

Earnings Release

1st Quarter | 2024



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Grupo Axo 1Q24 Results

The following discussion and analysis should be read in conjunction with our quarterly consolidated interim financial statements, which have been prepared in accordance with IFRS, which in certain cases can differ significantly from U.S. GAAP. As of March 1 st, 2023, Axo's financial figures include Komax S.A., Komax Peru S.A.C., and Abolam S.A. (jointly "Komax").

March 2024 marked the first anniversary of The Company's acquisition of Komax ("the Acquisition"), a significant milestone that underscores the progress we have made in integrating the team and processes.

Highlights | 1Q24 vs. 1Q23

- The Company achieved strong **Net Sales** for the first quarter of Ps. 5,415.0 million, a 12.9% growth compared to 1Q23.
 - Lifestyle net sales increased 20.8% for the first quarter, mainly driven by the Acquisition alongside a very solid performance across channels and brands.
 - Off-Price net sales decreased 1.4% for the period. The drop in sales was a result of inventory shortages in the online channel.
 - Athletics net sales increased 12.8% compared to 1Q23, driven by the strong performance of its brands.
- **Gross Margin** expanded by 252 bp to reach 50.8% compared to 48.3% in 1Q23, mainly driven by an efficient pricing strategy and inventory management optimization in the offline channel.
- **EBITDA** for the quarter was Ps. 959.6 million, an increase of 23.1% vs 1Q23, reaching an **EBITDA margin** of 17.7% compared to 16.3% in the same period of the previous year.
- **Operating margin** closed at 7.4%, compared to 6.5% in 1Q23.
- **Debt / EBITDA ratio** was 2.57x and **Net Debt / EBITDA** was 2.06x, in line with our covenants and internal targets.
- Our **total digital sales** in 1Q24 were Ps. 715.0 million, representing 13.2% of total sales. These sales include the e-commerce platforms of the Lifestyle, Off-Price, and Athletics & Outdoors segments.
- At the end of the first quarter, Axo reached **7,883 total retail points of sale**, with 23 openings during 1Q24 and **37 digital websites**.
 - 8 Apps with Bath and Body Works being the newest addition this quarter.

Conference Call Details:

Friday, April 26th, 2024, at 10:00 AM Mexico Time | 12:00 PM EST

Please register in advance for this call:

https://us02web.zoom.us/webinar/register/WN_JZ1fvriZSV0-IGD63zWhZg

Upon registering, you will receive a confirmation email that includes the necessary details to join the webinar.

Relevant Figures:

Financial Figures MXN\$mm	1Q24	1Q23	Var %
Income Statement			
Net Sales	5,415.0	4,794.6	12.9%
EBITDA	959.6	779.3	23.1%
EBITDA Margin	17.7%	16.3%	147 bps
Operating Income	400.5	310.4	29.1%
Net Income	9.7	88.1	(89.0%)
Net Income Margin	0.2%	1.8%	(166) bps
Balance Sheet			
	1Q24	1Q23	
Cash and Cash Equivalents	2,675.8	3,458.1	(22.6%)
Inventories	5,537.5	5,429.3	2.0%
Accounts Receivable	2,127.0	1,670.1	27.4%
Financial Debt	9,196.5	10,052.9	(8.5%)
Lease Liabilities	3,437.9	3,265.5	5.3%
PP&E	2,460.4	2,011.7	22.3%

Financial Ratios ¹	1Q24	1Q23
Net Debt/ EBITDA	2.06x	2.06x
Debt/ EBITDA	2.57x	2.75x
Net Debt/ Adj. EBITDA ²	1.98x	
Debt/ Adj. EBITDA ²	2.47x	

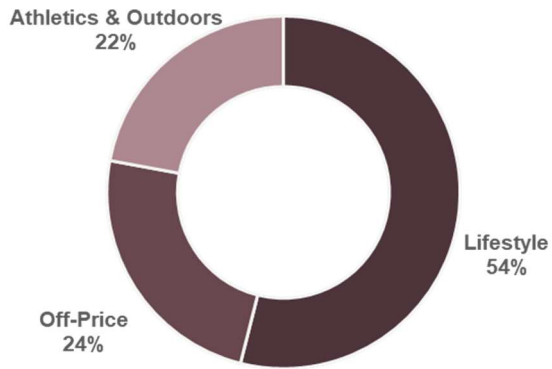
Operating Results	1Q24	1Q23
Points of Sale	7,883	6,090
Digital Platforms	37	37

Note: Rounding Adjustments

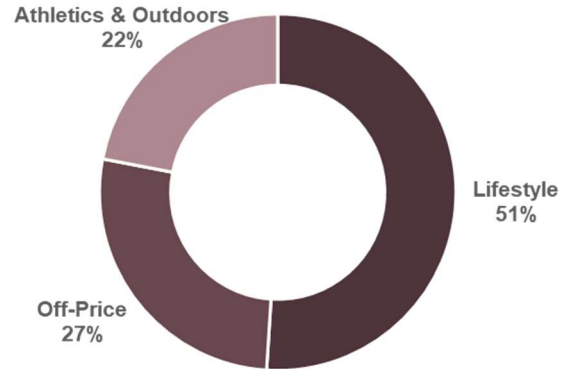
We have made rounding adjustments to certain numbers presented in this report. As a result, numerical figures presented as totals may not always be the exact arithmetic results of their components. Percentage figures included in this report have not, in all cases, been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, certain percentage amounts in this report may vary from those obtained by performing the same calculations using the figures in our Financial Statements included elsewhere in this report.

