



## 2020 ANNUAL REPORT



## CORPORATE PROFILE

### MISSION, VISION AND VALUES

#### **Mission:**

Our aspiration is to offer to our customers products and services of the highest quality, at a fair price, in pleasant surroundings, while endeavoring to deliver full satisfaction through the most courteous and personalized service. Our customers are our *raison d'être*.

#### **Vision:**

Our vision is to consolidate and maintain the leadership of our Group in the market, integrating the objectives of our customers, personnel, providers and shareholders.

#### **Values**

**Work:** Work is a value; because only through work can we meet our needs, grow as individuals and serve our fellow human beings. Therefore, we must seek to make our work become a factor in our personal and professional development and emotional satisfaction.

**Growth:** Growth means increasing and improving our skills and personal knowledge so that together with the Group we can increase our capacity to offer more and better products, along with excellent service to our customers.

**Social responsibility:** This responsibility consists in doing our work well, reaffirming our ethical values, meeting our commitments with our customers and providers, observing the laws, and conserving natural resources and the environment.

**Efficiency:** Efficiency means observing austerity in the care and utilization of our resources, spending only on what is necessary and avoiding anything that is useless or superfluous.

Grupo Sanborns is a leading retail sales company in Mexico. It has a unique portfolio of formats that includes department stores such as Sears, Sanborns, iShop-MixUp, Dax, Sanborn Cafés and Saks Fifth Avenue, specializing in electronics, games, convenience items, luxury items and restaurants, with highly recognized brands. Grupo Sanborns has a presence in 62 cities in Mexico, with 439 stores and a sales floor area of 1,200,000 square meters, offering a broad spectrum of value to our customers, including 4.5 million Sanborns card holders.

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## FINANCIAL HIGHLIGHTS

(Thousand pesos at December 31 of each year\*)

<b>GSanborns</b>	<b>2020</b>	2019	2018	Change %
<b>Income</b>				
Total Sales	39,613	53,288	51,755	-25.7%
Retail Sales	36,026	49,314	47,961	-26.9%
Credit Income	3,587	3,975	3,794	-9.8%
Gross Profit	13,609	20,334	20,125	-33.1%
Operating Income	1,681	4,699	5,223	-64.2%
Operating Margin	4.2%	8.8%	10.1%	-4.6 pp
EBITDA	2,041	6,789	7,201	-69.9%
EBITDA Margin	5.2%	12.7%	13.9%	-7.6 pp
Controlling Participation in Net Income	727	2,949	3,730	-75.3%
Net Margin	1.8%	5.5%	7.2%	-3.7 pp
<b>Balance</b>				
Total Assets	52,555	56,692	56,123	-7.3%
Total Liabilities	19,247	23,536	23,076	-18.2%
Consolidated Stockholders' Equity	33,308	33,156	33,047	0.5%
Capital Expenditures (CapEx)	467	895	1,418	-47.9%
Total Debt	0	0	0	0.0%
Net Debt	-3,991	-1,690	-2,478	136.1%
<b>Credit</b>				
Credit Portfolio	10,176	12,909	13,005	-21.2%
% Non-Performing Loans	5.2%	3.6%	4.2%	1.6 pp
Credit Cards issued	4,478,251	4,409,392	4,156,035	1.6%
<b>Other Indicators</b>				
Net Debt/EBITDA	-1.96	-0.25	-0.34	685.6%
CapEx/Sales	1.2%	1.7%	2.7%	-0.5 pp
Total Area (Sq meters)	1,200,799	1,234,254	1,235,822	-2.7%
Compounded Average number of outstanding Shares (thousand)	2,260,053	2,262,933	2,268,903	-0.1%
Earnings per Share**	0.28	1.00	1.64	-72.0%
Closing year stock price***	19.26	24.50	17.70	-72.0%

\* 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.

pp: Variation in percentage points.

EBITDA: Income before income taxes, plus depreciation and amortization, financial income and expenses, gain from changes in the fair value of investment properties, equity in income of subsidiaries and joint ventures, valuation effect of pension and retirement fund and impairment of real estate. Conciliation in Note 26 to the Financial Statements.



## FORMATS AND BRANDS

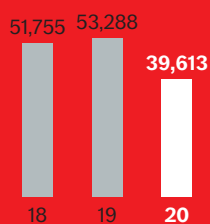
<p><b>97</b> stores</p> <p><b>44%</b> sales 2020</p> <p><b>856,402</b> sales area in sqm</p>	<p><b>Sears and Boutiques</b></p> <ul style="list-style-type: none"> <li>• Fashion, linens and electrical household appliances, furniture, home improvement and electronics.</li> </ul>
<p><b>202</b> stores</p> <p><b>27%</b> sales 2020</p> <p><b>293,498</b> sales area in sqm</p>	<p><b>Sanborns*</b></p> <ul style="list-style-type: none"> <li>• Books, magazines, health and beauty products, pharmacy, electronics, toys, music, videos, jewelry, photographic, cell phones, clothing, candy and gifts.</li> <li>• Bar and restaurant service.</li> </ul>
<p><b>139</b> stores</p> <p><b>27%</b> sales 2020</p> <p><b>43,242</b> sales area in sqm</p>	<p><b>Mixup and iShop</b></p> <ul style="list-style-type: none"> <li>• Apple products and related accessories, music, videos, movies and video games.</li> </ul>
<p><b>1</b> store</p> <p><b>2%</b> sales 2020</p> <p><b>7,657</b> sales area in sqm</p>	<p><b>Others and eliminations**</b></p> <ul style="list-style-type: none"> <li>• Perfumes and cosmetics.</li> <li>• Traditional Mexican food.</li> <li>• High quality clothes and accessories.</li> <li>• Shopping malls.</li> <li>• e-commerce platform.</li> </ul>



\* Includes DAX, Sanborns Home&Fashion, Sanborns Café restaurants and Saks Fifth Avenue.  
 \*\* Others include one Sears store in El Salvador, Claroshop and two shopping malls.

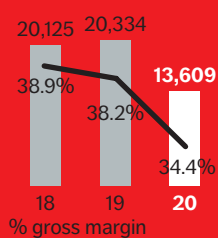
### Total SALES

Million pesos



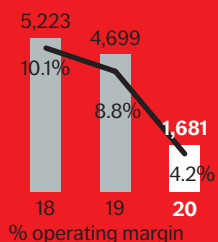
### Gross PROFIT

Million pesos



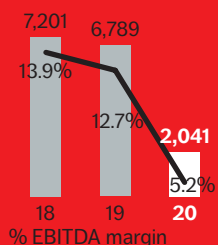
### Operating INCOME

Million pesos



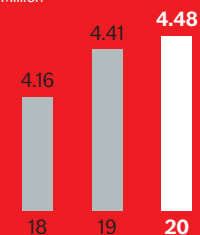
### EBITDA\*

Million pesos

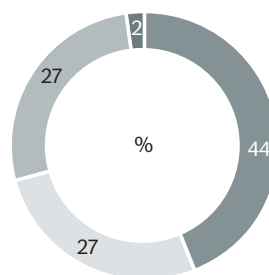


### NUMBER of Grupo Sanborns own cards

Million



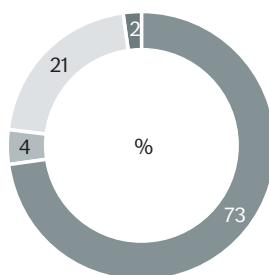
Grupo Sanborns has a wide geographic presence centered primarily in Mexico. Through our network of stores we are present in 62 cities in Mexico.



### SALES contribution by subsidiary

Million pesos

**39,613**  
Million pesos



### EBITDA contribution by subsidiary

Million pesos

**2,041**  
Million pesos

\* For 2018 and 2019 Other Income in the amount of \$85 million pesos was not considered; for 2020 Other Income in the amount of \$1,470 million pesos was not considered; for 2018 and 2019 Other Income in the amount of \$115 million pesos and \$73 million pesos, respectively, was not considered; for 2020 \$45 million pesos from the devaluation of investment properties and real estate was not considered. For 2020, \$1,489 million pesos in the valuation of labor obligations from the change in the employees' pension plan and \$26 million pesos for the reversion of depreciation were not considered. See conciliation of the EBITDA in Note 27 of the Financial Statements.

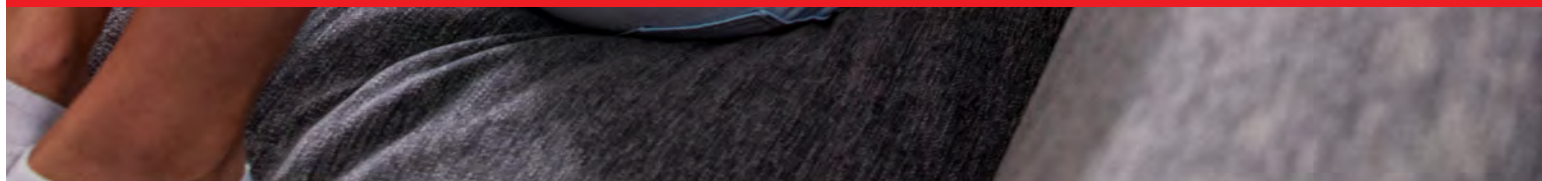


## LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS OF GRUPO SANBORNS

### **2020 Economic Outlook**

2020 was a year marked by a worldwide crisis, caused by the COVID-19 pandemic, which at this time has already surpassed 100 million confirmed cases throughout the world and several million deaths. The travel restrictions imposed in order to mitigate the propagation of the virus, along with a lack of knowledge in regard to an effective treatment gave rise to temporary shutdowns in a large part of the world's economy, especially during the first half of the year, causing a drop of 8.93% in the GDP of the world during the second quarter and 3.50% for all of the year, even with the activation of unprecedented monetary stimulus programs.

The United States economy shrank by 3.5%, caused mainly by a drop of 7.31% in the aggregate demand of the services sector, as well as by a drop of 5.27% in fixed gross investments. As a result, the Federal Reserve lowered the benchmark interest rate two times, to end the year at a range





# \$2,300

million pesos of increase  
in cash position.

of 0.00% and 0.25%. Additionally, stimulus payments in the amount of around 3.5 billion dollars were distributed during 2020, raising the public debt as a percentage of GDP from 108.68% to 131.18%.

In Mexico, GDP fell by 8.46%, with secondary activities showing the greatest impact (-10.20%), the hardest hit being construction and manufacturing, with drops of 17.42% and 10.34%, respectively. Tertiary activities, which represent 64.05% of economic activity, fell 7.85%, affected mainly by commerce – which diminished by 9.67% – and by tourism.

The Mexican peso underwent a devaluation of 5.22%, closing at \$19.91 against the dollar, showing a high volatility during the initiation of the pandemic and reaching a maximum exchange rate of \$25.36. Its recovery took place during the end of the year because of the current-account surplus, which reached 26,571 MDD, representing 2.41% of the GDP and because of the difference in interest rates between Mexico and the United States. Banxico lowered the benchmark interest rate on seven occasions during 2020, to close at 4.25%, down from 7.25% the previous year.

Inflation in Mexico closed at 3.15%; the underlying component increased by 3.80%, offset by the smaller rise of core inflation of 1.18%, which benefited from the fall of petroleum prices – principally gasoline –, which fell by 8.90% during the year.

The trade balance had a historic surplus of \$34,476 MDD, compared to \$5,409 MDD for the previous year. The oil balance had a deficit of \$13,995 MDD, \$7,370 MDD less than in 2019, while the non-petroleum balance increased its surplus by \$21,698 MDD, to close at \$48,471 MDD. In exports, manufacturing, which has the greatest weight, fell by 8.92%, while importations fell in all categories, especially in consumer goods, which fell by 26.20%, while capital goods fell by 16.87%. The latter is explained by the decrease of investments in the country.

The public balance had a deficit of 674,160 MDP (2.90% of the GDP) compared to the previous year's deficit of 393,608 MDP (1.60% of the GDP). This increase was due to lower revenue (-4.10% real), impacted mainly by the drop in oil prices, which fell by 38.70% in real terms and which were not compensated by the drop of 4.90% in real expenses.

## Grupo Sanborns

In 2020, due to the pandemic, we took optimization measures: we streamlined our administration by merging some of our companies, and reduced our inventory and our capital investments.

A strict control over operating expenses was instituted, without affecting the quality of our service standards. The principal savings were observed in the payment of rentals, a lower consumption of energy, the payment of commissions, and lower advertising, promotion and depreciation expenses and costs. Other measures such as these provided us with an increase in our cash position, with which we managed to finish the year without debt and with an increase of \$2,300 million pesos in cash.



## A strict control over operating expenses was carried out, without affecting the quality of our services.

Online sales grew by 400% in respect to the previous year. Our objective has been to reduce delivery times by 70%. Substantial improvements have been realized in the ClaroShop MarketPlace, and alliances have been formed, such as with the SAE accounting system, which enables providers to automatically carry out transactions in the platform.

The total closure of the stores and remote work and study generated a greater need for connectivity, which had a positive influence on the sale of technology items such as computers, telephony and video games, as well as in the category of "big-ticket" electronic items. The Fashion category saw a decreased demand in formal clothing and footwear, and in perfumes and makeup.

In business on credit, the quality of the portfolio has been kept under control, with late payments of more than 90 days at 5.2%. We extended very timely support to those of our customers who needed it, in view of their economic situation.

In Sanborns the number of units was optimized, with the elimination of 11 stores that were not productive. On June 30 of 2020 the Sanborns Café, Dax, and Saks Fifth Avenue formats were merged into Sanborns, along with their respective services companies and the administration of the Sanborns and MixUp credit cards. On July 31 of 2020, *Sanborns Hermanos, S. A. de C. V.* merged with its subsidiary *Comercializadora de Tiendas Internacionales, S.A. de C.V.*; *Promotora Musical, S.A. de C.V.* merged with its subsidiary *Paden, S.A. de C.V.*, and *Sears Operadora México, S.A. de C.V.* merged with its subsidiary *Secorh, S.A. de C.V.* On November 30 of 2020, *ClaroShop.com* merged *ClaroShop.com Holdings* and *Empresa de Personal ClaroShop.com S.A.* The 25 Dax units continued to operate, since they are self-service stores and with a good performance in sales. In Saks Fifth Avenue the Plaza Carso store was closed and it was converted to the new concept of Sanborns Home & Fashion.

*Promotora Musical* recorded a 4.7% decrease in sales. A good sales level was maintained throughout the greater





## The Company's administration was optimized by mergers within our own Company and by reducing our inventory and our capital investments.

part of the year, due to the nature itself of the pandemic, wherein remote work and virtual schooling created a greater demand for technology and connectivity and for entertainment accessories such as tablets and cell phones. Three iShop stores were opened during the year. In this format we continued to stand out because of the quality of our brand, the network of stores, and our better customer services.

From the time of initiation of the pandemic, Grupo Sanborns strove to maintain the long-term viability of the Company and the strongest group of personnel possible.

When the pandemic began, the Carlos Slim Foundation reacted with great celerity, and despite the uncertainty in regard to the knowledge and behavior of this new virus, the necessary actions were quickly determined and implemented, such as:

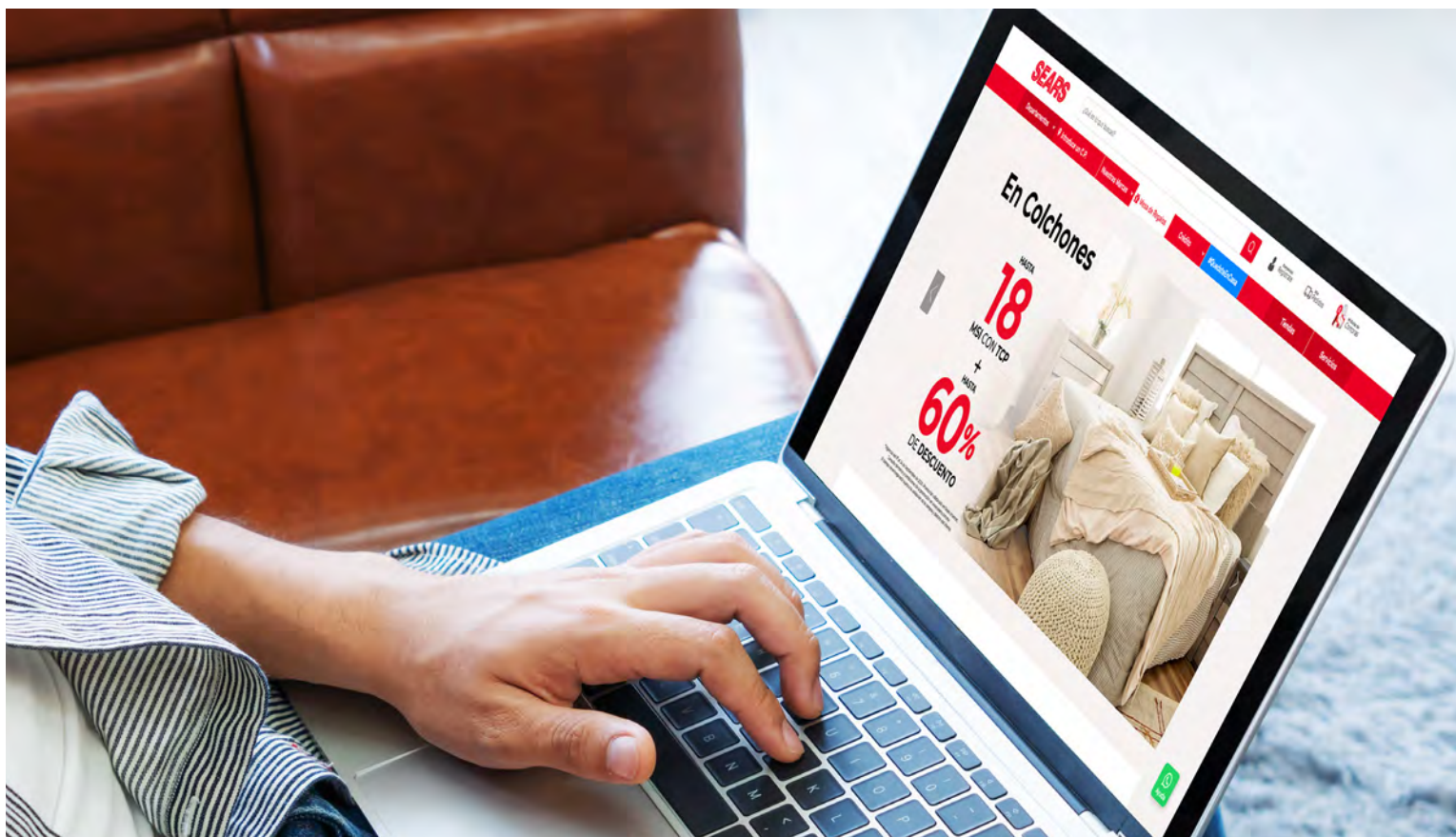
- Donation of equipment and reagents for PCR, Antigen and Serology tests, as well as ventilators and medications.
- Provision of protective equipment to health personnel, such as N95 masks, gloves, medical caps and gowns.
- We provided food for the health personnel in 35 hospitals.
- In order to expedite access to the vaccine, we carried out the necessary agreements, accepting the risk involved in the transfer of AstraZeneca technology to ensure the production of at least 150 million doses in and for Latin America in the mAbxience Laboratories of Argentina and Lio-mont in Mexico.
- We supported the expansion of capacity of several hospitals, as for example the Temporary COVID-19 Unit of Mexico City, which has changed the life and destiny of thousands of persons and their families. This Unit was forced to continuously expand its capacity in accordance with the circumstances, to finally become, with its 607 beds, an important facility in the treatment of COVID-19 in Mexico City. It has an exceptional group of people who have treated more than 8,000 patients and it will continue to operate as long as necessary.
- We established a monitoring system that has been a valuable adjunct in the prevention of contagion and in the provision of timely medical treatment for all our collaborators, thus decreasing the cases of serious illness and death.

