



SEARS

2019
Annual Report



Grupo Sanborns

Corporate Profile

Grupo Sanborns is a leading company in the retail market in Mexico. The Company has a unique portfolio of commercial formats, which includes department stores, specialty stores, electronics and entertainment stores, convenience stores, luxury stores and restaurants. The Group operates through highly recognized franchises such as Sears, Sanborns, iShop, MixUp, Dax, Sanborns Café and Saks Fifth Avenue. Grupo Sanborns has a presence in 61 cities in Mexico through the operation of 451 stores with a retail area of more than 1,234,000 sqm. The Company offers a higher value proposition for the benefit of its customer base, which includes the operation of more than 4.4 million proprietary credit cards.

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Mission, vision and values

Mission:

To offer our customers products and services of the highest quality, at the right price, in the right area, seeking their full satisfaction through an attentive personalized service. The customer is the *raison d'être* of our daily activity.

Vision:

To Consolidate and maintain the market leadership of our company, keeping in mind the interests of our customers, workers, suppliers and shareholders.

Values

➤ **Work:** Work itself is a value, given the fact that only through work do we have the ability to meet our needs, grow as people and serve others. Our work, then, should be a source of personal and professional development, as well as emotional satisfaction.

➤ **Growth:** Growth means increasing and improving our personal skills and knowledge, so that, together with the Group, we can improve our ability to offer more and better products by providing excellent service to our customers.

➤ **Social Responsibility:** This responsibility means doing our job well, reaffirming our ethical values, fulfilling the commitment we express to our customers and suppliers, respecting current legislation, and taking care of natural resources and the environment.

➤ **Efficiency:** Efficiency means conducting oneself with austerity, as well as efficiently caring for and using the resources we have, spending only on what is necessary and avoiding anything that is of no use or is superfluous.

Financial Highlights

(Thousand pesos at December 31 of each year*)

	Var%			
GSanborns	2017	2018	2019	2019-2018
INCOME				
Total Sales	49,768	51,755	53,288	3.0%
Retail Sales	46,159	47,961	49,314	2.8%
Credit Income	3,609	3,794	3,975	4.8%
Gross Profit	19,724	20,125	20,334	1.0%
Operating Income	5,568	5,223	4,699	-10.0%
<i>Operating Margin</i>	11.2%	10.1%	8.8%	-1.3 pp
EBITDA	7,516	7,201	6,789	-5.7%
<i>EBITDA Margin</i>	15.1%	13.9%	12.7%	-1.2 pp
Controlling Participation in Net Income	3,956	3,730	2,949	-20.9%
<i>Net Margin</i>	7.9%	7.2%	5.5%	-1.7 pp
BALANCE				
Total Assets	53,651	56,123	56,692	1.0%
Total Liabilities	22,073	23,076	23,536	2.0%
Consolidated Stockholders' Equity	31,578	33,047	33,156	0.3%
Capital Expenditures (CapEx)	1,584	1,418	895	-36.9%
Total Debt	0	0	0	0.0%
Net Debt	-1,925	-2,478	-1,690	-31.8%
CREDIT				
Credit Portfolio	12,891	13,005	12,964	-0.3%
<i>% Non-Performing Loans</i>	4.3%	4.2%	4.4%	0.3 pp
Credit Cards issued	3,941,514	4,156,035	4,409,392	6.1%
OTHER INDICATORS				
Net Debt/EBITDA	-0.26	-0.34	-0.25	-27.7%
CapEx/Sales	3.2%	2.7%	1.7%	-1.1 pp
Total Area (Sq meters)	1,207,060	1,235,822	1,234,254	-0.1%
Compounded Average number of outstanding Shares (thousand)	2,296,548	2,268,903	2,262,933	-0.3%
Earnings per Share**	1.72	1.64	1.00	-39.0%
Closing year stock price***	19.60	17.70	24.50	38.4%

* Except outstanding shares, earnings per share and number of credit cards.

** Controlling Participation in Net Income divided by the compounded average number of outstanding shares.

*** Started quoting in the MSE on February 8th, 2013.

EBITDA: Income before tax income, plus depreciation and amortization, interest expense, net foreign exchange loss and impairment of property, less interest income and gain on valuation of investment properties. Conciliation in Note 26 to the Financial Statements.

pp: Variation in percentage points.

Formats and brands

> **451**
stores

> **1,234,254**
sqm (retail area)

SEARS*
Me entiende

> Fashion, home appliances, furniture, home improvement products and electronics.

*Includes 1 Boutique

98
stores

48%
of 2019 sales

868,576
retail area (sqm)


Sanborns

> Books, magazines, health and beauty, pharmacy, electronics, toys, music, videos, jewelry, photography, cell phones, clothing, sweets and gifts.
> Bar and restaurant service.

164
stores

24%
of 2019 sales

253,635
retail area (sqm)

iShop 

> Apple brand products and accessories, music, videos, movies and video games.

136
stores

21%
of 2019 sales

42,482
retail area (sqm)

DAX

Lake Fifth Avenue

Claro-shop

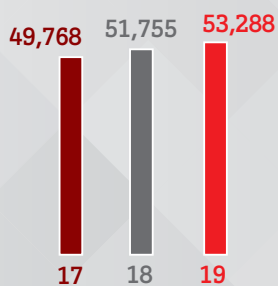
Sanborns
Cafe

> Perfumery and cosmetics.
> Affordable traditional Mexican food.
> High quality clothing and accessories.
> Shopping malls.
> E-Commerce platform.

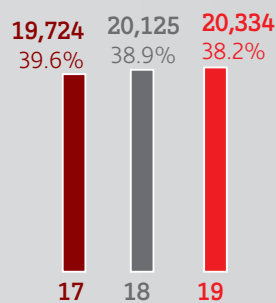
53
stores

7%
of 2019 sales

69,561
retail area (sqm)



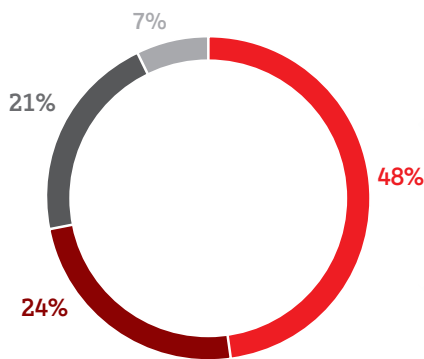
Total Sales
(Million pesos)



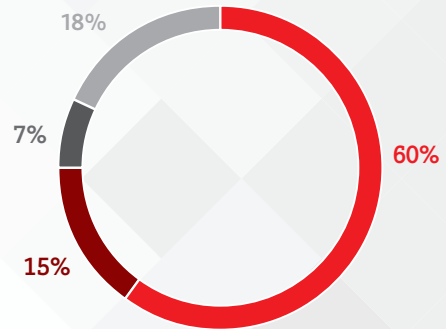
Gross Profit
(Million pesos)
Gross Margin (%)

Grupo Sanborns has a **wide geographical coverage**, with its operations located mainly in Mexico. In this regard, our network of stores is distributed in:

> 61
Mexican cities.

