

Financial  
STATEMENTS

1999

## ERNESTO VALENZUELA ESPINOZA

To the Stockholders of  
Grupo Gigante, S. A. de C. V.:

As Company Examiner, in compliance with article 166 of the General Corporate Law and the company bylaws of Grupo Gigante, S. A. de C. V., I submit my report on the truthfulness, adequacy and fairness of the individual and consolidated information which the Board of Directors has furnished to you relative to the progress of the Company for the year ended December 31, 1999.

I attended the Stockholders' and Board of Directors' meetings held, and obtained information from the directors and administrators on those operations, documentation and records which I deemed necessary to examine. My review was performed in accordance with generally accepted auditing standards.

In my opinion, the accounting and reporting criteria and policies followed by the Company and considered by the administrators to prepare the information which they presented to this meeting, are adequate and sufficient, and were applied consistently with the prior year. Consequently, said information reflects truthfully, fairly and sufficiently the individual and consolidated financial position of Grupo Gigante, S. A. de C. V. at December 31, 1999, and the individual and consolidated statements of its operations, changes in its stockholders' equity and changes in its financial position for the year then ended, in accordance with generally accepted accounting principles.



C.P.C. Ernesto Valenzuela Espinoza  
Examiner

Mexico City, February 25, 2000



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of  
Grupo Gigante, S. A. de C. V.:

We have audited the accompanying consolidated balance sheets of Grupo Gigante, S. A. de C. V. and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the years then ended, all expressed in thousands of Mexican pesos of purchasing power of December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in accordance with accounting principles generally accepted in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Grupo Gigante, S. A. de C. V. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations, changes in their stockholders' equity and changes in their financial position for the years then ended in conformity with accounting principles generally accepted in Mexico.

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

C.P.C. Francisco Pérez Cisneros

February 25, 2000

GRUPO GIGANTE, S. A. DE C. V. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1999 AND 1998

(Thousands of Mexican Pesos of Purchasing Power of December 31, 1999)

| <b>ASSETS</b>  | <b>1999</b>          | <b>1998</b>          |
|--|----------------------|----------------------|
| <b>CURRENT ASSETS:</b>   |                      |                      |
| Cash and temporary investments   | \$ 617,090           | \$ 1,251,895         |
| Accounts receivable – Net (Note 3)   | 955,325              | 1,009,289            |
| Inventories  | 3,287,550            | 3,396,229            |
| Prepaid expenses   | 144,333              | 157,354              |
|  | <u>5,004,298</u>     | <u>5,814,767</u>     |
| Total current assets   | 5,004,298            | 5,814,767            |
| PROPERTY AND EQUIPMENT - Net (Note 4)  | 10,440,051           | 8,944,332            |
| INVESTMENT IN SHARES (Note 5)  | 13,618               | 214,154              |
| EXCESS OF COST OF SUBSIDIARIES ACQUIRED<br>OVER FAIR VALUE OF NET ASSETS ACQUIRED<br>AND OTHER ASSETS (Note 6) | <u>516,002</u>       | <u>472,255</u>       |
| <b>TOTAL</b>   | <u>\$ 15,973,969</u> | <u>\$ 15,445,508</u> |
| <br><b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                      |                      |
| <b>CURRENT LIABILITIES:</b>  |                      |                      |
| Notes payable to financial institutions  | \$ 15,000            | \$ -                 |
| Current portion of long-term debt  | 12,531               | 12,691               |
| Accounts payable   | 4,319,219            | 4,250,170            |
| Accrued expenses and taxes   | 600,919              | 507,014              |
|  | <u>4,947,669</u>     | <u>4,769,875</u>     |
| Total current liabilities  | 4,947,669            | 4,769,875            |
| LONG-TERM DEBT (Note 7)  | <u>543,571</u>       | <u>619,960</u>       |
| Total liabilities  | <u>5,491,240</u>     | <u>5,389,835</u>     |
| <b>STOCKHOLDERS' EQUITY (Note 8):</b>  |                      |                      |
| Common stock   | 1,836,152            | 1,830,697            |
| Additional paid-in capital   | 5,122,021            | 5,126,784            |
| Retained earnings  | 9,714,037            | 8,760,191            |
| Deficiency in restated stockholders' equity  | ( 6,189,481 )        | ( 5,661,999 )        |
|  | <u>10,482,729</u>    | <u>10,055,673</u>    |
| Stockholders' equity   | 10,482,729           | 10,055,673           |
| <b>TOTAL</b>   | <u>\$ 15,973,969</u> | <u>\$ 15,445,508</u> |

See accompanying notes to consolidated financial statements.