Sincerely,

**Carlos Slim Domit**

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

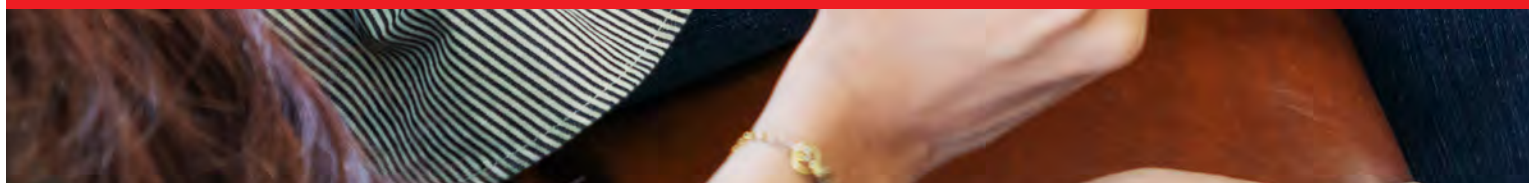




## MANAGEMENT'S DISCUSSION AND ANALYSIS

Since the start of the health emergency Grupo Sanborns implemented various prevention and mitigation measures to preserve the health of its customers, collaborators, providers and the public in general. From March 31 to June 15 of 2020 all the Sears and Saks Fifth Avenue stores were temporarily closed. Sanborns temporarily closed 96 Sanborns stores and 22 Sanborns Cafés. The rest of the Sanborns stores stayed open and continued to provide essential products and services in the pharmacy and telecommunications departments. Most of the iShop stores stayed open while complying with the health measures, depending on the city and the restrictions imposed in the commercial centers. The Dax stores continued to operate, since they are self-service stores. The Loreto and Plaza Inbursa commercial centers closed temporarily, leaving only the restaurant service open, under the option of serving take-out pre-prepared meals and drinks. Sales and services continued through the digital stores.

Due to the temporary closure of stores, Grupo Sanborns sales decreased by 25.7%, for a total of \$39,613 million pesos in 2020.



Because of the health crisis the reception of credit card payments was by digital means, and other means were implemented in bank branches and through cashiers in some sales points. These fundamental procedures were instrumental in the preservation of our liquidity.



During 2020, operations were optimized with the permanent closure of 11 Sanborns stores, the three Central America stores and the Saks Fifth Avenue store in Plaza Carso, which was replaced by the new Sanborns Home & Fashion format. Towards the end of December a Sears department store in the city of Monterrey was closed. Three iShop stores were opened during the year: the Alameda Otay store in Tijuana and the Koral Center store in Los Cabos, both in the State of Baja California, and the Playa del Carmen store in Quintana Roo.

The credit portfolio totaled \$10,176 million pesos. The extending of controlled credit and the forbearance towards debtors continued in place. 69 thousand new cardholders were added, to reach a total of 4.48 million cards outstanding. The percentage of non-performing loans of more than 90 days rose from 3.6% in 2019 to 5.2% in 2020.

The operating income diminished by 64.2% to \$1,681 million pesos. This was due to the closure of the physical stores because of the pandemic and to the greater participation of electronics and technology items in the mix of products. The operating expenses decreased by 15.9%. The principal savings were observed in the sales expenses related to rentals, a lower consumption of energy and a lower payment of banking commissions. In the administration expenses, savings were realized from the lower expansion expenses and payment of fees. Additionally, lower depreciation, advertising and promotion expenses were observed.

The EBITDA for 2020 was \$2,041 million pesos. Not considered for its calculation were the following: Other Net Income in the amount of \$1,470 MM, consisting of -\$45 MM in the devaluation of investment property, \$1,489 MM in the valuation of labor obligations from the change in the employees' pension plan, and \$26 MM from the reversion of depreciation. The EBITDA margin was 5.2%.

The financial results represented an expense of \$472 million pesos, which was greater than the \$377 million pesos recorded in 2019. It included a loss from the fluctuation of the Exchange rate, versus a gain for the same concept in 2019.

The net controlling gain of Grupo Sanborns totaled \$727 million pesos, compared to \$2,949 million pesos in 2019.

The Group's capital investments totaled \$467 million pesos versus 2019, which included the expansion realized during the first quarter of the year. On December 31 of 2020 we had 439 units with a sales floor space of one million two hundred thousand square meters.

On June 30 of 2020 *Sanborn Hermanos, S. A. de C.V.*, merged the Sanborns Café format (*Integral Administration of Alimentos, S. A. de C. V.*), Dax stores (*Comercializadora Dax, S. A. de C. V.*), Saks Fifth Avenue stores (*Operadora de Tiendas Internacionales, S. A. de C. V.*), as well as their respective services companies.

On July 31 of 2020, *Sanborn Hermanos, S. A. de C. V.* merged with its subsidiary *Comercializadora de Tiendas Internacionales, S.A de C.V.*; *Promotora Musical, S.A. de C.V.* merged with its subsidiary *Paden, S.A. de C.V.*, and *Sears Operadora México, S.A. de C.V.* merged with its subsidiary *Secorh, S.A. de C.V.*

On November 30 of 2020, *Claroshop.com, S.A. de C.V.* merged the subsidiary *Claroshop.com Holding, S.A. de C.V.* and the subsidiary *Empresa de Personal Claroshop.com, S.A. de C.V.*

Thanks to all these optimization measures Grupo Sanborns was debt free on 31 December, 2020. Its cash position was \$3,991 million pesos, compared to \$1,690 at the end of December of 2019. This increase of \$2,300 million pesos in cash was the result of a good management of working capital, with a reduction of 15.8% in the inventories account and a reduction of 3.7% in provider and other short-term accounts payable.

Sincerely,

**Patrick Slim Domit**

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



**SEARS**  
*Ne entiende*

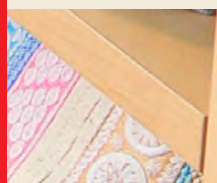




Sears is the second largest department store chain in the country and in 2020 it had 4.5 million of its proprietary credit cards in use, to thereby constitute one of the largest non-bank players in Mexico. In 2020, due to the health crisis caused by the COVID-19 pandemic, all the Sears stores were temporarily closed from March 31 to June 15. In June, approximately 40 stores were reopened to a 30-40% capacity in several states of Mexico. The aforementioned closures affected several categories of sales products, such as perfumes, cosmetics, men's and ladies' fashion wear, furniture, linens and other items.

# 856,402

square meters of sales  
floor area in our stores at  
the end of 2020





Towards the end of December of 2020 a Sears Department store closed in Monterrey, so that at the end of the year Sears and Boutiques had 97 stores with a total of 856,402 square meters of commercial floor space.

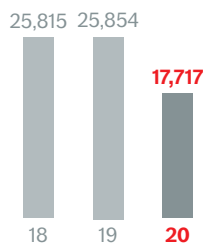
**D**uring 2020 Sears reported sales of \$17,717 million pesos, thereby contributing 44% of the total sales and 73% of the consolidated EBITDA of Grupo Sanborns. The investment in new stores was halted and measures were implemented for the control of expenses related to rentals, electricity, and advertising and promotion expenses. The implementation of the technological tool is being carried out in order to improve the logistics of both the physical stores as well as online sales.

In regard to e-sales, the number of items offered in the **www.sears.com.mx** portal increased. Even with the availability of sales online and the expedited delivery of merchandise, the categories of fashion and furniture experienced a reduction in sales, while the sale of electronic and technology items increased.



#### Total SALES

Million pesos







**\$17,717**

million pesos in sales, for  
a contribution of 44% to  
total sales and 73% to the  
consolidated EBITDA of  
Grupo Sanborns.





**Sanborns**



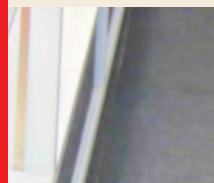


# 290,783

square meters of  
commercial space in our  
stores at the end of 2020.



Sanborns is a unique and highly successful retail sales concept in Mexico. It is the leader in the sale of multiple categories of products and services, such as: books, photographic equipment, cell phones and telephone accessories, perfumes and cosmetic products. Additionally, it is the second largest chain of bars and restaurants. Because of the COVID-19 pandemic Sanborns temporarily closed 96 stores and 22 Sanborns Cafés, while the rest continued to provide essential products and services in the pharmacy, telecommunications and other departments. The categories that were most affected as a result of the partial closure of its physical stores were its restaurants and bars, and book and magazine sales, while the categories that improved were electronics, computers and video games.





The most important activities that were implemented to address the drop in the number of customers visiting our stores as a result of the pandemic were in the optimization of the merchandise, the improvement of the online promotions, and the implementation of measures to control expenses in our stores and restaurants. Adjustments were made and logistical actions were carried out to ensure appropriate hygienic conditions, always following the protocols indicated by the health authorities, while continuing to promote sales through online channels.

During 2020, the number of units was optimized with the elimination of 11 nonproductive stores. On June 30 of 2020 the Sanborns Café, Dax, and Saks Fifth Avenue formats, along with their respective services companies and the administration of the Sanborns and MixUp credit cards were merged into Sanborns. On July 31 of 2020, *Sanborn Hermanos, S. A. de C. V.* merged [with] its subsidiary *Comercializadora de Tiendas Internacionales, S.A. de C.V.*; *Promotora Musical, S.A. de C.V.* merged [with] its subsidiary *Paden, S.A. de C.V.*, and *Sears Operadora México, S.A. de C.V.* merged with its subsidiary *Secorh, S.A. de C.V.* On November 30 of 2020, *Claroshop.com, S.A. de C.V.* merged with the subsidiary *Claroshop.com Holding, S.A. de C.V.* and the subsidiary *Empresa de Personal Claroshop.com, S.A. de C.V.*

At the end of the year Sanborns included Dax, Sanborns Home & Fashion, the Sanborns Café restaurants and Saks Fifth Avenue, for a total of 200 stores and 290,783 m<sup>2</sup> of commercial space.

Saks Fifth Avenue offers products and services similar to Saks Fifth Avenue stores in the United States, adapting to local preferences. While DAX stores offer convenience, opportunity, perfume, cosmetics, personal care, and household items through direct sales to end consumers.

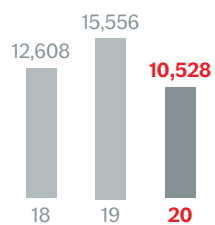
From March 31 to June 15, 2020, all Saks Fifth Avenue stores and 22 Sanborns Café stores were temporarily closed to the public. The Dax stores continued to operate as self-service stores. The Loreto and Plaza Inbursa shopping centers were temporarily closed, only the restaurant service was maintained under the prepared food and take-out beverages to go. Sales and customer service to customers continued through its digital stores. During 2020, the Saks Fifth Avenue store in Plaza Carso was closed and replaced by the new Sanborns Home&Fashion format.





### Total SALES

Million pesos



# 200

Sanborns stores, including Dax, Sanborns Home & Fashion, Sanborns Café restaurants and Saks Fifth Avenue.









**27%**

of the total sales and 21% of the consolidated EBITDA of Grupo Sanborns.

iShop is the largest store for the sale of Apple products and accessories in Mexico, while MixUp is the largest music and video retail sales chain in Mexico. Both formats operate under the corporate name of Promotora Musical, S.A. de C.V. (Promusa).

The iPhone 12 was launched on October 23 of 2020 and greater online promotions and sales were recorded in the year.

**A**s a result of the COVID-19 pandemic the iShop stores continued their operation in a variable manner, complying with the health measures in the city in which they were located and the restrictions in the commercial centers in question. Due to the fact that many jobs and school classes were being carried out remotely, the demand for technology and electronic items increased, and this created a demand for Apple products and accessories. The launching of the iPhone 12 took place on October 23, 2020, and greater online sales and promotions were recorded in the year.

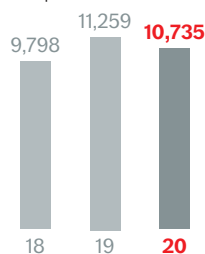
Promusa contributed 27% of the total sales and 21% of the consolidated EBITDA of Grupo Sanborns. In 2020 iShop opened 3 new branches: Alameda Otay in Tijuana, Playa del Carmen Alameda Otay in Tijuana, Playa del Carmen Las Americas, and Koral Center.

Considering the MixUp and iShop stores, at the end of the year they had 139 units and 43,242 square meters of commercial floor space.



#### Total SALES

Million pesos







# 43,242

square meters of  
commercial floor space  
within 139 MixUp and iShop  
stores.





## SUSTAINABILITY ACTIVITIES

### **Social Performance**

Regarding the operations of sustainability, the Carlos Slim Foundation has 100 ongoing programs and projects in 13 different categories, among which are education, employment, health, sports, the environment and culture, reaching millions of beneficiaries in Mexico and other Latin American countries.

The "Mexico United" program continues with the actions oriented towards the relief of properties affected by the earthquake that occurred in September of 2017, applying the resources contributed by donors, which were multiplied six times by the Carlos Slim Foundation. These resources have been used for the repair of 246 schools, 2,285 homes, 104 hospitals, 4 markets and 48 cultural patrimony structures, which were repaired or rebuilt in various States of the Republic of Mexico, mainly in Mexico City, Morelos, the State of Mexico, and in Oaxaca. The program publishes a monthly report on its activities to keep donors and the public in general informed of the progress being made.

# 77.4

million doses of AstraZeneca's COVID-19 vaccine from AstraZeneca Pharmaceuticals for Mexico, part of the Carlos Slim Foundation's actions carried out during 2020.

In 2020, in response to the COVID-19 pandemic caused by the appearance of the Sars COV-2 virus, the Carlos Slim Foundation began permanent actions of assistance to the citizens of Mexico and other countries. Among those actions, the following are noteworthy:

- The collaboration agreement signed between FCS and AstraZeneca to contribute to the production and distribution, at no profit, of 150 million COVID-19 vaccinations in Latin America. 77.4 million of those vaccinations are for Mexico. The vaccine, developed by the University of Oxford and AstraZeneca, will help to prevent a greater loss of human lives and to revive the economy. Also participating in the collaboration agreement are the biotechnology companies mAbxience of Argentina and Liomont of México, as well as the governments of several Latin American countries.
- Support to the conversion of spaces to spaces for the treatment of COVID-19 in three of the largest cities in Mexico: Mexico City, Guadalajara, and Monterrey. One of the most important of those converted spaces is the Temporary COVID-19 Unit (UTC-19) of Mexico City, in which more than 8,200 patients have been treated up to March 31 of 2021. The UTC-19 has 617 beds, 60 of them for therapy.
- Contribution to the diagnostic capacity of the country by the donation of equipment and more than half a million kits for COVID tests to the Diagnostic and Epidemiological Reference Institute laboratories (INDRE), the State Public Health laboratories and to highly specialized National Health Hospitals such as the Salvador Zubiran National Institute of Medical Science and Nutrition, the National Institute of Respiratory Diseases (INER) and the General Hospital of Mexico.
- The donation of more than 2.2 million pesos-worth of Personal Protection Equipment for health workers (N95 masks; surgical masks; standard polycarbonate safety goggles; discardable gloves; gowns, caps and discardable surgical shoe covers), as well as other medical equipment (vital support ventilators). The Foundation also contributed, along with other organizations, to the development and production of the first ventilators made in Mexico for the treatment of seriously ill patients.
- Contribution of food for the health personnel in 35 public hospitals, donating, up to the present date, more than 1.7 million pesos in meals elaborated by Sanborns for more than 4 thousand health professionals and workers in the said hospital centers.
- Support to the research and protocols for the treatment of COVID-19 patients in: the National Institute of Respiratory Diseases (INER), the Salvador Zubiran National Institute of Medical Science and Nutrition, and the National Institute of Cancerology.
- The creation of a tutorial and courses hub for health professionals; the elaboration of protocols for the containment of the pandemic and for the return of workers to their jobs; the creation of a site with information on COVID-19, with downloadable graphic material and audio-visual videos for the public in general.







### Environmental Performance

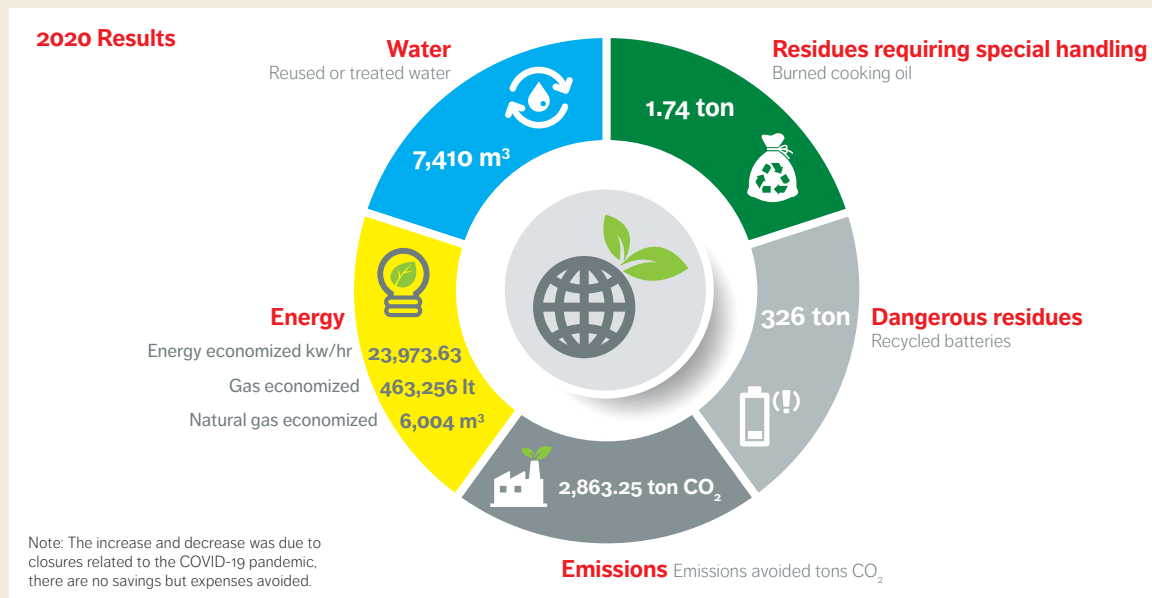
One of Grupo Sanborns' characteristics is its scrupulous compliance with the environmental standards to which it is subject. It takes great care in ensuring, in each of the units or establishments in which it operates, that all the corresponding authorizations have been obtained and that all the environmental requirements are being observed. It pays special attention to matters concerning the control and management of residual waters, emissions into the atmosphere, and the management and final disposal of solid residues and dangerous materials when they must necessarily be generated in the operation of its business. Towards these effects, it normally contracts the services of specialized companies, duly authorized by the respective environmental or sanitary authorities. In this sector Grupo Sanborns has a low environmental impact.

### Labor, Health and Safety Performance

Grupo Sanborns is a source of employment for more than 40,857 full and part-time workers in Mexico, Latin America and some countries in Europe. In 2020, the number of jobs decreased by 1.8% from the previous year. The Group's employees have salaries that are in accordance with the laws, market, performance and level of responsibility within the areas in which they are employed.

Among the benefits in place in Grupo Sanborns and its subsidiaries are the following:

- Digital scholarships and scholarships for the employees' children and direct family members.
- Economic support for funeral expenses and paid holidays.
- Self-managed Health and Safety in the Workplace Program.
- Health prevention campaigns in collaboration with the Mexican Social Security Institute (IMSS) and the Secretariat of Health (SSA).
- Civil Protection Programs with the training of Volunteer Brigades.
- Personal development programs through ASUME, CRESE and the Social Welfare Program.
- Courses through the "Train Yourself for a Job" platform of the Carlos Slim Foundation, for the basic training of operations personnel.
- Training programs in sales and management skills.





During 2020 the Human Resources Department continued its focus on the recruitment and development of talent with which to participate directly in the consolidation of the Company, focusing its efforts on one guiding principal: Customer service. Our mission as a business is: "To offer to our customers products and personalized service of the highest quality and at a fair price. The customer is the *raison d'être* of our work."

