WAL-MART DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

Contents:

Report of **Independent Auditors**

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

Opinion

We have audited the accompanying consolidated financial statements of Wal-Mart de México, S.A.B. de C.V. and subsidiaries (hereinafter "the Company"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Wal-Mart de México, S.A.B. de C.V. and subsidiaries as at 31 December 2019 and their consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for audit opinion

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

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

Key audit matters

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

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

Leases

Why the matter was determined to be a key audit matter

We have considered the accounting for real estate leases as a key audit matter, since some of the related agreements include specific or complex terms that have a significant impact on the assessment performed by the Company's management for its initial recognition and subsequent measurement in the consolidated financial statements, in accordance with IFRS 16 "Leases" (effective as of 1 January 2019).

The policies and criteria applied by the Company's management in its evaluation, initial recognition and subsequent measurement of its lease agreements, including real estate leases, are described in Note 3k. to the consolidated financial statements. The effects of the adoption of IFRS 16 are described in Note 2 a).

How we responded to this key audit matter

We evaluated the internal control established by the Company for initial recognition and subsequent measurement of its leases, including real estate leases, and based on our selected sample, we analyzed the Company's real estate lease agreements. We also analyzed the reasonableness of the assumptions used by management to determine the lease terms. We received assistance from our specialists in the evaluation of the key assumptions considered in the calculation of the discount rates used to recognize the lease liabilities. We assessed the disclosures related to leases and the adoption of IFRS 16 in the consolidated financial statements as at 31 December 2019.

Other information

The other information comprises the financial and non-financial information (other than the financial statements and our audit report) presented in the annual report by the Company submitted to the National Banking and Securities Commission (the Commission) and in the annual report submitted to the shareholders for the year ended as at 31 December 2019. Management is responsible for the other information. We expect to obtain the other information after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

C.P.C. Carlos Carrillo Contreras
Mexico City, February 13, 2020

Consolidated Statements of **Comprehensive Income**

(Amounts in thousands of Mexican pesos)

	For the years ended December 31	
	2019	**2018**
Net sales	**$ 641,824,646**	$ 612,186,302
Other revenues (Note 19)	**5,021,788**	4,724,030
Total revenues	**646,846,434**	616,910,332
Cost of sales	**(498,795,631)**	(475,263,047)
Gross profit	**148,050,803**	141,647,285
General expenses (Note 20)	**(94,426,416)**	(92,658,463)
Income before other income and expenses	**53,624,387**	48,988,822
Other income	**1,113,372**	891,793
Other expenses	**(735,073)**	(690,827)
Operating income	**54,002,686**	49,189,788
Financial income (Note 21)	**2,260,056**	2,329,577
Financial expenses (Note 21)	**(7,060,623)**	(2,659,629)
Income before income taxes	**49,202,119**	48,859,736
Income taxes (Note 16)	**(11,304,347)**	(12,107,123)
Consolidated net income	**$ 37,897,772**	$ 36,752,613

	For the years ended December 31	
	2019	**2018**
Other comprehensive income items:		
Items that do not reclassify to profit or loss of the year:		
Actuarial results on employee benefits, net of income taxes	**$ (496,214)**	$ 39,412
Items that may be reclassified subsequently to profit or loss:		
Cumulative translation adjustment	**(281,475)**	(4,132,164)
Other comprehensive (loss) income	**(777,689)**	(4,092,752)
Comprehensive income	**$ 37,120,083**	$ 32,659,861
Basic earnings per share (in pesos)	**$ 2.170**	$ 2.105

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

Consolidated Statements of **Financial Position**

(Amounts in thousands of Mexican pesos)

	December 31 2019	December 31 2018
Assets		
Current assets:		
Cash and cash equivalents (Note 5)	$ **30,857,090**	$ 38,829,598
Accounts receivable, net (Note 6 and 12)	**13,716,962**	12,035,029
Inventories (Note 7)	**67,553,214**	63,344,265
Prepaid expenses and other	**1,777,900**	1,405,924
Total current assets	**113,905,166**	115,614,816
Non-current assets:		
Property and equipment, net (Note 8)	**132,119,505**	126,643,278
Right-of-use asset (Note 9)	**49,675,185**	-
Finance leases, net (Note 9)	**-**	12,724,731
Investment properties, net (Note 10)	**6,644,218**	4,853,970
Intangible assets, net (Note 11)	**37,083,590**	36,997,739
Deferred tax assets (Note 16)	**7,908,566**	7,467,622
Other non-current assets	**1,836,039**	2,226,677
Total assets	$ **349,172,269**	$ 306,528,833

	December 31 2019	December 31 2018
Liabilities and equity		
Current liabilities:		
Accounts payable	**$ 87,115,823**	$ 85,327,000
Short-term lease liability	**3,044,328**	308,352
Other accounts payable (Notes 12 and 13)	**21,117,370**	27,261,024
Income taxes payable	**2,221,427**	1,269,116
Total current liabilities	**113,498,948**	114,165,492
Long-term liabilities:		
Leases and other long-term liabilities (Note 15)	**58,698,700**	20,019,308
Deferred tax liabilities (Note 16)	**6,741,568**	5,786,932
Employee benefits (Note 17)	**2,088,286**	1,643,027
Total liabilities	**181,027,502**	141,614,759
Equity (Note 18):		
Capital stock	**45,468,428**	45,468,428
Retained earnings	**108,860,208**	104,638,687
Other comprehensive income items	**15,140,757**	15,918,446
Premium on sale of shares	**4,318,104**	4,014,804
Employee stock option plan fund	**(5,642,730)**	(5,126,291)
Total equity	**168,144,767**	164,914,074
Total liabilities and equity	**$ 349,172,269**	$ 306,528,833

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

Consolidated Statements of **Changes in Equity**

For the years ended December 31, 2019 and 2018
(Amounts in thousands of Mexican pesos)

		Retained earnings					
	Capital stock	Legal reserve	Retained earnings	Other comprehensive income items	Premium on sale of shares	Employee stock option plan fund	Total equity
Balance at December 31, 2017	$ 45,468,428	$ 9,104,745	$ 87,308,966	$ 20,011,198	$ 3,559,058	$ (5,918,442)	$ 159,533,953
Movements in employee stock option plan fund					455,746	792,151	1,247,897
Dividends declared			(28,527,637)				(28,527,637)
Comprehensive income			36,752,613	(4,092,752)			32,659,861
Balance at December 31, 2018	45,468,428	9,104,745	95,533,942	15,918,446	4,014,804	(5,126,291)	164,914,074
Movements in employee stock option plan fund					**303,300**	**(516,439)**	**(213,139)**
Adoption effect IFRS 16			**(1,604,117)**				**(1,604,117)**
Adoption effect IFRIC 23			**(1,822,120)**				**(1,822,120)**
Dividends declared			**(30,250,014)**				**(30,250,014)**
Comprehensive income			**37,897,772**	**(777,689)**			**37,120,083**
Balance at December 31, 2019	**$ 45,468,428**	**$ 9,104,745**	**$ 99,755,463**	**$ 15,140,757**	**$ 4,318,104**	**$ (5,642,730)**	**$ 168,144,767**