GRUPO GIGANTE, S. A. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
YEARS ENDED DECEMBER 31, 1999 AND 1998

(Thousands of Mexican Pesos of Purchasing Power of December 31, 1999,  
Except Net Majority Earnings Per Share)

|   | 1999              | 1998                |
|---|-------------------|---------------------|
| REVENUES:   |                   |                     |
| Net sales   | \$ 22,757,364     | \$ 21,196,525       |
| Other   | 208,781           | 223,707             |
| Total revenues  | <u>22,966,145</u> | <u>21,420,232</u>   |
| COSTS AND EXPENSES:   |                   |                     |
| Cost of sales   | 18,091,389        | 16,912,700          |
| Operating expenses  | 3,967,572         | 3,735,973           |
| Total costs and expenses                                      | <u>22,058,961</u> | <u>20,648,673</u>   |
| INCOME FROM OPERATIONS  | 907,184           | 771,559             |
| NET COMPREHENSIVE FINANCING INCOME (Note 10)                  | 154,954           | 302,501             |
| OTHER (EXPENSE) INCOME - Net (Note 11)                        | ( 15,653 )        | 202,567             |
| INCOME BEFORE PROVISIONS AND<br>EXTRAORDINARY GAIN            | 1,046,485         | 1,276,627           |
| PROVISIONS (Note 13):   |                   |                     |
| Income tax  | 65,757            | -                   |
| Tax on assets   | 93,153            | 108,918             |
| Employee statutory profit-sharing                             | 26,030            | -                   |
|   | <u>184,940</u>    | <u>108,918</u>      |
| INCOME BEFORE EXTRAORDINARY GAIN                              | 861,545           | 1,167,709           |
| EXTRAORDINARY GAIN -<br>Utilization of tax loss carryforwards | 65,757            | -                   |
| CONSOLIDATED NET INCOME                                       | <u>\$ 927,302</u> | <u>\$ 1,167,709</u> |
| Net income of majority stockholders                           | \$ 927,302        | \$ 1,178,889        |
| Net loss of minority stockholders                             | <u>( 11,180 )</u> | <u>( 11,180 )</u>   |
| Consolidated net income                                       | <u>\$ 927,302</u> | <u>\$ 1,167,709</u> |
| Net majority earnings per share                               | <u>\$ .32</u>     | <u>\$ .40</u>       |

See accompanying notes to consolidated financial statements.

GRUPO GIGANTE, S. A. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 1999 AND 1998

(Thousands of Mexican Pesos of Purchasing Power of December 31, 1999)

|   | Common<br>Stock     | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Deficiency<br>in Restated<br>Stockholders'<br>Equity | Minority<br>Stockholders'<br>Equity | Total<br>Stockholders'<br>Equity<br>(Note 8) |
|---|---------------------|----------------------------------|----------------------|--|-------------------------------------|--|
| BALANCE, JANUARY 1, 1998                                | \$ 1,847,356        | \$ 5,126,784                     | \$ 7,661,658         | \$( 5,242,471)                                       | \$ 121,506                          | \$ 9,514,833                                 |
| Repurchase of shares<br>– net of sales                  | ( 16,659)           |                                  | ( 80,356)            |  |                                     | ( 97,015)                                    |
| Purchase of minority interest                           |                     |                                  |                      |  | ( 64,376)                           | ( 64,376)                                    |
| Deconsolidation of subsidiary<br>due to sales of shares |                     |                                  |                      |  | ( 45,950)                           | ( 45,950)                                    |
| Net income  |                     |                                  | 1,178,889            |  | ( 11,180)                           | 1,167,709                                    |
| Result from holding<br>nonmonetary assets               |                     |                                  |                      | ( 419,528)   |                                     | ( 419,528)                                   |
| BALANCE, DECEMBER 31, 1998                              | 1,830,697           | 5,126,784                        | 8,760,191            | ( 5,661,999)   |                                     | 10,055,673                                   |
| Sale of repurchased shares<br>– net of purchases        | 5,455               | ( 4,763)                         | 26,544               |  |                                     | 27,236                                       |
| Net income  |                     |                                  | 927,302              |  |                                     | 927,302                                      |
| Result from holding<br>nonmonetary assets               |                     |                                  |                      | ( 527,482)   |                                     | ( 527,482)                                   |
| BALANCE, DECEMBER 31, 1999                              | <u>\$ 1,836,152</u> | <u>\$ 5,122,021</u>              | <u>\$ 9,714,037</u>  | <u>\$( 6,189,481)</u>                                | <u>\$</u>                           | <u>\$ 10,482,729</u>                         |

See accompanying notes to consolidated financial statements.