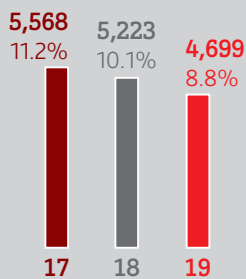


Sales contribution per subsidiary
(Million pesos)

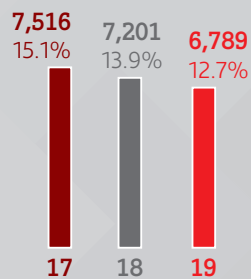


EBITDA contribution per subsidiary
(Million pesos)

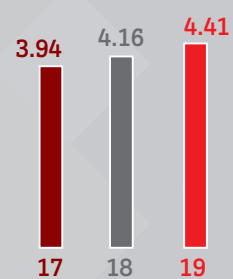
➤ Sears ➤ Sanborns ➤ Promusa (iShop-MixUp) ➤ Other



Operating Profit
(Million pesos)
Operating Margin %



EBITDA*
(Million pesos)
EBITDA Margin %



Number of Grupo Sanborns Proprietary Cards
(Millions of cards)

* In 2017, 2018 and 2019, other income of Ps. 85 million, Ps. 115 million and Ps. 73 million, amounts from the valuation of investment properties, investments, and the depreciation of real estate, respectively, were not taken into account. See reconciliation of EBITDA in Note 27 of the financial statements that are part of this Annual Report.



Message to shareholders

Economic Outlook 2019

Throughout 2019, the global environment experienced an economic slowdown, partly caused by the uncertainty arising from trade tensions between the United States of America and China.

In particular, the U.S. economy grew 2.3% in the year, as the result of a higher level of consumption of goods in the order of 3.7%, partially affected by a lower level of fixed investment, whose annual growth dropped from 5.1% in 2018 to only 1.8% in the period. Considering the above, the Federal Reserve of the United States of America adjusted the base interest rate downwards three times during the year, so that at the end of 2019 this indicator stood between 1.75% and 2.00%.

As for the performance of the Mexican economy, the country's Gross Domestic Product recorded a 0.1% drop, following the decrease of 4.9% observed in the formation of fixed capital, the 1.5% cut in government consumption, and the slowdown in private consumption, which expanded by only 0.6% in the year compared to a 2.3% growth in 2018.

The exchange rate between the Mexican Peso and the U.S. Dollar stood at Ps. 18.93 per US\$ at the end of 2019, showing a variation of Ps. 0.72 during the year, with the minimum parity between these currencies being Ps. 18.75 per US\$ in the year. This effect on exchange rate parity is primarily a product of the spread observed between the interest rates of the risk-free bonds of Mexico and the United States of America,

➤ **Ps. 53.288**
billion in consolidated sales

together with the ratification last December of the new free trade agreement between Mexico, the United States of America and Canada by the U.S. House of Representatives.

The inflation rate in 2019, meanwhile, stood at 2.83%, compared to 4.83% in the previous year. In particular, the non-core inflation rate expanded to 0.59% due to a slight 0.2% increase in the price of low-octane gasoline, with the price growing 15.4% in 2018. The core inflation stood at 3.59% in the year.

The 2018 trade balance deficit of US\$13.618 billion was offset by the 2019 surplus in that balance of US\$5.820 billion. The oil balance was in deficit in the amount of US\$21.222 billion in 2019, which is US\$ 1.938 billion lower than in 2018. The non-oil balance showed a surplus, expanding by US\$17.5 billion to US\$27.042 billion at the end of the year. Manufacturing exports, which comprise the most representative sector of the economy, grew 3.4% in the year, while there was a drop in imports in general, with an 8.9% reduction in capital goods being observed, an effect attributed to the lower level of investment in the Mexican economy.

The Government budget balance showed a deficit for Ps. 398.356 billion, equivalent to 1.6% of the country's Gross Domestic Product, while budgeted government revenue expanded by 1.6% in real terms from the previous year, with a reduction of 0.1% in real terms as the result of cuts to current public sector spending. The primary balance showed a surplus of 1.1% of the Gross Domestic Product. In order to compensate for the lower tax collection resulting from the negative effect of the economic slowdown, the Mexican government used Ps. 121.227 billion from the Budget Income Stabilization Fund, which was equivalent to 0.5% of GDP.

The COVID-19 pandemic that started in China and has expanded to the rest of the world has adversely impacted economic performance and created uncertainty in financial markets. This health crisis has also slowed the global economy, raising the threat of a broad recession. The value of the U.S. Dollar against other currencies has been significantly increased while the price of the oil barrel declined significantly to levels not seen over the past 18 years.

Grupo Sanborns

As in previous years, Grupo Sanborns continued to show its commitment to improving the customer service and shopping experience in 2019, both in physical stores and through e-commerce in each of its store formats. The result of this policy is the 3.0% growth observed in consolidated sales, which reached Ps. 53.288 billion. It is worth mentioning that our continuation of segmentation and regionalization strategies, mainly for the benefit of Sears and Sanborns, represented one of the key actions in the year. This has meant reducing the lines of some products in order to have a more adequate handling of products with respect to each store, region and specific segment of the operation.



In the Sears stores, total sales expanded by 0.1% in the year. This growth is mainly explained by the extraordinary effect caused by the FIFA World Cup in 2018, an event that favored the sale of electronic products category in that year. In the case of hardware products, Craftsman in the United States experienced some corporate changes that caused brand-specific sourcing problems, which were quickly resolved. The home appliances and furniture categories expanded due to the inventory optimization strategy, in which various studies on demand were key to the execution of this strategy. We recorded significant growth in the Fast Fashion category through the branding that was carried out. We also allocated resources from our investment program towards the purchase of a new technology platform, which is focused on solving key aspects of Sears' logistics, point of sale and online sales, an initiative scheduled to be implemented around the middle of 2020 and designed to be extended to Sanborns and Other Formats that the Company operates. This technology is expected to generate valuable and detailed information regarding sales by product and customer.