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

Consolidated Statements of **Cash Flows**

(Amounts in thousands of Mexican pesos))

	For the years ended December 31 2019	2018
Operating activities		
Income before income taxes	**$ 49,202,119**	$ 48,859,736
Items related to investing activities:		
Depreciation and amortization	**17,002,507**	12,557,588
Loss from disposal of property and equipment and impairment	**126,777**	101,230
Stock option compensation expense	**330,777**	307,379
Interest earned	**(1,218,688)**	(1,268,122)
Items related to financing activities:		
Interest on lease liabilities	**6,209,972**	-
Interest paid under finance leases	**-**	1,553,237
Cash flow from operating activities	**71,653,464**	62,111,048
Variances in:		
Accounts receivable	**(2,074,361)**	(641,255)
Inventories	**(4,385,071)**	(4,476,889)
Prepaid expenses and other	**(131,814)**	(502,572)
Accounts payable	**2,153,058**	6,107,659
Other accounts payable	**(753,402)**	167,266
Income tax paid	**(9,450,296)**	(15,325,302)
Employee benefits	**(384,459)**	94,815
Net cash flow from operating activities	**56,627,119**	47,534,770

	For the years ended December 31 2019	2018
Investing activities		
Long-lived assets	**$ (20,574,830)**	$ (17,932,578)
Interest collected	**1,218,688**	1,268,122
Proceeds from sale of property and equipment	**218,959**	255,904
Employee stock option plan fund	**(543,916)**	940,518
Net cash flow used in investing activities	**(19,681,099)**	(15,468,034)
Financing activities		
Dividends paid	**(35,957,290)**	(25,581,976)
Payment of finance leases	**-**	(1,557,334)
Rent payments by leases	**(8,076,297)**	-
Net cash flow used in investing activities	**(44,033,587)**	(27,139,310)
Effect of changes in the value of cash	**(884,941)**	(1,693,945)
Net (decrease) increase in cash and cash equivalents	**(7,972,508)**	3,233,481
Cash and cash equivalents at beginning of year	**38,829,598**	35,596,117
Cash and cash equivalents at end of year	**$ 30,857,090**	$ 38,829,598
Non-cash transactions:		
Finance leases	**$ -**	$ 1,205,197

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

Notes to Consolidated Financial Statements

At December 31, 2019 and 2018

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

1. Description of the business

GRI **102-5, 102-25**

a) Corporate information

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

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

Group	Line of business
Nueva Walmart	Operation of 2,035 Bodega Aurrerá discount stores, 280 Walmart hypermarkets 93 Superama supermarkets, and 163 Sam's Club membership self-service wholesale stores in 2019.
Import companies	Import of goods for sale.
Real estate	Property developments and management of real estate companies.
Service companies	Rendering of professional services to Group companies and not-for-profit services to the community at large, as well as shareholding.
Walmart Central America	Operation of 549 discount stores (Despensa Familiar and Palí), 99 supermarkets (Paiz, La Despensa de Don Juan, La Unión and Más x Menos), 155 Bodegas, Maxi Bodega and Maxi Palí), and 33 Walmart hypermarkets in 2019. These stores are located in Costa Rica, Guatemala, Honduras, Nicaragua and El Salvador.

2. New accounting pronouncements

a) International Financial Reporting Standards ("IFRS") new and revised effective as of January 1, 2019

Adoption of IFRS 16, *Leases*

IFRS 16, "Leases" – sets out the principles for the recognition, measurement, presentation and disclosure of leases. **WALMEX** has decided to adopt IFRS 16, using the modified retrospective approach and, therefore, the comparative information will not be restated and will continue to be recorded under IAS 17. Additionally, the Company will use the exemptions proposed by the standard for lease agreements which lease terms end within 12 months from the date of the initial adoption and lease agreements for which the underlying asset value is low.

Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17.

The impacts in the condensed consolidated statements of financial position are as follows:

	December 31, 2018	NIIF 16 adoption	January 1, 2019
Assets			
Total current assets	$ 115,614,816	$ (19,545)	**$ 115,595,271**
Non-current assets:			
Long lived assets – net (except intangibles)	144,221,979	32,450,127	**176,672,106**
Intangible assets-net	36,997,739	-	**36,997,739**
Deferred tax assets	7,467,622	747,285	**8,214,907**
Other non-current assets	2,226,677	(24,706)	**2,201,971**
Total assets	$ 306,528,833	$ 33,153,161	**$ 339,681,994**
Liabilities and Shareholders' Equity			
Total short term liabilities	$ 114,165,492	$ 265,090	**$ 114,430,582**
Long term liabilities:			
Other long term liabilities	20,019,308	34,484,632	**54,503,940**
Deferred tax liabilities	5,786,932	7,556	**5,794,488**
Employee benefits	1,643,027	-	**1,643,027**
Total liabilities	141,614,759	34,757,278	**176,372,037**
Shareholders' Equity:			
Equity	45,468,428	-	**45,468,428**
Retained earnings	104,638,687	(1,604,117)	**103,034,570**
Other	14,806,959	-	**14,806,959**
Total Shareholders' equity	164,914,074	(1,604,117)	**163,309,957**
Total liabilities and shareholders' equity	$ 306,528,833	$ 33,153,161	**$ 339,681,994**

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the statement of financial position at the date of initial application was 11.4%.

The reconciliation between the discounted operating lease commitments disclosed applying IAS 17 as of December 31, 2018 and the lease liabilities recognized in the statements of financial position at the date of initial application is as follows:

	January 1, 2019
Discounted operating lease commitments disclosed applying IAS 17 (guaranteed term)	**$ 15,129,620**
Less – Renewable energy supply service agreements with contingent rent	**(12,388,539)**
Plus – Present value of the lease minimum payments for the period after the guaranteed term and until the end of the contract	**32,008,641**
Lease liabilities recognized in the statement of financial position at the date of initial application	**$ 34,749,722**

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

IFRIC 23 is effective January 1, 2019 and clarifies the application of the recognition and measurement criteria defined by IAS 12 - "Income taxes", when there are uncertain tax positions. Uncertain tax positions are those tax positions where there is uncertainty about whether the competent tax authority will accept the tax position under current tax laws.