GRUPO GIGANTE, S. A. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION  
YEARS ENDED DECEMBER 31, 1999 AND 1998

(Thousands of Mexican Pesos of Purchasing Power of December 31, 1999)

|   | 1999                | 1998                |
|---|---------------------|---------------------|
| <b>OPERATING ACTIVITIES:</b>  |                     |                     |
| Income before extraordinary gain  | \$ 861,545          | \$ 1,167,709        |
| Items that did not require resources:   |                     |                     |
| Depreciation and amortization   | 397,799             | 330,987             |
| Excess of book value over cost of shares of subsidiary and associated companies | ( 27,159)           | ( 41,175)           |
| Equity in loss of associated companies  | 13,783              | 4,702               |
|   | <u>1,245,968</u>    | <u>1,462,223</u>    |
| Changes in current assets and liabilities:                                      |                     |                     |
| Accounts receivable - net   | 64,455              | ( 279,516)          |
| Inventories   | ( 418,801)          | ( 954,772)          |
| Prepaid expenses  | 13,037              | 48,117              |
| Accounts payable  | 69,048              | 652,917             |
| Accrued expenses and taxes  | 53,439              | ( 19,282)           |
| Net resources provided by operating activities before extraordinary gain        | <u>1,027,146</u>    | <u>909,687</u>      |
| Extraordinary gain  | <u>65,757</u>       | <u>-</u>            |
| Net resources provided by operating activities                                  | <u>1,092,903</u>    | <u>909,687</u>      |
| <b>FINANCING ACTIVITIES:</b>  |                     |                     |
| Notes payable to financial institutions- net                                    | 15,000              | ( 432,344)          |
| Long-term debt - net  | ( 76,547)           | 29,851              |
| Sale (repurchase) of shares - net   | 27,236              | ( 97,015)           |
| Purchase of minority interest - net   | -                   | ( 34,602)           |
| Net resources used in financing activities                                      | <u>( 34,311)</u>    | <u>( 534,110)</u>   |
| <b>INVESTING ACTIVITIES:</b>  |                     |                     |
| Acquisition of property and equipment - net                                     | ( 1,468,872)        | ( 1,457,210)        |
| Other assets  | ( 64,709)           | ( 57,610)           |
| Sale of shares of Grandes Superficies de México, S. A. de C. V.                 | -                   | 1,635,830           |
| Deconsolidation of subsidiary due to sale of shares                             | -                   | 19,965              |
| Investment in shares  | ( 159,816)          | ( 158,309)          |
| Net resources used in investing activities                                      | <u>( 1,693,397)</u> | <u>( 17,334)</u>    |
| <b>CASH AND TEMPORARY INVESTMENTS:</b>  |                     |                     |
| (Decrease) increase   | ( 634,805)          | 358,243             |
| Beginning of year   | 1,251,895           | 893,652             |
| End of year   | <u>\$ 617,090</u>   | <u>\$ 1,251,895</u> |

See accompanying notes to consolidated financial statements.

GRUPO GIGANTE, S. A. DE C. V. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 1999 AND 1998

(Thousands of Mexican Pesos of Purchasing Power of December 31, 1999,  
unless otherwise indicated)

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1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

**Nature of business** - Grupo Gigante, S. A. de C. V. (the "Company") owns the following subsidiaries, which are organized into groups. The consolidated financial statements include the accounts of the Company and the following subsidiaries, which it controls directly or indirectly.

| Company or Group                       | Equity | Activity  |
|--|--------|---|
| Gigante, S. A. de C. V.                | 99.99% | 191 self-service stores that sell groceries, perishables, clothing and general merchandise. |
| Bodega Gigante, S. A. de C. V.         | 99.99% | 11 real estate companies that own land where Company stores are located.                    |
| Cafeterías Toks, S. A. de C. V.        | 99.99% | A chain of 41 restaurants.  |
| Controtiendas, S. A. de C. V.          | 99.99% | 36 real estate companies that own land where Company stores are located.                    |
| Gigante-Fleming, S. A. de C. V.        | 99.99% | A real estate company that owns land where 2 Company stores are located.                    |
| Office Depot de México, S. A. de C. V. | 50%    | 42 office supply stores and two distribution centers.                                       |
| Servicios Gigante, S. A. de C. V.      | 99.98% | Administrative services.  |
| Servicios Toks, S. A. de C. V.         | 99.98% | Administrative services.  |
| Gigante Holding International          | 100%   | Includes 2 self-service stores focusing on the latin market in Los Angeles, Cal.            |
| Controladora del Norte, S. A. de C. V. | 99.99% | 5 real estate companies that own land where Company stores are located.                     |