> 14.9%

growth in sales in
Promotora Musical
derived from 17 new
iShop stores

Total sales in Sanborns decreased 0.3% in 2019, which is explained by the positive effect that the FIFA World Cup had on sales in 2018, as previously mentioned, especially in the successful sale of the commemorative sticker album at the Books and Magazines department at Sanborns stores. On its part, the sale of discs and videos, has been affected by a higher consumption of digital products, which in turn has benefitted from, and has been optimized by, the realization of promotions. Based on the above, we have made adjustments in these departments based on sales efficiency indicators per square meter and per store. Likewise, we have released new spaces with the aim of introducing gourmet products and reinforcing those categories of best sale, such as pastry, chocolate shop and sweets. In addition, we relocated a Sanborns store in the center of the country and closed three units that did not meet the expected levels of profitability.

In regard to Promotora Musical, it recorded a sales growth of 14.9%. This expansion resulted from the startup of operations of 17 new iShop stores and the remodeling of three units to renew its image. Despite the fact that we face a higher level of competition in the market – competitors who market brands of low-cost telephony equipment –, we consider that we have an advantage because the quality of our brands, the coverage of our stores, our better customer service and service orientation represent advantages that differentiate us from the competition. This year, we continue to operate AppleCare memberships and to conduct team loyalty and redemption programs, as well as realizing promotions and offering consumer-accessible payment methods. These actions produced very good results in the past in terms of sales volume, also driven by the releases made at

the end of the year. As for MixUp, the format continued to execute the strategy of optimizing the mix of products, with the introduction of a wider range of technology accessories and entertainment platforms.

Our proprietary credit card operation for our three main store formats, including accounts receivable, showed a greater market penetration and fueled the operation of physical stores as well as e-commerce. The credit portfolio continues to show healthy performance, with the overdue period greater than 90 days reduced compared to the previous year thanks to better collection management, controlled credit granting to customers, and a better balance between promotions and discounts granted.

As for our e-commerce initiatives, the Sears and Sanborns web sites and Apps have had a continuous evolution, being complemented by the digital development of ClaroShop. At the end of December 2019, online sales accounted for about 2.0% of consolidated sales and showed double-digit annual growth. Currently, we have various initiatives throughout the operation, which involve a greater volume of products and services offered in the market, both proprietary and owned by third parties, as well as promotions and offers made only in the e-commerce channel, various means of payment, improvements in the security of transactions, and speed in the physical delivery of the products.

Finally, the Company continues to demonstrate financial strength, maintaining a strong capital structure, a healthy debt profile, and adequate liquidity, which will allow it to continue strategic investments. In 2019 we acquired 33.27% of Miniso Mexico. This transaction has allowed the Company to diversify its portfolio of low-cost variety items, which includes cosmetics, stationery, toys, kitchen utensils, decoration, travel items, bags and luggage, through which we will participate in the growth of this successful store format.

In the credit card business, proprietary cards and accounts receivable in our three main formats have produced a greater market penetration and represent the creation of higher sales in our physical stores and e-commerce.

During 2019 we remained committed to improving **customer service and shopping experience** in all our formats in both **physical stores and the e-commerce business**.

In terms of sustainability, the Carlos Slim Foundation operates 96 programs and projects in 13 different areas, including those related to education, employment, health, sports, the environment and culture. These programs reach millions of people in Mexico and other Latin American countries.

Of particular importance to the Foundation is the Mexico Unido initiative aimed at addressing the damage caused by the earthquakes of September 2017. During the emergency phase, the Group's companies and their volunteers responded immediately to the basic needs of thousands of affected people, by distributing groceries, tents, blankets, mats, water treatment plants and telecommunications. Since then the reconstruction and construction has continued with the resources obtained from our call to action, in which, for each weight received the Foundation contributed five additional weights. We had the response of more than 217 thousand donors who placed their trust with us, contributing donations totaling Ps. 412.4 million, to which Ps. 2.0618 billion more were added by the Foundation. These resources have been used to rebuild homes, and for health, education, infrastructure, popular markets and for rescuing buildings with a cultural heritage value. As was established at the beginning of this project, the actions carried out under the program and the application of the resources collected are reported with total transparency each month on the Foundation's website.

Currently, in the face of the health emergency caused by COVID-19, Grupo Carso, including its subsidiary company Grupo Sanborns and the Carlos Slim Foundation, is carrying out recovery support to the affected population. The Foundation will allocate Ps. 1 billion towards three initiatives: Health, Distance Learning, and the COVID-19 Carso Protocol for the protection of employees and clients.

Sincerely,
Carlos Slim Domit

Chairman of the Board of Directors of
Grupo Sanborns, S.A.B. de C.V.





Management's discussion and analysis

During 2019, sales of Grupo Sanborns increased 3.0% to reach Ps. 53.288 billion, with Sears, Sanborns, iShop/MixUp and other formats contributing 48%, 24%, 21% and 7%, respectively, to sales. Same-store sales increased 0.8% in the year.

The credit portfolio stood at Ps. 12.964 billion, for a marginal reduction of 0.3% from the previous year's balance. This is the result of greater caution in the approval of new credits in order to maintain a better balance in the portfolio. In the year 253,000 new cardholders were added, with the Company operating 4.41 million proprietary credit cards. Meanwhile, the overdue period fell to 3.6% in 2019, compared to 4.4% in 2018.

Operating profit decreased by 10.0% as it reached Ps. 4.699 million. This is the result of a greater share of technology and electronics items within the product mix, together with a 4.0% increase in operating expenses resulting from increased payroll costs in same and new stores; opening new iShop stores; improvements to technology platforms; and reduced cancellation of accounting provisions.

EBITDA 2019 stood at Ps. 6.789 billion, while EBITDA margin reached 12.7%.

> Ps. 6.789
billion in EBITDA
during 2019

During **2019** sales of Grupo Sanborns increased **3.0%** to reach **Ps. 53.288 billion**, with Sears, Sanborns, iShop/MixUp and other formats contributing **48%, 24%, 21% and 7%**, respectively, to sales. Same-store sales increased **0.8%** in the year.

The Company recorded financial expenses of Ps. 377 million in 2019, compared to a financial expense of Ps. 32 million in 2018, benefitting from a foreign exchange rate fluctuation gain that year.

The controlling net income of Grupo Sanborns stood at Ps. 2.949 billion, a decrease of 20.9% compared to the net controlling income of Ps. 3.730 billion observed in 2018.

The Company's capital expenditures were Ps. 895 million, which were channeled to iShop's expansion plan (opening of 17 new stores and three remodeled stores), as well as the adjustment of retail spaces to higher-profit categories in Sears and Sanborns stores. At the end of the year we had 451 units with a retail area of 1,234,000 square meters.