The interpretation will be applied to the determination of the tax income (tax loss), the fiscal bases, the unused tax losses, the unused tax credits and the tax rates, when there is uncertainty about the treatments of the income tax according to IAS 12. The IFRIC considers that an entity should assume that a tax authority with the right to examine any amount reported to it will examine these amounts and will have full knowledge of all relevant information in doing so. It should also consider whether the relevant authority is likely to accept each tax treatment, or group of tax treatments, that were used or plan to use in your income tax return.

If the entity concludes that a particular tax treatment is likely to be accepted, the entity has to determine the tax income (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistent with the tax treatment included in the tax return. If the entity concludes that a particular tax treatment is not likely to be accepted, the entity must use the most probable amount or the expected value of the tax treatment when determining the income tax (tax loss), tax bases, unused tax losses, unused tax credits or tax rates.

The interpretation is effective for annual reporting periods beginning on or after January 1, 2019. The impact of the adoption of the interpretation represented a debit to retained earnings of $ 1,822 million pesos and an increase in deferred tax liability for the same amount.

Amendments to IFRS 9, *Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' and the instrument is held within the appropriate business model for that classification. These amendments to IFRS 9 had no impact on the consolidated financial statements of the Company.

Amendments to IAS 19, *Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The modifications also clarify that an entity first determines any past service cost, or a gain or loss on liquidation, without considering the effect of the asset ceiling. This amount is recognized in results. An entity determines the effect of the asset ceiling after the modification, reduction or liquidation of the plan. Any change in that effect, excluding the amounts included in net interest, is recognized in the comprehensive income.

The modifications apply to amendments, curtailments or settlements of the plan that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. During the year ended December 31, 2019, **WALMEX** had no amendments, curtailments or settlements of the employee benefits plan.

Amendments to IAS 28, *Long-term interests in associates and joint ventures*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests).

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28.

These amendments had no impact on the consolidated financial statements of the Company.

Annual Improvements 2015-2017 Cycle (issued in December 2017) effective on January 1, 2019

IFRS 3, *Business Combinations*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

These amendments had no impact on the consolidated financial statements of the Company as there is no transaction where joint control is obtained.

IFRS 11, *Joint Arrangements*

The amendments set out that the previously held interests in joint operation are not remeasured.

These amendments had no impact on the consolidated financial statements of the Company but could apply in future transactions.

IAS 12, *Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognized those past transactions or events.

Since the Company's current practice is in line with these amendments, they had no additional impact on the consolidated financial statements.

IAS 23, *Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

These amendments are not applicable to the Company, therefore they had no impact on the consolidated financial statements.

b) IFRS effective as of January 1, 2020 and 2021

Amendments to IFRS 3, *Business Combinations*

The IASB issued amendments to the definition of a "business" to help entities determine whether an acquired set of activities and assets is a business or not. The modifications must be applied to transactions that are business combinations or asset acquisitions for which the acquisition date is on or after January 1, 2020. Since the modifications apply prospectively to transactions or other events that occur on or after the date of adoption, the Company Administration believes that these modifications will not have a significant impact.

IAS 1, *Financial statements presentation and IAS 8, Accounting policies, changes in accounting estimations and errors*

The IASB issued amendments to align the definition of 'material' across the standards and to clarify certain aspects of the definition, and is applicable for periods beginning on January 1, 2020; although the modifications are not expected to have a significant impact on the financial statements of WALMEX, the introduction of the term "hidden information" in the definition could impact the way materiality judgments are made in practice by raising the importance of how information is communicated and organized in the consolidated financial statements.

IFRS 17, *Insurance Contracts*

This IFRS will replace IFRS 4 that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

IFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Company's management estimates that these modifications will not have a significant impact on the consolidated financial statements.

3. Summary of significant accounting policies

A summary of the significant accounting policies is described below. These policies have been applied consistently with those applied in the year ended December 31, 2018, except for the corresponding to leases accounting recognition and uncertainty over income tax treatments as are described in IFRS 16 and IFRIC 23, respectively; which were updated in accordance to these new standards that are effective in 2019.

a) Basis of preparation

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

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

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

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

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

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

- Accounting estimates for impairment of inventory, property and equipment, right of use assets, investment properties, goodwill and the successful probability of legal and tax contingencies.

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

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

b) Consolidation

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

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

Specifically, the Company controls an investee if, and only if, the Company has:

- Power over the investee (i.e. the existing rights that give it the current ability to conduct the relevant activities of the investee)
- Exposure to, or rights to, variable returns from your participation in the investee
- The ability to use its power over the investee to affect its returns

Transactions and related party balances are eliminated in the consolidation.

As of March 2019, the Company consolidates in its financial statements the balances and operations of the investees Cargill Protein S. de R.L. de C.V. and Cargill Protein Servicios S. de R.L. de C.V., according to the agreement established with them to provide services for meat processing, through which the Company obtains control solely and exclusively from the accounting point of view and applying accounting principles but not legal ones, through the right to variable returns for its participation in these entities. Net income for the consolidated period considers a remainder attributable to the results of the investees of $12,797 in 2019 and the statement of financial position contains a remainder attributable to the minority interest of the investees of $16,289 as of December 31, 2019.

c) Financial assets and liabilities and fair value measurement

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

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

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

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

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

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

The Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

d) Cash and cash equivalents

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

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

e) Derivative financial instruments

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

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

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

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

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

g) Inventories

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

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

h) Prepaid expenses

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

i) Property and equipment

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

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

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

Construction in progress mostly consists of investments made by the Company, mainly for the construction of new stores and improvements; they are recognized at cost, and once complete, the Company reclassifies work in process to property and the depreciation begins.

As of December 31, 2018, Properties, plant and equipment acquired under finance leases were depreciated at the shorter between the useful life of the asset and the term of the contract including the lessee's unilateral right to renewal.

j) Investment properties

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

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

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

k) Leases

The Company assesses whether a contract is or contains a lease at inception of the contract. This assessment involves the exercises of judgement about whether it depends on a specified asset, whether the Company obtains substantially all the economics benefits from the use of that asset, and whether the Company has the right to direct the use of the assets.

