per common share is calculated by dividing the net consolidated profit attributable to the controlling interest by the weighted average of common outstanding shares during the year.

5. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Entity's accounting policies, which are described in Note 4, the Entity's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of uncertainty in the estimates

a. Inventory and accounts receivable allowances - The Entity use estimates to determine inventory and accounts receivable reserves. When calculating inventory reserves, the Entity considers production and sales volumes, as well as the demand for certain products.

When determining the allowance for doubtful accounts, the Entity primarily considers the financial risk represented by each customer, unguaranteed accounts and significant collection delays based on established credit conditions. (See Notes 8 and 9 for further detail).

b. Property, plant and equipment - The Entity reviews the estimated useful lives of property, plant and equipment at the end of each reporting period, to determine the depreciation of these assets. Asset useful lives are defined according to the technical studies prepared by specialized internal personnel and with the participation of external specialists. The level of uncertainty related to useful life estimates is also linked to market changes and asset utilization based on production volumes and technological development.

c. Investment property - The Entity prepares an annual valuation of investment property with the assistance of independent appraisers. The valuation technique is based on different methods including cost, market and income approaches; the Entity has utilized the income approach. The valuation methodology includes observable assumptions for properties which, while dissimilar, nonetheless involve the same geographic zones and commercial use. The Entity considers the highest and best use of its assets.

The valuation techniques used by the Entity have not been modified in 2017, 2016 and 2015. Entity management considers that the valuation methodologies and assumptions utilized are appropriate for determining the fair value of the Entity's investment properties.

d. Impairment of long-lived assets - The carrying value of noncurrent assets is reviewed to detect indications of impairment; i.e., if certain situations or changing circumstances indicate that carrying values may not be recoverable. If indications of impairment are detected, the Entity performs a review to determine whether the carrying value exceeds its recovery value and is impaired. When applying asset impairment tests, the Entity must estimate the value in use assigned to property, plant and equipment and cash generating units, in the case of certain assets. Value in use calculations require that the Entity determine the future cash flows produced by cash generating units, together with an appropriate discount rate for calculating present value. The Entity utilizes cash flow projections by estimating market conditions, prices, production and sales volumes.

e. Valuation of financial instruments - The Entity uses valuation techniques for its financial instruments which include information that is not always based on an observable market to estimate the fair value of certain financial instruments. Note 11 contains detailed information on the key assumptions used to determine the fair value of the Entity's financial instruments, as well as an in-depth sensitivity analysis of these assumptions. Entity management considers that the valuation techniques and assumptions it has utilized are suitable for determining the fair value of its financial instruments.

f. Contingencies - As the Entity is involved in certain legal proceedings, it evaluates the probability of a payment obligation arising, accordingly, it considers the legal situation in effect at the estimate date and the opinion of its legal advisers; these evaluations are periodically reconsidered.

g. Employee benefits at retirement - The Entity uses assumptions to determine the best annual estimate of these benefits. Like the above assumptions, these benefits are jointly and annually determined in conjunction with independent actuaries. These assumptions include demographic hypotheses, discount rates, expected remuneration increases and future employee tenure, among other items. While the Entity considers that these assumptions are appropriate, any modification in this regard could affect the value of employee benefit assets (liabilities) and the statement of income and other comprehensive income of the period in which any such modification takes place.

6. Non-cash transactions

During 2017, 2016 and 2015, The Entity entered into the following non-cash investing and financing activities which are not reflected in the consolidated statement of cash flows and are related to the payment of dividends to its shares repurchased during the year, which corresponded to them $7,120, $2,087 and $10,741, respectively.

7. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statements of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	2017	2016	2015
Cash	$ 1,155,152	$ 854,776	$ 498,642
Cash equivalents:			
Demand deposits	–	–	2,979,246
Government paper	599,635	346,839	84,047
Certificates of deposit	165,250	496,089	339,691
Demand deposits in US dollars	2,951	15,289	1,318
Others	1,613	1,363	952,629
	$ 1,924,601	$ 1,714,356	$ 4,855,573

8. Accounts receivable

	2017	2016	2015
Clients	$ 13,196,038	$ 12,531,187	$ 10,992,863
Allowance for doubtful accounts	(509,553)	(375,792)	(359,507)
	12,686,485	12,155,395	10,633,356
Sundry debtors	493,506	215,491	176,706
Due from related parties	83,911	65,136	57,979
Recoverable taxes mainly value added tax and wage tax credit	1,011,699	680,867	603,985
	$ 14,275,601	$ 13,116,889	$ 11,472,026

a. Trade accounts receivable

The Entity offers sales promotions through which it grants credit to its customers for different periods which, on average, are 217, 206 and 203 days at December 31, 2017, 2016 and 2015, respectively. In the case of sales promotions with collection periods exceeding one year, the respective accounts receivable are classified as short-term because they form part of the Entity's regular transaction cycle, which is a common industry practice. Maturities exceeding one year are $1,425,061, $1,291,061 and $1,281,389 as of December 31, 2017, 2016 and 2015, respectively.

b. Past due but not impaired

Accounts receivable from customers include amounts that are overdue at the end of the reporting period and for which the Entity has not recognized an allowance for bad debts as there has been no significant change in the customer's credit rating and the amounts in question are still deemed to be recoverable.

A summary of customer accounts receivable which are overdue, but are not considered impaired is detailed below:

	2017	2016	2015
1-30 days	$ 1,216,644	$ 1,031,908	$ 903,543
31-60 days	487,132	311,037	255,416
61-90 days	257,798	165,566	152,060
More than 90 days	343,951	214,118	213,077
Total	$ 2,305,525	$ 1,722,629	$ 1,524,096

The Entity carries out certain procedures to follow up on customers' compliance with payments for which collateral was not provided and which only have guarantors. According to the Entity's policies, if customer payments are delayed, the respective credit line is suspended for future purchases. Similarly, in the event of more significant delays, the Entity implements out-of-court and legal measures to recover the outstanding balance. However, if such measures are unsuccessful, the respective credit line and account are canceled. The Entity has recognized an allowance for doubtful accounts equal to 100% of all uncollectible accounts receivable.

c. Reconciliation of the allowance for doubtful accounts is presented below:

	December 31, 2017	December 31, 2016	December 31, 2015
Beginning balance	$ 375,792	$ 359,507	$ 351,871
Period accrual	705,755	493,134	468,448
Write offs and cancelations	(571,994)	(476,849)	(460,812)
Ending balance	$ 509,553	$ 375,792	$ 359,507

9. Inventories

	December 31, 2017	December 31, 2016	December 31, 2015
Merchandise in stores	$ 10,456,210	$ 10,068,647	$ 8,849,228
Goods in transit	216,177	266,682	242,949
Replacement parts and other inventories	133,644	120,603	112,391
	$ 10,806,031	$ 10,455,932	$ 9,204,568

10. Financial risk management

The Entity is exposed to market, operating and financial risks as a result of its use of financial instruments, these include interest rate, credit, liquidity and exchange rate risks, which are managed in a centralized manner by Grupo Sanborns' corporate treasury.

The different financial instrument categories and amounts are detailed below:

	December 31, 2017	December 31, 2016	December 31, 2015
Financial assets			
Cash and cash equivalents	$ 1,924,601	$ 1,714,356	$ 4,855,573
Loans and receivables	13,179,991	12,370,886	10,810,062
Long-term accounts receivable	–	10,143	27,479
Due from related parties	83,911	65,136	57,979

	December 31, 2017	December 31, 2016	December 31, 2015
Financial liabilities			
At amortized cost:			
• Payables to suppliers	7,505,683	7,166,771	6,049,697
• Other payables and accrued liabilities	525,771	466,496	362,974
• Due to related parties	498,291	518,388	216,930

The Board of Directors establishes and monitors the policies and procedures used to measure risks, which are described below:

a. **Capital risk management** - The Entity manages its capital to ensure that it will continue as a going concern, while it maximizes returns to its shareholders through the optimization of the balances of debt and equity. The general strategy of the Entity has not been modified compared to 2016.