### Training Centers

For courses, chats and workshops we have the Sears Training Center, with headquarters in Centro Historico, the Carso salon in Tijuana, and 97 salons located in operating units, in addition to 47 Sanborns salons in the corporate offices, the Viaduct Plant and the foreign locations, which include Panama and El Salvador.



### Technical, operations, developmental, formative, health and safety courses

A total of 6,993 courses were delivered during the year, with 99,789 graduates from Sanborns, Promotora Musical, Dax and Saks Fifth Avenue. Upon the opening and reopening of stores, 162 persons were trained in Sanborns. In regard to the training of personnel in Sears, an average of 53 courses per employee were held, and 697 managers and supervisors were trained related to their functions. A physical presence seminary was held, as well as a virtual classroom with 833 awareness-of-product events. In ClaroShop an average of 2 courses per collaborator were delivered.

In Sears, additionally, the Carso platform "Train Yourself for a Job" of the Carlos Slim Foundation was installed. The platform contains courses that improve the skills of all the employees in the units, corporate divisions and distribution centers, and the courses have produced a total of 155,176 certificates and 6,840 registered collaborators.

In the program called "Common Managerial Branch," which is found in the Carso Train Yourself platform, a study was carried out for the purpose of improving the specific skills of the store managers. The specific activities carried out by 100 store managers were studied and monitored, with a total of 26 activities delivered for each manager and a general average of 9.1. Additionally, 34 managers, supervisors and Technical Services Department coordinators, with a general average of 8.6, were monitored.

Three venues were held for the Managerial Training School (Mexico City), with the participation of 74 persons. These venues began in September of 2019 and ended in March of 2020.

Through a process of selection and development, a personalized training program for Store Leaders is being developed. It began in November of 2020 and will end in March of 2021.



### Scholarships

424 Telmex-Telcel scholarships were granted to collaborators or to their children during the year.

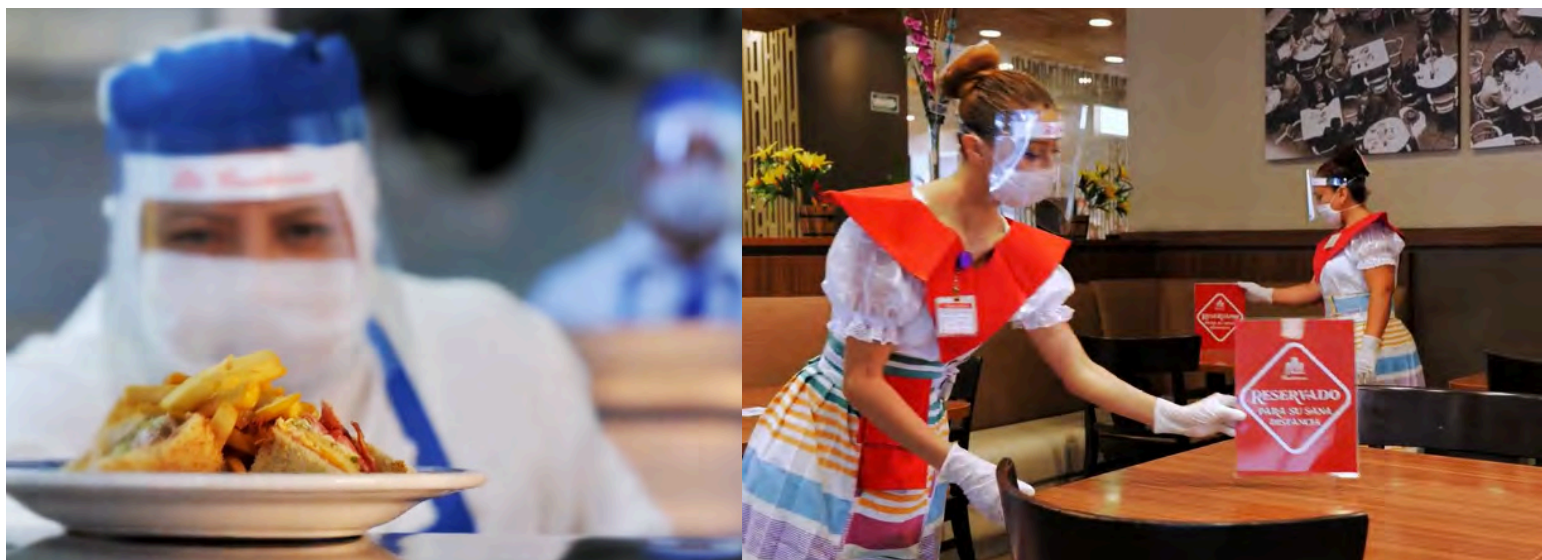
SCHOLARSHIPS	2020	2019
Digital Scholarships - Announcement <i>For the children of employees</i>	S/C	482
Telmex-Telcel Scholarships - 2019 <i>For employees and their direct family members</i>	424	495
S/C without announcement		

The ASUME program (Association for the Progress of Mexico) had a scope of 177 groups, 3,909 graduated collaborators, 283 facilitators graduated from Grupo Sanborns companies, and one collaborator enabled as an instructor.

ASUME	2020	2019	2018	Change % 20 vs 19
Groups	177	280	225	-36.7
Participants	3,909	3,279	1,767	19.2
Facilitators	283	239	35	18.4

In the Social Welfare Program, work was carried out in 3 fundamental aspects: Training, Health, Culture and Recreation, which included massive activities through video conferences. In 2020, events were realized in which 79,186 persons (including 75,330 collaborators and 1,785 collaborator family members) received benefits from the various programs.

SOCIAL WELFARE	2020	2019	Change % 20 vs 19
Collaborators	79,186	50,890	55.6%



### CRESE

The Human Quality and Social Responsibility System (CRESE), in which 95 units have been internally audited in Sears in 2020, was continued.

### Train Yourself for a Job

In the Carlos Slim "Train yourself for a job" platform, work was continued, both as a form of entertainment as well as for the training of talent for operational maintenance, reception and sales personnel in Sears, reaching a total of 1,540 certificates in 2020, compared to 550 collaborators in the previous year.

With the support of the Carlos Slim Foundation, actions were established for prevention and care of COVID-19 patients, to thereby minimize the effects of the pandemic. The strategy towards that end was developed in 5 stages: awareness; prevention; containment; supervision; and continuous improvement. Among the most outstanding of the said actions was the design and implementation of the protocols for the return to normalcy for customers, collaborators and providers; the implementation of sanitary filters in each work center, checking the health status of more than 21 million customers and all of our collaborators and providers; the establishment of new methodologies for remote work; the improvement of in-

ternal communications, with new channels and methods to reach all our collaborators; and the health diagnosis of more than 5,000 collaborators through the MIDO COVID program. In the vaccination against influenza program we vaccinated 7,148 collaborators, and in the application of tests for COVID PCR and antigens we reached 4,700 collaborators. With these and other actions we complied with the requirements of various authorities, thereby providing a safe environment for our customers, providers and collaborators.

**Women represented 26% of the top "C" level of 66 executives in Grupo Sanborns.**

The Company has established alliances with public and private organizations to promote the inclusion of persons with disabilities or with certain special conditions in Grupo Sanborns.

For more information and details, see this section on sustainability activities in the Grupo Sanborns S.A.B. de C.V. corporate webpage, URL: <http://www.gsanborns.com.mx/responsabilidad-social.html>

# 4,700

collaborators with application of COVID PCR tests and more actions to offer safe spaces to our customers.





BOARD OF **DIRECTORS**

PROPRIETARY MEMBERS	Position*	Years as Director**	Type of Director ***
Carlos Slim Domit	COB - Grupo Sanborns	Nine	Patrimonial
	COB - Grupo Carso		
	Co-Chairman - América Movil		
	COB - Teléfonos de México		
	COB - Promotora Musical		
Carlos Slim Helú	COB - Carlos Slim Foundation	Nine	Patrimonial
	COB - Telmex Foundation		
	COB - Carso Infraestructura y Construcción		
Patrick Slim Domit	CEO - Grupo Sanborns	Nine	Patrimonial Related
	Vice-Chairman - Grupo Carso		
	Co-Chairman - América Móvil		
	Commercial Director of Massive Market - Teléfonos de México		
	COB - Grupo Telvista		
	COB - Sears Operadora México		
Johanna Monique Slim Domit	Head of the Early Childhood Education Program at the Carlos Slim Foundation	Nine	Patrimonial
Isac Mark Massry Nakash	CEO - Promotora Musical	Nine	Related
	Alternate Board Member - Sears Operadora México		
Alberto José Slim Rivera Torres	Expansion Sub-Director	Three	Related
Rodrigo Hajj Slim	CEO - Sanborn Hermanos	One	Patrimonial Related
	CEO - Sears Operadora México		
Arturo Elías Slim	CEO - Claroshop.com	One	Patrimonial Related
Antonio Cosío Pando	General Manager - Cia. Industrial de Tepeji del Río	Nine	Independiente
	Board Member - Sears Operadora México		
Pablo Roberto González Guajardo	CEO - Kimberly Clark de México	Nine	Independiente
	Board Member América Móvil and Grupo Lala		
	Founding Partner: Mexicanos Primero and México ¿cómo vamos?,		
	COB Education Comission of the Entrepreneurial Coordinator Council		
	COB - UNETE Mexico City and State of Mexico		
Juan Rodríguez Torres	Advisor	Nine	Independent
Angel Eduardo Peralta Rosado	Board Member - Sanborn Hermanos	Nine	Independent
	Alternate Board Member - Sears Operadora México		
Santiago Cosío Pando	Board Member - Sanborn Hermanos, Sears	Six	Independent
	Operadora México, Inbursa		
	COB Grupo Pando Corporate		
	COB MEXFAM		
Clemente Serna Alvear	Board Member - Sanborn Hermanos	Six	Independent
	Tecnológico de Monterrey Metropolitan Area		
	Mexico City Club of Industrials		
	COB Friends of Metropolitan Cathedral Mexico, A.C..		
ALTERNATE BOARD MEMBERS			
Edgar Smolensky Kirschner	Commercial Diretor Fashion Divisions Procurement - Sears Operadora México	Nine	Related
Arturo Martínez Bengoa	Legal Director		SECRETARY
Josué Ramírez García	Legal Subdirector		PRO-SECRETARY

\* 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 the 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

## AUDIT AND CORPORATE PRACTICES COMMITTEE

### To the Board of Directors of Grupo Sanborns, S.A.B de C.V.:

In our capacity as members of the Audits and Company Practices Committee of Grupo Sanborns, S.A.B. de C.V., ("the Committee"), we hereby deliver the following annual report of activities for the fiscal year of 2020.

#### Purview of the Audits and Company Practices and Evaluation of Compensation Committee

The CEO of Grupo Sanborns, S.A.B. de C.V., ("the Company") and the relevant directors of the juridical persons the Company controls have satisfactorily met the objectives with which they were entrusted and complied with their responsibilities.

The purchase-sale operations with related parties that were submitted to the consideration of the Committee were approved, totaling: operations with revenue of \$946.2 million pesos; purchase operations for \$253.2 million pesos, and Expenses and Other operations in the amount of \$1,580.3 million pesos.

The principal operations were carried out with the Carlos Slim Foundation, S.C., for the sale of prepared meals to COVID hospitals; *Radiomóvil Dipsa, S.A. de C.V.* and *América Móvil, S.A.B. de C.V.* for the purchase of cell phones, rate plans and memory cards for telephones and other concepts from the Company and its subsidiaries; *Teléfonos de México, S.A.B. de C.V.*, for the concept of a call center, telephone installation services and the sale of telephony items and dining hall services; *Seguros Inbursa, S.A.*, for the concept of automobile fleet insurance and insurance for the Company's and its subsidiaries' real estate, commissions and dining hall services; to the subsidiaries of *Inmuebles Borgru, 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, the sale of meals, and for the dining hall services it provides to the other companies.

All the operations with related parties were carried out at market prices and were reviewed by Galaz, Yamazaki, Ruiz Urquiza, S.C. and a summary of the said operations is found in a Note to the financial statements rendered for *Grupo Sanborns, S.A.B. de C.V. y Subsidiarias* to 31 December, 2020

The CEO of Grupo Sanborns, S.A. B. de C.V. does not receive any remuneration for the performance of his activities as such. The Company does not have employees, and, in regard to the integral remunerations of the relevant Directors of the companies that are controlled by the Company, we have ascertained that they have all complied with the policies approved by the Board of Directors in that respect.

The Board of Directors of the Company did not grant any dispensation so that any councilor, director or person of authority could take advantage – to his own benefit or to the benefit of a third party – of business opportunities corresponding to the Company or to juridical persons that it controls or in which it has a significant influence. On its own part, the Committee also did not grant dispensations for the transactions referred to in subparagraph c) of Fraction III of Article 28 of the Stock Market Law.

#### Auditing Functions

The internal control and internal auditing system of Grupo Sanborns, S.A.B. de C.V. and of the juridical persons it controls is satisfactory and meets the guidelines approved by the Board of Directors, as can be gathered from the information provided to the Committee by the Company's administration and from the opinion rendered by the external audit.

We did not learn of any violation of the Company's operating guidelines and policies or of its accounting records, or violations by the entities that it controls. Therefore, no preventive or corrective measures were implemented in that respect.

The performance of the accounting firm of Galaz, Yamazaki, Ruiz Urquiza, S.C., the juridical person who carried out the audit of the financial statements of Grupo Sanborns, S.A.B. de C.V. y Subsidiarias to December 31, 2020 and of the external auditor responsible for the said audit was satisfactory, and the objectives that were defined when the Firm was contracted were achieved. Likewise, and in accordance with the information that the said Firm provided to the Company's administration, its fees for the external audit do not represent more than 10% of its total income.

After a review of the financial statements of Grupo Sanborns, S.A.B. de C.V. and Subsidiaries up to 31 December, 2020, it was determined that there are no important errors caused by fraud and that the principal adjustments proposed are due to excesses or insufficiency in the provisions.

According to what was reported to us by the Administration, and from the meetings we held with the external and internal auditors without the presence of Company officers, and as far as we are aware, no relevant observations were made by shareholders, councilors, Board members, employees or by any third party in general in regard to the accounting, internal controls or other subjects related to the internal or external audit, nor were any denunciations made by the said persons in regard to irregularities in the administration of the Company or of the juridical persons it controls.



During the period of this report, we ensured that the accords adopted by the shareholders assembly and the Company's Board of Directors were duly complied with. Also, in accordance with the information provided to us by the Company's Administration, we verified that the Company has controls in place that allow us to determine that it is in compliance with the applicable provisions in regard to the stock market, that its legal department reviews the said compliance at least once a year, and that there have been no adverse observations in that respect nor any adverse change in its legal situation.

In regard to the financial information that the Company is preparing for submission to the *Bolsa Mexicana de Valores, S.A.B. de C.V.* and to the National Banking and Securities Commission, we have ensured that the said information is being elaborated under the same accounting policies, criteria and practices under which the annual report was elaborated

### Finance and Planning Functions

In response to the health crisis caused by the COVID-19 pandemic Grupo Sanborns established extraordinary measures in order to address the emergency caused by the COVID-19 virus. It implemented prevention and mitigation measures to preserve the health of our customers, collaborators, providers, and the population in general, while endeavoring to minimize the economic impact.

As a short-term strategy to deal with the emergency, online business was boosted by offering all the products online that could be found in a physical store, to thereby respond to the health crisis that was affecting the other formats that had been forced to temporarily shut down in order to ensure the social distancing requirement imposed by the authorities. This phase had its most significant effects in the months of April and May, although it was extended into June and July in some states.

In Mexico City and the State of Mexico, beginning on December 19, the red light was once more announced for all non-essential activities, including restaurants, pharmacies and self-service stores. In several states of the Republic of Mexico the local authorities also imposed a reduction in the hours of operation and in the capacity that was allowed.

These measures once again affected the flow of customers in the metropolitan zone, an area in which an important part of our physical sales points are located. Sales and services to our customers through our digital stores continued, however, at [www.sears.com.mx](http://www.sears.com.mx), [www.sanborns.com.mx](http://www.sanborns.com.mx), [www.ishop-MixUp.com](http://www.ishop-MixUp.com) and [www.claroshop.com](http://www.claroshop.com). Our distribution centers and stores carry out their operations in compliance with all the protocols imposed by the health authorities.

Physical operations have been maintained in a limited manner, always in compliance with the protocols indicated by the respective authorities, implementing certain adjustments and logistic strategies to ensure the appropriate health conditions in our physical stores, while continuing to fortify sales through digital channels.

The procedures indicated above have mitigated the risks associated to the concentration on one type of format alone, and have provided stability to our cash flows.

The Company continued to meet all its obligations towards its creditors, including the complete payment of salaries, even during the complete closure of some of its stores, maintaining the labor payroll but without renewing temporary contracts.

In response to the COVID-19 health emergency, investments were halted and the payment of dividends was not announced. The control of expenses was carried out, without thereby affecting the Company's image and services, obtaining thereby a reduction in administration and sales expenses. Inventory was optimized by reducing purchases.

In accordance with our expectations and depending on the behavior of the economy after a return to the "new normal," the Company will once more be profitable and generate positive cash flows from its operations.

The contingencies of a labor, civil, mercantile and administrative nature up to 31 December 2020, showed a behavior similar to previous fiscal years, and therefore the resolution of the said situations will not affect the financial position and economic stability of the companies involved.

During 2020 the Company bought back some of its own shares, in the amount of \$63,702 million pesos.

A loss was recorded from the valuation of investment properties (Commercial Locations) in 2020 in the amount of \$44,750 million pesos.

The provisions recorded in accumulated expenses must comply with the criteria of a liability, in conformance with the IFRS, so that provisions are recorded only for acquired commitments or expenses that have already been paid.

In regard to matters related to fraud, the violation of laws and regulations, and undue influence in the performance of the audit, the pertinent investigations were carried out with the Company's administration, and various procedures were applied without finding any violation.

For the elaboration of this report the Audits and Company Practices Committee utilized the information that was provided to it by the CEO of the Company, the relevant Directors of the juridical persons controlled by the Company, and by the external auditor.

### Audits and Company Practices Committee

**Antonio Cosío Pando**

**Juan Rodríguez Torres**



## CONSOLIDATED FINANCIAL STATEMENTS

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## INDEPENDENT AUDITORS' **REPORT**

**To the Board of Directors and Stockholders of Grupo Sanborns, S.A.B. de C.V.**

### **Opinion**

We have audited the consolidated financial statements of Grupo Sanborns, S.A.B. de C.V. and Subsidiaries (the "Entity"), which comprise the consolidated statements of financial position as of December 31, 2020, 2019 and 2018, the consolidated statements of comprehensive profit and loss and other comprehensive income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, as well as the explanatory notes to the consolidated financial statements, which include a summary of the significant accounting policies used.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Entity as of December 31, 2020, 2019 and 2018, and their consolidated financial performance and their consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

### **Basis for opinion**

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of Consolidated Financial Statements* section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* and the Ethics Code issued by the Mexican Institute of Public Accountants (*IMCP Code*), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Paragraph of emphasis – Significant event by COVID**

As mentioned in Note 2c COVID-19 contingency, the management describes the effects, as of the date of these consolidated financial statements, due to the COVID-19 pandemic on its operations and on the Entity's liquidity situation, as well as such as your immediate plans and your ability to continue as a going concern. Our opinion has not been modified in relation to this matter.

### **Other Matters**

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

## Key audit matters

Key audit matters are those that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters have been addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Impairment of long lived assets and its impact by COVID-19

The Entity has established as a policy to evaluate the carrying value of long-lived assets at least annually. Grupo Sanborns uses the "Discounted Cash Flows" methodology, under the income approach. This requires that the Entity's management make certain projections and significant assumptions related to the forecasts of income, costs and expenses and the selection of discount rates in accordance with the current business situation.

We have considered the evaluation of tangible assets as a key audit matter, due to the management makes significant judgments to determine the carrying value of such assets and also due of the current economic changes due to the COVID-19 pandemic, this required a high audit effort including the involvement of our fair value specialists.