WALMEX as a lessee

Until December 31, 2018, **WALMEX** considered as finance leases those where substantially all of the risks and rewards of ownership are substantially transferred. Finance leases are recorded at the lower of the fair value of the leased property and the present value of the minimum lease payments and are amortized over the shorter of the estimated useful life of the asset or the remaining expected lease term including unilateral renewals contemplated in each lease agreement. Lease agreements that do not qualify as finance leases were treated as operating leases. Payments made under operating leases were recognized in the income statement on a straight-line method over the remaining expected lease term. The starting date of a lease is considered the possession date of the leased property, including the lessee's rights to renewal.

Starting in January 1, 2019, **WALMEX** recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, **WALMEX** incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. As from January 1, 2019 these liabilities are re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the estimate of the amount expected to be payable under a residual value guarantee, or if **WALMEX**changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

WALMEX as a lessor

For 2019 and 2018 **WALMEX** obtains rental income from investment properties: the variable rent income is recognized as revenue in the period in which they are earned and such revenues are presented as a part of other revenues line within the consolidated statement of comprehensive income.

l) Impairment of long term definite useful life assets

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

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

The present value technique requires detailed budget calculations, which are prepared separately for each cash-generating unit where the assets are located. These budgets generally cover five years and, in case of a longer period, an expected growth rate is applied.

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

When an impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased by the reviewed estimate of the recoverable amount, not exceeding the carrying amount that would have been determined had no impairment loss been recognized in prior years. The reversal of an impairment loss is recognized immediately in the comprehensive income statement.

m) Intangible assets

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

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

n) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets of Walmart Central America at the acquisition date and is not subject to amortization.

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

Goodwill is tested for impairment annually. The Company engages the services of an independent expert to test its goodwill for impairment. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of value of money over time and the specific risks affecting such assets.

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

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

o) Liabilities and provisions

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

p) Income taxes

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

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

Deferred income taxes result from applying the applicable enacted or substantively enacted income tax rate at the reporting date to all temporary differences between the financial reporting and tax values of assets and liabilities in the consolidated balance sheet. Deferred tax assets are only recognized when it is probable that sufficient taxable profit will be available against which the deductions for temporary differences can be taken. The deferred tax liabilities are generally recognized for all taxable temporary differences.

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

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

The Company offsets tax assets and liabilities only if it has a legally enforceable right to offset tax assets and liabilities and deferred tax assets and liabilities relating to income taxes that pertain to the same authority.

q) Employee benefits

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

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

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

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

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

r) Equity

Legal reserve:

At December 31, 2019, the Company's legal reserve amounts to $9,104,745, which represents 20% of its capital stock, which under the Mexican Corporations Act is the maximum level the balance of the reserve can reach.

Employee stock option plan fund and stock option compensation:

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

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

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

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

According to the previous policy, **WALMEX** executives may exercise their option to acquire shares in equal parts over five years.

The right to exercise an employee stock option expires after ten years as of the grant date or after sixty days following the date of the employee's termination.

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

Premium on sale of shares:

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

s) Revenue recognition

Revenue from merchandise sales, including online sales ("e-Commerce") is recognized in the consolidated statement of comprehensive income at the time the obligation is satisfied (when "control" of the goods has been transferred to the customer). Revenue from services is recognized at the time the service is provided.

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

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

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

Revenues from the sale of waste and parking lots are recognized in other revenue line at the time the property is transferred upon delivery of the goods or at the time the services are provided.

t) Basic earnings per share

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

The effect on earnings per share, which represents the remainder attributable to the results of the investees in 2019, is $0.001 pesos per share.

u) Operating segments

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

v) Foreign currency transactions

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

4. Risk management

a) General risk factors

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

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

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

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

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

b) Financial risk factors:

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

Exchange rate risk:

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

At December 31, 2019 the exchange rate used to translate assets and liabilities denominated in US dollars was $18.93 per dollar ($19.66 in 2018).

Considering the net monetary position in dollars at December 31, 2019, if there was an increase or decrease in the exchange rate of the US dollar against the Mexican peso of 5%, there would be a favorable or unfavorable effect on the financial income (expenses) and equity of the Company of $186,353.

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

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

At December 31, 2019 and 2018, the Company has Fx-forward contracts with a term of no more than four months recorded in other accounts payable, which are shown below:

	2019	2018
Current contracts	**292**	90
Notional amount (millions of USD)	**US$ 167.30**	US$ 191.96
Fair value (millions of pesos)	**$ (55.90)**	$ (72.74)

Interest rate risk:

The Company has temporary investments in government paper which generate financial income. By reducing the interest rate, the financial income of the Company also decreases. The interest rate of these investments fluctuated during the year 2019 between 3.60% and 9.01%. As of December 31, 2019, the financial income amounted to $1,218,687 ($1,268,122 in 2018).

Considering the highly liquid instruments as of December 31, 2019, if there was an increase or decrease in the interest rate of 0.50%, there would be a favorable or unfavorable effect on the financial income of the Company of $71,292.

5. Cash and cash equivalents

An analysis of cash and cash equivalents as of December 31, 2019 and 2018, is as follows:

	2019	2018
Cash and cash in banks	**$ 19,168,562**	$ 14,625,147
Highly marketable investments	**11,688,528**	24,204,451
	$ 30,857,090	$ 38,829,598

6. Accounts receivable

An analysis of accounts receivable at December 31, 2019 and 2018, is as follows:

	2019	2018
Recoverable taxes	**$ 9,901,836**	$ 7,865,937
Trade receivables	**2,307,348**	2,745,233
Other accounts receivable	**1,611,393**	1,495,376
Related parties (Note 12)	**95,736**	83,000
Provision for impairment of other receivables	**(199,351)**	(154,517)
	$ 13,716,962	$ 12,035,029

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

7. Inventories

An analysis of inventories as of December 31, 2019 and 2018, is as follows:

	2019	2018
Merchandise for sale	**$ 63,951,823**	$ 59,696,445
Agro-industrial development	**841,245**	914,688
	64,793,068	60,611,133
Merchandise in transit	**2,760,146**	2,733,132
	$ 67,553,214	$ 63,344,265

As of December 31, 2019 and 2018, the effect of inventory impairment is $1,326,742 and $1,155,004, respectively, which was included in cost of sales in the consolidated comprehensive income statement.