   The capital structure of the Entity is composed by its net debt (mainly the related party debt detailed in Note 19) and stockholders' equity (issued capital, capital reserves, accumulated earnings and non-controlling equity detailed in Note 18). The Entity is not subject to any kind of capital requirement.

   Management reviewed monthly its capital structure and borrowing costs and their relation to EBITDA (defined in this case as earnings before taxes, interest, exchange rate fluctuations, valuation of derivative financial instruments, depreciation and amortization) in connection with the preparation of financial projections as part of the business plan submitted to the Board of Directors and Shareholders.

   The Entity's policy is to maintain a net debt ratio of no more than three times EBITDA, determined as the ratio of net debt to EBITDA of the last 12 months. See Note 27.

   Considering that the Entity has no financial debt it is not applicable to the determination of the debt and interest coverage.

b. **Market risk** - The Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Entity enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk.

   Exposure to market risk is measured using sensitivity analysis. There have been no changes in exposure to market risks or the manner in which those risks are being managed and measured.

c. Interest rate risk management - The Entity is exposed to interest rate risks from customer loans and financial debt contracted at variable rates. However, it manages this risk through an adequate combination of fixed and variable interest rates.

The Entity's exposure to interest rate risks is primarily based on the Mexican Interbank Equilibrium Offered rate (TIIE) applicable to financial liabilities and its customer portfolio. Accordingly, it periodically prepares a sensitivity analysis by considering the cost of the net exposure from its customer portfolio and financial liabilities derived that earn and bear interest at variable interest rates; it also prepares an analysis based on the amount of outstanding credit at the end of the period.

If benchmark interest rates had increased and/or decreased by 100 basis points in each reporting period and all other variables had remained constant, the pretax profit of 2017, 2016 and 2015 would have increased or decreased by approximately $37,691, $44,623 and $65,422, respectively. At December 31, 2017, 2016 and 2015 there would be no impact on other comprehensive income because no derivative financial instruments outstanding at that date were recorded as trading, directly affecting the result of the year.

d. Exchange risk management - The functional currency of the Entity is the Mexican peso, accordingly, it is exposed to currency risk Mexican peso against U.S. dollar that arises in connection with retail operations and financing, in this case, currency forwards are entered into in order to hedge such operations, when considered convenient.

The carrying values of monetary assets and liabilities denominated in foreign currency and which primarily generate exposure for the Entity at the end of the reporting period are as follows (figures in thousands):

	Liabilities			Assets		
	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2017	December 31, 2016	December 31, 2015
US Dollar	25,291	29,772	29,157	26,386	30,818	30,591

The following table indicates the Entity's sensitivity to a 10% increase or decrease of the Mexican peso versus the US dollar. This percentage is the sensitivity rate used to internally report the exchange rate risk to key management personnel and also represents management's evaluation of the possible fair value change to exchange rates. The sensitivity analysis only includes monetary items denominated in foreign currency and adjusts their conversion at the end of the period by applying a 10% fluctuation; it also includes external loans. A negative or positive figure, respectively (as detailed in the following table), indicates a (decrease) or increase in net income derived from a decrease in the value of the Mexican peso of 10% with regard to the US dollar (figures in thousands):

	December 31, 2017	December 31, 2016	December 31, 2015
Mexican pesos	2,161	2,161	2,467

e. Credit risk management - The credit risk refers to the situation in which the borrower defaults on its contractual obligations, thereby generating a financial loss for the Entity and which is essentially derived from customer accounts receivable and liquid funds. The credit risk affecting cash and cash equivalents and derivative financial instruments is limited because the counterparties are banks with high credit ratings issued by credit rating agencies. The Entity's maximum credit risk exposure is represented by the balance in the statement of financial position. The other exposure to credit risk is represented by the balance of each financial asset mainly in trade accounts receivable. The Entity sells its products and / or services to customers who have demonstrated their economic, and periodically evaluates the financial condition of its customers and has insurance billing for domestic and export sales. Therefore, the Entity does not believe there is a significant risk of loss due to a concentration of credit in its customer base in the retail sector, as they are diluted by than 1,927,824 customers, which do not represent a concentration of risk The Entity also believes that potential credit risk is adequately covered by its allowance for doubtful accounts, which represents its estimate of incurred losses related to impairment of accounts receivable (see Note 8).

f. Liquidity risk management - Corporate treasury has the ultimate responsibility for liquidity management, and has established appropriate policies to control this through monitoring of working capital, managing short, medium and long-term funding requirements, maintaining cash reserves and available credit lines, continuously monitoring cash flows (projected and actual), and reconciling the maturity profiles of financial assets and liabilities.

The following table details the remaining contractual maturities of the Entity's non-derivative financial liabilities, based on contractual repayment periods.

The Entity expects to meet its obligations with cash flows from operations and resources received from the maturity of financial assets.

Additionally, the Entity has access to credit lines with various banks and debt securities programs.

As of December 31, 2017	3 months	6 months	Total
Trade accounts payable	$ 7,378,837	$ 126,846	$ 7,505,683
Other accounts payable and accrued liabilities	525,771	–	525,771
Due to related parties	498,291	–	498,291
Total	$ 8,402,899	$ 126,846	$ 8,529,745

As of December 31, 2016	3 months	6 months	Total
Trade accounts payable	$ 7,059,269	$ 107,502	$ 7,166,771
Other accounts payable and accrued liabilities	466,496	–	466,496
Due to related parties	518,388	–	518,388
Total	$ 8,044,153	$ 107,502	$ 8,151,655

As of December 31, 2015	3 months	6 months	Total
Trade accounts payable	$ 5,986,780	$ 62,917	$ 6,049,697
Other accounts payable and accrued liabilities	362,974	–	362,974
Due to related parties	216,930	–	216,930
Total	$ 6,566,684	$ 62,917	$ 6,629,601

11. Fair value of financial instruments

The Entity does not have instruments that are measured at fair value on a recurring basis.

This note provides information about the fair value of financial assets and liabilities not carried at fair value steadily (but fair value disclosures required).

Except as detailed in the table below, management believes that the carrying amounts of assets and liabilities recognized at amortized cost in the financial statements, approximates their fair value.

The Entity calculates the fair value of accounts receivable since much of its sales are made through the revolving credit extended to customers. Fair value is calculated using the information available in the market or other valuation techniques which require judgment to develop and interpret the estimates of fair values also makes assumptions that are based on market conditions existing at each of the dates of the statement of financial position. Consequently, the estimated amounts presented are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different assumptions and / or estimation methods may have a material effect on the estimated fair value amounts presented below for disclosure purposes only.

The carrying amounts of financial instruments by category and their estimated fair values are as follows:

	December 31, 2017		December 31, 2016		December 31, 2015	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
Financial assets:						
Cash and cash equivalent	$ 1,924,601	$ 1,924,601	$ 1,714,356	$ 1,714,356	$ 4,855,573	$ 4,855,573
Notes and accounts receivables:						
Accounts receivable to customers and other	14,275,601	14,075,947	13,116,889	13,119,236	11,472,026	11,644,137
Accounts and notes payable:						
Trade accounts payable	7,505,683	7,505,683	7,166,771	7,166,771	6,049,697	6,049,697
Other accounts payable and accrued liabilities	525,771	525,771	466,496	466,496	362,974	362,974
Due to related parties	498,291	498,291	518,388	518,388	216,930	216,930
Total	$ 7,670,457	$ 7,470,803	$ 6,679,590	$ 6,681,937	$ 9,697,998	$ 9,870,109

12. Property, plant and equipment

Following is a reconciliation between the carrying amount at the beginning and end of the year 2017, 2016 and 2015:

	Balances as of December 31, 2016	Additions	Retirements / disposals	Exchange differences on translation	Impairment	Balances as of December 31, 2017
Investment:						
Buildings, leasehold improvements and constructions	$ 12,344,652	$ 324,778	$ (78,461)	$ (8,017)	$ –	$ 12,582,952
Machinery and equipment	2,969,988	233,837	(62,013)	(2,660)	–	3,139,152
Furniture and fixtures	5,577,706	310,367	(37,330)	(6,804)	–	5,843,939
Vehicles	325,467	31,425	(15,780)	(799)	–	340,313
Computers	1,267,246	126,598	(7,263)	3,172	–	1,389,753
Total investment	22,485,059	1,027,005	(200,847)	(15,108)	–	23,296,109
Accumulated depreciation:						
Buildings, leasehold improvements and constructions	(5,553,317)	(433,957)	57,983	(209)	(21,563)	(5,951,063)
Machinery and equipment	(1,777,450)	(162,257)	49,214	(75)	(3,914)	(1,894,482)
Furniture and fixtures	(3,009,994)	(511,965)	37,240	9,203	(5,872)	(3,481,388)
Vehicles	(233,516)	(40,114)	13,288	1,602	–	(258,740)
Computers	(1,002,854)	(90,788)	7,000	(163)	–	(1,086,805)
Total accumulated depreciation	(11,577,131)	(1,239,081)	164,725	10,358	(31,349)	(12,672,478)
Subtotal	10,907,928	(212,076)	(36,122)	(4,750)	(31,349)	10,623,631
Land	2,716,672	68,954	(78,863)	–	–	2,706,763
Construction in progress	775,991	487,738	(76,276)	–	–	1,187,453
Net investment	$ 14,400,591	$ 344,616	$ (191,261)	$ (4,750)	$ (31,349)	$ 14,517,847

	Balances as of December 31, 2015	Additions	Retirements / disposals	Exchange differences on translation	Impairment	Balances as of December 31, 2016
Investment:						
Buildings, leasehold improvements and constructions	$ 11,341,784	$ 997,600	$ (22,064)	$ 27,332	$ –	$ 12,344,652
Machinery and equipment	2,679,571	287,122	(7,306)	10,601	–	2,969,988
Furniture and fixtures	4,726,357	850,180	(14,372)	15,228	313	5,577,706
Vehicles	307,359	32,132	(16,537)	681	–	323,635
Computers	1,104,125	166,333	(4,060)	2,680	–	1,269,078
Total investment	20,159,196	2,333,367	(64,339)	56,522	313	22,485,059
Accumulated depreciation:						
Buildings, leasehold improvements and constructions	(5,143,929)	(405,180)	10,041	(14,249)	–	(5,553,317)
Machinery and equipment	(1,641,224)	(134,401)	5,742	(7,567)	–	(1,777,450)
Furniture and fixtures	(2,541,629)	(464,005)	8,007	(12,367)	–	(3,009,994)
Vehicles	(198,238)	(40,349)	11,396	(1,041)	–	(228,232)
Computers	(947,366)	(64,525)	5,523	(1,770)	–	(1,008,138)
Total accumulated depreciation	(10,472,386)	(1,108,460)	40,709	(36,994)	–	(11,577,131)
Subtotal	9,686,810	1,224,907	(23,630)	19,528	313	10,907,928
Land	2,448,051	268,911	(290)	–	–	2,716,672
Construction in progress	473,626	302,365	–	–	–	775,991
Net investment	$ 12,608,487	$ 1,796,183	$ (23,920)	$ 19,528	$ 313	$ 14,400,591

	Balances as of December 31, 204	Additions	Retirements / disposals	Exchange differences on translation	Impairment	Balances as of December 31, 2015
Investment:						
Buildings, leasehold improvements and constructions	$ 10,078,041	$ 1,319,303	$ (75,200)	$ 19,640	$ –	$ 11,341,784
Machinery and equipment	2,422,092	299,832	(49,668)	7,315	–	2,679,571
Furniture and fixtures	3,763,667	999,615	(51,542)	14,617	–	4,726,357
Vehicles	283,227	45,762	(19,075)	(2,555)	–	307,359
Computers	1,062,565	61,358	(19,988)	190	–	1,104,125
Total investment	17,609,592	2,725,870	(215,473)	39,207	–	20,159,196
Accumulated depreciation:						
Buildings, leasehold improvements and constructions	(4,748,727)	(416,639)	40,574	(19,137)	–	(5,143,929)
Machinery and equipment	(1,619,718)	(96,556)	72,763	2,287	–	(1,641,224)
Furniture and fixtures	(2,238,015)	(336,983)	43,345	(9,976)	–	(2,541,629)
Vehicles	(182,624)	(37,537)	19,006	2,917	–	(198,238)
Computers	(901,591)	(62,414)	16,475	164	–	(947,366)
Total accumulated depreciation	(9,690,675)	(950,129)	192,163	(23,745)	–	(10,472,386)
Subtotal	7,918,917	1,775,741	(23,310)	15,462	–	9,686,810
Land	2,471,033	8,341	(4,509)	–	(26,814)	2,448,051
Construction in progress	968,727	(478,566)	(16,535)	–	–	473,626
Net investment	$ 11,358,677	$ 1,305,516	$ (44,354)	$ 15,462	$ (26,814)	$ 12,608,487

13. Investment properties

	2017	2016	2015
Fair value for investment properties	$ 2,323,901	$ 2,207,946	$ 2,086,228

The changes in investment properties are as follows:

	2017	2016	2015
Balance at beginning of period	$ 2,207,946	$ 2,086,228	$ 1,908,604
Gain on property revaluation	115,955	121,718	177,624
Balance at end of period	$ 2,323,901	$ 2,207,946	$ 2,086,228

All investment properties of Grupo Sanborns are held under freehold.

Grupo Sanborns is based on appraisals performed by independent experts with qualifications and relevant experience in the locations and categories of investment properties it holds.

The valuation techniques considered under the following different approaches:

The income approach is widely used in real estate valuation it applies to assets of a commercial nature. With the income approach, the appraiser based the value of the property in future income that the property might reasonably create. The appraiser extrapolates the future revenue of the property and deducts that amount to reach a present value reflecting the amount that a hypothetical buyer would pay to a hypothetical seller for the property.

In the market approach (comparable sales) the appraiser looks at recent sales with similar properties (comparable) to indicate the value of the asset. If there are no active subjects identical to comparable sales prices of comparable adjusted to match them to the characteristics of the subject asset.

In the cost approach the appraiser estimates the value of the asset compared to the cost of producing a new individual asset or a replacement property, which suggests the market as appropriate. The cost compared to the value of existing assets and is adjusted for differences in age, condition and value for the comparable asset. In its simplest form, the cost approach is represented by the net replacement value less all depreciation rates. Depreciation for valuation purposes is defined as the difference in value between real property and a new hypothetical property, taken as a basis of comparison.

The value of the asset can be estimated by expected future profits to its owner.

Key metrics for all investment properties are shown below:

Recommended ranges for capitalization rates		
Type of property	**Low**	**Maxim**
Shops	7.0%8.9%	

The Entity has two shopping malls, Loreto and Inbursa located in Mexico City, which generate rental income that is recognized as leasing services amounting to $218,734, $203,416 and $210,179 for the years ended December 31, 2017, 2016 and 2015 respectively. At December 31, 2017, 2016 and 2015 the occupancy rate of shopping centers is 95%, 96% and 93%, respectively.

Direct operating expenses including maintenance costs incurred in relation to the investment property are recognized in income amounting, approximately 34%, 33% and 32% of rental income for years ended December 31, 2017, 2016 and 2015, respectively.

There has been no change in valuation technique during the year.

The estimated fair value of the properties considered the highest and best use of the properties is its current use.