Our audit procedures include, mainly:

- i. We obtained an understanding of the internal controls, as well as tested their design and implementation.
- ii. We reviewed the impairment models performed by management for those cash-generating units whose book values are subject to significant judgment.
- iii. We have discussed with the management the key assumptions regarding cash flow forecasts, discount rates, and long-term growth rates based on our knowledge of the business, industry, and audited historical information.
- iv. Additionally, we evaluated the reasonableness of the discount rate used, for which we rely on our experts.

The results of our audit tests were fair.

### Information Different from the Consolidated Financial Statements and the Auditors' Report

Management is responsible for the other information. The other information will include the information that will be incorporated into the Annual Report that the Entity is required to prepare in accordance with Article 33, section I, subsection b) of Title Fourth, Chapter First of the General Provisions Applicable to Issuers and Other Stock Market Participants in Mexico, and the Instructions which accompany those provisions (the Provisions). The Annual Report is expected to be available for consultation after the date of this audit report; ii) other additional information, which is a measure that is not required by IFRS, and has been incorporated for the purpose of evaluating the performance of each of the operating segments, in relation to their Earnings before Financing, Taxes, Depreciation and Amortization (EBITDA) of the Entity, this information is presented in Note 26.

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

In relation to our audit of the consolidated financial statements, our responsibility is to read the Annual Report, and when doing so, to consider if the other information contained therein is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit, or appears to contain a material misstatement. When we read the Annual Report we will issue the legend on the reading of the Annual Report required by Article 33, section I, subsection b) item 1.2. of the Provisions. Also, and in relation to our audit of the consolidated financial statements, our responsibility is to read and recalculate the other information, which is the measure not required by IFRS and in doing so consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit, or that appears to contain a material error.



### **Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a Going Concern, disclosing, as applicable, matters related to Going Concern and using the Going Concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Entity's consolidated financial reporting process.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention to our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the relevant transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

**Galaz, Yamazaki, Ruiz Urquiza, S.C.**  
**Member of Deloitte Touche Tohmatsu Limited**

**C. P. C. Alejandro Benjamín Díaz Munguía**

March 30, 2021

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2020, 2019 and 2018

(In thousands pesos)

	Note	2020	2019	2018
<b>Asset</b>				
<b>Current assets:</b>				
Cash and cash equivalents	3	\$ 3,990,572	\$ 1,690,176	\$ 2,477,658
Accounts and documents receivable	4	9,672,850	11,872,111	11,433,864
Recoverable taxes, mainly value added tax	5	1,336,751	1,338,688	1,246,317
Inventories	6	10,565,273	12,549,667	12,359,171
Prepaid expenses		98,611	78,500	81,734
Total current assets		25,664,057	27,529,142	27,598,744
<b>Non-current assets:</b>				
Long-term accounts receivable	4	1,297,214	1,488,146	1,577,705
Property, plant and equipment	11	13,114,892	14,102,299	14,549,494
Investment properties	12	2,462,521	2,507,271	2,415,553
Lease right-of-use assets	7	4,399,663	5,158,750	5,484,394
Investment in shares of associated and others	13	2,637,548	3,524,415	2,273,917
Employee retirement benefits	16	820,200	226,361	537,346
Deferred income taxes	23	1,841,898	1,922,791	1,501,957
Other assets, Net		317,381	232,900	183,802
Total non-current assets		26,891,317	29,162,933	28,524,168
Total assets		\$ 52,555,374	\$ 56,692,075	\$ 56,122,912
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Trade accounts payable		\$ 8,361,528	\$ 8,684,657	\$ 9,115,216
Lease liabilities	8	1,118,214	1,243,500	1,247,049
Other accounts payable and accrued liabilities	14	3,052,292	4,247,596	3,828,226
Due to related parties	18	524,736	530,398	844,199
Provisions	15	178,458	129,731	129,265
Direct employee benefits		308,689	522,011	496,767
Current portion of long-term income tax payable	23f	27,952	233,030	66,229
Income tax payable		118,552	541,085	196,041
Total current liabilities		13,690,421	16,132,008	15,922,992
<b>Non-current liabilities:</b>				
Income tax payable long-term	23f	296,738	500,439	598,876
Employee retirement benefits	16	57,328	717,578	56,494
Deferred income taxes	23b	1,072,577	1,202,934	1,242,613
Other liabilities		18,047	18,391	15,213
Lease liabilities	8	4,111,957	4,964,449	5,239,466
Total non-current liabilities		5,556,647	7,403,791	7,152,662
Total liabilities		19,247,068	23,535,799	23,075,654
<b>Stockholders' equity</b>				
<b>Stockholders' equity:</b>				
Capital stock	17	1,975,283	1,977,520	1,980,050
Additional paid - in capital		10,896,604	10,896,604	10,896,604
Accumulated earnings		21,606,876	20,940,908	20,154,361
Other comprehensive loss items		(2,050,886)	(1,953,962)	(1,275,670)
Controlling interest		32,427,877	31,861,070	31,755,345
Non-controlling interest		880,429	1,295,206	1,291,913
Total stockholders' equity		33,308,306	33,156,276	33,047,258
Total liabilities and stockholders' equity		\$ 52,555,374	\$ 56,692,075	\$ 56,122,912

See accompanying notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF **PROFIT OR LOSS** **AND OTHER COMPREHENSIVE INCOME**

For the years ended December 31, 2020, 2019 and 2018

(In thousands pesos, except for basic earnings per commons share data)

	Nota	2020	2019	2018
Revenue	19	\$ 39,612,874	\$ 53,288,479	\$ 51,755,422
Costs of sales and services	20	26,004,362	32,954,083	31,630,528
Gross profit		13,608,512	20,334,396	20,124,894
Selling and distribution expenses	20	8,708,504	10,683,194	10,135,144
Administrative expenses	20	2,784,960	2,995,030	3,006,758
Depreciation	20	1,787,838	2,123,158	2,049,080
Other income	21	(1,865,281)	(394,750)	(552,161)
Other expenses	22	511,422	228,573	262,898
Interest expense		711,502	703,010	630,113
Interest income		(269,989)	(296,756)	(272,083)
Exchange gain		(231,776)	(143,806)	(569,439)
Exchange loss		262,505	114,463	243,209
Equity in income of associates companies	13	134,331	(116,825)	(187,088)
Income before income taxes		1,074,496	4,439,105	5,378,463
Income taxes	23a	260,685	1,349,506	1,445,060
Consolidated net income for the year		813,811	3,089,599	3,933,403
Other comprehensive income, net of income tax:				
Items that may be reclassified subsequently to profit or loss:				
Financial Assets at fair value through ORI		(257)	-	-
Effect of adoption of new IFRS 9		-	-	(56,804)
Exchange differences on translating foreign operations		21,966	(11,708)	(2,210)
Item that will not be reclassified subsequently to profit or loss:				
Actuarial gain (loss)	16	(169,475)	(952,263)	74,793
Deferred income taxes		50,843	285,679	(22,438)
Consolidated comprehensive income of the year		\$ 716,887	\$ 2,411,307	\$ 3,926,744
Consolidated net income attributable to:				
Controlling interest		\$ 727,493	\$ 2,948,504	\$ 3,729,854
Non-controlling interest		86,318	141,095	203,549
		\$ 813,811	\$ 3,089,599	\$ 3,933,403
Consolidate comprehensive income attributable to:				
Controlling interest		\$ 630,569	\$ 2,270,212	\$ 3,723,195
Non-controlling interest		86,318	141,095	203,549
		\$ 716,887	\$ 2,411,307	\$ 3,926,744
Basic earnings per common share attributable to controlling interest		\$ 0.28	\$ 1.00	\$ 1.64
Weighted average number of shares		\$ 2,260,053,338	2,262,932,607	2,268,903,242

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES **IN STOCKHOLDERS' EQUITY**

For the years ended December 31, 2020, 2019 and 2018  
(In thousands pesos)

	Capital Stock	Premium on Issuance of share	Retained earnings	Translation effects of foreign operations
Balances as of December 31, 2017	\$ 1,990,185	\$ 10,896,604	\$ 18,755,557	\$ 113,615
Dividends paid to controlling interest and non-controlling interest	-	-	(2,040,218)	-
Repurchase of shares, net of dividends	(10,135)	-	(290,832)	-
Consolidated comprehensive income of the year	-	-	3,729,854	(2,210)
Balances as of December 31, 2018	1,980,050	10,896,604	20,154,361	111,405
Dividends paid to controlling interest and non-controlling interest	-	-	(2,082,956)	-
Repurchase of shares, net of dividends	(2,530)	-	(79,001)	-
Consolidated comprehensive income of the year	-	-	2,948,504	(11,708)
Balances as of December 31, 2019	1,977,520	10,896,604	20,940,908	99,697
Dividends paid to controlling interest and non-controlling interest	-	-	-	-
Repurchase of shares, net of dividends	(2,237)	-	(61,526)	-
Consolidated comprehensive income of the year	-	-	727,494	21,965
Balances as of December 31, <b>2020</b>	\$ 1,975,283	\$ 10,896,604	\$ 21,606,876	\$ 121,662

See accompanying notes to consolidated financial statements.

	Actuarial gain (loss)	Applied IFRS	Total controlling interest	Non- controlling interest	Total Stockholder's Equity
\$	(468,816)	\$ (913,809)	\$ 30,373,336	\$ 1,204,941	\$ 31,578,277
	-	-	(2,040,218)	(116,578)	(2,156,796)
	-	-	(300,967)	-	(300,967)
	52,355	(56,804)	3,723,195	203,549	3,926,744
	(416,461)	(970,613)	31,755,346	1,291,912	33,047,258
	-	-	(2,082,956)	(137,802)	(2,220,758)
	-	-	(81,531)	-	(81,531)
	(666,584)	-	2,270,212	141,095	2,411,307
	(1,083,045)	(970,613)	31,861,071	1,295,205	33,156,276
	-	-	-	(501,094)	(501,094)
	-	-	(63,763)	-	(63,763)
	(118,633)	(257)	630,569	86,318	716,887
\$	(1,201,678)	\$ (970,870)	\$ 32,427,877	\$ 880,429	\$ 33,308,306



# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2020, 2019 and 2018

(In thousands pesos))

	2020	2019	2018
<b>Cash flows from operating activities:</b>			
Consolidated net income for the year	\$ 813,811	\$ 3,089,599	\$ 3,933,403
Adjustments not requiring (providing) cash:			
Income tax recognized in net income	260,685	1,349,506	1,445,060
Depreciation and amortization	1,829,322	2,163,081	2,092,264
Impairment of property	(25,641)	18,916	(23,175)
Disposal cost of property, machinery and equipment	258,101	-	-
(Gain) loss on sale of property, machinery and equipment	(3,113)	(2,604)	112,151
Provisions	48,727	466	3,557
Gain arising on changes in fair value of investment properties	44,750	(91,718)	(91,652)
Interest expense	711,502	703,010	630,113
Equity in income of associates	194,239	(116,825)	(187,088)
Interest income	(3,856,852)	(4,271,348)	(4,066,064)
	275,531	2,842,083	3,848,569
<b>Items related to operating activities:</b>			
(Increase) decrease in:			
Accounts and documents receivable	2,306,591	(206,303)	306,671
Recoverable taxes	1,937	(92,371)	(234,618)
Interest received from operating activities	3,654,537	3,970,601	3,461,938
Inventories	1,984,394	(190,496)	(1,553,140)
Prepaid expenses	(20,111)	3,234	76,527
Other assets	(115,144)	(74,605)	(63,967)
Long-term accounts receivable	190,932	89,559	154,618
Employee benefits	(712,472)	(355,599)	(108,350)
(Decrease) increase in:			
Trade accounts payable	(323,129)	(430,559)	1,609,533
Other accounts payable and accrued liabilities	(2,288,229)	2,114,302	(634,677)
Due to related parties	51,923	(649,593)	278,795
Direct employee benefits	(213,322)	25,244	5,498
Income taxes paid	(910,673)	(1,937,696)	(1,607,139)
Net cash flows provided by operating activities	3,882,765	5,107,801	5,540,258
<b>Cash flows from investing activities:</b>			
Purchase of property, machinery and equipment	(466,739)	(895,183)	(1,418,350)
Sales of property, machinery and equipment	8,548	45,199	27,501
Dividends received from associates	725,900	-	-
Acquisition of associate shares	(33,272)	(1,134,584)	-
Cash loans to associate	(12,053)	(153,793)	-
Interest received	94,985	68,803	81,837
Net cash flows used in investing activities	317,369	(2,069,558)	(1,309,012)
<b>Cash flows from financing activities:</b>			
Repurchase of shares	(63,763)	(81,531)	(300,967)
Bank loans	9,030,000	-	-
Payments of loans	(9,030,000)	-	-
Interest paid	(530,098)	(733,819)	(481,944)
Payments of lease liabilities	(810,234)	(782,154)	(759,141)
Dividends paid to controlling interest and non-controlling interest	(508,279)	(2,220,758)	(2,136,772)
Net cash flows used in financing activities	(1,912,374)	(3,818,262)	(3,678,824)
Effects of exchange rate changes on cash and cash equivalents	12,636	(7,463)	635
Net decrease in cash and cash equivalents	2,300,396	(787,482)	553,057
Cash and cash equivalents at beginning of the year	1,690,176	2,477,658	1,924,601
Cash and cash equivalents at end of the year	\$ 3,990,572	\$ 1,690,176	\$ 2,477,658

See accompanying notes to consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2020, 2019 and 2018

(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 Zürich 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 event for the year

- a. **New openings** – During the 2020 financial year, the Entity opened 4 stores, 1 in the Sanborns Home & Fashion format, and 3 in the iShop format. During the 2019 financial year, the Entity opened 18 stores, 1 in the Sanborns format, and 17 in the iShop format. During the 2018 financial year, the Entity opened 18 stores, 4 with Sears format, 4 with Sanborns format, 9 with iShop format and 1 with Music Stores format.
- b. **Acquisition of associate**– During July 2019, the Group acquired 33.2719% of the shares of Miniso, a chain of stores selling low-cost items that specializes in household and consumer items, including cosmetics, toys, kitchen utensils, among others, at present, Miniso has 100 stores in Mexico. In accordance with IAS 28 Investments in associates and joint ventures, the difference between the cost of the investment and the percentage of participation in the fair value of the associate's identifiable assets and liabilities, shall be recognized as goodwill and presented as part of the investment balance in shares, amortization is not allowed.

Derived from the review of the fair values of certain intangible assets during the 2020 financial year, the goodwill generated by the acquisition of Miniso is integrated as follows:

	<b>2020</b>
Total consideration:	
Cash	\$ 1,133,673
Issue of shares	353,440
Goodwill from acquisition at December 31, 2020	\$ 780,233

- c. **COVID-19 contingency** - As of December 31, 2019, the SARS-COV-2 virus outbreak, which causes COVID-19 disease, has strongly impacted many local economies around the world. In many countries, businesses and businesses have been forced to halt their operations for long and/or indefinite periods of time. Measures taken to contain the spread of the virus include: Travel bans, quarantines, social estating and non-essential service closures have detonated significant disruptions from many businesses globally, resulting in an economic slowdown. Stock markets around the world have also experienced high volatility and significant weakening.

Since the beginning of the health emergency, Grupo Sanborns implemented various prevention and mitigation measures to preserve the health of its customers, collaborators, suppliers and the general population. Investments in the commercial segment were stopped from that date and no dividend payment was scheduled for this year 2020. Strict control of operating expenses was carried out in all segments, trying not to affect the quality of our products or the standard at the level of our services. Inventories were optimized and the financial balance and attention to customer engagements was sought.

The short-term strategy pursued by Grupo Sanborns to deal with this emergency was to boost online business, offering all the products, which any customer could find in a physical store, the above by the health emergency, which was affecting the rest of the formats that had to be temporarily closed to ensure social estating. This phase had its most important manifestation in april and May, although in several states of the Mexican republic it extended even until June and July; the reopening was carried out on a limited basis, always following the protocols indicated by the respective authority, making those adjustments and logistical preparations, to ensure appropriate hygiene conditions, both in stores to receive our customers again, while continuing to strengthen the sale through digital channels. In Mexico City and the Estado de Mexico, as of December 19, the "red light" health strategy for all non-essential activities was announced again, also in several states of the Mexican Republic, local authorities also implemented reduced operating hours and permitted capacity. Resuming the opening from 1st and 8th February in the Estado de Mexico and Mexico City, respectively complying with the health measures imposed by the respective authority.

In response to Covid-19's health emergency, investments were stopped and investments of dividends were not decreed. Expense control was carried out without affecting the image and service, obtaining a reduction in administration and sales expenses of approximately \$2,521 million pesos which represented 16.0% compared to what was recorded in December 2019. Inventory was optimized, reducing by 15.8% at the end of December 2020 versus December 2019 inventory, by purchase decrease. The decline in the credit portfolio was evident mainly due to the temporary closure of physical stores. In the face of the health emergency, the receipt of credit card payments was digitalized and other channels were implemented in bank branches and in boxes at some outlets not affected by the closure.

Controlled credit and timely support to debtors continued during the health crisis. Credits were also contracted to meet the obligations, however, due to the gradual opening of the stores and the strategies mentioned above, Grupo Sanborns did not submit debt at the end of 2020, while its cash amount totaled \$3,991 million. Based on our estimates and the economy's behavior since the return to "new normal" we consider it to regenerate positive cash flows for its operations. In addition, Grupo Sanborns continued to meet its obligations to its creditors, including payment of full wages, including during the complete closure of some of its stores, maintaining the workforce without renewing any contracts.

### **Analysis of the main items in the consolidated statements of income and their impact derived from the pandemic:**

#### *Revenue*

The consolidated sales of Grupo Sanborns accumulated as of December 2020 were \$39,613 million, representing a decrease in sales of 25.7% and a decrease of 29.0% in sales of comparable stores, the above, resulting from the health emergency from the Covid-19 pandemic. From March 31 to June 15, 2020, all Sears and Saks Fifth Avenue stores were temporarily closed to the public. Sanborns temporarily closed 96 stores and 22 Sanborns Café, while the rest continued to provide essential products and services in pharmacy, other pharmacy and telecommunications departments. Complying with sanitary measures, iShop stores operation was variable depending on the city and restrictions on shopping malls. Dax stores continued to operate as self-service stores. The Loreto and Plaza Inbursa shopping centers temporarily closed, keeping only the service of restaurants under the option of selling prepared food and takeaways. The sale and service to our customers continued through their digital stores.

During 2020, 11 Sanborns stores were closed in Mexico, the 3 stores in Central America, the Saks Fifth Avenue store in Plaza Carso was also closed and replaced by the Sanborns Home & Fashion format, by the end of December a Sears department store was closed in the city of Monterrey, on the other hand, 3 stores with iShop format was opened.

#### *Gross profit*

The consolidated gross margin of Grupo Sanborns during 2020 was 34.4% compared to 38.2% as a result of a higher weight in the sale of technology items within the mix. Gross income totaled \$13,609 million pesos a decrease of (33.1%) compared to the one presented during 2019.

Expense control was carried out without affecting image and service, major savings were observed in rental-related sales expenses, lower electricity consumption and payment of bank fees. In administration expenses, savings were observed for lower expansion and fee payment expenses. Additionally lower advertising, promotion and depreciation expenses. We continue to implement additional measures to reduce overhead costs.

#### *Operating profit*

Derived from the closure of the physical stores by the Covid-19 pandemic and the aforementioned points, the operating profit accumulated at the end of December 2020 totaled \$1,681 million compared to \$4,699 million, influenced by the aforementioned.

#### *Net income*

Sanborns Group consolidated net income declined (73.7%) totaling \$814 million pesos comparatively with net income of \$3,090 million pesos recorded at the end of December 2019.

- d. **Merge of Sanborn Hermanos, S.A. de C.V.** Grupo Sanborns informed the investor public on 15 July that as of June 30 of this year, Sanborn Hermanos, S.A. de C.V. merged eight of its affiliates and a subsidiary.