**Basis of presentation** - The consolidated financial statements include the accounts of the Company and of its subsidiaries. Intercompany balances and transactions have been eliminated. The financial statements of Office Depot de México, S. A. de C. V. are consolidated using the 50% proportionate consolidation method.

Investments in associated companies are accounted for using the equity method of accounting due to the Company's lack of control.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Significant accounting policies** - The Company's accounting policies are in accordance with generally accepted accounting principles in Mexico and are summarized as follows:

a. **Comparability** - The following are the most significant issues affecting the comparability of the financial statements:

i In October, 1998, the Company sold 2% of its investment in shares of Radio Shack de Mexico, S. A. de C. V. ("Radio Shack"), whereby its ownership interest decreased to 49% and it no longer has effective control. Accordingly, as of that date, Radio Shack is no longer consolidated in the Company's financial statements and the investment is accounted for using the equity method. Condensed financial information of Radio Shack at the date of sale in pesos of purchasing power of December 31, 1999, included in the Company's financial statements, is summarized as follows:

|                                  | <b>September<br/>30, 1998</b>            |
|----------------------------------|--|
| <u>Balance Sheet:</u>            |  |
| Current assets                   | \$ 140,416                               |
| Fixed assets                     | 14,050                                   |
| Total liabilities                | <u>( 73,236 )</u>                        |
| Stockholders' equity             | <u>\$ 81,230</u>                         |
| <br>                             |  |
|                                  | <b>January to<br/>September<br/>1998</b> |
| <u>Statement of Operations:</u>  |  |
| Revenues                         | \$ 130,451                               |
| Costs and expenses               | ( 139,188 )                              |
| Net comprehensive financing cost | ( 12,037 )                               |
| Taxes                            | <u>( 2,045 )</u>                         |
| Net loss                         | <u>\$ ( 22,819 )</u>                     |

ii. In October 1998 and January 1999, the Company acquired 49% and 50.99%, respectively, of the shares of Controladora del Norte, S. A. de C. V., whose primary activity is leasing of properties containing commercial premises. At December 31, 1998, this investment was accounted for using the equity method. The acquisition cost of shares amounted to \$278,280. The acquisition cost of the shares was lower than the fair value of the assets acquired by \$27,159 in 1999 and \$41,175 in 1998. This difference was recognized in results of the years the shares were acquired. Related condensed financial information at the acquisition date and for the year ended December 31, 1998, expressed in Mexican pesos of purchasing power of December 31, 1999, is summarized below:

|                                  | <b>January 18,<br/>1999</b>                   |
|----------------------------------|---|
| <u>Balance sheets:</u>           |   |
| Current assets                   | \$ 10,718                                     |
| Fixed assets                     | 403,687                                       |
| Current liabilities              | ( 40,462 )                                    |
| Stockholders' equity             | <u>\$ 373,943</u>                             |
| <br>                             |   |
|                                  | <b>January 1 to<br/>December 31,<br/>1998</b> |
| <u>Statement of income:</u>      |   |
| Revenues                         | \$ 38,645                                     |
| Costs and expenses               | ( 22,071 )                                    |
| Net comprehensive financing cost | ( 1,195 )                                     |
| Taxes                            | ( 14,138 )                                    |
| Net income                       | <u>\$ 1,241</u>                               |

iii Certain 1998 amounts have been reclassified to conform with the 1999 presentation.