The following information is relevant to investment properties classified as Level 3 hierarchy:

	Valuation technique(s)	Significant unobservable input(s)	Sensitivity
Commercial Mexico City	Income approach	Capitalization rate, taking into account the capitalization of rental income potential, nature of the property, and prevailing market condition, of 7.0% - 8.9%, of 7.1% - 8.8%, and of 6.61% - 8.86% in 2017, 2016 and 2015, respectively.	A slight increase in the capitalization rate used would result in a significant decrease in its fair value, and vice versa. A variation of minus 50 basis points would result in an increase in its fair value of $270,882 and an increase of 50 points would result in a decrease in its fair value of $20,746.
		Monthly market rent, taking into account the differences in location, and individual factors, such as frontage and size, between the comparable and the property, at an average of $330, $312 and $328 Mexican pesos per square meter ("sqm") per month in 2017, 2016 and 2015, respectively.	A significant increase in the market rent used would result in a significant increase in fair value, and back.

14. Investment in shares of associates

The principal associated entity and its priority activity is the following:

Associated	Ownership percentage 2017	2016	2015	Location	Activity
Inmuebles SROM, S.A. de C.V.	14.00	14.00	-	Mexico	Leasing

	Stockholders' equity	Net income	Investment in shares	Equity in income
Inmuebles SROM, S.A. de C.V.(1)	$ 15,447,244	$ 1,272,807	$ 2,085,512	$ 173,293
Others			1,317	–
			$ 2,086,829	$ 173,293

(1) Regarding Inmuebles SROM, the Entity has significant influence for having a representative on the Board of Directors, considering its 14% participation.

15. Other accounts payable and accrued liabilities

	2017	2016	2015
Taxes payable	$ 2,159,011	$ 1,765,638	$ 1,674,549
Advertising	488,313	438,527	373,517
Maintenance contracts	169,373	184,357	188,560
Loyalty program	150,325	137,993	109,821
Unfilled orders	65,315	68,301	65,313
Leases	98,200	79,350	67,220
Electronics wallets	52,373	41,228	58,906
Electric power	74,742	57,991	56,445
Sundry creditors	525,771	466,496	362,974
Others	573,064	614,755	645,685
	$ 4,356,487	$ 3,854,636	$ 3,602,990

16. Provisions

The provisions presented below, represent accrued expenses during 2017, 2016 and 2015, expenses or contracted services attributable to the period, which are expected to be settled within a period not exceeding one year. The final amounts to be paid and the timing of any outflow of economic resources involve uncertainty and therefore may vary.

	2017	2016	2015
Opening balance	$ 102,292	$ 59,663	$ 85,744
Additions	56,935	65,941	70,968
Provision applied and writeoffs	(33,519)	(23,312)	(97,049)
Closing balance	$ 125,708	$ 102,292	$ 59,663

17. Retirement employee benefits

The Entity has plans for retirement, death or total disability payments for non-union employees in most of its subsidiaries. The defined benefit plans are administered by a legally separate fund of the Entity. The board of the pension fund is comprised of an equal number of representatives of both employer and (former) employees. The board of the pension fund is required according to the law and the articles of association to act in the interests of the Fund and all interested parties, active and inactive employees, retirees and employer. The board of the pension fund is responsible for investment policy in relation to the assets of the fund.

The Entity manages a plan that also covers seniority premiums for all staff working in Mexico, consisting of a single payment of 12 days per year worked based on final salary, not to exceed twice the minimum wage established by law.

Under these plans, employees are entitled to retirement benefits that add to the statutory pension are similar to final salary upon reaching the retirement age of 65. Other postretirement benefits are awarded.

The plans typically expose the Entity to actuarial risks as investment risk, interest rate risk, longevity risk and salary risk.

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities, debt instruments and real estates. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to leverage the return generated by the fund.
Interest risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

No other post- retirement benefits are provided to these employees.

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligation were made as of December 31, 2017 with information referring to October 31, 2017, by independent actuaries who are members of the Asociación Mexicana de Actuarios Consultores, A.C. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2017 %	2016 %	2015 %
Discount rate	7.95	7.76	7.14
Expected rate of salary increase	4.68	4.43	4.20
Expected return on plan assets	7.95	7.76	7.14
Age for current pensioners (years)			
Males	65	65	65
Females	65	65	65

Items of defined benefit costs recognized in other comprehensive income.

	2017	2016	2015
Remeasurement on the net defined benefit liability:			
Actuarial (profit)/losses on return on plan assets excluding amounts included in net interest expense	$ 166,035	$ (155,579)	$ (259,790)
Actuarial (profit)/losses arising from changes in demogr aphic assumptions	(15,765)	(101,320)	(202,182)
Actuarial (profit)/losses arising from changes in financial assumptions	(79,574)	82,814	(8,574)
Other actuarial (profit)/losses for experience	(60,405)	95,113	(18,818)
Items of defined benefit costs recognized in other comprehensive income	$ 10,291	$ (78,972)	$ (489,364)

The current service cost and the net interest expense for the year are included in the employee benefits expense in profit or loss. The amount of expenditure 2017 (current working service cost) included $35,510 and $56,191 in the income statement as selling expenses and administrative expenses, respectively, the statement of income also includes interest income of $159,884.

The remeasurement of the net defined benefit liability is included in other comprehensive income

The amount included in the consolidated statement of financial position arising from the entity's obligation in respect of its defined benefit plans is as follows:

	2017	2016	2015
Present value of funded defined benefit obligation	$ (2,055,562)	$ (1,731,011)	$ (1,688,580)
Fair value of plan assets	2,438,438	2,093,556	2,109,558
Surplus	$ 382,876	$ 362,545	$ 420,978
Net assets arising from defined benefit obligation	$ 628,112	$ 504,551	$ 582,889
Net liabilities arising from defined benefit obligation.	(245,236)	(142,006)	(161,911)
	$ 382,876	$ 362,545	$ 420,978

Movements in the present value of the defined benefit obligation in the current year:

	2017	2016	2015
Opening defined benefit obligation	$ 1,731,011	$ 1,688,580	$ 1,319,478
Current service cost	87,162	84,881	91,294
Cost (income) interest	131,634	116,504	93,025
Remeasurement (gains)/losses:			
Actuarial (gains) and losses arising from changes in demographic assumptions	16,562	101,320	202,182
Actuarial (gains) and losses arising from changes in financial assumptions	85,570	(82,814)	8,574
Other (actuarial losses o (gains) from experience)	60,584	(95,113)	18,818
Past service cost includes	4,539	906	(639)
Actuarial losses/(gains) on liquidations or reductions	84	–	–
Benefits paid	(61,584)	(83,253)	(44,152)
Closing defined benefit obligation	$ 2,055,562	$ 1,731,011	$ 1,688,580

Movements in the fair value of the plan assets in the current year were as follows:

	2017	2016	2015
Opening fair value of plan assets	$ 2,093,556	$ 2,109,558	$ 2,191,806
Interest income	159,884	146,150	156,270
Remeasurement gains/(losses):			
Return on plan assets (excluding amounts included in net interest expense)	171,312	(155,579)	(259,790)
Entity contributions	74,714	75,774	66,063
Transfers of personnel	–	906	(639)
Benefits paid	(61,028)	(83,253)	(44,152)
Closing fair value of plan assets	$ 2,438,438	$ 2,093,556	$ 2,109,558

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by $305,949 (increase by $324,603).

If the expected salary growth increases (decreases) by 1%, the defined benefit obligation would increase by $166,155 (decrease by $122,246).

If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by $10,766 (decrease by $16,893).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

Financial Highlights

Relevant aspects of the valuation as of December 31, 2017 are as follows:

The main strategic decisions that are made in the technical document of actuarial policy of the Fund are:

Asset mix based on 47% equity instruments and 53% debt instruments.

The average duration of the benefit obligation as of December 31, 2017 is 14.77 years, 2016 is 15.01 years and 17.52 years in 2015.

The Entity expects to make a contribution of $104,781 to the defined benefit plans during the next financial year.

The major categories of plan assets are:

				Fair value		
	2017 %	2016 %	2015 %	2017	2016	2015
Equity instruments	47%	55%	50%	$ 1,149,174	$ 1,211,333	$ 1,057,695
Debt instruments	53%	45%	50%	$ 1,278,628	$ 990,834	$ 1,051,863

The actual return on plan assets amounted to $160 million, $146 million and $156 million in 2017, 2016 and 2015, respectively.