On July 31, 2020, Sanborn Hermanos, S.A. de C.V. merged its subsidiary Comercializadora de Tiendas Internacionales, S.A de C.V.; Promotora Musical, S.A. de C.V. merged its subsidiary Paden, S.A. de C.V. and Sears Operadora México, S.A. de C.V. merged its subsidiary Secorh, S.A. de C.V.

- e. **Merge of Claroshop.com, S.A. de C.V.** On November 30, 2020, Claroshop.com, S.A. de C.V. merged Claroshop.com Holding, S.A. de C.V. and Empresa de Personal Claroshop.com, S.A. de C.V.



### 3. 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:

	2020	2019	2018
Cash	\$ 2,089,555	\$ 1,052,262	\$ 1,593,764
Cash equivalents:			
Demand deposits	518,256	78	346,450
Government securities	48,424	814	9,425
Certificates of deposit	1,322,876	634,645	525,622
Liquid deposits	474	706	706
Others	10,987	1,671	1,691
	\$ 3,990,572	\$ 1,690,176	\$ 2,477,658

### 4. Accounts and documents receivable

	2020	2019	2018
Clients	\$ 9,615,809	\$ 11,733,866	\$ 11,742,246
Allowance for doubtful accounts	(808,545)	(681,545)	(698,169)
	8,807,264	11,052,321	11,044,077
Sundry debtors	562,559	559,396	297,939
Due from related parties	303,027	260,394	91,848
	\$ 9,672,850	\$ 11,872,111	\$ 11,433,864

#### a. Trade accounts receivable

The Entity offers sales promotions through which it grants credit to its customers for different periods which, on average, are 209,211 and 217 days at December 31, 2020, 2019, and 2018, respectively. In the case of sales promotions whose collection terms are greater than one year, the corresponding accounts receivable have been reclassified, in all the periods presented, within the long term. In previous years, these accounts were presented within the short term, with the disclosure of the long-term amounts in notes to the consolidated financial statements.

#### b. Impairment of financial assets

The measurement of the PCE during the life time applies if the credit risk of a financial asset at the reporting date has increased significantly since the initial recognition and the measurement of the expected credit losses of 12 months applies if this risk has not increased. The entity may determine that the credit risk of a financial asset has not increased significantly if the asset has a low credit risk at the reporting date. However, the measurement of expected credit losses over the life time is always applicable for trade accounts receivable and contract assets without a significant financing component. The Entity has chosen to apply this policy for trade accounts receivable and contract assets with a significant financing component.

The Entity measures the estimates of losses for commercial accounts receivable and contract assets always for an amount equal to the expected credit losses during the life time. Additionally, the Entity considers reasonable and sustainable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information and analysis, based on the Entity's historical experience and an informed credit assessment, including that related to the future.

#### c. Measurement of expected credit losses

The expected credit losses are the result of multiplying an exposure amount by a probability of default and the severity of the loss.

The expected credit losses are not discounted using the effective interest rate of the financial asset, since accounts receivable are generally short-term and do not charge interest. It should be mentioned that the maximum period considered when estimating the expected credit losses is the maximum contractual period during which the Entity is exposed to credit risk.

**d. Financial assets with credit deterioration**

The Entity considers as evidence that a financial asset has credit deterioration when it includes the following observable data:

- Significant financial difficulties observed in the portfolio arrears groups;
- Various default periods and identifying default for more than 1 day or more than 30 days for the portfolio of all Companies.
- The restructuring of accounts or advances by the Entity in terms that it would not consider otherwise;
- It is becoming likely that a segment of the portfolio goes bankrupt or in another form of financial reorganization.

Presentation of the estimate for expected credit losses in the statement of financial position

The loss estimates for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. While, in the case of debt instruments at fair value with changes in other comprehensive income, the loss estimate is credited to income and recognized in other comprehensive income.

**e. Penalties**

The gross carrying amount of a financial asset is written off (partially or completely) to the extent that there is no realistic possibility of recovery. This is generally the case when the Entity determines that the debtor has no assets or sources of income that could generate sufficient cash flows to pay the amounts subject to the penalty. However, the financial assets that are punished may be subject to legal action in order to comply with the Entity's procedures for the recovery of the amounts owed.

For an explanation of the manner in which the Entity estimated the impact of the impairment under IFRS 9, where credit losses are recognized before under IAS 39, see Note 27.

**f. Credit risk**

Credit risk is the risk that one of the counterparties of the financial instrument causes a financial loss to the other company for breaching an obligation. The Company is subject to credit risk mainly due to financial instruments related to cash and temporary investments, loans and accounts receivable and derivative financial instruments. In order to minimize the credit risk in cash, temporary investments and derivative financial instruments, the Company only involves solvent parties with a recognized reputation and high credit quality.

In order to manage the credit risk, in the case of loans and accounts receivable with consumers, the Company considers that the risk is limited. The Company prepares an allowance for uncollectible accounts under the expected loss model in compliance with IFRS 9.

As of December 31, 2020, 2019 and 2018 the maximum exposure to credit risk for commercial debtors and other accounts receivable by concept and / or subsidiaries was as follows:

Concept	Amount in books			Expected credit reserve		
	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2020	December 31, 2019	December 31, 2018
Null	\$ 2,264,268	\$ 6,363,322	\$ 3,200,667	\$ -	\$ 92	\$ 147
Low	2,078,355	2,584,078	3,159,668	9,759	16,929	7,844
Moderate 1	2,614,944	2,261,349	3,614,954	62,351	95,523	46,435
Moderate 2	1,372,612	896,482	1,531,401	75,289	90,058	50,955
High 1	879,665	484,947	811,892	87,931	87,090	58,975
High 2	268,114	134,271	200,994	49,455	40,035	32,179
Critical	1,435,065	497,563	800,375	523,760	351,818	501,634
Total	\$ 10,913,023	\$ 13,222,012	\$ 13,319,951	\$ 808,545	\$ 681,545	\$ 698,169

As of December 31, 2020, the book value of the most significant portfolio of the Entity corresponds to the Null segment 1, which was \$ 2,614,944 thousand pesos, which is equivalent to 23.96% of the total portfolio, and 7.71% of the registered reserve (\$808,545 thousand pesos in 2020). In addition, regarding the reserve, the most significant segment is the Critical, with an amount of \$ 523,760 and a percentage of the total reserve of 64.78% in 2020.

The following is a summary of the Entity's exposure to credit risk of commercial debtors and assets by contract.

Concept	2020		2019		2018	
	Without deterioration credit	With deterioration credit	Without deterioration credit	With deterioration credit	Without deterioration credit	With deterioration credit
Customers	\$ 1,882,629	\$ 32,518	\$ 2,248,712	\$ 29,753	\$ 2,182,000	\$ 39,063
Total amount in gross books	\$ 2,264,268	\$ 8,648,755	\$ 6,363,322	\$ 6,858,690	\$ 3,200,667	\$ 10,119,284
Estimate for credit losses	\$ -	\$ 808,545	\$ 92	\$ 681,453	\$ 147	\$ 698,022

The following table provides information on the exposure to credit risk and the expected credit losses for commercial debtors and the assets of the individual customer contract as of December 31, 2020 of December 31, 2019 and December 31, 2018.

Concept	Amount in books			Expected credit reserve			Discount factors		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Null	\$ 2,264,268	\$ 6,363,322	\$ 3,200,667	\$ -	\$ 92	\$ 147	0.00%	0.00%	0.00%
Low	2,078,355	2,584,078	3,159,668	9,759	16,929	7,844	0.47%	0.66%	0.25%
Moderate 1	2,614,944	2,261,349	3,614,954	62,351	95,523	46,435	2.38%	4.22%	1.28%
Moderate 2	1,372,612	896,482	1,531,401	75,289	90,058	50,955	5.49%	10.05%	3.33%
High 1	879,665	484,947	811,892	87,931	87,090	58,975	10.00%	17.96%	7.26%
High 2	268,114	134,271	200,994	49,455	40,035	32,179	18.45%	29.82%	16.01%
Critical	1,435,065	497,563	800,375	523,760	351,818	501,634	36.50%	70.71%	62.67%
Total	\$ 10,913,023	\$ 13,222,012	\$ 13,319,951	\$ 808,545	\$ 681,545	\$ 698,169	7.41%	5.15%	5.24%

The probabilities of default are based on the actual credit loss experience of recent years. These rates are multiplied by scale factors to reflect the differences between the economic conditions during the period in which the historical data were collected, the current conditions and the Entity's vision of the economic conditions during the expected life of the receivable accounts.

Movements in the estimate for impairment related to the debtors by sales and assets by contract

The movement in the estimation for impairment of value related to the debtors for sale and other accounts receivable during the year was as follows.

Concept	2020
Balance as of January 1, 2018 according to Standard IAS 39	\$ 509,553
Initial application adjustment of IFRS 9	111,095
Balance as of January 1, 2018 according to IFRS 9 Standard	620,648
Punished amounts	865,433
Net remeasurement of the estimate for losses	942,954
Balance as of December 31, 2018	\$ 698,169
Punished amounts	881,041
Net remeasurement of the estimate for losses	864,417
Balance as of December 31, 2019	\$ 681,545
Punished amounts	822,219
Net remeasurement of the estimate for losses	949,219
Balance as of December 31, 2020	\$ 808,545

The estimate for impairment losses in the comparison of IAS 39 and IFRS 9 presents an accumulated increase / decrease of \$111,095 thousand pesos, for December 31, 2018, an increase / decrease of \$77,521 thousand pesos, and for December 31, 2019 there is an increase /decrease of (\$16,624), and for December 31, 2020, an increase / decrease of \$127,000 product of an increase / decrease in exposure amounts.



## 5. Recoverable taxes, mainly value added tax

	December 31, 2020	December 31, 2019	December 31, 2018
Value added tax (VAT)	\$ 1,060,563	\$ 1,217,036	\$ 1,040,184
ISR to recover	258,099	113,293	199,460
Other taxes to recover	18,089	8,359	6,673
	\$ 1,336,751	\$ 1,338,688	\$ 1,246,317

## 6. Inventories

	December 31, 2020	December 31, 2019	December 31, 2018
Merchandise in stores	\$ 10,262,174	\$ 12,184,641	\$ 12,016,272
Goods in transit	141,807	231,300	222,971
Replacement parts and other inventories	161,292	133,726	119,928
	\$ 10,565,273	\$ 12,549,667	\$ 12,359,171

The amount recognized in results for the sale of inventories, was \$26,004,362, \$32,954,083 and \$31,630,528 in 2020, 2019 and 2018, respectively.

## 7. Right-of-use assets

The Entity leases buildings. The average lease term is 15 years for 2020, 2019 and 2018, respectively.

The expired contracts were replaced by new leases with identical underlying assets. This resulted in the addition of rights-of-use assets of \$387,915, \$1,005,872 and \$ 1,810,318 in 2020, 2019 and 2018, respectively.

The analysis of the maturities of the lease liabilities is presented in note 8.

	Lease right-of use assets	Leased premises/ Buildings
<b>Cost:</b>		
At the beginning of 2018		\$ 6,182,609
Additions		1,810,318
Retirements		(931,942)
As of December 31, 2018		\$ 7,060,985
Additions		1,005,872
Retirements		(471,475)
As of December 31, 2019		\$ 7,595,382
Additions		\$ 387,915
Retirements		(573,667)
As of December 31, 2020		\$ 7,409,630
<b>Accumulated amortization:</b>		
At the beginning of 2018		\$ (774,052)
Period change		(802,539)
As of December 31, 2018		\$ (1,576,591)
Period change		(860,041)
As of December 31, 2019		\$ (2,436,632)
Period change		(573,335)
As of December 31, 2020		\$ (3,009,967)
<b>Value in books</b>		
As of January 1, 2018		\$ 5,408,557
As of December 31, 2018		\$ 5,484,394
As of December 31, 2019		\$ 5,158,750
As of December 31, 2020		\$ 4,399,663

## Amounts recognized in the consolidated statements of income

	2020	2019	2018
Depreciation expense of the Right of use asset	\$ 573,335	\$ 860,041	\$ 802,539
Finance expense caused by lease liabilities	473,391	480,828	132,952
Expense related to leasing of low-value assets	3,881	7,609	7,281
Expense related to variable lease payments, not included in the measurement of lease liabilities	-	70,325	81,501

Some of the leases of properties in which the Entity participates as lessee contain variable lease payment terms that are related to sales generated in the leased stores. Variable payment terms are used to link lease payments to store cash flows and reduce fixed cost. The composition of the lease payments by the stores is detailed in the following table.

	2020	2019	2018
Fixed payments	\$ 1,267,761	\$ 1,274,817	\$ 1,229,603
Variable payments	-	70,325	81,501
Total lease payments	\$ 1,267,761	\$ 1,345,142	\$ 1,311,104

## 8. Lease liabilities

	2020	2019	2018
Payment due :			
Year 1	\$ 1,261,561	\$ 1,693,452	\$ 1,721,688
Year 2	1,181,082	1,227,897	1,241,843
Year 3	1,055,460	1,061,450	1,064,720
Year 4	881,109	977,759	1,039,995
Year 5	762,239	846,327	955,939
Subsequent years	2,089,577	3,064,496	3,434,028
	7,231,028	8,871,381	9,458,213
Less: unearned interest	(2,000,857)	(2,663,432)	(2,971,698)
	\$ 5,230,171	\$ 6,207,949	\$ 6,486,515
Analyzed as:			
Long term	\$ 4,111,957	\$ 4,964,449	\$ 5,239,466
Short term	1,118,214	1,243,500	1,247,049
	\$ 5,230,171	\$ 6,207,949	\$ 6,486,515

The Entity does not face a significant liquidity risk regarding its lease liabilities. Lease liabilities are monitored through the Entity's Treasury.

From April to December 2020, the Entity has benefited from obtaining discounts on the payment of rent for leases of stores located throughout the Mexican Republic. The discount for lease payments was \$ 247,477, which were recognized in the income statement. The Entity continued to recognize interest expense on lease liabilities.

## 9. 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:

	2020	2019	2018
<b>Financial assets:</b>			
Cash and cash equivalents	\$ 3,990,572	\$ 1,690,176	\$ 2,477,658
Accounts and documents receivable	9,369,823	11,611,717	11,342,016
Long-term accounts receivable	1,297,214	1,488,146	1,577,705
Due from related parties	303,027	260,394	91,848
<b>Financial liabilities</b>			
At amortized cost:			
Payables to suppliers	\$ 8,361,528	\$ 8,684,657	\$ 9,115,216
Sundry creditors	179,777	351,835	198,812
Due to related parties	524,736	530,398	844,199
Short-term lease liabilities	1,118,214	1,243,500	1,247,049
Long-term lease liabilities	4,111,957	4,964,449	5,239,466

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 2019.

The capital structure of the Entity is composed by its net debt (mainly the related party debt detailed in Note 18) and stockholders' equity (issued capital, capital reserves, accumulated earnings and non-controlling equity detailed in Note 17). 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.

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 has undertaken in the past 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 2020, 2019 and 2018 would have increased or decreased by approximately \$38,700, \$37,803 and \$28,549, respectively. At December 31, 2020, 2019 and 2018 there would be no impact on other comprehensive income because there are no derivative financial instruments.

- 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):

	2020	Liabilities 2019	2018	2020	Assets 2019	2018
US Dollar	11,382	24,684	26,486	20,287	30,321	32,656

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):

	2020	2019	2018
Mexican pesos	17,764	10,623	12,144

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 it is diluted among 1,733,870 customers, which do not represent a concentration of risk in the individual. 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 4).

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, 2020	3 months	6 months	12 months	More than one year	Total
Trade accounts payable	\$ 8,291,081	\$ 70,447	\$ -	\$ -	\$ 8,361,528
Sundry creditors	179,777	-	-	-	179,777
Due to related parties	524,736	-	-	-	524,736
Lease liability	315,390	441,546	504,624	5,969,467	7,231,028
Total	\$ 9,310,984	\$ 511,993	\$ 504,624	\$ 5,969,467	\$ 16,297,069

As of December 31, 2019	3 months	6 months	12 months	More than one year	Total
Trade accounts payable	\$ 8,571,023	\$ 113,634	\$ -	\$ -	\$ 8,684,657
Sundry creditors	351,835	-	-	-	351,835
Due to related parties	530,398	-	-	-	530,398
Lease liability	440,298	609,643	643,512	7,177,929	8,871,381
Total	\$ 9,893,554	\$ 723,277	\$ 643,512	\$ 7,177,929	\$ 18,438,271

As of December 31, 2018	3 months	6 months	12 months	More than one year	Total
Trade accounts payable	\$ 9,049,470	\$ 65,746	\$ -	\$ -	\$ 9,115,216
Sundry creditors	198,812	-	-	-	198,812
Due to related parties	844,199	-	-	-	844,199
Lease liability	482,073	654,241	585,374	7,736,525	9,458,213
Total	\$ 10,574,554	\$ 719,987	\$ 585,374	\$ 7,736,525	\$ 19,616,440

## 10. 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, 2020		December 31, 2019		December 31, 2018	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
<b>Financial assets:</b>						
Cash and cash equivalent	\$ 3,990,572	\$ 3,990,572	\$ 1,690,176	\$ 1,690,176	\$ 2,477,658	\$ 2,477,658
<b>Notes and accounts receivables:</b>						
Accounts receivable from short and long-term customers and others	10,970,064	11,767,703	13,360,257	14,179,353	13,011,569	12,825,809
<b>Accounts and notes payable:</b>						
Trade accounts payable	8,361,528	8,361,528	8,684,657	8,684,657	9,115,216	9,115,216
Sundry creditors	179,777	179,777	351,835	351,835	198,812	198,812
Due to related parties	524,736	524,736	530,398	530,398	844,199	844,199
Total	\$ 5,894,595	\$ 6,692,234	\$ 5,483,543	\$ 6,302,639	\$ 5,331,000	\$ 5,145,240

## 11. Property, plant and equipment

The reconciliation of the book values at the beginning and end of the year 2020, 2019 and 2018 is as follows:

	Balances as of December 31, 2019	Additions	Retirements / disposals	Exchange differences on translation	Impairment	Transfers	Balances as of December 31, 2020
<b>Investment:</b>							
Buildings, leasehold improvements and constructions	\$ 13,732,702	\$ 120,950	\$ (399,767)	\$ 15,688	\$ 48,406	\$ -	\$ 13,517,979
Machinery and equipment	3,502,440	82,586	(71,587)	5,218	14,803	-	3,533,460
Furniture and fixtures	6,656,213	91,943	(149,594)	2,217	23,452	-	6,624,231
Vehicles	353,664	5,184	(14,861)	(368)	-	-	343,619
Computers	1,460,890	14,246	(187)	12,197	5,452	-	1,492,598
Total investment	25,705,909	314,909	(635,996)	34,952	92,113	-	25,511,887
<b>Accumulated depreciation:</b>							
Buildings, leasehold improvements and constructions	(6,667,833)	(458,313)	177,736	(32,477)	(23,472)	-	(7,004,359)
Machinery and equipment	(2,181,263)	(209,785)	60,152	2,083	(14,450)	-	(2,343,263)
Furniture and fixtures	(4,340,806)	(428,058)	113,384	9,237	(23,363)	-	(4,669,606)
Vehicles	(284,216)	(29,440)	13,612	78	-	-	(299,966)
Computers	(1,263,132)	(99,728)	7,576	(4,800)	(5,187)	-	(1,365,271)
Total accumulated depreciation	(14,737,250)	(1,225,324)	372,460	(25,879)	(66,472)	-	(15,682,465)
Subtotal	10,968,659	(910,415)	(263,536)	9,073	25,641	-	9,829,422
Land	2,711,072	126,652	-	-	-	-	2,837,724
Construction in progress	422,568	25,178	-	-	-	-	447,746
Net investment	\$ 14,102,299	\$ (758,585)	\$ (263,536)	\$ 9,073	\$ 25,641	\$ -	\$ 13,114,892