At the end of 2019, Grupo Sanborns had no debt, while its cash position stood at Ps. 1.690 billion, a balance that compares to Ps. 2.478 billion recognized at the end of the previous year. The decrease of Ps. 787 million in the cash position was due to other investments in associates, as well as the payment of suppliers, the opening of stores, and the payment of dividends.

Sincerely,

Patrick Slim Domit

Chief Executive Officer of Grupo Sanborns, S.A.B. de C.V

SEARS

Ne entiende





Sears is the second largest department store chain in the Mexican market, operating nearly **3.5 million proprietary credit cards** at the end of 2019. This makes it one of the largest non-bank players in Mexico. At the end of 2019, Sears had **98 department stores*** equivalent to a combined retail area of **868,576 sqm.**

* Includes 1 Boutique



> **Ps. 25.854**

billion in sales, contributing 48% of total sales and 60% of the consolidated EBITDA of Grupo Sanborns.

25,416 25,815 25,854



17 18 19

Total sales
(Million pesos)

27.81 27.22 26.23



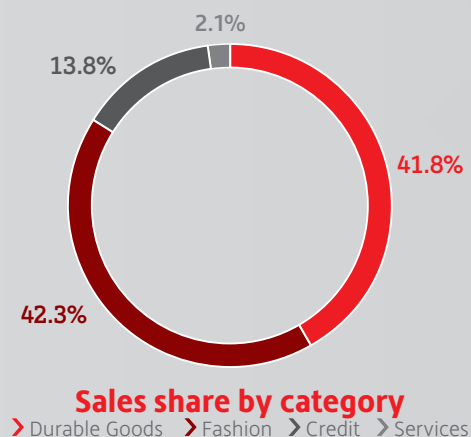
17 18 19

Average sales per sqm
(Million pesos)

Sears focused on the continuation of the service it provides to customers, as well as with regard to the development of its **proprietary brands** and the **remodeling of stores**, in order to present a modern commercial proposal to the market.

During 2019 Sears reported sales of Ps. 25.854 billion, contributing 48% of total sales and 60% of the consolidated EBITDA of Grupo Sanborns. In the period there were no store openings under the combined Sears-Sanborns format. Also, the optimization of retail spaces and higher added value occurred in the year. Other significant events in 2019 included demand studies and analysis for better management of the home appliances category, mainly, along with the implementation of new technological tools that facilitate the management of inventories in physical stores and improving online sales. The chain also continued to focus on improving the service it provides to customers, developing its proprietary brands and remodeling stores, in order to communicate its modern commercial proposal to the market.

As far as e-commerce is concerned, a wider range of items were incorporated for sale through www.sears.com.mx. Likewise, Sears increased the capacity and number of stores that allow the consumer to make purchases online and collect the products purchased under the click-and-collect mode.





Sanborns





Sanborns represents a unique and highly successful concept of retail in Mexico. The format is a **leader in sales across multiple categories of services and products**, such as books, photography equipment, cell phones and accessories, fragrances and cosmetics. Sanborns is also the **second largest chain** of bars and restaurants in the Mexican market.

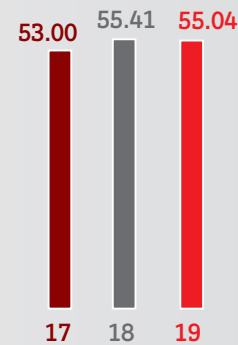


> Ps. 12.570

billion in sales, contributing 24% of total sales and 15% of the consolidated EBITDA of Grupo Sanborns.



Total sales
(Million pesos)

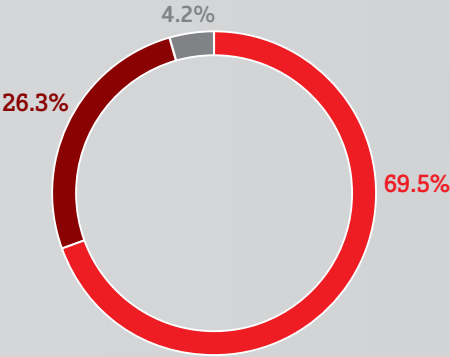


Average sales per sqm
(Million pesos)

At the end of the year, Sanborns had **164 stores** and **253,635 sqm** of retail area.



During 2019 Sanborns recorded sales of Ps. 12.570 billion, contributing 24% of total sales and 15% of the consolidated EBITDA of Grupo Sanborns. Sanborns’ most important strategic activities during the year included improving customer transit in stores, reducing lower-turnover inventories, and increasing the number of proprietary credit cards operated. In the period combined stores were put into operation under the Sanborns-Sears format, while one store was relocated and three stores (which did not meet the Company’s profitability standards) were closed. At the end of the year Sanborns operated 164 stores and maintained 253,635 sqm of retail area in operation. The Company seeks to take advantage of the flow of consumers in its departmental area, as well as reduce its inventories with respect to low turnover and eliminate low performing products.



Sales share by category
➤ Retail sales ➤ Food and Beverages ➤ Other

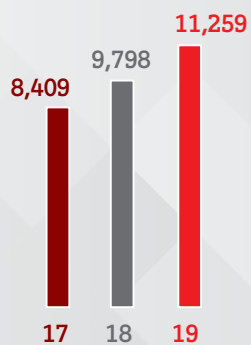




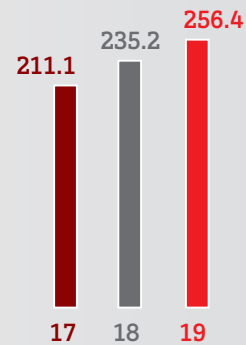
MixUp is the **largest music and video retail network** in Mexico. iShop, on the other hand, is the **largest store chain selling Apple brand** products and accessories in the Mexican market. Both formats are operated by our subsidiary company Promotora Musical S.A. de C.V. identified as Promusa.



Promusa contributed
> 21%
of total sales and 8%
of Grupo Sanborns'
consolidated EBITDA.



Total sales
(Million pesos)



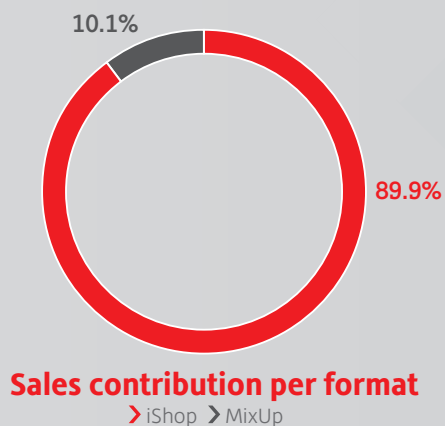
Average sales per sqm
(Thousand pesos)

Throughout the year **17 new iShop stores** started operations, while the commercial image of **three stores** was renewed.