Employee benefits granted to key management personnel and / or directors of the Entity were as follows:

	2017	2016	2015
Short term benefits	$ 54,969	$ 58,177	$ 55,437
Defined benefit plans	76,795	62,828	117,704

18. Stockholders' equity

a. The historical amount of issued and paid-in common stock of Grupo Sanborns as of December 31, 2017, 2016 and 2015 is as follows:

	2017		2016		2015	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Series B1 historical	2,382,000,000	$ 2,039,678	2,382,000,000	$ 2,039,678	2,382,000,000	$ 2,039,678
Treasury shares	(101,793,895)	(49,493)	(80,977,019)	(35,718)	(71,028,547)	(29,134)
Serie B1	2,280,206,105	$ 1,990,185	2,301,022,981	$ 2,003,960	2,310,971,453	$ 2,010,544

Common stock consists of ordinary, nominative shares with no par value. Series B1 shares represent fixed capital, while Series B2 shares represent variable capital, which is unlimited; these shares can be freely subscribed

b. During the Stockholders' Ordinary General Meeting held on April 26, 2017, the stockholders declared the payment of a cash dividend from the net taxable income account CUFIN (by its acronym in Spanish) as of December 31, 2013, in the amount of $2,022,278 at a rate of $ 0.88 per each of the 2,298,043,075 shares subscribed and paid, without considering the 83,956,925 shares in Treasury on April 25, 2017. They were paid in two payments of $ 0.44 per share, the first payment on June 20 and the second on December 20, 2017, against delivery of coupon 9 and 10, respectively.

c. During 2017, 20,816,876 shares have been repurchased for $424,063, which affects common stock by $13,775 and accumulated earnings by $410,287.

d. During the Stockholders' Ordinary General Meeting held on April 22, 2016, the stockholders declared the payment of a cash dividend from the net taxable income account CUFIN (by its acronym in Spanish) as of December 31, 2013, in the amount of $ 1,982,906 at a rate of $ 0.86 per each of the 2,305,704,569 shares subscribed and paid, without considering the 76,295,431 shares in Treasury on April 21, 2016. They were paid in two payments of $ 0.43 per share, the first payment on May 30 and the second on December 19, 2016 against delivery of coupon 7 and 8, respectively.

e. During 2016, 9,948,472 shares have been repurchased for $235,891, which affects common stock by $6,584 and accumulated earnings by $229,307.

f. During a Stockholders' Ordinary General Meeting held on April 27, 2015, the stockholders declared dividends of $1,955,646, which were paid as follows: 50% on June 19, 2015 and 50% on December 18, 2015, upon delivery of coupons 5 and 6, respectively, of Temporary Certificate No. 1, which is currently deposited in Institución para el Depósito de Valores, S.A. de C.V. (SD Indeval).

   During 2015, 26,539,982 shares have been repurchased for $639,807, which affects common stock by $17,563 and accumulated earnings by $622,244.

g. Retained earnings include the statutory legal reserve. The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of common stock at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. As December 31, 2017, 2016 and 2015, the legal reserve, in historical pesos, was $311,682, 311,682 and $311,682, respectively.

h. Stockholders' equity, except restated paid-in capital and tax accumulated earnings, will be subject to income tax payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated income taxes of the year in which the tax on dividends is paid and the following two fiscal years.

i. An additional 10% income tax is applied to dividends paid when they are distributed to individuals and foreign residents. Such tax is withheld and paid by the stockholder. Tax treaties may apply to foreigners. This tax is applicable to the distribution of profits generated as of 2014.

j. The balances of the stockholders' equity tax accounts as of December 31 are:

	2017	2016	2015
Contributed capital account	$ 16,182,112	$ 15,561,309	$ 15,293,473
Consolidated net tax income account	6,231,645	6,283,944	7,105,968
Total	$ 22,413,757	$ 21,845,253	$ 22,399,441

19. Transactions and balances with related parties

a. Balances receivable and payable with related parties are as follows:

	2017	2016	2015
Receivable -			
Radiomóvil Dipsa, S.A. de C.V.	$ 25,953	$ 20,814	$ 28,749
Teléfonos de México, S.A.B. de C. V.	18,873	21,000	2,363
Banco Inbursa, S.A. de C.V.	6,802	–	–
Plaza VIP Com, S.A.P.I. de C.V.	–	–	7,215
Nacional de Conductores Eléctricos, S.A. de C.V.	3,367	3,115	3,433
Grupo Técnico de Servicios Telvista, S. A. de C. V	3,811	2,873	2,344
Seguros Inbursa, S.A. de C. V.	5,528	2,424	2,079
I+D México, S.A. de C. V	3,109	2,168	–
Hipocampo, S.A. de C.V	1,368	1,097	3,009
Operadora de Sites Mexicanos, S.A. de C.V	1,585	913	739
Administración Especializada Integral, S.A. de C.V.	–	796	580
Servicios Corporativos Ideal, S.A de C.V.	293	643	247
Nacobre Servicios Administrativos, S.A. de C.V	457	555	414
Administradora y Operadora de Estacionamientos Ideal, S.A. de C.V.	443	443	443
Industrial Afiliada, S.A. de C.V.	363	268	278
Imsalmar, S.A. de C.V.	327	196	834
Promotora del Desarrollo de América Latina, S.A. de C.V.	11	76	128
Compañía de Servicios Ostar, S.A. de C.V.	3	72	171
Nacional de Cobre, S.A. de C.V.	38	49	13
Patrimonial Inbursa, S.A. de C.V.	–	–	781
Dorians Tijuana, S.A. de C.V.	–	–	573
Bienes Raíces de Acapulco, S.A. de C.V.	954	–	219
Inmuebles Srom, S.A. de C.V.	–	–	–
Others	10,626	7,634	3,367
	$ 83,911	$ 65,136	$ 57,979

	2017	2016	2015
Payable -			
Radiomóvil Dipsa, S.A. de C.V.	$ 264,059	$ 310,871	$ 70,090
Sears Brands Management Corporation	79,936	97,416	76,449
Inmose, S.A. de C.V.	31,368	31,233	18,977
Anuncios en Directorio, S.A. de C.V.	11,701	14,595	–
Conglomerado de Medios Interna, S.A. de C.V.	11,065	–	–
Teléfonos de México, S.A.B. de C.V.	4,821	11,162	19,687
Inmuebles Srom, S.A. de C.V.	14,301	7,214	8,012
Plaza Carso II, S.A. de C.V.	7,398	6,048	–
Bicicletas de México, S.A. de C.V.	2,806	5,807	–
Dorians Tijuana, S.A. de C.V.	–	–	6,209
Consorcio Red Uno, S.A. de C.V.	5,138	5,530	3,981
Bienes Raíces de Acapulco, S.A. de C.V.	2,214	4,110	–
Inversora Bursátil, S.A. de C.V.	18,869	–	1,991
Servicios Condumex, S.A. de C.V.	100	–	1,968
Desarrollos Sagesco, S.A. de C.V.	6,223	4,017	1,205
Selmec Equipos Industriales, S.A. de C.V.	4,478	3,509	1,877
Emprendedora Administrativa, S.A. de C.V.	5,674	–	–
América Móvil, S.A.B. de C.V.	3,211	2,407	246
Claro Video, Inc.	2,182	1,752	–
Concesionaria Etram Cuatro Caminos, S.A. de C.V.	3,115	–	–
Grupo Telvista, S.A. de C.V.	2,601	–	–
Telecomunicaciones Controladora de Servicios, S.A. de C.V.	–	1,050	1,055
Bajasur, S.A. de C.V.	1,307	798	491
Carso Global Telecom, S.A. de C.V.	497	–	282
Banco Inbursa, S.A. de C.V.	1,407	958	–
Distribuidora Telcel, S.A. de C.V.	–	–	70
Inmuebles General, S.A. de C.V.	1,107	–	–
Seguros Inbursa, S.A. de C.V.	291	–	–
Others	12,422	9,911	4,340
	$ 498,291	$ 518,388	$ 216,930