	Balances as of December 31, 2018	Additions	Retirements / disposals	Exchange differences on translation	Impairment	Transfers	Balances as of December 31, 2019
<b>Investment:</b>							
Buildings, leasehold improvements and constructions	\$ 13,579,265	\$ 284,824	\$ (76,246)	\$ (6,734)	\$ (48,407)	\$ -	\$ 13,732,702
Machinery and equipment	3,349,859	207,037	(37,952)	(302)	(16,202)	-	3,502,440
Furniture and fixtures	6,362,976	311,927	(24,127)	28,892	(23,455)	-	6,656,213
Vehicles	345,223	27,013	(18,408)	(164)	-	-	353,664
Computers	1,479,665	27,826	(6,683)	(35,863)	(4,055)	-	1,460,890
Total investment	25,116,988	858,627	(163,416)	(14,171)	(92,119)	-	25,705,909
<b>Accumulated depreciation:</b>							
Buildings, leasehold improvements and constructions	(6,286,109)	(472,153)	46,742	15,624	28,063	-	(6,667,833)
Machinery and equipment	(2,020,128)	(204,605)	31,668	(5,682)	17,484	-	(2,181,263)
Furniture and fixtures	(3,898,654)	(458,984)	20,394	(27,011)	23,449	-	(4,340,806)
Vehicles	(265,727)	(34,815)	16,159	167	-	-	(284,216)
Computers	(1,194,195)	(106,976)	6,093	27,739	4,207	-	(1,263,132)
Total accumulated depreciation	(13,664,813)	(1,277,533)	121,056	10,837	73,203	-	(14,737,250)
Subtotal	11,452,175	(418,906)	(42,360)	(3,334)	(18,916)	-	10,968,659
Land	2,710,031	1,276	(235)	-	-	-	2,711,072
Construction in progress	387,288	35,280	-	-	-	-	422,568
Net investment	\$ 14,549,494	\$ (382,350)	\$ (42,595)	\$ (3,334)	\$ (18,916)	\$ -	\$ 14,102,299

	Balances as of December 31, 2018	Additions	Retirements / disposals	Exchange differences on translation	Impairment	Transfers	Balances as of December 31, 2019
<b>Investment:</b>							
Buildings, leasehold improvements and constructions	\$ 12,582,952	\$ 338,427	\$ (194,604)	\$ (389)	\$ -	\$ 852,879	\$ 13,579,265
Machinery and equipment	3,139,152	10,211	(50,586)	(25,840)	-	276,922	3,349,859
Furniture and fixtures	5,843,939	198,529	(100,064)	2,771	-	417,801	6,362,976
Vehicles	340,313	37,706	(33,740)	944	-	-	345,223
Computers	1,389,753	62,526	(14,187)	21,327	-	20,246	1,479,665
Total investment	23,296,109	647,399	(393,181)	(1,187)	-	1,567,848	25,116,988
<b>Accumulated depreciation:</b>							
Buildings, leasehold improvements and constructions	(5,951,063)	(444,835)	89,755	4,198	15,836	-	(6,286,109)
Machinery and equipment	(1,894,482)	(187,606)	40,422	19,552	1,986	-	(2,020,128)
Furniture and fixtures	(3,481,388)	(497,863)	79,693	(4,871)	5,775	-	(3,898,654)
Vehicles	(258,740)	(37,673)	31,560	(874)	-	-	(265,727)
Computers	(1,086,805)	(101,614)	12,099	(17,453)	(422)	-	(1,194,195)
Total accumulated depreciation	(12,672,478)	(1,269,591)	253,529	552	23,175	-	(13,664,813)
Subtotal	10,623,631	(622,192)	(139,652)	(635)	23,175	1,567,848	11,452,175
Land	2,706,763	3,268	-	-	-	-	2,710,031
Construction in progress	1,187,453	767,683	-	-	-	(1,567,848)	387,288
Net investment	\$ 14,517,847	\$ 148,759	\$ (139,652)	\$ (635)	\$ 23,175	\$ -	\$ 14,549,494

## 12. Investment properties

	2020	2019	2018
Investment properties	\$ 2,462,521	\$ 2,507,271	\$ 2,415,553

The changes in investment properties are as follows:

	2020	2019	2018
Balance at beginning of period	\$ 2,507,271	\$ 2,415,553	\$ 2,323,901
Adjustments to fair value of investment properties	(44,750)	91,718	91,652
Balance at end of period	\$ 2,462,521	\$ 2,507,271	\$ 2,415,553

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:

Type of property	Recommended ranges for capitalization rates	
	Low	Maxim
Shops	7.5%	9.1%

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 \$132,428, \$231,852 and \$231,370 for the years ended December 31, 2020, 2019 and 2018 respectively. At December 31, 2020, 2019 and 2018, the occupancy rate of shopping centers is 72%, 85% and 92%, respectively.

Direct operating expenses including maintenance costs incurred in relation to the investment property are recognized in income amounting, approximately 65%, 40% and 37% of rental income for years ended December 31, 2020, 2019 and 2018, respectively.

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 units located in Mexico City	Income capitalization approach	Capitalization rate, taking into account the capitalization of rental income, potential nature of the property, and prevailing market condition, of, 7.5% - 9.1% of 7.4% - 8.9% in 2019 2018, . 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 \$167,151 and an increase of 50 points would result in a decrease in its fair value of \$147,487.
		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 \$368 and \$346 Mexican pesos per square meter ("sqm") per month in 2019 and 2018, respectively.	A significant increase in the market rent used would result in a significant increase in fair value, and back

### 13. Investment in shares of associates and others

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

Associated	Ownership percentage			Location	Activity
	2020	2019	2018		
Inmuebles SROM, S.A. de C.V.	14.00	14.00	14.00	México	Property leasing
Miniso BF Holding S.R.L. de C.V.	33.27	33.27	-	México	Operation of multi-category stores of low-cost products, under the model of specialized franchises

		Investment in shares			Participation in profit or loss		
		2020	2019	2018	2020	2019	2018
Inmuebles SROM, S.A. de C.V. <sup>(1)</sup>	\$	1,838,878	\$ 2,441,613	\$ 2,272,600	\$ 181,831	\$ 169,012	\$ 187,088
Miniso BF Holding, S.R.L. de C.V.		797,353	1,081,485	-	(316,162)	(52,187)	-
Others		1,317	1,317	1,317	-	-	-
Total	\$	2,637,548	\$ 3,524,415	\$ 2,273,917	\$ (134,331)	\$ 116,825	\$ 187,088

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

## 14. Other accounts payable and accrued liabilities

	2020	2019	2018
Taxes payable	\$ 1,091,144	\$ 2,282,802	\$ 2,111,969
Advertising	180,154	153,200	181,796
Leases	165,151	121,155	102,712
Maintenance contracts	132,252	171,691	168,888
Unfilled orders	123,672	56,714	52,041
Loyalty program	106,451	151,842	148,920
Expenses to pay systems	93,598	54,205	49,065
Expansion and computing	76,000	73,618	54,376
Building and equipment maintenance	72,040	73,843	74,522
Electric power	70,927	83,956	108,348
Electronics waters	69,117	70,568	62,887
Transport	60,088	29,649	36,284
Water	57,067	59,799	55,643
Sundry creditors	179,777	351,835	198,812
Others	574,854	512,719	421,963
	\$ 3,052,292	\$ 4,247,596	\$ 3,828,226

## 15. Provisions

The provisions presented below, represent accrued expenses during 2020, 2019 and 2018, 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.

	2020	2019	2018
Opening balance	\$ 129,731	\$ 129,265	\$ 125,708
Additions	59,090	40,828	72,579
Provision applied and write-offs	(10,363)	(40,362)	(69,022)
Closing balance	\$ 178,458	\$ 129,731	\$ 129,265

## 16. 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 managed 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 not awarded.

The plans typically expose the Entity to actuarial risks such 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 rate 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.

The most recent actuarial valuations of the plan's assets and the present value of the defined benefit obligation were carried out as of July 31, 2020 with information regarding 30 June 2020 for the rethinking of the employee pension plan in the Sanborns Hermanos segment, S.A. de C.V. and December 31, 2020 with information regarding October 31, 2020, by independent actuaries, members of the Mexican Association of Actuaries Consultores, A.C. Also, on December 31, 2020, the pension plan of Sears Operadora México, S.A. de C.V. was rethinking. The present value of the defined benefit obligation, the labor cost of the current service, and the cost of past services were calculated using the projected unit credit method.

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

	2020 %	2019 %	2018 %
Discount rate	7.05	7.35	9.64
Expected rate of salary increase	5.70	5.58	6.87
Expected return on plan assets	7.05	7.35	9.64
Age for current pensioners (years):			
Males	65	65	65
Females	65	65	65

Items of defined benefit costs recognized in other comprehensive income.

	2020	2019	2018
Remeasurement on the net defined benefit liability:			
Actuarial (profit)/losses on return on plan assets excluding amounts included in net interest expense	\$ (46,458)	\$ (90,807)	\$ (177,403)
Actuarial (profit)/losses arising from changes in demographic assumptions	(37,601)	(756)	(108,407)
Actuarial (profit)/losses arising from changes in financial assumptions	(128,265)	(873,024)	240,935
Other actuarial (profit)/losses by experience	42,849	12,324	119,668
Items of defined benefit costs recognized in other comprehensive income	\$ (169,475)	\$ (952,263)	\$ 74,793

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 2020 (current working service cost) included \$39,285, \$38,332 and (\$1,488,927) in the income statement as selling expenses and administrative expenses, respectively, the statement of income also includes interest income of \$175,004.

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:

	2020	2019	2018
Present value of funded defined benefit obligation	\$ (1,739,953)	\$ (3,047,887)	\$ (1,958,895)
Fair value of plan assets	2,502,825	2,556,670	2,439,747
Surplus	\$ 762,872	\$ (491,217)	\$ 480,852
Net assets arising from defined benefit obligation	\$ 820,200	\$ 226,361	\$ 537,346
Net liabilities arising from defined benefit obligation.	(57,328)	(717,578)	(56,494)
	\$ 762,872	\$ (491,217)	\$ 480,852

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

	2020	2019	2018
Opening defined benefit obligation	\$ 3,047,887	\$ 1,958,895	\$ 2,055,562
Current service cost	129,974	111,385	101,394
Cost (income) interest	178,756	187,418	148,169
Remeasurement (gains)/losses:			
Actuarial (gains) and losses arising from changes in demographic assumptions	33,553	765	111,716
Actuarial (gains) and losses arising from changes in financial assumptions	114,474	882,986	(248,290)
Other (actuarial losses or (gains) by experience)	(38,177)	(12,464)	(123,321)
Past service cost	(1,552,541)	27,355	8,767
Transfers of personnel	40	-	-
Actuarial losses/(gains) on anticipated liquidations or reductions	26,417	-	-
Other effects	(12,990)	-	-
Benefits paid for early settlement of obligations	(89,008)	-	-
Settled obligation	-	(8,707)	-
Benefits paid	(98,432)	(99,746)	(95,102)
Closing defined benefit obligation	\$ 1,739,953	\$ 3,047,887	\$ 1,958,895

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

	2020	2019	2018
Opening fair value of plan assets	\$ 2,556,670	\$ 2,439,747	\$ 2,438,438
Interest income	175,004	227,953	190,246
Remeasurement gains / (losses):			
Return on plan assets (excluding amounts included in net interest expense)	(41,456)	(91,842)	(182,817)
Entity contributions	-	80,000	88,552
Benefits paid for early settlement of obligations	(89,008)	-	-
Benefits paid	(98,385)	(99,188)	(94,672)
Closing fair value of plan assets	\$ 2,502,825	\$ 2,556,670	\$ 2,439,747

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 were 100 basis points higher (lower), the defined benefit obligation would decrease by \$191,132 (increase by \$64,193).

If the expected salary growth would increase (decreases) by 1%, the defined benefit obligation would increase by \$373,200 (decrease by \$482,470).

If the life expectancy would increase (decreases) by one year for both men and women, the defined benefit obligation would increase by \$65,024 (decrease by \$ 44,451).

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.

### Relevant aspects

Relevant aspects of the valuation as of December 31, 2020 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 51% equity instruments and 49% debt instruments.

The average duration of the benefit obligation as of December 31, 2020 is 9.87 years, 2019 is 15.02 years and 12.90 years in 2018.

The major categories of plan assets are:

	2020 %	2019 %	2018 %	2020	Fair value of plan assets 2019		2018
Equity instruments	51%	47%	47%	\$ 1,285,807	\$	1,244,592	\$ 1,136,448
Debt instruments	49%	53%	53%	\$ 1,217,081	\$	1,375,740	\$ 1,276,449

The actual return on plan assets amounted to \$175 million, \$228 million and \$190 million 2020, 2019 and 2018, respectively.

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

	2020	2019	2018
Short term benefits	\$ 43,587	\$ 69,268	\$ 62,392
Defined benefit plans	16,394	111,399	87,403

## 17. Stockholders' equity

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

	2020		2019		2018	
	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	(124,312,508)	(64,395)	(120,931,946)	(62,158)	(117,109,137)	(59,628)
Series B1	2,257,687,492	\$ 1,975,283	2,261,068,054	\$ 1,977,520	2,264,890,863	\$ 1,980,050

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. As of December 31, 2020, 3,380,562 shares were repurchased, amounting to \$64,020, representing an affectation of the share capital of \$2,237 and accrued results of \$61,783.
- c. At the Annual Ordinary General Assembly of Shareholders of Grupo Sanborns, S.A.B. de C.V. held on April 30, 2020, it was decided that the balance of accumulated profits in the amount of \$20,488,282, shall be made available to the Shareholders' Meeting of the Company and the Board of Directors, so that they apply it in whole or in part in the form and terms that any of these bodies deem appropriate.
- d. In Ordinary General Assembly of shareholders of Grupo Sanborns, S.A.B. C.V., held on July 22, 2020, the subsidiary Promotora Musical, S.A. de C.V. decreed the payment of cash dividends from the net tax profit account accumulated as of December 31, 2013, amounting to \$500,000 distributing to the non-controlling share a dividend of \$245,000.
- e. At The Ordinary General Assembly of shareholders of Grupo Sanborns, S.A.B. de C.V., held on September 30th 2020, the subsidiary Promotora Musical, S.A. de C.V. decreed the payment of cash dividends from the net tax profit account accumulated as of December 31, 2013 and after 2014, amounting to \$523,000 distributing to the non-controlling share a dividend of \$256,270.
- f. During the Stockholders' Ordinary General Meeting held on April 29, 2019, 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 \$2,083,000 at a rate of \$ 0.92 per each of the 2,264,082,145 shares subscribed and paid, without considering the 117,917,855 shares in Treasury on April 26, 2019. They were paid in two payments of \$ 0.46 per share, the first payment on June 20 and the second on December 20, 2019, against delivery of coupon 13 and 14, respectively.
- g. During 2019, 3,822,809 shares have been repurchased for \$81,815, which affects common stock by \$2,530 and accumulated earnings by \$79,285.
- h. During the Stockholders' Ordinary General Meeting held on April 26, 2018, 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 \$2,042,833 at a rate of \$ 0.90 per each of the 2,269,814,940 shares subscribed and paid, without considering the 112,185,060 shares in Treasury on April 25, 2018. They were paid in two payments of \$ 0.45 per share, the first payment on June 20 and the second on December 20, 2018, against delivery of coupon 11 and 12, respectively.
- i. During 2018, 15,315,242 shares have been repurchased for \$300,967, which affects common stock by \$10,135 and accumulated earnings by \$290,832.
- j. 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, 2020, 2019 and 2018, the legal reserve, in historical pesos, was \$311,682, \$311,682 and \$311,682, respectively.
- k. 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.
- l. 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.

m. The balances of the stockholders' equity tax accounts as of December 31, 2020, 2019 and 2018 are:

	2020	2019	2018
Contributed capital account	\$ 17,660,090	\$ 17,192,639	\$ 16,646,126
Consolidated net tax income account	7,142,623	6,021,958	5,836,691
Total	\$ 24,802,713	\$ 23,214,597	\$ 22,482,817

## 18. Transactions and balances with related parties

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

	2020	2019	2018
<b>Receivable -</b>			
Radiomóvil Dipsa, S.A. de C.V.	\$ 27,371	\$ 37,049	\$ 41,268
Teléfonos de México, S.A.B. de C. V.	81,687	43,543	26,795
Grupo Técnico de Servicios Telvista, S. A. de C. V	-	-	4,843
Nacional de Conductores Eléctricos, S.A. de C.V.	698	3,670	3,696
Pase, Servicios Electrónicos, S.A. de C.V.	2,108	1,371	2,432
Impulsora Turística de Tabasco, S.A. de C.V.	-	-	1,624
Seguros Inbursa, S.A. de C. V.	7,704	4,436	1,386
Operadora de Sites Mexicanos, S.A. de C.V	908	1,180	1,271
Inmuebles Srom, S.A. de C.V.	1,331	14	766
Administradora y Operadora de Estacionamientos Ideal, S.A. de C.V.	443	443	443
Imsalmar, S.A. de C.V.	60	183	422
Nacobre Servicios Administrativos, S.A. de C.V	-	1,531	412
Industrial Afiliada, S.A. de C.V.	-	127	278
Servicios Corporativos Ideal, S.A de C.V.	-	558	224
Banco Inbursa, S.A. de C.V.	708	966	205
Nacional de Cobre, S.A. de C.V.	676	146	47
Promotora del Desarrollo de América Latina, S.A. de C.V.	-	2	32
Hipocampo, S.A. de C.V	3,108	23	27
Patrimonial Inbursa, S.A. de C.V.	-	-	23
Entidad de Servicios Ostar, S.A. de C.V.	-	13	11
Administración Especializada Integral, S.A. de C.V.	-	541	-
Bienes Raíces de Acapulco, S.A. de C.V.	-	2	-
Miniso BF Holding S. de R.L. de C.V.	165,846	153,793	-
Grupo Telvista, S.A. de C.V.	627	4,346	4,843
Construcciones Urvitec, S.A. de C.V.	6,031	-	-
Others	3,721	6,457	800
	\$ 303,027	\$ 260,394	\$ 91,848

	2020	2019	2018
<b>Payable-</b>			
Radiomóvil Dipsa, S.A. de C.V.	\$ 265,470	\$ 237,912	\$ 480,318
Sears Brands Management Corporation	66,100	82,437	83,476
AMX Contenido, S.A. de C.V.	617	2,097	61,125
Inmose, S.A. de C.V.	37,493	42,364	47,659
Inmuebles Srom, S.A. de C.V.	9,517	17,022	42,139
Plaza Carso II, S.A. de C.V.	3,637	9,505	9,638
Teléfonos de México, S.A.B. de C.V.	2,046	17,223	8,927
Bajasur, S.A. de C.V.	4,845	7,546	7,667
Desarrollos Sagesco, S.A. de C.V.	8,994	8,919	7,627
Consortio Red Uno, S.A. de C.V.	8,627	17,423	7,325
Claro Video, Inc.	7,571	8,083	7,230
Concesionaria Etram Cuatro Caminos, S.A. de C.V.	9,831	7,595	5,545
Inmuebles Corporativos e Industriales, S.A. de C.V.	1,873	890	4,093
Selmec Equipos Industriales, S.A. de C.V.	500	1,971	3,976
Bienes Raíces de Acapulco, S.A. de C.V.	2,122	2,765	3,735
Bicicletas de México, S. A. de C.V.	1,804	3,063	3,107
Escaleras, S. de R.L. de C.V.	3,201	1,008	2,699
América Móvil, S.A.B. de C.V.	487	1,633	2,291
Inversora Bursátil, S.A. de C.V.	10,800	10	1,604
Grupo Telvista, S.A. de C.V.	4,206	3,036	1,148
Anuncios en Directorio, S. A. de C.V.	3,547	4,452	1,061
Inmuebles General, S.A. de C.V.	1,304	776	804
Banco Inbursa, S.A. de C.V.	1,295	800	758
Carso Global Telecom, S. A. de C.V.	497	497	497
Servicios Condomex, S.A. de C.V.	40	23	40
Emprendedora Administrativa, S.A. de C.V.	629	13,460	-
JM Distribuidores, S.A.	23,217	22,226	40,817
Seguros Inbursa, S.A. de C.V.	(1)	250	475
Cigarros La Tabacalera, S. de R.L. de C.V.	12,991	6,580	649
Controladora de Servicios de Telecomunicaciones, S.A. de C.V.	10,565	150	150
Scitum, S.A. de C.V.	4,001	-	-
JCDECAUX Out of Home México, S.A.	8,197	-	-
Others	8,713	8,682	7,619
	\$ 524,736	\$ 530,398	\$ 844,199

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.