- b. **Temporary investments** - Temporary investments are stated at the lower of acquisition cost plus interest earned or market value.
- c. **Inventories and cost of sales** - Inventories, which consist of inventory held for sale, are valued at the lower of replacement cost or realizable value. Cost of sales is restated for the effects of inflation using the last-in, first-out method.
- d. **Property and equipment** - Property and equipment are initially recorded at acquisition cost and are restated by the method of adjustments due to changes in general price levels, using the National Consumer Price Index ("NCPI"). In accordance with the Fifth Document of Amendments to Bulletin B-10 (Modified), the costs used to restate fixed assets acquired prior to December 31, 1996 were those reported at that date based on net replacement values determined by independent experts. Depreciation is calculated using the straight-line method based on the remaining useful lives of the related assets, as follows:

|  | <b>Years</b> |
|--|--------------|
| Buildings                                    | 50           |
| Store equipment                              | 13           |
| Furniture and equipment                      | 10           |
| Vehicles                                     | 8            |
| Leasehold improvements (primarily buildings) | 50           |

- e. **Excess of cost of subsidiaries acquired over fair value of net assets acquired and other assets** - This caption includes: a) the excess of cost of subsidiaries acquired over fair value of net assets acquired, which is restated using the NCPI and amortized over 20 years; b) a trust set up for Company officers to purchase shares; and c) other installation expenses.

- f. **Employee benefits** - Severance payments are charged to results when determined to be payable. Annual costs of fringe benefits and seniority premiums calculated actuarially are charged to results of the year, and are funded through a trust, in compliance with Bulletin D-3.
- g. **Financial instruments** - The Company's financial instruments include temporary investments, accounts receivable, accounts payable, and long-term debt. The recorded amounts of such instruments approximate market value.
- h. **Income taxes and employee statutory profit-sharing** - Provisions for income taxes and employee statutory profit-sharing are recognized in results of the year in which incurred and are adjusted for the effects of temporary items that are recognized for tax purposes in years other than those in which they are recognized for accounting purposes, are nonrecurring and are expected to reverse within a definite period of time. Tax on assets in excess of income taxes is recognized in results of the year in which incurred.
- i. **Concentrations of credit risk** - The financial instruments which potentially expose the Company to credit risk are trade receivables. To reduce credit risk, the Company periodically evaluates the financial position of its customers, but does not require guarantees from them. The Company believes that its concentration of credit risks is minimal given the large number of customers in its portfolio and their geographical distribution. The Company also believes that its potential credit risk is adequately covered by the allowance for bad debts.
- j. **Use of estimates** - The preparation of financial statements in accordance with generally accepted accounting principles in Mexico requires management to make estimates and assumptions which affect the figures reported in the consolidated financial statements and the accompanying disclosures. Actual amounts may differ from these estimates.
- k. **Earnings per share** - Earnings per share results from dividing net majority income by the weighted average number of outstanding ordinary shares during the year.

### 3. ACCOUNTS RECEIVABLE

|                            | <b>1999</b>       | <b>1998</b>         |
|----------------------------|-------------------|---------------------|
| Trade - net                | \$ 372,762        | \$ 300,923          |
| Recoverable taxes          | 358,067           | 469,111             |
| Due from related parties   | 80,098            | 98,632              |
| Others, less than \$10,000 | 144,398           | 140,623             |
|                            | <u>\$ 955,325</u> | <u>\$ 1,009,289</u> |

#### 4. PROPERTY AND EQUIPMENT

|  | <b>1999</b>          | <b>1998</b>         |
|--|----------------------|---------------------|
| Buildings                                    | \$ 3,880,520         | \$ 3,431,265        |
| Store equipment                              | 4,063,194            | 3,455,906           |
| Furniture and equipment                      | 343,683              | 278,970             |
| Vehicles                                     | 166,664              | 156,838             |
| Leasehold improvements (primarily buildings) | 1,876,613            | 1,605,891           |
|  | <u>10,330,674</u>    | <u>8,928,870</u>    |
| Accumulated depreciation and amortization    | ( 3,518,970)         | ( 3,095,142)        |
|  | 6,811,704            | 5,833,728           |
| Construction in progress                     | 143,071              | 94,195              |
| Land   | <u>3,485,276</u>     | <u>3,016,409</u>    |
| Total property and equipment – net           | <u>\$ 10,440,051</u> | <u>\$ 8,944,332</u> |

#### 5. INVESTMENT IN SHARES

The balance at December 31, 1999, refers to the investment in Radio Shack de México, S. A. de C. V., an associated company, equal to 49% of its common stock.

As discussed in Note 2.a., the Company began consolidating the results of Controladora del Norte, S. A. de C. V., beginning in 1999.