8. Property and equipment

An analysis of property and equipment at December 31, 2019 and 2018, is as follows:

	December 31, 2017	Additions	Disposals	Transfers	Translation effect	December 31, 2018	Additions	Disposals	Transfers	Translation effect	December 31, 2019
Land	$ 29,931,705	$ 161,016	$(7,703)	$ 402,095	$ (306,839)	$ 30,180,274	**$ 405,314**	**$ (15,251)**	**$ 594,790**	**$ (32,687)**	**$ 31,132,440**
Buildings	59,634,168	1,788,325	(653,538)	3,086,509	(767,054)	63,088,410	**1,281,157**	**(814,475)**	**4,766,994**	**(208,660)**	**68,113,426**
Facilities and leasehold improvements	43,569,024	977,017	(706,321)	1,268,176	(260,999)	44,846,897	**572**	**(538,637)**	**4,544,817**	**(189,483)**	**48,664,166**
Furniture and equipment	68,729,832	5,789,288	(1,052,006)	2,740,692	(833,648)	75,374,158	**4,112,212**	**(2,613,994)**	**5,283,148**	**(394,982)**	**81,760,542**
Subtotal	201,864,729	8,715,646	(2,419,568)	7,497,472	(2,168,540)	213,489,739	**5,799,255**	**(3,982,357)**	**15,189,749**	**(825,812)**	**229,670,574**
Accumulated depreciation	(84,133,219)	(11,309,228)	2,080,436	(106,245)	661,052	(92,807,204)	**(12,309,236)**	**2,488,305**	**(305,547)**	**350,171**	**(102,583,511)**
Construction in progress	4,521,242	8,922,590	3,416	(7,502,528)	16,023	5,960,743	**14,461,560**	**(392,124)**	**(14,964,314)**	**(33,423)**	**5,032,442**
Total	$ 122,252,752	$ 6,329,008	$(335,716)	$ (111,301)	$ (1,491,465)	$ 126,643,278	**$ 7,951,579**	**$ (1,886,176)**	**$ (80,112)**	**$ (509,064)**	**$ 132,119,505**

Depreciation expense for the years ended December 31, 2019 and 2018, was $12,038,867, and $11,154,800, respectively, and is included in the general expenses line in the consolidated statement of comprehensive income. The depreciation included in cost of sales was $270,369 and $154,428, respectively.

Property and equipment impairment for the years ended December 31, 2019 and 2018, was $8,076 and $216,004, respectively, and is presented in the disposals column. Also, impairment reversal amounted to $37,564 and $128,270, respectively.

9. Leases

WALMEX has executed property lease agreements. Leases are usually contracted for a period of 15 years. Some leases include a unilateral renewal option for an additional period. The Company evaluates at the beginning of the lease if it is reasonably certain that it exercises said renewal option.

In addition, the Company has also entered into finance leases for the rental of residual water treatment plants with lease terms of 10 years with purchase option at the end of the agreement; as well as other equipment leases with terms of 3 to 5 years.

WALMEX sub-leases some of its investment properties.

WALMEX right of use assets balance is as follows:

	2019	2018*
Balance at the beginning of the period	$ 12,724,731	$ 12,709,974
IFRS 16 initial adoption	33,812,340	-
Additions	2,447,597	1,205,197
Modifications and actualizations	5,670,229	(6,430)
Disposals	(473,459)	(396,980)
Depreciations	(3,844,268)	(687,704)
Transfers	(851,965)	(37,437)
Conversion Effect	189,980	(61,889)
Balance at the end of the period	$ 49,675,185	$ 12,724,731

(*) Classified as finance leases as of December 31, 2018.

Lessee liabilities are as follows:

Year	December 31, 2019
2020	$ 8,273,625
2021	8,069,080
2022	7,671,583
2023	7,355,548
2024	7,104,737
2025 and thereafter	98,907,384
Nominal lease payments	137,381,957
Net present value adjustment	(80,169,338)
Lease liabilities - net	$ 57,212,619

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

The amounts recognized in the consolidated statements of income are as follow:

	Year ended December 31, 2019
Depreciation expense for the right of use assets, by type:	
tipo de activo:	
Property	$ 3,218,362
Equipment	625,906
Interest on lease liabilities	5,752,506
Expenses related to short-term leases	495,219
Expenses related to leases of low-value assets	4,260
Variable lease payments (not included in the measurement of lease liabilities)	2,656,794
Sub lease revenue	(114,085)

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

Amounts recognized in the consolidated statements of cash flow are as follow: :

	Year ended December 31, 2019
Rent payments – principal	$ 2,323,791
Rent payments – interest	$ 5,752,506
Additions of right of use assets	$ 2,447,597
Modifications and actualizations	$ 5,670,229

10. Investment properties

An analysis of investment properties as of December 31, 2019 and 2018 is as follows:

	December 31, 2017	Additions	Disposals	December 31, 2018	Additions	Disposals	Modifications and updates	Transfers	December 31, 2019
Land	$ 2,592,780	$ -	$ (39,246)	$ 2,553,534	$ 12	$ (6,669)	$ -	$ 3,402	$ 2,550,279
Buildings	2,680,000	39,984	(63,476)	2,656,508	22,730	(184,481)	1,654,160	1,802,852	5,951,769
Facilities and improvements	2,351,195	1,630	15,478	2,368,303	-	(57,028)	-	(658,693)	1,652,582
Subtotal	7,623,975	41,614	(87,244)	7,578,345	22,742	(248,178)	1,654,160	1,147,561	10,154,630
Accumulated depreciation	(2,505,268)	(233,422)	14,315	(2,724,375)	(369,977)	61,997	(126,102)	(351,955)	(3,510,412)
Total	$ 5,118,707	$ (191,808)	$ (72,929)	$ 4,853,970	$ (347,235)	$ (186,181)	$ 1,528,058	$ 795,606	$ 6,644,218

Depreciation expense for the years ended December 31, 2019 and 2018, was $369,977 and $233,422, respectively, and is included in the general expenses line in the consolidated statement of comprehensive income.

The fair value of investment properties as of December 31, 2019 and 2018 is $9,238,994 and $8,028,001, respectively.

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

As of December 31, 2019 and 2018, the fair values of the properties are based on management valuations. To calculate the value of a commercial property, the rental approach was used, applying the corresponding gross rent multiplier (GRM).