Promusa contributed 21% of total sales and 8% of Grupo Sanborns' consolidated EBITDA. MixUp, on its part, continued to optimize its mix of sales to higher value-added products, and replaced the sale of records with technology, electronics and accessories.

Together, iShop and MixUp operated 136 stores and 42,482 sqm retail area at the end of 2019.





Claró-shop





Saks Fifth Avenue, DAX and Sanborns Café complement our diversified portfolio of store formats. Our operation of Saks Fifth Avenue in Mexico **offers products and services similar to those offered by this commercial concept in the U.S. market**, but adapted to consumer preferences in the country. DAX stores offer items of convenience, personal care and home care, as well as perfumes and cosmetics, through **direct sales to end consumers**.



At the end of 2019, Dax, Sanborns Café and Saks Fifth Avenue, along with other sources of income, accounted for

>7%

of the Company's total revenue.

69,591 sqm

of retail area and 53 stores



Saks Fifth Avenue stores in Mexico offer products and services similar to Saks Fifth Avenue stores in the United States, with our operation **adapting to local consumer preferences** in the country.



- › Sanborns Café operates 22 stores with a presence in Mexico City and five states in the country;
- › Dax is a regional retail chain that operates 25 stores, which mainly offer cosmetics and perfumes;
- › Saks Fifth Avenue operates two luxury department stores with fashion offerings from international designers,
- › Two shopping centers under operation: Plaza Loreto and Plaza Inbursa;
- › 1 Sears store and three Sanborns stores in Central America;
- › www.claroshop.com

At the end of the year, the Other Formats segment operated 53 stores and 69,561 sqm retail area.



The web sites and Apps of Sears and Sanborns, as well as **www.claroshop.com**, have been evolving continuously. **Online sales accounted for about 2% of Grupo Sanborns' consolidated sales** at the end of 2019, with double-digit year-over-year growth.

Sustainability report

Social performance

The Carlos Slim Foundation funds 96 programs and projects in 13 different areas, including education, employment, health, sports, the environment and culture. In this way, the foundation reaches millions of beneficiaries in Mexico and other Latin American countries. For more information, visit <http://www.fundacioncarlosslim.org/>

In addition to the Foundation's activities, the companies of Grupo Sanborns invest in education, health, infrastructure and community development, through the following initiatives:

- > Annual campaigns for the prevention and control of medical conditions in collaboration with the Carlos Slim Institute of Health (Instituto Carlos Slim de la Salud);
- > Sanborns Real Estate Rescue Program;
- > Recruitment program for people with disabilities in Sanborns and Sears stores through the Mexican Confederation of Organizations for Persons with Disabilities (CONFE, Confederación Mexicana de Organizaciones en favor de la Persona con Discapacidad Intelectual), the Multiple Care Center (CAM, Centro de Atención Múltiple), the Young Men's Christian Association (YMCA) and the National System for Integral Family Development (DIF, Sistema Nacional para el Desarrollo Integral de la Familia);
- > Courses on the Training for a Job (Capacitate para el Empleo) platform of the Carlos Slim Foundation, with free access for the general public to the platform and to the employment market, which includes recruitment processes for Grupo Sanborns companies; and
- > Nationwide Organ Donation campaign with the participation of all employees and their families, through videos, talks and triptychs for 5,570 employees of Sears stores in 46 locations and with the participation of 77 volunteers.



Environmental Performance

Grupo Sanborns scrupulously complies with the applicable environmental regulations. Each of the units or establishments meets the corresponding requirements and obtains the authorizations to which it is subject, mainly in terms of the control and recording of wastewater and emissions into the atmosphere, as well as the management and final disposal of solid waste and hazardous materials (when they are generated for operational needs). For this purpose, specialized services are usually contracted from companies duly authorized by the respective environmental or health authorities. Given the sector in which Grupo Sanborns participates, its activities produce a low environmental impact.

2019 results



Water

Treated and reused
19,760 m³



Special handling of residues

Burnt cooking oil
4.65 Tn.



Energy

Electricity saving kWh
14,753.00
LP Gas saving
285,081.11 liters
Natural gas saving
3,695.28 m³



Hazardous Waste

Recycled batteries
870 Tn.



Emissions

Emissions avoided
1,762 Tn. CO₂

The Carlos Slim Foundation develops **96 programs and projects in 13 different areas**, in areas such as education, employment, health, sports, the environment and culture.

During the year, **56,139 courses** were held with **176,004 trainees** in Sears, Sanborns, Promotora Musical, Dax and Saks Fifth Avenue.

Labor Performance, Health and Safety

Grupo Sanborns is a source of permanent and temporary employment for 48,192 people in Mexico, Latin America and some countries in Europe. During 2019 the job base grew by 450 positions from the 47,742 workers registered in the previous year. The Group's employees have salaries paid in accordance with labor regulation, the market, worker performance and the level of responsibility.

Among the Benefit programs carried out in the three divisions of Grupo Carso are:

- Digital scholarships and scholarships for children of workers and direct family members;
- Financial support for funeral expenses and paid leave of absence;
- Self-management program in Occupational Safety and Health;
- Health prevention campaigns with the collaboration of the Mexican Social Security Institute (IMSS, Instituto Mexicano del Seguro Social) and the Ministry of Health (SS, Secretaría de Salud);
- Civil Protection programs with volunteer brigade training;
- Personal development programs through ASUME, CRESE and the Social Welfare Program;
- Courses through the Carlos Slim Foundation's Training for a Job platform for basic training of operational staff;
- Sales and Management Skills training programs.

Training Centers

The Sears Training Center offers courses, talks and workshops at the Centro Histórico, Carso, Tijuana and 97 training rooms located in the operating units, as well as in 47 Sanborns training rooms located at the corporate offices, the Viaducto plant and certain foreign locations distributed in Mexico, Panama and El Salvador.



Courses in technical, operational, development and health and safety training

In 2019, 56,139 courses were held, producing 176,004 graduates who are employees from Sears, Sanborns, Promotora Musical, Dax and Saks Fifth Avenue. The training programs are aimed at expanding certain necessary skills and knowledge at management and operational levels of the business areas, such as communication, customer service, teamwork and quality of service. In addition, an important Civil Protection program was carried out in Sanborns and Sears, in which 4,663 employees participated.



CRESE

The Human Quality and Social Responsibility Management System (CRESE, Programa de Calidad Humana y Responsabilidad Social) was continued with the certification of three new units and the recertification of 30 Sears units (stores; credit centers, technical services and logistics). Thus, at the end of 2019 there were 111 certified units, i.e. 12% more compared to the previous year. Sanborns incorporated 21 units in 2019 with an Outstanding Company rating, carrying out 40 Health Campaigns that reached 2,463 people.