#### 6. EXCESS OF COST OF SUBSIDIARIES ACQUIRED OVER FAIR VALUE OF NET ASSETS ACQUIRED AND OTHER ASSETS

|  | <b>1999</b>       | <b>1998</b>       |
|--|-------------------|-------------------|
| Excess of cost of subsidiaries acquired over fair value of net assets acquired | \$ 392,210        | \$ 406,270        |
| Trust to acquire shares  | 87,733            | 37,702            |
| Other non-current assets   | 36,059            | 28,283            |
|  | <u>\$ 516,002</u> | <u>\$ 472,255</u> |

#### 7. LONG-TERM DEBT

|   | <b>1999</b> | <b>1998</b> |
|---|-------------|-------------|
| Notes payable to banks, unsecured, bearing interest at the 91-day interbank rate (TIIE), multiplied by 1.03, provided that it is less than the TIIE plus 3.5 points and greater than the TIIE plus one point (rates at December 31, 1999 and 1998 were 24.28% and 35.24%, respectively), due on September 30, 2001. | \$ 475,000  | \$ 533,520  |

Bank loan collateralized by inventories and fixed assets valued with a book value of \$4,290 and \$6,860, respectively; bearing interest at the higher of the annual TIIE, the average cost of funds or Treasury Bills (CETES) rates multiplied by 1.2 (rate at December 31, 1999 was 22.23%), due on June 30, 2010.

3,947

Note payable with no maturity date, collateralized by real estate with a net book value of \$71,181; interest on outstanding balances is calculated using the higher of the average cost of funds or average interbank rate minus two points (December 31, 1999 and 1998 such rates were 16.70% and 32.85%, respectively).

53,174 63,691

Notes payable for the purchase of hardware amounting to \$199,620 dollars and \$155,250 dollars, computing interest at the annual Libor rate plus 6 and 5.77 points, respectively, on the unpaid balances, (December 31, 1999 rates were 11.94% and 11.86%, respectively) due on October 1 and December 1, 2001.

3,475

Two promissory notes totalling US\$1,022,117, each payable to Fleming, Inc. for the purchase of its minority interest in Gigante Fleming, bearing interest at a rate of 5.68% on the unpaid balances, due on January 12, 2000 and 2001.

20,506 35,440

556,102 632,651

Current portion

( 12,531 ) ( 12,691 )

Total long-term debt

\$ 543,571 \$ 619,960

Maturities of long-term debt are as follows:

2001 \$ 486,450

After 2005 57,121

\$ 543,571

## 8. STOCKHOLDERS' EQUITY

a. At December 31, 1999 and 1998, restated stockholders' equity consists of the following:

|   | Historical<br>Pesos | 1999<br>Restatement | Total         |
|---|---------------------|---------------------|---------------|
| Common stock                                | \$ 104,889          | \$ 1,731,263        | \$ 1,836,152  |
| Additional paid-in capital                  | 2,107,216           | 3,014,805           | 5,122,021     |
| Retained earnings                           | 1,845,950           | 7,868,087           | 9,714,037     |
| Deficiency in restated stockholders' equity |                     | ( 6,189,481 )       | ( 6,189,481 ) |
| Total                                       | \$ 4,058,055        | \$ 6,424,674        | \$ 10,482,729 |

|   | Historical<br>Pesos | 1998                |                      |
|---|---------------------|---------------------|----------------------|
|   |                     | Restatement         | Total                |
| Common stock                                | \$ 104,586          | \$ 1,726,111        | \$ 1,830,697         |
| Additional paid-in capital                  | 2,110,230           | 3,016,554           | 5,126,784            |
| Retained earnings                           | 1,313,060           | 7,447,131           | 8,760,191            |
| Deficiency in restated stockholders' equity |                     | ( 5,661,999 )       | ( 5,661,999 )        |
| <b>Total</b>                                | <u>\$ 3,527,876</u> | <u>\$ 6,527,797</u> | <u>\$ 10,055,673</u> |

Common stock, at par value, at December 31, 1999 and 1998, consists of the following:

|                         | 1999                 |                   | 1998                 |                   |
|-------------------------|----------------------|-------------------|----------------------|-------------------|
|                         | Number<br>of Shares  | Par Value         | Number<br>of Shares  | Par Value         |
| <b>Fixed capital</b>    |                      |                   |                      |                   |
| Series A I              | 530,202,306          | \$ 18,922         | 530,202,306          | \$ 18,922         |
| <b>Variable capital</b> |                      |                   |                      |                   |
| Series A II             | 1,038,861,821        | 37,075            | 1,038,861,821        | 37,075            |
| Series B II             | <u>1,369,953,116</u> | <u>48,892</u>     | <u>1,361,466,116</u> | <u>48,589</u>     |
| Total common stock      | <u>2,939,017,243</u> | <u>\$ 104,889</u> | <u>2,930,530,243</u> | <u>\$ 104,586</u> |

Series A I shares represent fixed capital not subject to repurchase while Series A II and B II shares represent variable capital.