11. Intangible assets

An analysis of intangible assets at December 31, 2019 and 2018, is as follows:

	December 31, 2017	Additions	Disposals	Transfers	Translation effect	December 31, 2018	Additions	Disposals	Transfers	Translation effect	December 31, 2019
Goodwill	$ 37,373,196	$ -	$ -	$ -	$ (2,383,986)	$ 34,989,210	$ -	$ -	$ -	$ 156,151	$ 35,145,361
Trademarks	914,273	-	-	-	(46,027)	868,246	1,234	-	-	(12,693)	856,787
Licenses and software	2,622,255	252,728	(4,223)	148,651	(10,594)	3,008,817	290,042	(6,155)	136,142	246	3,429,092
Customer base	229,790	-	-	-	(14,766)	215,024	-	-	-	4,076	219,100
Subtotal	41,139,514	252,728	(4,223)	148,651	(2,455,373)	39,081,297	291,276	(6,155)	136,142	147,780	39,650,340
Accumulated amortization	(1,771,486)	(327,234)	70	500	14,592	(2,083,558)	(479,026)	(177)	329	(4,318)	(2,566,750)
Total	$ 39,368,028	$ (74,506)	$ (4,153)	$ 149,151	$ (2,440,781)	$ 36,997,739	$ (187,750)	$ (6,332)	$ 136,471	$ 143,462	$ 37,083,590

As a result of its impairment testing, the Company concluded that there was no impairment in the value of the Company's Goodwill as of December 31, 2019 and 2018.

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

Licenses, software and customer amortization expense for the years ended December 31, 2019 and 2018, was $479,026 and $327,234, respectively, and is included in the general expenses line of the consolidated statement of comprehensive income.

12. Related parties

GRI **102-25**

a) Related party balances

As of December 31, 2019 and 2018, the consolidated statement of financial position includes the following balances with related parties:

	2019	2018
Accounts receivable:		
Walmart, Inc.	**$ 95,736**	$ 83,000
Accounts payable:		
C.M.A. - U.S.A., L.L.C.	**$ 695,229**	$ 689,282
Swiss Asia Minor GmbH	**101,254**	120,005
	$ 796,483	$ 809,287
Other accounts payable:		
Walmart Inc.	**$ 1,248,841**	$ 1,143,739

Balances with related parties consist of current accounts that bear no interest, are payable in cash and have no guarantees. Balances with related parties are considered recoverable and consequently, for the years ended December 31, 2019 and 2018, there were no uncollectible related party balances.

b) Related party transactions

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

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

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

The Company had the following transactions with related parties during the years ended December 31, 2019 and 2018:

	2019	2018
Purchases and commissions related to the import of goods for sale:		
C.M.A. - U.S.A., L.L.C.	**$ 4,432,605**	$ 4,644,211
Swiss Asia Minor GmbH	**255,494**	247,429
	$ 4,688,099	$ 4,891,640
Costs and expenses related to technical assistance, services and royalties:		
Walmart, Inc.	**$ 8,158,541**	$ 4,225,378

c) Remuneration of principal officers

Remuneration to the Company's principal officers and Board of Directors for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Short-term benefits	**$ 1,133,350**	$ 1,238,960
Termination benefits	**84,491**	60,081
Share-based payments	**167,092**	126,434
	$ 1,384,933	$ 1,425,475

13. Other accounts payable

An analysis of other accounts payable as of December 31, 2019 and 2018, is as follows:

	2019	2018
Accrued liabilities and others	**$ 16,250,914**	$ 17,002,963
Dividends	**136,999**	5,831,387
Contingencies (Note 14)	**2,131,626**	1,699,542
Deferred revenue [(a)]	**1,348,990**	1,583,393
Related parties (Note 12)	**1,248,841**	1,143,739
	$ 21,117,370	$ 27,261,024

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

14. Commitments and contingencies

a) Commitments

As of December 31, 2019, the Company has entered into agreements with suppliers for the acquisition of inventories, property and equipment, maintenance services, as well as renewable energy supply services, as shown below:

Year	Amount
2020	**$ 20,679,381**
2021	**$ 1,645,344**
2022	**$ 1,712,290**
2023	**$ 1,779,233**
2024	**$ 1,848,805**
2025 and thereafter	**$ 16,153,264**

The Company has lease commitments as explained in Note 9.

b) Contingencies

The company is subject to several lawsuits and contingencies for legal proceedings (labor, civil, commercial and administrative proceedings) and tax proceedings. The Company has recognized a provision of $2,131,626 as of December 31, 2019 ($1,699,542 in 2018), which is presented in other accounts payable. In the opinion of the Company, none of the legal proceedings are significant either individually or as a whole.

The tax authorities have conducted a review on the sale operation of the Vips restaurant to Alsea and issued a termination document, in which they claim the payment of alleged differences in tax payments of $10,559 million of pesos, which includes taxes, fines and other surcharges.

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

An appeal for revocation was filed with the tax authorities, in order to make an adequate assessment of all the arguments, before going to the competent courts.

c) Legal proceedings

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

Currently, the Board of Directors of **WALMEX** is composed of 10 directors. The Audit Committee and the Corporate Governance Committee of the Board of Directors are composed exclusively of independent directors.

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

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

On June 20, 2019, **WALMEX** announced that Walmart Inc. has entered into a global settlement with the U.S. Department of Justice (DOJ) and the Securities and Exchange Commission (SEC) that resolves a more than seven-year investigation into the company's compliance with the U.S. Foreign Corrupt Practices Act (FCPA). Through the settlements, which cover conduct that took place years ago, Walmart has agreed to a combined payment of $282.7 million dollars. The global resolution ends all FCPA-related investigations or inquiries into Walmart and its subsidiaries by the DOJ and the SEC.

These agreements relate to Walmart's anti-corruption internal controls in Brazil, Mexico, India and China prior to April 2011. Walmart, under the direction of its Audit Committee, conducted a thorough internal investigation, cooperated with the DOJ and the SEC, and took extensive steps that have established its strong Global Anti-Corruption Compliance Program.

Over the past seven years, WMT spent more than $900 million dollars on FCPA inquiries and investigations, its Global Compliance Program and organizational enhancements. Walmart's actions were acknowledged by the DOJ and the SEC in the resolution agreements.

As part of the resolution, WMT entered into a Non-Prosecution Agreement with the DOJ. The DOJ will not prosecute the Company if, for a period of three years, the Company meets its obligations set forth in the agreement. WMT has also agreed to an administrative order with the SEC to resolve SEC findings related to violations of the FCPA's books and records and internal controls provisions. In addition, WMT Brasilia S.a.r.l., an indirect wholly-owned subsidiary of WMT, has entered into a guilty plea in the U.S. District Court for the Eastern District of Virginia as part of the agreement with the DOJ for causing a books and records violation of the FCPA.

WMT has also agreed with the DOJ to oversight by an independent compliance monitor with a limited scope for a period of two years. Also, Walmart has agreed to report to the SEC on its Anti-Corruption Compliance Program for a period of two years.