Training for a Job

Work continued with the Carlos Slim Foundation's Training for a Job platform, which contributed to the basic training of operational and medium management staff. During the year, 550 Sears employees were trained in different trades, in addition to the training of 3,160 new employees.

Scholarships

In the year, 482 Carso Digital Scholarships and 495 Telmex Scholarships were awarded to children of workers and to collaborators or their children, respectively.

	2019
Digital Scholarships - 2017-2018 Call for enrolment of children of collaborators	482
Telmex Scholarships - 2018 Call for enrolment of collaborators and direct family members	495

The **ASUME (Asociación de la Superación por México)** program reached 280 groups, 3,279 employees and 239 graduate facilitators of Grupo Sanborns companies.

ASUME	GROUPS	PARTICIPANTS	FACILITATORS
2019	280	3,279	239
2018	225	1,767	35
Var%	24.4%	85.6%	582.9%

The **Social Welfare Program** worked on three key aspects: Training, Health, Culture and Recreation. In 2019, 50,890 people benefited from the different programs, including Grupo Sanborns employees and their families.

Of 71 high-level staff at Grupo Sanborns, 24% are women.



Most important actions in CRESE 2019 (Sanborns, Sanborns Café, Mix Up and iShop)

Requirements	Activities	Quantity and/or Benefits
Human quality policy and business values	Conferences, practices and strengthening of the Company's values were held, and the Human Quality policy was promoted.	<ul style="list-style-type: none"> > 2020 collaborators benefited > 806 Code of Ethics badges were delivered
Employee benefits	Several talks were conducted in order to inform employees about the benefits to which they are entitled for being part of the Sanborns family, as well as to advise them on issues related to pension and retirement savings through specialists of the INBURSA Retirement Funds Administrator (AFORE inbursa).	<ul style="list-style-type: none"> > 2049 employees advised > 1840 employees advised on savings by retirement funds administrator specialists
Culture of legality	Various conferences and communication activities on the characteristics, habits and behaviors that build a true culture of legality were carried out, which included strengthening the respect for rules, laws and regulations that seek to improve coexistence.	> 2579 employees advised
Health Conference	The holding of conferences on healthy diet, diabetes and hypertension were given in order to provide necessary and timely information, and to raise awareness and protection of health.	> 3051 participating employees and families
Environmental care	With regard to the care of the environment and improving the interaction of employees and their families with nature, practices on respect and conservation of the environment were promoted, including reforestation activities, as well as collection of recyclable materials such as PET and bottle caps, which were donated to the Mexican Association of Children with Cancer (AMANC, Asociación Mexicana de Ayuda a Niños con Cáncer).	<ul style="list-style-type: none"> > 19.689 PET Tn, recycled blades, aluminum and cardboard > 721.691 kg kg of bottle caps > 309.32 kg kg of batteries > 2,363 trees planted > 1834 people trained in environmental issues > 1301 participants (collaborators and family members) in reforestation, sorting of recyclable waste > 45.007 Tn of scrap recovered
Family integration	Strengthen the family ties of the collaborators through a series of activities that promote the daily coexistence and well-being of each person, such as the observance of Children's Day and Mother's Day, in such a way that the Company will not be intrusive in the family affairs of our workers.	> 5535 participants among collaborators, families and promoters
Towards a more worthy company program	The implementation of this program has led to the improvement of the spirit of solidarity and companionship between the different work teams that make up the Company, through activities that seek to improve the humane and respectful attitude towards our fellows and their recognition. These activities include birthday celebration, Secretary's Day, Epiphany, homeland festivities, Saint Valentine's Day, Father's Day, Women's Day, and Candlemas, among others.	> 10,113 days that strengthened the recognition and awareness of employees and promoters



Established protocols for the prevention of corrupt practices

Grupo Sanborns has a Culture of Legality program. Its purpose is to deliver various courses aimed at raising awareness of the importance of avoiding the abuse of trust, theft, corruption and other related practices. Drop boxes and anonymous reporting mechanisms have also been put into operation, which allow managers to be informed of certain critical issues that need to be addressed as a priority. Established protocols include control plans that seek to avoid unwanted practices through a better systematization of processes, advertising, signature acceptance, and a strict observance of the Code of Ethics by collaborators and third parties.

Socially Responsible Suppliers

The Procurement area requires our suppliers to adequately comply with all legal regulations, so they are asked to provide information or documentation to verify such legal compliance. In addition, providers and their families are urged to perform social responsibility actions for the benefit of the community. Suppliers that have certification of any kind in the field of their activity, products and / or services are given preferential treatment.

Support to communities

Communities close to operational units are assisted through programs created for the support of vulnerable communities. These programs include home visits to develop activities for children; activities and events at retirement homes for seniors. These initiatives also focus on PET and cap recycling campaigns for children with cancer and help women with breast cancer via the Breast Cancer Foundation (FUCAM, Fundación de Cáncer de Mama).



Employee Personal Satisfaction Assessment

Occupational climate analysis is continuously made. These aim to identify areas of opportunity to render the workplace culture and relationships in the business units more efficient, as well as to establish plans that support the integration of the families of the employees. In this regard, leadership, communication and problem-solving actions are generated for the improvement of the workplace environment, including fostering a spirit of pride in pertaining to the companies that make up Grupo Sanborns.

Non-Discrimination

Non-discriminatory behavior and activities are practiced in the recruitment and selection of staff, benefits, working conditions, training, and promotion for employees, according to their skills and work profiles. Our Code of Ethics promotes both the eradication of any discriminatory situation and the promotion of equal treatment and opportunities, all of which fall within the Principles of Conduct and the Working Environment.

Gender Diversity

Sears, Dax, Saks Fifth Avenue, Claroshop, Sanborns, Sanborns Café, MixUp and iShop are inclusive companies that promote equity, labor equality and inclusion practices. Its policies state that "people deserve decent treatment, regardless of gender, age, hierarchical level, personal beliefs or any other circumstance or characteristic." In this sense, the rights of each person in respect to their beliefs or practices related to race, gender, religion, ethnic origin, nationality, age or any other condition that may give rise to discrimination are respected.

In Grupo Sanborns we have the Policy of Equal Labor and Non-Discrimination. It prohibits any form of mistreatment, violence and segregation by any member of the Company against any member of the workplace. This also includes providers, job candidates and clients during their stay in the workplace, in relation to aspects of culture, disability, gender, age, religious beliefs, sexual preferences or political orientation and affiliation.