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

	2020	2019	2018
<b>Sales-</b>			
Seguros Inbursa, S.A.	\$ 22,552	\$ 41,457	\$ 59,649
Radiomóvil Dipsa, S.A. de C.V.	113,867	7,813	416
Grupo Telvista, S.A. de C.V.	12,323	30,646	27,802
Nacional de Conductores Eléctricos, S.A. de C.V.	21,649	23,593	22,348
Outsourcing Inburnet, S.A. de C.V.	18,824	21,392	20,362
Teléfonos de México, S.A.B. de C.V.	12,924	7,186	12,296
Sociedad Financiera Inbursa, SOFOM E.R.	-	-	8,745
Nacobre Servicios Administrativos, S.A. de C.V.	4,002	8,838	8,243
Hipocampo, S.A. de C.V.	7,549	9,039	6,569
Afore Inbursa, S.A. de C.V.	4,977	3,250	5,266
Constructora Terminal Valle de México, S.A. de C.V.	-	1,451	4,400
América Móvil, S.A.B. de C.V.	2,203	4,197	3,548
Latam Servicios Integrales, S.A. de C.V.	715	2,993	3,087
Arneses Eléctricos Automotrices, S.A. de C.V.	715	2,706	2,983
Administradora de Personal de Centros Comerciales, S.A. de C.V.	618	2,328	2,565
Banco Inbursa, S.A.	38,335	25,410	32
Fundación Carlos Slim, A.C.	318,201	257	322
Sales (others)	21,756	29,370	30,730
<b>Total</b>	<b>\$ 601,210</b>	<b>\$ 221,926</b>	<b>\$ 219,363</b>
<b>Interests received</b>	<b>\$ 26,039</b>	<b>\$ 44,523</b>	<b>\$ 14,157</b>
<b>Lease income -</b>			
Radiomóvil Dipsa, S.A. de C.V.	\$ 11,063	\$ 12,031	\$ 12,882
Teléfonos de México, S.A.B. de C.V.	9,127	9,007	9,934
Banco Inbursa, S.A.	25,238	32,499	30,426
I+D México, S.A. de C.V.	-	-	5,205
Operadora de Sites Mexicanos, S.A. de C.V.	2,206	4,487	2,819
Laboratorio Médico Polanco, S.A. de C.V.	-	-	1,085
Pase Servicios Electrónicos, S.A. de C.V.	1,697	4,996	-
Lease income (others)	2,624	892	2,845
<b>Total</b>	<b>\$ 51,955</b>	<b>\$ 63,912</b>	<b>\$ 65,196</b>

	2020	2019	2018
<b>Service revenues -</b>			
Clarovideo Inc. (Antes DLA, Inc.)	\$ 119,305	\$ 136,814	\$ 133,314
Radiomóvil Dipsa, S.A. de C.V.	111,392	241,896	230,534
Banco Inbursa, S.A.	5,024	4,199	7,999
Sociedad Financiera Inbursa, S.A. de C.V.	6,568	12,834	7,335
Seguros Inbursa, S.A.	1,258	4,075	4,546
Patrimonial Inbursa, S.A.	1,152	2,683	4,488
Teléfonos de México, S.A.B. de C.V.	6,888	9,662	1,073
América Móvil, S.A.B. de C.V.	-	-	847
Inmuebles SROM, S.A. de C.V.	2,852	3,958	4,396
Hipocampo, S.A. de C.V.	158	-	-
Insalmar, S.A. de C.V.	19	-	-
Pase, Servicios Electrónicos, S.A. de C.V.	9,443	1,923	-
Service revenues (others)	2,691	3,728	3,474
<b>Total</b>	<b>\$ 266,750</b>	<b>\$ 421,772</b>	<b>\$ 398,006</b>
Income from sale of fixed assets	\$ 257	\$ 619	\$ 2,965
<b>Inventory purchases-</b>			
Radiomóvil Dipsa, S.A. de C.V.	\$ (83,511)	\$ (77,551)	\$ (98,261)
América Móvil, S.A.B. de C.V.	(47,601)	(86,457)	(96,968)
Acer Computer México, S.A. de C.V.	-	-	(7,266)
Escaleras, S. de R.L. de C.V.	(8,852)	(6,351)	(6,955)
Bicicletas de México, S.A. de C.V.	(1,595)	(4,741)	(6,051)
Grupo Telvista, S.A. de C.V.	-	-	(3,085)
Sears Brands Management Corporation	-	(544)	(1,084)
Teléfonos de México, S.A.B. de C.V.	(1,046)	(74)	(204)
JM Distribuidores, S.A. de C.V.	(109,257)	(183,552)	(180,702)
Inventory purchases (others)	(1,361)	(7,106)	(7,463)
<b>Total</b>	<b>\$ (253,223)</b>	<b>\$ (366,376)</b>	<b>\$ (408,039)</b>
Insurance expenses with Seguros Inbursa, S.A.	\$ (131,087)	\$ (137,019)	\$ (124,480)
<b>Lease expenses-</b>			
Inmuebles Srom, S.A. de C.V.	\$ (114,297)	\$ (181,327)	\$ (160,910)
Inmuebles General, S.A. de C.V.	(92,830)	(92,980)	(94,731)
Inmose, S.A. de C.V.	(51,896)	(82,263)	(84,159)
Bienes Raíces de Acapulco, S.A. de C.V.	(31,339)	(46,475)	(47,093)
Bajasur, S.A. de C.V.	(25,167)	(37,883)	(34,236)
Desarrollos Sagesco, S.A. de C.V.	(22,572)	(31,414)	(33,070)
Inmuebles Corporativos e Industriales CDMX, S.A.	-	(8,645)	(11,155)
Fideicomiso Plaza Universidad	(7,234)	(10,722)	(10,396)
Acolman, S.A.	(7,214)	(12,515)	(9,217)
Plaza CARSO II, S.A. de C.V.	(7,742)	(15,726)	(15,663)
Inmobiliaria Santa Cruz, S.A. de C.V.	(8,802)	(8,611)	(8,846)
Cigarros La Tabacalera Mexicana, S. de R.L. de C.V.	(5,910)	(6,478)	(7,272)
Fideicomiso Desarrollo Tlalnepantla	(3,321)	(2,985)	(2,025)
Autoensambles y Logística, S.A. de C.V.	(11,601)	(14,932)	-
Fideicomiso 7278 Bancomer	(10,263)	(15,174)	(10,150)
Fideicomiso 569/2005 Banca Mifel S.A. Altabrisa	(5,975)	(9,133)	(5,257)
Lease expenses (others)	(61,952)	(79,068)	(78,609)
<b>Total</b>	<b>\$ (468,115)</b>	<b>\$ (656,331)</b>	<b>\$ (612,789)</b>
Interest expenses	\$ (9,275)	\$ (16,008)	\$ (3,672)

	2020	2019	2018
<b>Service expenses -</b>			
Sears Brands Management Corporation	\$ (198,081)	\$ (262,955)	\$ (258,087)
Teléfonos de México, S.A.B. de C.V.	(284,787)	(243,835)	(242,686)
AMX Contenido, S.A. de C.V.	(84,962)	(190,995)	(202,048)
Promotora Inbursa, S.A. de C.V.	(1,011)	(131)	(116)
Emprendedora Administrativa, S.A. de C.V.	(2,710)	(41,475)	(34,964)
Hitss Consulting, S.A. de C.V.	(110,725)	(31,332)	(28,253)
Conglomerado de Medios Internacionales, S.A. de C.V.	-	-	(17,993)
Grupo Telvista, S.A. de C.V.	(15,478)	(14,396)	(7,292)
Teléfonos del Noroeste, S.A. de C.V.	(1,152)	(1,082)	(6,238)
Seguros Inbursa, S.A.	(7,092)	(6,110)	(4,327)
Anuncios en Directorio, S.A. de C.V.	-	(3,367)	(513)
Banco Inbursa, S.A.	(4,284)	(6,047)	(492)
Radiomóvil Dipsa, S.A. de C.V.	(2,937)	(3,031)	-
Controladora de Servicios de Telecomunicaciones, S.A. de C.V.	(8,978)	-	-
JCDECAUX Out of Home México S.A.	(9,488)	-	-
Service expenses (others)	(13,456)	(12,810)	(3,250)
<b>Total</b>	<b>\$ (745,141)</b>	<b>\$ (817,566)</b>	<b>\$ (806,259)</b>
<b>Other expenses, net</b>	<b>\$ (218,032)</b>	<b>\$ (264,032)</b>	<b>\$ (199,367)</b>
<b>Purchases of property, plant and equipment</b>	<b>\$ (8,621)</b>	<b>\$ (99,450)</b>	<b>\$ (121,001)</b>

## 19. Revenue

	2020	2019	2018
Sale of goods	\$ 34,881,241	\$ 47,880,717	\$ 46,560,437
Interests by credit card	3,586,863	3,974,592	3,793,981
Services	874,123	1,041,234	1,017,942
Leases	149,158	258,469	238,346
Other	121,489	133,467	144,716
<b>Total income</b>	<b>\$ 39,612,874</b>	<b>\$ 53,288,479</b>	<b>\$ 51,755,422</b>

**20. Cost and expenses by nature**

Concept	2020			
	Cost of sales	Selling and distribution expenses	Administrative expenses	Total cost and expenses
Merchandise	\$ 25,764,893	\$ -	\$ -	\$ 25,764,893
Wages and salaries	10,800	3,891,907	700,806	4,603,513
Employee benefits	-	2,023,838	318,136	2,341,974
Electricity	7,056	412,591	6,707	426,354
Maintenance	50,495	627,288	41,788	719,571
Advertising	-	280,549	-	280,549
Royalties	-	176,997	-	176,997
Security services	18,085	75,301	3,447	96,833
Water	3,427	84,435	1,109	88,971
Expansion costs	-	2,586	32,679	35,265
Provision for impairment of loan portfolio	13,744	10,343	925,132	949,219
Defined benefits	-	39,285	38,332	77,617
Others	94,378	1,083,384	716,824	1,894,586
	25,962,878	8,708,504	2,784,960	37,456,342
Lease depreciation	-	573,335	-	573,335
Depreciation and amortization	41,484	1,118,688	95,815	1,255,987
	41,484	1,692,023	95,815	1,829,322
	\$ 26,004,362	\$ 10,400,527	\$ 2,880,775	\$ 39,285,664

Concept	2019			
	Cost of sales	Selling and distribution expenses	Administrative expenses	Total cost and expenses
Merchandise	\$ 32,724,772	\$ -	\$ -	\$ 32,724,772
Wages and salaries	11,749	4,076,041	736,647	4,824,437
Employee benefits	-	2,084,248	333,305	2,417,553
Electricity	8,168	693,058	7,509	708,735
Maintenance	45,944	770,629	37,597	854,170
Advertising	-	516,747	-	516,747
Royalties	-	257,234	3,001	260,235
Security services	17,565	87,593	3,783	108,941
Water	6,756	124,581	1,649	132,986
Expansion costs	-	-	115,632	115,632
Provision for impairment of loan portfolio	-	-	849,482	849,482
Defined benefits	-	31,044	98,966	130,010
Others	99,206	2,042,019	807,459	2,948,684
	32,914,160	10,683,194	2,995,030	46,592,384
Lease depreciation	-	860,041	-	860,041
Depreciation and amortization	39,923	1,164,859	98,258	1,303,040
	39,923	2,024,900	98,258	2,163,081
	\$ 32,954,083	\$ 12,708,094	\$ 3,093,288	\$ 48,755,465



Concept	2018			
	Cost of sales	Selling and distribution expenses	Administrative expenses	Total cost and expenses
Merchandise	\$ 31,396,929	\$ -	\$ -	\$ 31,396,929
Wages and salaries	11,296	3,923,211	673,964	4,608,471
Employee benefits	-	1,921,363	336,008	2,257,371
Electricity	7,566	639,509	6,845	653,920
Maintenance	41,258	725,202	51,957	818,417
Advertising	3,363	458,467	-	461,830
Royalties	-	257,104	3,000	260,104
Security services	16,917	72,704	3,620	93,241
Water	7,191	121,649	943	129,783
Expansion costs	-	-	154,421	154,421
Provision for impairment of loan portfolio	-	-	926,474	926,474
Defined benefits	-	33,945	76,216	110,161
Others	102,824	1,981,990	773,310	2,858,124
	31,587,344	10,135,144	3,006,758	44,729,246
Lease depreciation	-	802,539	-	802,539
Depreciation and amortization	43,184	1,193,565	52,976	1,289,725
	43,184	1,996,104	52,976	2,092,264
	\$ 31,630,528	\$ 12,131,248	\$ 3,059,734	\$ 46,821,510

## 21. Other income

	2020	2019	2018
Cancellation of liabilities and provisions	\$ (302,239)	\$ (246,305)	\$ (337,801)
Gain arising on changes in fair value of investment properties	-	(91,718)	(91,652)
Application of deterioration	(25,641)	(6,725)	(31,349)
Cancellation Judgment	-	-	(28,000)
Income Escrow Cabi Culiacán	-	-	(20,576)
Recovery by sequential loss	-	(7,248)	(7,143)
Parking recovery	-	(2,886)	(6,090)
Royalties sales of brand	-	(10,916)	(5,402)
Gain on sale of property, machinery and equipment	(4,107)	(3,378)	(3,218)
Valuations of employee benefits <sup>(1)</sup>	(1,488,927)	-	-
Tax recovery	(13,152)	-	-
Others	(31,215)	(25,574)	(20,930)
	\$ (1,865,281)	\$ (394,750)	\$ (552,161)

<sup>(1)</sup> Effect of the retirement employee benefits.

## 22. Other expenses

	2020	2019	2018
Loss on sale of property, machinery and equipment	\$ 278,967	\$ 27,960	\$ 115,369
Labor contingencies	-	22,772	43,550
Tax Update	22,277	27,203	32,468
Expenses for closing units	18,179	17,825	20,442
Contingency technical assistance	6,676	6,895	15,913
Impairment of property	19,611	25,641	8,174
Aged accounts receivable	30,333	-	-
Loss from changes in the fair value of investment properties	44,750	-	-
VAT 69B non-deductible	-	18,742	-
Judgment	-	8,052	-
Non- deductible	5,775	7,208	-
Others	84,854	66,275	26,982
	\$ 511,422	\$ 228,573	\$ 262,898

## 23. Income taxes

The Entity is subject to ISR. Under the ISR Law, the rate for 2020, 2019 and 2018 was 30% and will continue to 30% and thereafter. 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.

At the same time that the 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 2020, 2019 and 2018 as previously described.

a. Income taxes consist of the following:

	2020	2019	2018
<b>ISR:</b>			
Current	\$ 263,977	\$ 1,522,307	\$ 1,545,900
Deferred	(3,292)	(172,801)	(100,840)
	\$ 260,685	\$ 1,349,506	\$ 1,445,060

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

	2020	2019	2018
<b>ISR deferred (asset) liability:</b>			
Property, machinery and equipment and investment properties	\$ 530,379	\$ 628,508	\$ 720,382
Allowance for doubtful receivable	(222,376)	(140,435)	(131,432)
Allowance for obsolescence and shrinkage inventories	(180,195)	(181,414)	(160,994)
	2020	2019	2018
Allowances for assets and reserves for liabilities and provisions	(485,847)	(907,554)	(659,819)
Employee benefits	(183,591)	(103,459)	167,141
Others	367,180	144,023	(136,930)
Deferred ISR on temporary differences	(174,450)	(560,331)	(201,652)
Effect of tax loss carry- forwards	(594,871)	(159,526)	(57,692)
Total	\$ (769,321)	\$ (719,857)	\$ (259,344)

The net deferred income tax liability is as follows:

	2020	2019	2018
Net assets	\$ (1,841,898)	\$ (1,922,791)	\$ (1,501,957)
Net liabilities	1,072,577	1,202,934	1,242,613
Total	\$ (769,321)	\$ (719,857)	\$ (259,344)

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

	2020	2019	2018
Beginning balance	\$ (719,857)	\$ (259,344)	\$ 154,457
Income tax applied to period results	(3,292)	(172,801)	(100,840)
Income tax recognized in other comprehensive income	(46,172)	(287,712)	(312,961)
Ending balance	\$ (769,321)	\$ (719,857)	\$ (259,344)

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

	2020 %	2019 %	2018 %
Statutory rate	30	30	30
Plus (less) permanent differences-			
Nondeductible expenses	(6)	3	1
Inflation effects	(3)	(5)	(5)
Effective rate	21	28	26

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, 2020 are as follows:

Year of Expiration	Tax loss carryforwards
2021	\$ 6,938
2022	10,533
2023	15,757
2024	5,747
2021 and thereafter	1,943,926
	\$ 1,982,901

e. Income tax payable long-term:

It 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 defer the income tax was eliminated.

	2020	2019	2018
Current portion	\$ 27,952	\$ 233,030	\$ 66,229
Long-term	296,738	500,439	598,876
	\$ 324,690	\$ 733,469	\$ 665,105

The years of payment of long-term income tax as of December 31 are:

Year of Expiration	Amount
2022	\$ 96,559
2023	129,634
2024	56,895
2025 and thereafter	13,650
	\$ 296,738

## 24. Commitments

- a. As of December 31, 2020, 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 \$186,341.
- b. In December, 2010, Sears Operadora México, S.A. de C.V. (formerly Sears Roebuck de México,

S.A. de C.V.) (Sears) and Sears Roebuck and Co. (Sears EUA) 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 Sears of 1% to Sears EUA on merchandise sales revenue, 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, 2017, 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. On September 30, 2017, none of the parties notified the other of the decision to terminate the agreement, so it was automatically extended for an additional 7 years, respecting the initial terms of the agreement.

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.

## 25. 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, 2020 amounts to \$609,860, for which the Entity has recognized provisions \$178,458, which is included in other liabilities in the consolidated statements of financial position. During 2020, the Entity made payments related to these matters of approximately \$18,669. 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.