Outstanding amounts are not guaranteed and will be settled in cash. No guarantees have been granted or received. No expenses have been recognized in the current or prior periods for bad debts or doubtful accounts regarding amounts owed by related parties.

b. Transactions with related parties, carried out in the ordinary course of business, were as follows:

	2017	2016	2015
Sales -			
Seguros Inbursa, S.A.	$ 49,300	$ 44,433	$ 40,997
Grupo Telvista, S.A. de C.V.	26,540	24,771	23,770
Nacional de Conductores Eléctricos, S.A. de C.V.	21,057	20,111	19,307
Radiomóvil Dipsa, S.A. de C.V. (1)	(13,457)	7,087	(2,091)
Teléfonos de México, S.A.B. de C.V.	5,577	5,516	44,968
Plaza VIP Com, S.A.P.I. de C.V.	–	–	9,468
Nacobre Servicios Administrativos, S.A. de C.V.	8,203	7,128	7,282
Hipocampo, S.A. de C.V.	3,870	3,059	2,941
Banco Inbursa, S.A.	253	74	567
Sales (others)	28,550	29,175	35,325
Total	$ 129,893	$ 141,354	$ 182,534

(1) Beginning 2015, the Entity ceased to recognize as revenue the total sale of cell phones, which were placed through the form of the rate plan and its respective cost of sales which represented the inventory's cost. Currently, the Entity only recognizes a commission equal to the profit from the sale of cell phones in previous years, due to the changes made to contracts with the supplier.

	2017	2016	2015
Interests received	$ 8,575	$ 14,885	$ 748

	2017	2016	2015
Lease income -			
Teléfonos de México, S.A.B. de C.V.	$ 9,336	$ 8,941	$ 8,660
Radiomóvil Dipsa, S.A. de C.V.	9,298	8,662	8,880
I+D México, S.A. de C.V.	5,152	4,941	–
Banco Inbursa, S.A.	4,751	4,766	5,083
Servicios Swecomex, S.A. de C.V.	–	3,249	6,508
Operadora de Sites Mexicanos, S.A. de C.V.	2,529	2,660	2,377
Laboratorio Médico Polanco, S.A. de C.V.	1,010	–	932
Lease income (others)	3,431	2,082	685
Total	$ 35,507	$ 35,301	$ 33,125

	2017	2016	2015
Service revenues -			
Radiomóvil Dipsa, S.A. de C.V.	$ 164,282	$ 232,951	$ 115,684
Clarovideo Inc. (Antes DLA, Inc.)	109,573	43,361	–
Banco Inbursa, S.A.	36,985	34,621	35,022
Teléfonos de México, S.A.B. de C.V.	10,307	19,745	21,675
Patrimonial Inbursa, S.A.	12,372	13,416	12,147
Seguros Inbursa, S.A.	12,098	12,180	11,460
Hipocampo, S.A. de C.V.	4,594	4,216	3,842
Outsourcing Inburnet, S.A. de C.V.	12,946	5,563	3,437
Grupo Telvista, S.A. de C.V.	5,625	5,080	3,184
Plaza VIP Com. S.A.P.I. de C.V.	–	–	2,769
I+D México, S.A. de C.V.	2,866	3,078	2,723
Insalmar, S.A. de C.V.	639	–	2,290
Sociedad Financiera Inbursa, S.A. de C.V.	5,098	7,590	1,737
Fundación Telmex, A.C.	1,873	–	1,594
América Móvil, S.A.B. de C.V.	326	–	–
Service revenues (others)	7,506	8,877	6,710
Total	$ 387,090	$ 390,678	$ 224,274
Income from sale of fixed assets	$ 459	$ 272	$ 4,674

	2017	2016	2015
Inventory purchases -			
Sears Brands Management Corporation	$ (140,375)	$ (268,823)	$ (241,905)
Radiomóvil Dipsa, S.A. de C.V.	42,257	(148,127)	(1,280,572)
América Móvil, S.A.B. de C.V.	(113,360)	(133,754)	(202,671)
Grupo Telvista, S.A. de C.V.	(7,763)	–	–
Teléfonos de México, S.A.B. de C.V.	(2,209)	(40,899)	–
Bicicletas de México, S.A. de C.V.	(5,771)	(8,438)	–
Inventory purchases (others)	(15,807)	(22,393)	(25,660)
Total	$ (243,028)	$ (622,434)	$ (1,750,808)
Insurance expenses with Seguros Inbursa, S.A.	$ (105,879)	$ (124,641)	$ (108,299)

	2017	2016	2015
Lease expenses -			
Inmuebles Srom, S.A. de C.V.	$ (169,133)	$ (183,115)	$ (174,475)
Inmose, S.A. de C.V.	(89,679)	(134,166)	(82,288)
Inmuebles General, S.A. de C.V.	(93,373)	(83,713)	(63,084)
Bienes Raíces de Acapulco, S.A. de C.V.	(49,150)	(46,768)	(46,309)
Bajasur, S.A. de C.V.	(37,682)	(32,761)	(29,057)
Desarrollos Sagesco, S.A. de C.V.	(31,189)	(30,594)	(30,498)
Plaza CARSO II, S.A. de C.V.	(13,733)	(14,039)	(21,983)
Fideicomiso Plaza Universidad	(9,777)	–	–
Cigarros La Tabacalera Mexicana, S. de R.L. de C.V.	(6,468)	(6,025)	–
Fideicomiso Desarrollo Tlalneplantla	(4,088)	–	–
Lease expenses (others)	(94,117)	(100,122)	(97,059)
Total	$ (598,389)	$ (631,303)	$ (544,753)
Interest expenses	$ (1,172)	$ (2,339)	$ (4,130)
Service expenses -			
Teléfonos de México, S.A.B. de C.V.	$ (274,848)	$ (353,639)	$ (410,593)
Conglomerado de Medios Internacionales, S.A. de C.V.	(251,341)	–	–
Sears Brands Management Corporation	(260,818)	(245,005)	(240,624)
Emprendedora Administrativa, S.A. de C.V.	(31,013)	(24,652)	–
Anuncios en Directorio, S.A. de C.V.	(5,239)	–	–
Banco Inbursa, S.A.	(115)	(6,796)	(6,829)
Promotora Inbursa, S.A. de C.V.	(4,575)	(5,829)	(6,011)
Radiomóvil Dipsa, S.A. de C.V.	–	(5,405)	(6,457)
Selmec Equipos Industriales, S.A. de C.V.	–	–	(5,816)
Grupo Telvista, S.A. de C.V.	–	–	(2,117)
Prodigy MSN Film, S. A. de C. V.	(914)	–	–
Service expenses (others)	(3,396)	(38,804)	(33,844)
Total	$ (832,259)	$ (680,130)	$ (712,291)
Other expenses, net	$ (242,538)	$ (132,987)	$ (84,345)
Purchases of property, plant and equipment	(84,505)	(71,112)	(125,217)
Total	$ (84,505)	$ (71,112)	$ (125,217)

20. Revenue

	2017	2016	2015
Sale of goods	$ 44,803,041	$ 43,166,293	$ 40,660,218
Interests by credit card	3,609,459	3,182,572	2,931,056
Services	985,971	956,869	575,757
Leases	224,472	221,363	219,583
Other	145,484	66,750	26,444
Total income	$ 49,768,427	$ 47,593,847	$ 44,413,058