- b. At December 31, 1999, the Company has 18,181,000 shares repurchased in treasury. The market value of such shares is \$4.70 (pesos) per share at that date.
- c. Deficiency in restated stockholders' equity principally represents accumulated monetary position losses up to the first restatement of the financial statements and the loss from holding nonmonetary assets, because estimated replacement costs increased below inflation.

## 9. FOREIGN CURRENCY BALANCES AND TRANSACTIONS

Foreign currency transactions are recorded at the applicable exchange rates on transaction dates. Monetary assets and liabilities denominated in foreign currency are converted into Mexican pesos at the balance sheet date at current exchange rates. Exchange rate fluctuations are reflected in operations currently.

- a. At December 31, 1999, liabilities in U.S. dollars are approximately U.S.\$16,206 (thousands) equivalent to \$153,950, which relate primarily to liabilities for purchases of goods from foreign suppliers.
- b. For the years ended December 31, 1999 and 1998, the following transactions were carried out in U.S. dollars:

|                        | 1999                  |                  | 1998                  |                  |
|------------------------|-----------------------|------------------|-----------------------|------------------|
|                        | U.S. Dollars<br>(000) | Mexican<br>Pesos | U.S. Dollars<br>(000) | Mexican<br>Pesos |
| Purchases of inventory | 127,430               | \$ 1,210,583     | 111,318               | \$ 1,102,188     |

Approximately 6% and 7% of inventories were imported from the U.S. in 1999 and 1998, respectively.

Exchange rates in effect at the dates of the financial statements were as follows:

|                 | December 31, |         |
|-----------------|--------------|---------|
|                 | 1999         | 1998    |
| One U.S. dollar | \$ 9.50      | \$ 9.91 |

## 10. NET COMPREHENSIVE FINANCING INCOME

|                               | 1999              | 1998              |
|-------------------------------|-------------------|-------------------|
| Interest expense              | \$ ( 196,714 )    | \$ ( 293,002 )    |
| Interest income               | 61,576            | 190,763           |
| Foreign exchange fluctuations | 8,460             | 5,709             |
| Monetary position gain        | 281,632           | 399,031           |
|                               | <u>\$ 154,954</u> | <u>\$ 302,501</u> |

Monetary position gain is calculated by applying the NCPI to monthly net monetary position. Gains result from maintaining a net monetary liability position.

## 11. OTHER (EXPENSE) INCOME

|  | 1999                 | 1998              |
|--|----------------------|-------------------|
| Income from sale of investment in shares of<br>Grandes Superficies de México, S. A. de C. V. | \$ 9,032             | \$ 238,757        |
| Store closing expenses   | ( 1,710 )            | ( 31,816 )        |
| Income (loss) from sales of fixed assets   | ( 13,783 )           | ( 7,042 )         |
| Equity in loss of associated companies   | 5,452                | 7,370             |
| Other  |                      |                   |
|  | <u>\$ ( 15,653 )</u> | <u>\$ 202,567</u> |

## 12. COMPANY BENEFITS AND SENIORITY PREMIUM PLANS

|                    | 1999              | 1998              |
|--------------------|-------------------|-------------------|
| Costs:             |                   |                   |
| Fringe benefits    | \$ 305,871        | \$ 276,427        |
| Seniority premiums | 4,907             | 3,473             |
|                    | <u>\$ 310,778</u> | <u>\$ 279,900</u> |

### 13. INCOME TAXES, TAX ON ASSETS AND EMPLOYEE STATUTORY PROFIT-SHARING

Income taxes and employee profit-sharing expense are recognized in results of the year in which incurred after adjustment for the effects of temporary items which are nonrecurring and are expected to reverse in a definite period. The Company and its subsidiaries incur consolidated income taxes and tax on assets in the proportion in which the Company owns the voting stock of its subsidiaries. Due to amendments to the income tax law, effective January 1, 1999, tax results of subsidiaries are consolidated at 60% of the Company's interest in its subsidiaries at year end. The tax result of the Company, because it qualifies as a pure holding company, is consolidated at 100%. Additionally, estimated payments of income taxes and tax on assets of both the Company and its subsidiaries must be made as if they had not selected tax consolidation treatment.