WMT has taken extensive steps to strengthen its Global Anti-Corruption Compliance Program through enhancing its anti-corruption compliance policies, procedures, and internal controls in every country in which it operates. WMT was recognized by the New York Stock Exchange Governance Services, a subsidiary of the NYSE, as the 2016 winner of its "Best Governance, Risk, and Compliance Program" for Large-Cap companies.

WMT agreed to pay a total amount of $282.7 million dollars consisting of the following: a $137.96 million dollars penalty to the DOJ and $144.69 million dollars in disgorgement of profits plus interest to the SEC. A $4.3 million dollars penalty, including forfeiture, against WMT Brasilia S.a.r.l. will be deducted from the amount owed by Walmart under the Non-Prosecution Agreement. In November 2017, Walmart disclosed that it had accrued approximately $283 million dollars for the DOJ and SEC resolution. As a result, the amount will not materially impact Walmart's financial results.

15. Leases and Other long-term liabilities

In leases and other long-term liabilities as of December 31, 2019 and 2018, include:

	2019	2018
Long-term leases	**$ 54,168,291**	$ 14,167,265
Deferred rental income	**4,522,312**	4,881,202
Operating leases	**-**	962,218
Others	**8,097**	8,623
	$ 58,698,700	$ 20,019,308

16. Income taxes

The income tax provision includes taxes payable by WALMEX's subsidiaries in Mexico and abroad, determined in accordance with the tax laws in force in each country. Until December 31, 2019, companies in Mexico determined and paid their income tax under the general tax law.

An analysis of income taxes charged to the income statement for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Current year tax	**$ (11,143,214)**	$ (13,034,909)
Deferred tax	**(161,133)**	927,786
Total	**$ (11,304,347)**	$ (12,107,123)

As of December 31, 2019 and 2018, the Company's effective tax rate is 23.0% and 24.8%, respectively. The difference between the statutory tax rate and Company's effective tax rate is mainly due to inflationary effects and other permanent items.

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

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

An analysis of the effects of the temporary differences giving rise to deferred tax assets and liabilities at December 31, 2019 and 2018, is as follows:

	2019	2018
Deferred tax assets:		
Leases and other long-term liabilities	**$ 3,175,816**	$ 3,729,985
Other accounts payable	**2,168,464**	1,852,480
Inventories	**826,628**	750,551
Labor obligations	**789,490**	553,700
Tax losses carryforward from subsidiaries	**908,628**	529,079
Provision for impairment of other receivables	**39,540**	51,827
	$ 7,908,566	$ 7,467,622
Deferred tax liabilities:		
Property and equipment	**$ 4,278,470**	$ 5,190,660
Prepaid expenses	**988,959**	234,830
Other items	**221,530**	361,442
IFRIC 23 adoption / Other impacts	**1,252,609**	-
	$ 6,741,568	$ 5,786,932

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

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

Year of expiration	Amount
2024	**$ 11**
2027	**368,412**
2028	**915,291**
2029	**1,745,045**
	$ 3,028,759

Changes in the assets and liabilities for deferred taxes (net) as of December 31, 2019 and 2018, are shown below:

	2019	2018
Balances as of beginning of the year	**$ 1,680,690**	$ 795,235
Movement net of the year	**47,155**	1,381,566
Excess of previous years	**(219,828)**	(453,838)
Other comprehensive income items	**191,446**	(29,380)
IFRS 16 adoption	**739,729**	-
IFRIC 23 adoption / Other impacts	**(1,252,609)**	-
Translation effect	**(19,585)**	(12,893)
Balance as of end of the year	**$ 1,166,998**	$ 1,680,690

No material impacts are expected for the Group resulting from the tax reform enacted in 2019 and which will be effective in 2020.

17. Employee benefits

As of December 31, 2019 and 2018, an analysis of the Company's assets and liabilities for seniority premiums and retirement benefits is as follows:

	Seniority premiums		Retirement benefits	
	2019	2018	2019	2018
Defined benefit obligations	**$ 1,489,633**	$ 1,015,698	**$ 1,528,323**	$ 1,446,924
Plan assets	**(929,670)**	(819,595)	**-**	-
Net projected liability	**$ 559,963**	$ 196,103	**$ 1,528,323**	$ 1,446,924

Changes in the net present value of the defined benefit obligations (DBO) as of December 31, 2019 and 2018, are shown below:

	Seniority premiums		Retirement benefits	
	2019	2018	2019	2018
DBO at beginning of year	**$ 1,015,698**	$ 1,020,340	**$ 1,446,924**	$ 1,728,121
Net period cost charged to results:				
Labor cost from actual services	**141,596**	152,112	**205,925**	180,208
Interest cost on DBO	**97,129**	78,675	**130,003**	144,023
Other comprehensive income items	**358,572**	(99,520)	**323,897**	29,142
Benefits paid	**(123,362)**	(135,909)	**(521,263)**	(568,705)
Translation impacts	**-**	-	**(57,163)**	(65,865)
DBO at year end	**$ 1,489,633**	$ 1,015,698	**$ 1,528,323**	$ 1,446,924

Changes in the net present value of the plan assets (PA) as of December 31, 2019 and 2018, are shown below:

	Seniority premiums	
	2019	**2018**
PA at beginning of year	**$ (819,595)**	$ (756,598)
Return on plan assets	**(78,480)**	(58,228)
Components of other comprehensive income	**5,191**	31,776
Plan contributions	**(160,075)**	(172,278)
Benefits paid	**123,289**	135,733
PA at year end	**$ (929,670)**	$ (819,595)

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

As of December 31, 2019 and 2018, the plan assets have been invested through the trust mostly in money market instruments. As of December 31, 2019 and 2018, actuarial gains/ losses from labor obligations, net of taxes are recognized as a component of other comprehensive income in the amount of $(236,202) and $451,458, respectively.

As of December 31, 2019, the assumptions used in the actuarial valuations of Mexico and Central America, are as follows:

	Mexico		Central America	
	2019	**2018**	**2019**	**2018**
Financial:				
Discount rate	**7.45%**	9.50%	**5.30%-9.37%**	3.80%-13.56%
Salary increase rate	**5.25%**	5.25%	**2.50%-7.51%**	2.50%-7.51%
Minimum salary increase rate	**4.50%**	4.00%	**2.00%-5.00%**	2.00%-7.01%
Inflation rate	**4.00%**	4.00%	**1.20%-4.52%**	2.00%-7.01%

	Mexico		Central America	
	2019	**2018**	**2019**	**2018**
Biometrics:				
Mortality	**IMSS 2009 (1)**	IMSS-97 (1)	**RP-2000(2)**	RP-2000(2)
Disability	**21.10%**	21.07%	**15.40%**	15.40%
Retirement age	**60 años**	60 años	**50-65 años**	50-65 años

(1) Mexican Social Security Institute experience for males and females.
(2) RP-2000 for Costa Rica, Guatemala, Honduras, Nicaragua and El Salvador.