The Company establishes partnerships with public and private organizations to promote the inclusion of persons with disabilities or any special conditions.

Of the total of employees in Grupo Sanborns, 30% are women and the remainder are men. Of the "C" management level, women accounted for 24% in 2019.

Labor Inclusion

We promote the incorporation of people into our labor force regardless of age, gender, sexual preferences, marital status, religious beliefs and intellectual capacity, and we are supported in this policy through agreements with various public and private institutions.

Permanent Inclusion programs:

- People with Mild and Moderate Intellectual Disabilities;
- Recruitment of persons with intellectual disabilities;
- Hiring Senior Adults; and
- Recruitment of Single mothers, or women who have been victims of domestic violence.

Institutions with which we work continuously:

- Multiple Care Center (CAM, Centro de Atención Múltiple)
- Mexican Confederation of Organizations for Persons with Disabilities (CONFE, Confederación Mexicana de Organizaciones en favor de la Persona con Discapacidad Intelectual);
- National System for Integral Family Development (DIF, Sistema Nacional para el Desarrollo Integral de la Familia) Best Buddies de Mexico;
- National Women's Institute (INMUJER, Instituto Nacional de las Mujeres) in Mexico City; and
- National Institute of Elderly People (INAPAM, Instituto Nacional de las Personas Adultas Mayores).

Inclusive Politics

At Grupo Sanborns we recognize social diversity and integrate it into our business model, which represents our own philosophy of respect and collaboration. Our policies are geared towards equality and non-discrimination based on the following standards:



Human capital

Equality in the recruitment and selection of staff; benefits and working conditions; training and promotion of employees according to their skills and work profiles.



Social Security

Granting all the benefits established by law, without distinction of functions or responsibilities.



Participation

All personnel shall have access to the information, services, facilities or products of this company, regardless of their condition or living situation.



Gender equity

Both women and men shall have an equal right to all the benefits, obligations, responsibilities and opportunities granted by the Company.



We consider ourselves an **inclusive company** that gives everyone the opportunity to contribute and drive the growth of collaborators and the Company. Discrimination on the basis of race, religion, disability, gender identity, sexual orientation or other conditions **is not permitted** in Grupo Sanborns. We are confident that our philosophy of inclusion will enable us to achieve **great results**, embracing these differences and turning them into strengths.

For more information, visit Sustainability in <http://www.gsanborns.com.mx/responsabilidad-social.html>

Board of Directors

Proprietary Directors	Position*	Years as Director**	Type of Director***
Carlos Slim Domit	COB - Grupo Sanborns COB - Grupo Carso Co-Chairman - América Móvil COB - Teléfonos de México COB - Promotora Musical	Eight	Patrimonial
Carlos Slim Helú	COB - Fundación Carlos Slim COB - Fundación Telmex COB - Carso Infraestructura y Construcción	Eight	Patrimonial
Patrick Slim Domit	CEO - Grupo Sanborns Vice-Chairman - Grupo Carso Co-Chairman - América Móvil Commercial Director of Massive Market - Teléfonos de México COB - Grupo Telvista COB - Sears Operadora México	Eight	Patrimonial Related
Johanna Monique Slim Domit	Head of the Earland Childhood Education Program at the Carlos Slim Foundation	Eight	Patrimonial
Isac Mark Massry Nakash	CEO - Promotora Musical Alternante Board Member - Sears Operadora México	Eight	Related
Alberto José Slim Rivera Torres	Expansion Sub Director	Two	Related
José Kuri Harfush	COB - Janel Board Member - Sanborn Hermanos Board Member - Sears Operadora México	Eight	Independent
Antonio Cosío Pando	General Manager - Cía. Industrial de Tepeji del Río Board Member - Sears Operadora México	Eight	Independent
Pablo Roberto González Guajardo	CEO - Kimberland Clark de México Board Member América Móvil and Grupo Lala Founding Partner: Mexicanos Primero and México ¿cómo vamos?, COB-Education Commission of the Entrepreneurial Coordinator Council COB-UNETE Mexico City and State of Mexico	Eight	Independent
Juan Rodríguez Torres	Advisor	Eight	Independent
Ángel Eduardo Peralta Rosado	Board Member - Sanborn Hermanos Alternate Board Member - Sears Operadora México	Eight	Independent
Santiago Cosío Pando	Board Member - Sanborn Hermanos, Sears Operadora México, Inbursa COB Grupo Pando Corporate COB MEXFAM	Five	Independent
Clemente Serna Alvear	Board Member - Sanborn Hermanos, Tecnológico de Monterrey Metropolitan Area and Mexico City Club of Industrials COB Amigos de la Catedral Metropolitana de México, A.C. Association	Three	Independent
Alternate Board Members			
Edgar Smolensky Kirschner	Commercial Director Fashion Divisions Procurement - Sears Operadora México	Eight	Related
Secretary			
Arturo Martínez Bengoa	Legal Director		
Pro-Secretary			
Josué Ramírez García	Legal Sub-Director		

* Based on information from the board members.

** Seniority as board member is considered since 2013, year when the shares of Grupo Sanborns, S.A.B. de C.V. were listed in the Mexican Stock Exchange.

*** Based on information from the board members. Independent directors in accordance with the definition of the Mexican Securities Market Law.

COB: Chairman of the Board. CEO: Chief Executive Officer.

Independent Directors in accordance with the definition of the Stock Market Law.

Audit and Corporate Practices Committee

To the Board of Directors:

In my role as Chairman of the Audit and Corporate Practices Committee of Grupo Sanborns, S.A.B. de C.V. (the "Committee"), I present the following annual activity report for the 2019 fiscal year.

Functions of Corporate Practices; Evaluation and Compensation

The Chief Executive Officer of Grupo Sanborns, S.A.B. de C.V. (the "Society" or the "Company") and the relevant directors of the juridical persons that the Group controls satisfactorily fulfilled the objectives entrusted to them and the duties for which they are responsible.

On April 29, 2019, Grupo Sanborns, S.A.B. de C.V. decreed dividends of Ps. 2,083,000,000.00, of which 50% were paid on June 20, 2019, with the remainder paid on December 20, 2019.

Sanborn Hermanos, S.A. subsidiaries decreed dividends for Ps. 100 million and Sears Operadora México, S.A. de C.V., for Ps. 700 million.

Purchasing and selling operations with related parties that were submitted to the Committee were approved, which meant revenues of Ps. 752.7 million, purchases of Ps. 380.5 million, and expenses and other items of Ps. 1.9763 billion.