21. Cost and expenses by nature

Concept	2017 Cost of sales	2017 Selling and distribution expenses	2017 Administrative expenses	2017 Total cost and expenses
Merchandise	$ 29,837,009	$ –	$ –	$ 29,837,009
Wages and salaries	11,175	3,786,072	641,605	4,438,852
Employee benefits	–	1,860,299	329,778	2,190,077
Lease	–	1,228,255	95,597	1,323,852
Electricity	6,023	607,766	7,481	621,270
Maintenance	34,019	652,190	50,727	736,936
Advertising	3,050	440,100	–	443,150
Royalties	–	254,525	3,123	257,648
Security services	16,792	74,163	4,051	95,006
Water	7,503	117,021	1,173	125,697
Expansion costs	–	–	135,143	135,143
Provision for impairment of loan portfolio	–	–	762,168	762,168
Employee benefits	–	35,510	56,190	91,700
Other	85,900	1,981,820	561,171	2,628,891
	30,001,471	11,037,721	2,648,207	43,687,399
Depreciation and amortization	43,395	1,106,413	108,553	1,258,361
	$ 30,044,866	$ 12,144,134	$ 2,756,760	$ 44,945,760

Concept	2016 Cost of sales	2016 Selling and distribution expenses	2016 Administrative expenses	2016 Total cost and expenses
Merchandise	$ 28,480,102	$ –	$ –	$ 28,480,102
Wages and salaries	10,492	3,423,046	624,941	4,058,479
Employee benefits	–	1,755,962	310,693	2,066,655
Lease	–	1,203,007	85,039	1,288,046
Electricity	4,283	507,279	4,645	516,207
Maintenance	32,902	348,501	49,061	430,464
Advertising	2,468	416,390	–	418,858
Royalties	–	247,033	3,410	250,443
Security services	16,084	70,030	2,777	88,891
Water	7,703	109,023	872	117,598
Expansion costs	–	299	171,449	171,748
Provision for impairment of loan portfolio	–	–	493,134	493,134
Employee benefits	–	31,665	56,463	88,128
Other	73,228	2,273,950	444,794	2,791,972
	28,627,262	10,386,185	2,247,278	41,260,725
Depreciation and amortization	44,125	976,044	96,704	1,116,873
	$ 28,671,387	$ 11,362,229	$ 2,343,982	$ 42,377,598

	2015			
Concept	Cost of sales	Selling and distribution expenses	Administrative expenses	Total cost and expenses
Merchandise	$ 26,786,939	$ –	$ –	$ 26,786,939
Wages and salaries	10,190	3,369,471	577,392	3,957,053
Employee benefits	–	1,612,197	299,226	1,911,423
Lease	–	1,154,484	75,342	1,229,826
Electricity	4,388	516,002	5,786	526,176
Maintenance	19,131	422,836	54,775	496,742
Advertising	2,360	374,817	–	377,177
Royalties	–	240,539	3,278	243,817
Security services	15,460	60,031	4,566	80,057
Water	3,976	113,905	782	118,663
Expansion costs	–	–	139,344	139,344
Provision for impairment of loan portfolio	–	–	468,448	468,448
Employee benefits	–	23,288	68,006	91,294
Other	61,314	1,799,859	504,404	2,365,577
	26,903,758	9,687,429	2,201,349	38,792,536
Depreciation	33,679	895,505	20,945	950,129
	$ 26,937,437	$ 10,582,934	$ 2,222,294	$ 39,742,665

22. Other income

	2017	2016	2015
Gain on stock purchase	$ –	$ (1,141,267)	$ –
Cancellation of liabilities and provisions	(265,289)	(183,018)	(152,319)
Gain arising on changes in fair value of investment properties	(115,955)	(121,718)	(177,624)
Recovery by sequential loss	(54,489)	–	–
Gain on sale of property, machinery and equipment	(3,409)	(16,597)	(2,577)
Others	(17,124)	(18,458)	–
	$ (456,266)	$ (1,481,058)	$ (332,520)

23. Other expenses

	2017	2016	2015
Labor contingencies	$ 37,338	$ 40,434	$ 36,350
Loss on sale of property, machinery and equipment	20,840	14,229	19,183
Doubtful accounts	11,823	–	–
Expenses for closing Units	7,502	–	–
Allowance of acquired portfolio	–	7,404	–
Sub-leases	5,239	6,837	4,393
Impairment of property	31,349	–	26,814
Others	25,712	16,563	8,399
	$ 139,803	$ 85,467	$ 95,139

24. Income taxes

The Entity is subject to ISR. Under the ISR Law the rate for 2017 and 2016 was 30% and will continue to 30% and thereafter. The rate of current income is 30%. The Entity incurred ISR on a consolidated basis until 2014 with Grupo Carso, S.A.B. de C.V. As a result of the 2014 Tax Law, the tax consolidation regime was eliminated.

While the 2014 Tax Law repealed the tax consolidation regime, an option was established, which allows groups of companies to determine a joint calculation of ISR (tax integration regime). The new regime allows groups of consolidated companies that share common direct or indirect ownership of more than 80%, certain benefits in the tax payment (when the group of companies include both profit and loss entities in the same period), which can be deferred over three years and reported, as updated, at the filing date of the tax declaration corresponding to the tax year following the completion of the aforementioned three-year period.

The Entity and its subsidiaries opted to join the new scheme, so determined income tax for the year 2017, 2016 and 2015 as previously described.

Income taxes consist of the following:

	2017	2016	2015
ISR:			
Current	$ 1,582,362	$ 1,862,935	$ 1,716,279
Deferred	(355,090)	171,732	(119,533)
	$ 1,227,272	$ 2,034,667	$ 1,596,746

a. Hereunder is an analysis of the deferred tax (assets) liabilities presented in the consolidated statement of financial position:

	2017	2016	2015
ISR deferred (asset) liability:			
Property, machinery and equipment and investment properties	$ 876,830	$ 1,139,653	$ 1,241,696
Allowance for doubtful receivable	(152,866)	(112,738)	(107,852)
Allowance for obsolescence and shrinkage inventories	(136,044)	(125,235)	(114,211)
Allowances for assets and reserves for liabilities and provisions	(606,940)	(528,430)	(447,809)
Employee benefits	126,257	109,469	130,061
Others	130,716	107,156	(240,596)
Deferred ISR on temporary differences	237,953	589,875	461,289
Effect of tax loss carry- forwards	(25,283)	(25,572)	(14,793)
Deferred income tax liability	$ 212,670	$ 564,303	$ 446,496

The net deferred income tax liability is as follows:

	2017	2016	2015
Net assets	$ (1,014,482)	$ (600,583)	$ (362,882)
Net liabilities	1,227,152	1,164,886	809,378
Total	$ 212,670	$ 564,303	$ 446,496

b. Following is a reconciliation of the income tax liability:

	2017	2016	2015
Beginning balance	$ 564,303	$ 446,496	$ 716,998
Income tax applied to period results	(355,090)	171,732	(119,533)
Income tax recognized in other comprehensive income	3,457	(23,411)	(150,969)
Income tax from acquisition of subsidiary	–	(30,514)	–
Ending balance	$ 212,670	$ 564,303	$ 446,496

c. Following is a reconciliation of the statutory and effective ISR rates expressed as a percentage of income before taxes on income:

	2017 %	2016 %	2015 %
Statutory rate	30	30	30
Plus (less) permanent differences -			
Nondeductible expenses	1	1	3
Inflation effects	(8)	(1)	(1)
Effective rate	23	30	32

d. Benefits from restated tax loss carry forwards for which a deferred ISR asset has been recognized can be recovered by fulfilling certain requirements. The amount of tax loss carryforwards for all of the subsidiaries and their related expiration dates as of December 31, 2017 are as follows:

Year of Expiration	Tax loss carryforwards
2018	$ 109
2019	544
2020 and thereafter	83,625
	$ 84,278

e. Income tax payable long-term:

Is composed by the tax integration regime that is paid in the next 3 years and the corresponding installment sales that could be paid over three years at a rate of 33.3% per year, since the tax benefit to deferred the income tax was eliminated.