A sensitivity analysis of the DBO at December 31, 2019, is as follows:

	Amount
DBO at December 31, 2019	**$ 3,017,956**
DBO at discount rate +1%	**$ 2,841,089**
DBO at discount rate -1%	**$ 3,332,390**
Effects over DBO:	
Discount rate +1%	**$ (263,365)**
Discount rate -1%	**$ 413,334**

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

18. Equity

a) At an ordinary meeting held on March 21, 2019, the shareholders adopted the following resolutions:

1. Approval of a cap of $5,000,000 on the amount the Company would use in 2019 to repurchase its own shares. There were no repurchase of its own shares at December 31, 2019.

2. The shareholders declared an ordinary cash dividend of $0.84 pesos per share, paid in three installments of $0.28 pesos each on April 25, 2019; August 28, 2019 and November 27, 2019; and an extraordinary dividend to be paid in cash at a rate of $0.91 pesos per share in three installments: $0.35 pesos on April 25, 2019, $0.30 pesos on August 28, 2019 and $0.26 pesos on November 27, 2019.

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

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

As of December 31, 2019 and 2018, an analysis of paid-in stock and the number of shares representing it is as follows:

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

During the years ended December 31, 2019 and 2018, WALMEX did not repurchase its own shares.

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

As of December 31, 2019 and 2018, the total balance of the tax accounts related to equity is $66,451,789 and $77,766,617, respectively, in conformity with the current tax laws.

d) The employee stock option plan fund consists of 158,548,465 **WALMEX** shares, which have been placed in a trust created for the plan.

The total compensation cost charged to operating results in the years ended December 31, 2019 and 2018 was $330,777 and $307,379, respectively, which represented no cash outflow for the Company and it is included in the general expenses line in the consolidated comprehensive income statement.

Changes in the stock option plan are as follows:

	Número de acciones	Precio promedio ponderado (pesos)
Balance as of December 31, 2017	184,962,474	35.73
Granted	35,274,409	45.62
Exercised	(46,694,684)	33.39
Cancelled	(13,989,997)	34.50
Balance as of December 31, 2018	159,552,202	38.38
Granted	41,020,219	49.54
Exercised	(30,471,230)	33.38
Cancelled	(11,552,726)	43.34
Balance as of December 31, 2019	158,548,465	41.87
Shares available for option grant:		
As of December 31, 2019	6,620,210	
As of December 31, 2018	5,606,718	

As of December 31, 2019, the granted and exercisable share under the stock option plan fund is 158,548,465 and 54,903,239, respectively.

19. Other disclosures of revenue

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

	For the years ended December 31, 2019	2018
Memberships	**$ 1,783,884**	$ 1,600,375
Rental	**2,063,744**	1,996,618
Sale of waste	**555,810**	580,113
Bank bonuses	**534,895**	494,658
Parking	**83,455**	52,266
Total	**$ 5,021,788**	$ 4,724,030

As of December 31, 2019, rental income includes investment properties of $593,530 ($575,280 in 2018).

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

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

	For the years ended December 31, 2019	2018
Mexico:		
Self-service	**61.5%**	61.2%
Price clubs	**20.7%**	20.4%
Central America:	**17.8%**	18.4%

Of **WALMEX**'s total net sales, approximately $9.3 billion and $7.1 billion relates to electronic commerce for the years ended December 31, 2019 and 2018, respectively.

20. Cost of sales and general expenses

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

21. Financial income (expenses)

An analysis of financial income (expenses) for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Financial income:		
Financial income	**$ 1,218,687**	$ 1,268,122
Currency exchange gain	**628,208**	805,203
Income on changes in fair value of derivatives	**413,161**	256,252
	$ 2,260,056	$ 2,329,577

	2019	2018
Financial expenses:		
Interest on finance leases	**$ (5,752,506)**	$ (1,553,237)
Currency exchange loss	**(619,192)**	(630,197)
Loss on changes in fair value of derivatives	**(396,321)**	(354,448)
Other	**(292,604)**	(121,747)
	$ (7,060,623)	$ (2,659,629)

Financial income primarily consists of interest earned on investments.

22. Segment financial information

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

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

Segment	Year ended December 31, 2019 Operating income	Financial expenses - net	Income before income taxes
Mexico	**$ 47,403,081**	**$ (4,125,047)**	**$ 43,278,034**
Central America	**6,599,605**	**(675,520)**	**5,924,085**
Consolidated	**$ 54,002,686**	**$ (4,800,567)**	**$ 49,202,119**

Segment	Year ended December 31, 2018 Operating income	Financial expenses - net	Income before income taxes
Mexico	$ 41,981,265	$ (255,091)	$ 41,726,174
Central America	7,208,523	(74,961)	7,133,562
Consolidated	$ 49,189,788	$ (330,052)	$ 48,859,736

Segment	Year ended December 31, 2019 Purchase of long term definite-lived assets	Depreciation and amortization	Total assets	Current liabilities
Mexico	**$ 15,391,225**	**$ 13,178,163**	**$ 247,035,722**	**$ 93,743,256**
Central America	**5,183,605**	**3,824,344**	**67,092,444**	**21,008,298**
Goodwill	**-**	**-**	**35,145,361**	**-**
Consolidated	**$ 20,574,830**	**$ 17,002,507**	**$ 349,273,527**	**$ 114,751,554**

Segment	Year ended December 31, 2018 Purchase of long term definite-lived assets	Depreciation and amortization	Total assets	Current liabilities
Mexico	$ 11,694,003	$ 9,681,218	$ 213,528,655	$ 95,519,391
Central America	6,238,575	2,876,370	58,010,968	18,646,101
Goodwill	-	-	34,989,210	-
Consolidated	$ 17,932,578	$ 12,557,588	$ 306,528,833	$ 114,165,492

An analysis of income from customer contracts is presented in note 19.

23. Approval of the financial statements

The consolidated financial statements and accompanying notes for the years ended December 31, 2019 and 2018 were approved by the Company's management and Board of Directors on February 13, 2020 and are subject to approval by the Shareholders meeting. Subsequent events are considered through this date.