- a. In 1999 and 1998, the Company and its subsidiaries incurred consolidated tax on assets which may be offset against income taxes payable in the future ten years. Restated amounts are as follows:

| Year Incurred | Tax on Assets | Year of Expiration |
|---------------|---------------|--------------------|
| 1997          | \$ 101,783    | 2007               |
| 1998          | 86,302        | 2008               |
| 1999          | 93,153        | 2009               |
|               | \$ 281,238    |                    |
|               | \$ 281,238    |                    |

- b. At December 31, 1999, some of the Company's subsidiaries have restated tax loss carryforwards which can be offset against future taxable income at the subsidiary level, and tax on assets which can be offset against income taxes payable at the subsidiary level upon compliance with certain requirements. Restated amounts are:

| Tax Losses | Tax on Assets | Year of Expiration |
|------------|---------------|--------------------|
| \$ 9,542   | \$ 23,973     | 2000               |
| 11,192     | 21,590        | 2001               |
| 30,322     | 64,185        | 2002               |
| 43,416     | 68,147        | 2003               |
| 70,405     | 71,318        | 2004               |
| 89,216     | 83,419        | 2005               |
|            | 71,130        | 2006               |
| \$ 254,093 | \$ 403,762    |                    |
| \$ 254,093 | \$ 403,762    |                    |

- c. The provision for income tax does not reflect statutory rates because of temporary differences for which no deferred taxes are recorded, because they relate to recurring temporary items (primarily for deducting goods when purchased instead of when sold) or because they will not reverse within a definite period of time, and to permanent differences between accounting and tax income, principally due to the effects of inflation and nondeductible items (Note 15).
- d. At December 31, 1999, stockholders' equity includes the effect of restated inventories, investments in shares, and property and equipment, which will be subject to income tax and employee profit-sharing if realized when the related assets are sold. Income tax will be calculated per the respective tax restatement, which may differ from accounting restatement.
- e. Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to a 35% dividend tax, payable by the Company, in the event of distribution. Amendments to the income tax law, effective January 1, 1999, require withholding tax on dividends paid to foreign individuals or residents at a rate of 7.57% if the profits come from years prior to 1999, or at a rate of 7.69% if the profits were obtained after 1998. These rates may be modified due to the benefits granted by double taxation treaties signed between Mexico and the countries in which the foreign entities reside.
- f. In fiscal 1999, some of the Company's subsidiaries carried forward tax losses to offset taxable income, which generated a benefit of \$65,757, presented in the statement of income as an extraordinary gain.

#### **14. COMMITMENTS**

The Company has entered into land leases for indefinite periods where some of its stores and restaurants are located. Rents are calculated as a percentage of sales ranging from 1% to 4%.

In 1999 and 1998, rental expense was approximately \$395,244 and \$419,530, respectively.

## **15. NEW ACCOUNTING PRINCIPLE**

In May 1999, the Mexican Institute of Public Accountants issued a new Bulletin D-4, "Accounting Treatment of Income Tax, Tax on Assets and Employee Statutory Profit-sharing" ("D-4"). Bulletin D-4 is effective for financial statements of the Company beginning January 1, 2000.

D-4 includes accounting rules for recognizing income tax, tax on assets and employee statutory profit-sharing incurred in a period, and the deferred effects arises from transactions and other economic events recognized in the financial statements in periods different from those considered in Company tax returns. The deferred effects of income taxes are determined by comparing financial statement and tax values of the Company's assets and liabilities, which are used to determine temporary differences. For the deferred effects of employee statutory profit-sharing, temporary differences are determined based on the reconciliation between the net accounting income for the year and taxable income. The respective rate is applied to the temporary items to determine deferred tax assets and liabilities. Deferred tax assets are recognized only when there is a high probability of recovery.

The estimated effects of this change in accounting on the Company's financial statements at the beginning of the year 2000, and tax on assets are that a net liability of \$850,000 is recognized, with the same amount charged to a stockholders' equity account. The adjustment to results of operations for the year 2000 and thereafter for deferred income taxes and statutory profit sharing will depend on the difference resulting from comparing the balance of deferred income tax and employee statutory profit-sharing net asset or liability at the beginning and end of the year, and subtracting or adding the deferred tax effects recorded directly to stockholders' equity and the increase in the balance of deferred taxes caused by inflation during the year.

As with the current Bulletin D-4, the deferred tax assets and liabilities generated are considered accounts receivable and payable for purposes of determining the monetary gain or loss for the respective period.