The main operations with related parties were with Radiomóvil Dipsa, S.A. de C.V. and América Móvil, S.A.B. de C.V., for the purchase of cellular equipment, telephony plans and memory cards for cell phones and other concepts for the benefit of the Company and its subsidiaries; Teléfonos de México, S.A.B. de C.V., for call center services, telephone installation, sale of telephone items, and dining services; Seguros Inbursa, S.A., for car fleet insurance and real estate insurance of the Company and its subsidiaries, miscellaneous commissions, and dining services; to the subsidiaries of Inmuebles Borgu, S.A. de C.V. and Inmuebles SROM, S.A. de C.V., for the lease of real estate; Banco Inbursa, S.A., for leases, commissions, sale of food and beverages, as well as dining services that it provides to other companies.

All transactions with related parties were carried out at market value and were reviewed by the firm Galaz, Yamazaki, Ruiz Urquiza, S.C. A summary of such transactions is presented in a note to the financial statements issued by Grupo Sanborns, S.A.B. de C.V. and Subsidiaries as of December 31, 2019.

The Chief Executive Officer of Grupo Sanborns, S.A. B. de C.V. receives no remuneration for the performance of his functions. The Company has no employees, and in regard to the comprehensive remuneration of the relevant directors of the entities that the Company controls, we verify that the policies that the Board of Directors approved in this regard, were complied with.

The Company's Board of Directors did not grant any waiver for any director, relevant manager or person with commanding power to take advantage of – for their own benefit or that of third parties – business opportunities that corresponded to the Company or to juridical persons that the Company controls or in which it has significant influence. The Committee also did not grant any waiver for the transactions referred to in Article 28, section (c), Paragraph III, of the Securities Market Act.

Audit Functions

The internal control and audit systems of Grupo Sanborns, S.A.B. de C.V. and the juridical persons that it controls, are satisfactory and comply with the guidelines approved by the Board of Directors, as is apparent from the information provided to the Committee by the Administration of the Company and the external audit opinion.

We were not aware of any relevant non-compliance with the guidelines and policies of operation and accounting record of the Company or of the juridical persons that it controls, and consequently, no preventive or corrective action was implemented in this regard.

The performance of the accounting firm Galaz, Yamazaki, Ruiz Urquiza, S.C., a juridical person who carried out the audit of the financial statements of Grupo Sanborns, S.A.B. de C.V. and Subsidiaries as of December 31, 2019, and who acts as the external auditor in charge of such audit, was satisfactory, achieving the objectives that were established at the time the firm was contracted.

In addition, and according to the information that such firm provided to the Company's Administration, the firm's external audit fees do not represent more than 10% of its total revenue. As a result of the review of the financial statements of Grupo Sanborns, S.A.B. de C.V. and its subsidiaries as of December 31, 2019, it was determined that there are no major errors caused by fraud and that the main proposed adjustments were caused by excesses and inadequacies in provisions.

In accordance with what was reported to us by the Company's Administration and in the meetings we held with the external and internal auditors, at which officials of the Company were not present, and to the extent of our knowledge, there were no relevant comments made by shareholders, directors, relevant managers and, in general, by any third party, with respect to accounting, internal controls and issues related to internal or external auditing, nor were any complaints made by such persons in relation to irregular acts in the Administration of the Company.

We ensured that the agreements adopted by the shareholders' meetings and the Company's Board of Directors during the reporting period were complied with. In addition, and in accordance with the information provided to us by the Administration, we verified that the Company has controls that allow it to determine that it is in compliance with the provisions that apply to it in the securities market. We also ensured that the legal area was reviewing, at least once a year, such compliance, and found no adverse facts in this regard or any adverse change in the Legal Status of the Company.

With regard to the financial information that the Company prepares and submits to the Bolsa Mexicana de Valores, S.A.B. de C.V. (Mexican Stock Exchange) and the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores), we confirm that this information was prepared under the same accounting principles, criteria and practices with which the annual information was prepared.

Finance and Planning Functions

During the 2019 fiscal year, the Company and some of the juridical persons it controls made significant investments consistent with the Company's medium- and long-term strategic plan, periodically evaluating that the strategic position of the Company was in accordance with this plan and in line with the budget for the 2019 fiscal year together with the financial projections that were taken into account for its elaboration, which included the Company's main investments and financing transactions, which we consider viable and consistent with investment and financing policies and the Company's strategic vision.

The contingencies of a labor, civil, commercial and administrative nature as of December 31, 2019, showed similar behavior to that of the previous years, so the resolution of such claims will not affect the financial position and economic performance of the companies involved.

During the year 2019, the repurchase of Company shares in the amount of Ps. 81,815 (thousand pesos) was carried out.

In the period, a revaluation income of Ps. 91,718 (thousand pesos) was recorded in the investment property account (shopping malls).

Provisions recorded within accrued expenses must meet the criteria applicable to liabilities. This is in accordance with the International Financial Reporting Standards, so that only provisions on commitments made or expenses that have already been accrued are recorded.

As regards matters relating to fraud, non-compliance with laws and regulations, and undue influence on the execution of the audit, investigations relevant to the Administration involving the application of various procedures were carried out. No non-compliance was discovered.

For the preparation of this report, the Audit and Corporate Practices Committee relied on the information provided to it by the Chief Executive Officer of the Company, the relevant managers of the juridical persons it controls and by the external auditor of the Company.

Audit and Corporate Practices Committee

José Kuri Harfush

President

Antonio Cosío Pando

Juan Rodríguez Torres

Consolidated financial statements

For the years ended December 31, 2019, 2018
(reformulated), 2017 (reformulated) and January 1,
2017 (reformulated).

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Mexican Stock Exchange

Series B shares of Grupo Sanborns S.A.B. de C.V. are listed on the Bolsa Mexicana de Valores S.A.B. de C.V. (the Mexican Stock Exchange) under the ticker symbol GSANBOR.

American Depositary Receipts (ADR's)

As of January 27, 2014, Grupo Sanborns, S.A.B. de C.V., has established an ADR's Level 1 program with The Bank of New York Mellon. Through it, international investors can trade securities on the Over the Counter market under the ticker symbol GSAOY, at a ratio of five common shares per ADR.

CUSIP Number: 40053M103

Depository Bank:

BNY Mellon
Shareholder Services
P.O. Box 358516
Pittsburgh, PA 15252-8516
Phone 1-888-BNY-ADRS (269-2377)
1-201-680-6825
E: shrrelations@bnymellon.com
www.bnymellon.com/shareowner

Contact:

Angélica Piña Garnica
napinag@gcarso.com.mx

Corporate website:

For more information on Grupo Sanborns and the Company's sustainability report, visit corporativa en: www.gsanborns.com.mx

Headquarters:

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