	2017	2016	2015
ISR incurred by tax integration regime	$ 497,385	$ 444,188	$ 118,857
ISR incurred by installment sales	–	–	127,027
	$ 497,385	$ 444,188	$ 245,884

25. Commitments

a. As of December 31, 2017, contracts have been executed with suppliers for the remodeling and construction of some of its stores. The amount of the commitments contracted in this regard is approximately $1,071,028.

b. Furthermore, as of December 31, 2017, the Entity and its subsidiaries have entered into lease agreements in 365 of its stores (Sears, Saks, Sanborn Hermanos, Sanborn's - Café, Mix-Up, Discolandia, i Shop, Comercializadora Dax, Corpti and Sanborns Panama). The leases are for non-cancelable periods and range between one and twenty years. The rental expense during 2017, 2016 and 2015 was $1,323,852, $1,288,046 and $1,229,826, respectively; also, the Entity and its subsidiaries, acting as lessees, have contracts whose terms range from one to fifteen years and the amount of rental income in 2017, 2016 and 2015 was $224,472, $221,363 and $219,583, respectively.

- The amount of rentals payable according to its due date amount to:

Maturity	December 31, 2017
1 year	$ 618,678
1 to 5 years	2,797,160
More than 5 years	2,953,960
	$ 6,369,798

- The amount of rentals receivable according to their due date amount to:

Maturity	December 31, 2017
1 year	$ 47,340
1 to 5 years	118,851
More than 5 years	233,166
	$ 399,357

c. In December, 2010, Sears Operadora México, S.A. de C.V. (formerly Sears Roebuck de México, S.A. de C.V.) and Sears Roebuck and Co., signed an agreement whereby they have decided to extend under the same terms the Brand Use License Contract and the Merchandise Sale and Advisory Contracts governing the commercial relationship between them, which establishes the payment of 1% of the revenues from merchandise sales, and allows the use of the Sears name both in its corporate name and in its stores, and the exploitation of the brands owned by Sears Roebuck and Co. The agreement will be in effect up to September 30, 2019, but allows for a seven-year extension under the same conditions, unless one of the parties decides not to do so, in which case it must notify the other party two years in advance.

d. Based on an agreement signed on September 12, 2006, the Entity executed a contract for the payment of consulting and brand use license for an initial term of 15 years with a 10 years renewal option, establishing the minimum annual payment of US $500,000 and allowing the use of the name Saks Fifth Avenue both in its corporate name and in its stores.

26. Contingencies

As of the date of these financial statements, the Entity has judicial procedures in process with the competent authorities for diverse reasons, mainly for foreign trade duties, for the recovery of accounts receivable and of labor matters.

The estimated amount of these judgments to December 31, 2017 amounts to $559,859, for which the Entity has recognized provisions $125,708 which is included in other liabilities in the consolidated statements of financial position. During 2017 he Entity made payments related to these matters of approximately $40,533. While the results of these legal proceedings cannot be predicted with certainty, management does not believe that any such matters will result in a material adverse effect on the Entity's financial position or operating results.

27. Segment Information

The information by operating segments is presented based on management's approach; general and geographical information is also presented. Balances with subsidiaries are presented in the "other and eliminations" column.

a. Information by operating segment is as follows:

	2017				
	Sears and Boutiques	Sanborns	Mixup and iShop	Others and eliminations	Total consolidated
Total revenue	$ 25,416,317	$ 12,599,598	$ 8,408,732	$ 3,343,780	$ 49,768,427
EBITDA [(1)]	3,639,435	864,178	490,563	1,337,989	6,332,165
Consolidated comprehensive income	1,815,365	251,323	325,657	1,565,511	3,957,856
Interest income	123,102	118,088	46,341	36,331	323,862
Interest expense	560,682	236,750	10,662	(541,782)	266,312
Depreciation and amortization	817,497	313,183	51,974	75,707	1,258,361
Income taxes	556,943	148,133	142,786	379,410	1,227,272
Total assets	25,884,744	9,366,092	3,218,795	9,418,283	47,887,914
Current liabilities	13,064,647	4,869,910	1,947,645	(6,483,811)	13,398,391
Long-term liabilities	232,284	250,165	35,373	1,451,951	1,969,773
Total liabilities	13,296,931	5,120,075	1,983,018	(5,031,860)	15,368,164
Capital expenditures	1,072,590	181,269	65,702	264,136	1,583,697

	2016				
	Sears and Boutiques	Sanborns	Mixup and iShop	Others and eliminations	Total consolidated
Total revenue	$ 24,561,071	$ 12,714,496	$ 7,233,565	$ 3,084,715	$ 47,593,847
EBITDA [(1)]	3,707,863	1,011,802	416,733	1,337,743	6,474,141
Consolidated comprehensive income	1,831,839	370,354	262,498	2,001,614	4,466,305
Interest income	119,968	123,314	28,240	137,862	409,384
Interest expense	434,325	193,539	9,221	(286,110)	350,975
Depreciation and amortization	720,849	287,574	43,223	65,227	1,116,873
Income taxes	827,121	279,601	124,687	803,258	2,034,667
Total assets	24,394,551	9,127,038	2,613,293	9,050,161	45,185,043
Current liabilities	12,836,031	4,680,004	1,397,934	(6,431,531)	12,482,438
Long-term liabilities	96,448	239,733	30,202	1,384,697	1,751,080
Total liabilities	12,932,479	4,919,737	1,428,136	(5,046,834)	14,233,518
Capital expenditures	1,623,037	596,634	28,815	656,157	2,904,643

	2015				
	Sears and Boutiques	Sanborns	Mixup and iShop	Others and eliminations	Total consolidated
Total revenue	$ 22,803,935	$ 12,639,236	$ 6,398,311	$ 2,571,576	$ 44,413,058
EBITDA [1]	3,229,276	894,028	377,198	1,206,867	5,707,369
Consolidated comprehensive income	1,654,657	318,853	232,027	884,480	3,090,017
Interest income	69,968	118,029	14,524	155,630	358,151
Interest expense	287,136	146,377	2,693	(225,444)	210,762
Depreciation and amortization	547,084	304,371	42,087	56,863	950,405
Income taxes	798,255	239,001	109,392	450,098	1,596,746
Total assets	20,951,665	8,496,001	2,065,410	9,850,955	41,364,031
Current liabilities	10,561,622	4,207,462	1,015,100	(5,032,457)	10,751,727
Long-term liabilities	244,573	118,591	29,061	824,948	1,217,173
Total liabilities	10,806,195	4,326,053	1,044,161	(4,207,509)	11,968,900
Capital expenditures	1,772,386	313,144	21,623	148,492	2,255,645

[1] EBITDA reconciliation

	December 31, 2017	December 31, 2016	December 31, 2015
Income before income taxes	$ 5,389,253	$ 6,768,654	$ 5,055,163
Depreciation and amortization	1,258,361	1,116,873	950,405
Interest income	(323,862)	(409,384)	(358,151)
Interest expense	266,312	350,975	210,762
Gain on investment property revaluation	(115,955)	(121,718)	(177,624)
Gain or stock purchase	–	(1,141,267)	–
Equity in income of associates entities	(173,293)	(89,992)	–
Impairment property	31,349	–	26,814
EBITDA	$ 6,332,165	$ 6,474,141	$ 5,707,369

b. General segment information by geographical area:

The Entity operates in different locations and has distribution channels in Mexico and Central America through its commercial offices or representatives.

The distribution of such sales is as follows:

	December 31, 2017	%	December 31, 2016	%	December 31, 2015	%
Mexico	$ 49,107,135	98.67	$ 46,962,963	98.67	$ 43,898,285	98.84
El Salvador	552,195	1.10	523,714	1.10	418,344	0.94
Panama	109,097	0.23	107,170	0.23	96,429	0.22
	$ 49,768,427	100.00	$ 47,593,847	100.00	$ 44,413,058	100.00

28. Authorization to issue the financial statements

The consolidated financial statements were authorized for issue on May 29, 2018, by Lic. Mario Bermúdez Dávila, CFO; consequently, they do not reflect events occurred after that date, and are subject to the approval of the Entity's ordinary shareholders' meeting, where they may be modified, in accordance with the provisions of the General Law of Commercial Companies. The consolidated financial statements for the year ended December 31, 2016 and 2015, were approved at the ordinary shareholders' meeting that took place on April 26, 2017 and April 20, 2016, respectively.