## 26. 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:

	2020				
	Sears and Boutiques	Sanborns	Mixup and iShop	Others and eliminations	Total consolidated
Total revenue	\$ 17,717,294	\$ 10,527,637	\$ 10,734,606	\$ 633,337	\$ 39,612,874
EBITDA <sup>(1)</sup>	1,485,923	72,549	432,584	49,517	2,040,573
Consolidated comprehensive income	214,418	396,609	138,190	(21,723)	727,494
Interest income	150,664	295,993	70,142	(15,034)	501,765
Interest expense	708,780	521,713	56,232	(312,718)	974,007
Depreciation and amortization	1,040,553	566,614	227,760	(5,605)	1,829,322
Income taxes	(19,153)	129,248	75,848	74,742	260,685
Total assets	25,793,343	14,124,665	4,506,192	8,131,174	52,555,374
Current liabilities	9,370,177	2,955,055	3,783,251	(2,446,014)	13,662,469
Long-term liabilities	2,543,668	1,674,919	292,939	1,073,073	5,584,599
Total liabilities	11,913,845	4,629,974	4,076,190	(1,372,941)	19,247,068
Capital expenditures	162,347	118,453	26,363	159,576	466,739



	2019				
	Sears and Boutiques	Sanborns	Mixup and iShop	Others and eliminations	Total consolidated
Total revenue	\$ 25,853,795	\$ 15,555,694	\$ 11,258,712	\$ 620,278	\$ 53,288,479
EBITDA <sup>(1)</sup>	4,049,127	1,631,332	515,854	593,157	6,789,470
Consolidated comprehensive income	1,352,232	602,355	203,640	790,277	2,948,504
Interest income	115,666	314,851	57,539	(47,494)	440,562
Interest expense	861,831	492,275	48,794	(585,427)	817,473
Depreciation and amortization	1,332,678	608,637	218,138	3,628	2,163,081
Income taxes	602,949	319,314	101,827	325,416	1,349,506
Total assets	29,449,366	14,923,476	4,840,235	7,478,998	56,692,075
Current liabilities	12,392,763	5,844,678	3,209,669	(5,547,636)	15,898,978
Long-term liabilities	3,303,614	2,430,825	328,048	1,573,838	7,636,821
Total liabilities	15,696,377	8,275,503	3,537,717	(3,973,798)	23,535,799
Capital expenditures	439,295	210,660	77,073	168,155	895,183

	2018				
	Sears and Boutiques	Sanborns	Mixup and iShop	Others and eliminations	Total consolidated
Total revenue	\$ 25,815,304	\$ 12,607,916	\$ 9,798,470	\$ 3,533,732	\$ 51,755,422
EBITDA <sup>(1)</sup>	4,066,743	1,036,702	666,288	1,430,879	7,200,612
Consolidated comprehensive income	1,595,838	234,775	345,686	1,553,555	3,729,854
Interest income	363,051	300,068	69,248	109,155	841,522
Interest expense	923,132	435,429	44,910	(530,149)	873,322
Depreciation and amortization	1,310,123	497,312	179,506	105,323	2,092,264
Income taxes	584,692	191,542	163,257	505,569	1,445,060
Total assets	29,822,960	10,891,498	4,583,765	10,824,689	56,122,912
Current liabilities	13,240,637	5,411,449	2,938,081	(5,718,191)	15,871,976
Long-term liabilities	3,370,181	1,699,878	287,566	1,846,053	7,203,678
Total liabilities	16,610,818	7,111,327	3,225,647	(3,872,138)	23,075,654
Capital expenditures	922,079	336,130	73,494	86,647	1,418,350

<sup>(1)</sup> EBITDA reconciliation.

	December 31, 2020	December 31, 2019	December 31, 2018
Income before income taxes	\$ 1,074,496	\$ 4,439,105	\$ 5,378,463
Depreciation and amortization	1,829,322	2,163,081	2,092,264
Interest income	(501,765)	(440,562)	(841,522)
Interest expense	974,007	817,473	873,322
Gain on investment property revaluation	44,750	(91,718)	(91,652)
Equity in income of associates entities	134,331	(116,825)	(187,088)
Valuation effect of the pension and retirement fund	(1,488,927)	-	-
Impairment property	(25,641)	18,916	(23,175)
EBITDA	\$ 2,040,573	\$ 6,789,470	\$ 7,200,612

**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, 2020	%	December 31, 2019	%	December 31, 2018	%
Mexico	\$ 39,264,854	99.12	\$ 52,642,879	98.78	\$ 51,082,553	98.70
El Salvador	333,290	0.84	567,580	1.07	580,972	1.12
Panama	14,730	0.04	78,020	0.15	91,897	0.18
	\$ 39,612,874	100.00	\$ 53,288,479	100.00	\$ 51,755,422	100.00

**27. Application of new and revised International Financial Reporting Standards****a. 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, 2020.

Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39 and IFRS 7.

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

These changes are relevant to the Entity because it applies hedging accounting to its exposure to reference interest rates. The impacts from the changes applied to the Entity’s accounting are as follows:

- The Entity has a variable debt rate, indexed to IBOR, which covers cash flows using interest rate swaps.
- The Entity has issued [Currency B]-denominated at fixed debt rate, which it covers using fair value hedges through interest rate swaps from [Currency B]-fixed to [Currency B] IBOR. These changes allow the continuation of hedging accounting even if in the future the reference interest rate, [Currency B] IBOR, cannot be identified separately. However, this exemption does not extend to the requirement that the designated interest rate risk component remain reliably measured. If the risk cannot be reliably measured, the coverage ratio is suspended.
- The Entity shall retain the gains or losses accumulated by the reserve of the coverage of the cash flows designated to cash flows that are subject to the Benchmark Interest Rate Reform, even if there is some uncertainty about the Benchmark Interest Rate Reform with respect to the time and quantity of items covered by cash flows. The Entity shall consider that future cash flow hedges are not expected to occur due to reasons other than the Benchmark Interest Rate Reform, accumulated gains or losses will be immediately reclassified to results.

The amendments also introduce a new disclosure requirement by IFRS 7 for hedging relationships that are subject to exceptions introduced by the amendment to IFRS 9. The new revelation is presented in note 4.

### Impact of the initial application of other new and amended IFRS Standards that are effective for the fiscal years and reporting periods beginning on or after January 1, 2020

During the current year, the Entity applied a series of amendments to the Standards and Interpretations of IFRS issued by the International Accounting Standards Board (IASB), which are effective for the annual period starting on or as of January 1, 2020. Their adoption did not have any material effects on the disclosures or amounts recorded in these consolidated financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards	<p>The Entity has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year.</p> <p>The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.</p> <p>The Standards, which are amended, are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.</p>
Amendments to IFRS 3 Definition of a business	<p>The Entity has adopted the amendments to IFRS 3 for the first time in the current year.</p> <p>The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.</p> <p>The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs.</p> <p>The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.</p> <p>The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.</p> <p>The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 1 January 2020.</p>
Amendments to IAS 1 and IAS 8 Definition of material	<p>The Entity has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards.</p> <p>The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.</p> <p>The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.</p> <p>The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.</p>

## 28. Significant accounting policies

### a. Statement of compliance

The consolidated financial statements of the Entity have been prepared in accordance with IFRS and its adjustments and interpretation issued by the International Accounting Standards Board (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 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 Group 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, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value 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 the Entity and entities controlled by the Entity and its subsidiaries. Control is achieved when Grupo Sanborns:

- 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 direct shareholding of Grupo Sanborns in the share capital of the subsidiaries as of December 31, 2020, 2019 and 2018, is shown below:

Subsidiary	Activity	2020	% de Ownership 2019	2018
Sanborn Hermanos, S.A. and Subsidiary ("Sanborns")	Operation of department stores, gifts, records and restaurants under the Sanborns, Sanborns Café, Saks, Fifth Avenue and Dax brands	99.97	99.23	99.23
Sears Operadora México, S.A. de C.V. and Subsidiary ("Sears")	Operation of department stores under the Sears brand	98.90	98.94	98.94
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
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
Servicios Corporativos de Grupo Sanborns, S.A. de C.V. and Subsidiaries	Boutiques operator and sub holding	-	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
Grupo Inmobiliario Sanborns, S.A. de C.V.	Sale, lease or sublease of fixed assets.	100.00	100.00	100.00
Claroshop.com S.A. de C.V.	E-commerce	56.13	56.67	56.54
Gentics & ME, S.A. de C.V.	Retail trade of natural products and food supplements	100.00	100.00	100.00

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. Financial instruments

Financial assets and financial liabilities are recognized in the Entity's statement of financial position when the Entity becomes a party to the contractual provisions of the instrument.

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.

#### e. Financial assets

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.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

##### - *Classification of financial assets*

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss.

Despite the foregoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:

- The Entity may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- The Entity may irrevocably designate a debt investment that meets the amortized cost or fair value criteria as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

##### (i) *Amortized cost and 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.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), 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) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at fair value through other comprehensive income. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Entity recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the "finance income - interest income".

(ii) *Equity instruments designated as at fair value through other comprehensive income*

On initial recognition, the Entity may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income. Designation at fair value through other comprehensive income is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

A financial asset is held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at fair value through other comprehensive income are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not being reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'finance income' line item in profit or loss.

The Entity has designated all investments in equity instruments that are not held for trading as at fair value through other comprehensive income on initial application of IFRS 9.

(iii) *Financial assets at fair value through profit or loss*

Financial assets that do not meet the criteria for being measured at amortized cost or fair value through other comprehensive income (see (i) to (iii) above) are measured at fair value through profit or loss. Specifically:

- Investments in equity instruments are classified as at fair value through profit or loss, unless the Entity designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at fair value through other comprehensive income on initial recognition (see (iii) above).
- Debt instruments that do not meet the amortized cost criteria or the fair value through other comprehensive income criteria (see (i) and (ii) above) are classified as at fair value through profit or loss. In addition, debt instruments that meet either the amortized cost criteria or the fair value through other comprehensive income criteria may be designated as at fair value through profit or loss upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Entity has not designated any debt instruments as at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses'.

*Foreign exchange gains and losses*

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- For financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses' line item;
- For debt instruments measured at fair value through other comprehensive income that are not part of a designated hedging relationship, exchange differences on the amortized cost of the debt instrument are recognized in profit or loss in the 'other gains and losses' line item. Other exchange differences are recognized in other comprehensive income in the investments revaluation reserve;
- For financial assets measured at fair value through profit or loss that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses' line item; and
- For equity instruments measured at fair value through other comprehensive income, exchange differences are recognized in other comprehensive income in the investments revaluation reserve.

See hedge accounting policy regarding the recognition of exchange differences where the foreign currency risk component of a financial asset is designated as a hedging instrument for a hedge of foreign currency risk.

*(iv) Impairment of financial assets*

The Entity recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at fair value through other comprehensive income, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Entity always recognizes lifetime expected credit losses for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Entity's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Entity recognizes lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Entity measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

Lifetime expected credit losses represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month expected credit losses represents the portion of lifetime expected credit losses that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

*(v) Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Entity compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Entity considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Entity's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Entity's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Entity presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Entity has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Entity assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (1) The financial instrument has a low risk of default,
- (2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Entity considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

For financial guarantee contracts, the date that the Entity becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Entity considers the changes in the risk that the specified debtor will default on the contract.

The Entity regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(vi) *Definition of default*

The Entity considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Entity, in full (without taking into account any collateral held by the Entity).

Irrespective of the above analysis, the Entity considers that default has occurred when a financial asset is more than 90 days past due unless the Entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(vii) *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) Significant financial difficulty of the issuer or the borrower;
- (b) A breach of contract, such as a default or past due event (see (ii) above);
- (c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) The disappearance of an active market for that financial asset because of financial difficulties.

(viii) *Write-off policy*

The Entity writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Entity's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.



*(ix) Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Entity's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Entity in accordance with the contract and all the cash flows that the Entity expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, as the Entity is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Entity expects to receive from the holder, the debtor or any other party.

If the Entity has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the conditions for lifetime expected credit losses are no longer met, the Entity measures the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date, except for assets for which simplified approach was used.

The Entity recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at fair value through other comprehensive income, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

*(x) Derecognition of financial assets*

The Entity derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument, which the Entity has elected on initial recognition to measure at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

**f. Financial liabilities**

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at fair value through profit or loss.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Entity, are measured in accordance with the specific accounting policies set out below.

*i. Financial liabilities at fair value through profit or loss*

Financial liabilities are classified as at fair value through profit or loss when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of an Entity 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 IFRS 9 permits the entire combined contract to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship (see Hedge accounting policy). The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' in profit or loss.

However, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized 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. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Entity that are designated by the Entity as at fair value through profit or loss are recognized in profit or loss.

Fair value is determined in the manner described in note 10.

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at fair value through profit or loss, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (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 financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

## ii. *Foreign exchange gains and losses*

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognized in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at fair value through profit or loss, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

## iii. *Derecognition of financial liabilities*

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

When the Entity exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Entity accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

**g. 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.

**h. Loyalty programs for customers**

Points awarded payable with your own credit card are counted as a separate component of the initial sales transaction, such as a sales discount, and are recognized as a customer-favor liability in the consolidated statement of financial position, within other accounts payable and accumulated liabilities.

**i. 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.

### 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, 2020, 2019 and 2018, PTU is determined based on taxable income, according to Section I of Article 10 of the that Law.

### j. 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.

**k. Provisions**

Provisions are recognized when Grupo Sanborns has a present obligation (legal or constructive) as a result of a past event, it is probable that Grupo Sanborns 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.

**l. Revenue recognition**

The revenue is calculated at the fair value of the consideration received or receivable, taking into account the estimated amount of customer returns, rebates and other similar discounts. The recognition of income is made according to the following criteria:

**i. Revenue recognition**

The Entity recognizes income from the following sources at a point in time, which occurs when the control of the products is transferred to the customer:

Revenue from retail sales of department stores, specialty stores, luxury stores and restaurant stores, with highly recognized brands such as: Sears, Sanborns, iShop-Mixup, eduMac, Saks Fifth Avenue, DAX and Sanborns Café.

Income from the operation of an electronic commerce platform under the Claroshop.com brand. Claro operates its transactions from its internet portal [www.claroshop.com](http://www.claroshop.com).

The Entity sells goods directly with the customer through its points of sale and the income is recognized when the control of the goods has been transmitted, being the point at which the buyer acquires the goods in the retail store. The payment of the transaction price is immediate at the point at which the buyer acquires the goods.

Under the standard contractual terms of the Entity, the buyer has the right to return the goods within 30 days after the sale. This represents a variable consideration that is recognized as a liability for the amount estimated to be reimbursed for refunds and an adjustment to the corresponding income. At the same time, the entity has the right to recover the product when the buyer exercises his right to return it, consequently he recognizes an asset for the right to the goods returned by the customer and an adjustment corresponding to the cost of sales.

The Entity uses its historical experience to estimate the number of products returned at the portfolio level using an expected method. It is considered highly probable that there will not be a significant revision in the accumulated income recognized, given the constant level of performance of previous years.

- ii. *Interest on credit sales* - Interest income from credit sales is recognized when they accrue and is generated by the operation of credit cards and other credits (Sanborns, Sears, Saks, Mixup, Corpti and Claroshop).
- iii. *Administrative services and banking intermediation* - They are recognized over time, as the service is provided.
- iv. *Leasing* - They are recognized on the basis of a straight line as the leasing services are provided and the maintenance fees are recognized in the period of the duration of the lease from which they come.



### m. 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.

### n. Leases

#### - *The Entity as lessor*

The Entity enters into lease agreements as a lessor with respect to some of its investment properties. The Entity also rents equipment to retailers necessary for the presentation and costumer fitting and testing of footwear and equipment manufactured by the Entity.

Leases for which the Entity acts as lessor are classified as financial leases or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other contracts are classified as operating leases.

When the Entity is an intermediate lessor, it accounts for the main lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the asset for rights-of-use asset arising from the head lease.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging and operating lease are added to the carrying amount of the leased asset and recognized under a straight-line basis over the lease term.

Amounts due from leases under finance leases are recognized as receivables at the amount of the Entity's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Entity's net investment outstanding in respect of the leases.

When a contract includes both leases and non-lease components, the Entity applies IFRS 15 allocate the consideration under the contract to each component.

#### - *The Entity as lessee*

The Entity assesses whether a contract contains a lease at inception of the contract. The Entity recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets, personal computers, small items of office furniture and telephones). For these leases, the Entity recognizes the leases payments as an operating expense under the straight-line method basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the rent payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily, the Entity uses incremental its incremental borrowing rate.

Lease payment included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payment that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the leases under residual value guarantees;
- The exercise price of purchases options, if the lease term reflects the exercise of an option to terminate the lease.
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Entity remeasures the lease liability (and makes corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liabilities is remeasured by discounting the revised lease payment using a revised discount rate.
- The lease payment chance due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured based on the lease term of the modified lease by discount the revised lease payment using a revised discount rate at the effective date of the modification.
- A lease contract is modified and the lease modification is not accounted as a separated lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised leases payments using a revised discount rate at the effective date of the modification.

The Entity did not make any such adjustment during the periods present.

The right-of-use asset comprised the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Entity incurs an obligation for cost to dismantle and remove a lease asset, restore the site on which it is located or restore the underlying asset to the condition required by the term and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the cost are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Entity expect to exercise a purchase option, the related right-of-use is depreciated over the useful life over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use asset are presented as a separated line in the consolidate statement on financial position.

The Entity applies IAS 36 to determine whether a right-of-use asset is impaired and account for any identified impairment loss as described in the Property, Plant and Equipment policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period which the event or condition that triggers those occurs and are included in the line "Other expenses" in profit or loss.

As practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Entity has not used this practical expedient. For a contract that contain a lease component and one or more addition lease or non-lease components, the Entity allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

## **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 information system.

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, are amortized from the time they are used in the business based on their useful life.

**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. Investments in associates and others**

Those permanent investments made by the Entity in companies in which there is no control, joint control, or significant influence are initially recorded at acquisition cost and dividends received are recognized in the results of the period unless they come from profits from periods prior to the acquisition, in which case the permanent investment is reduced. In case of evidence of impairment, investments are subject to impairment tests.

**s. Leasing**

Leases are classified as financial when the terms of the lease transfer substantially all the risks and benefits inherent to the property to the lessees. All other leases are classified as operating.

- *The Entity as a tenant*

Lease payments are distributed between financial expenses and the reduction of lease obligations in order to achieve a constant interest rate on the remaining balance of the liability. Financial expenses are charged directly to income, unless they can be directly attributable to qualifying assets, in which case they are capitalized in accordance with the Bank's general policy for borrowing costs.

Lease payments for operating leases are charged to income using the straight-line method, during the lease term, unless another systematic basis of distribution is more representative because it reflects more adequately the pattern of lease benefits for the user. Contingent rents are recognized as expenses in the periods in which they are incurred.

**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.

## 29. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Entity's accounting policies, which are described in Note 28, 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. Calculation of loss allowance

When measuring ECL the Entity uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring expected credit losses. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

If the expected credit losses rates on trade receivables between 61 and 90 days past due had been 50% higher (lower) as of December 2020, the loss allowance on trade receivables would have been \$84,447 and (\$84,447) million higher (lower).

**b. Inventory estimates 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.

**c. 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.

**d. 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.

As of December 31, 2020, fair value was determined on the basis of the cost approach. As of December 31, 2019 and 2018, fair value was determined based on the revenue approach. The Entity considers that the valuation methodologies and assumptions used are appropriate for determining the fair value of the Entity's investment properties.

**e. 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.

**f. 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 10 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.

**g. 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.

- h. **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.

### 30. Non-cash transactions

During 2019 and 2018, 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 \$1,450 and \$2,616, respectively. As of December 31, 2020, there were no transactions that did not result in cash flows.

Furthermore, when adopting IFRS 16, the Entity recognized \$387,915 of assets for right of use in 2020, \$1,005,812 in 2019 and \$1,810,318 in 2018.

### 31. Adoption of new and revised International Financial Reporting Standards

The Entity has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 10 e IAS 28 (Amendments)	Sale or Contribution of Asset between and investor and its Associate or Joint Venture
Amendment to IFRS 3	Definition of a business
Amendment to IAS 1 and IAS 8	Definition of materiality
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards

The directors do not expect that the adoption of these Standards listed above will have a material impact on the financial statement of the Entity in future periods, except as noted below:

#### ***IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between and Investor and its Associate or Join Venture.***

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Entity's consolidated financial statements in future periods should such transactions arise.

#### ***Amendments to IFRS 3 Definition of a business***

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.



### **Amendments to IAS 1 and IAS 8 Definition of material**

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the *Conceptual Framework* that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

#### Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised *Conceptual Framework*, which became effective upon publication on March 29, 2019, the IASB has also issued *Amendments to References to the Conceptual Framework in IFRS Standards*. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC 32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised *Conceptual Framework*. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASB Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2019) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

### **32. Authorization to issue the financial statements**

The consolidated financial statements were authorized for issue on March 30, 2021, 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, 2019 and 2018, were approved at the ordinary shareholders' meeting that took place on April 30, 2020 and April 29, 2019, respectively.

### **Mexican Stock Exchange**

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



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