¹Ratios are proforma including the South American acquisition for the past twelve months. Debt calculation includes lease liabilities. ² Adjusted stands for a non-recurring item without cash flow derived from an impairment of a subsidiary's goodwill.

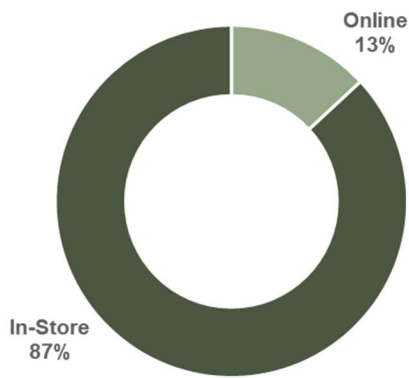
Sales by Segment 1Q24



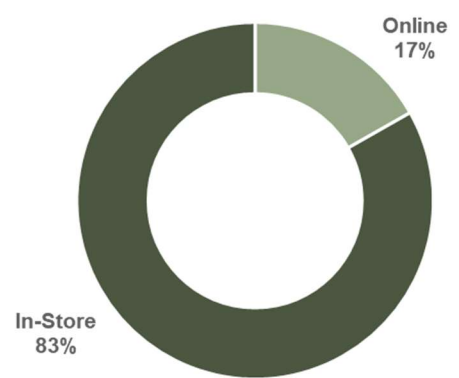
Sales by Segment 1Q23



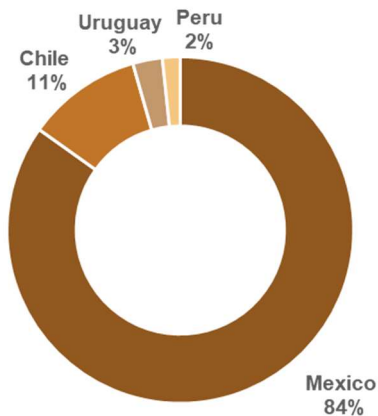
Sales by Channel 1Q24



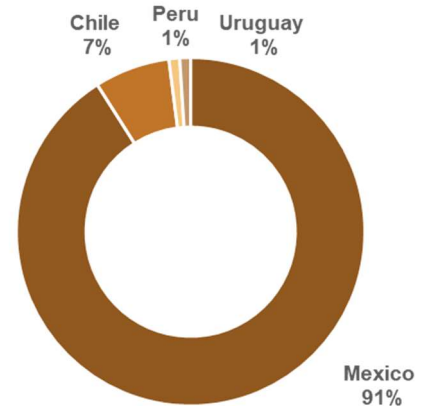
Sales by Channel 1Q23



Sales by Country 1Q24



Sales by Country 1Q23



Message from the CEO

"I am pleased to share with you AXO's performance for the first quarter of 2024. As we mark three decades of relentless innovation and strategic growth, our results continue to reflect our commitment to profitability and adeptness in navigating and thriving within dynamic market conditions.

This quarter, AXO reported a remarkable 12.9% increase in sales compared to the same period last year, reaching Ps. 5,415.0 million, with an EBITDA margin of 17.7%. These results are a testament to our operational excellence and strategic initiatives across our regions and segments.

This year marks the first anniversary of the acquisition of Komax, which has proven to be a transformative step for AXO. The integration has been a profound success, enhancing our profit margins through efficient consolidation and cost management, in line with our strategic vision. Over the years, we have focused our efforts on developing a robust platform that not only supports but also strengthens our leadership position as a key player in Latin America. This platform is central to everything we are, from our systems to our talent, brands, operations, and strategy. It positions us as a leading and dynamic force in the industry. AXO remains committed to exploring new markets and opportunities that align with our long-term goals. As we look to the future, our focus remains on maintaining this momentum with disciplined cost management, strategic investments, and operational excellence.

Our strong platform, which has allowed us to expand our reach and perfectly adapt to the local ecosystems, will continue gaining strength and as part of our strategy, this quarter, we began implementing the new "One AXO" IT architecture. This initiative is poised to further streamline our operations and improve our efficiency across all levels of the organization.

Our joint venture with Ulta Beauty will mark our entry into the beauty industry, a new segment we are excited about which broadens our offering from our existing three segments.

As the year progresses, we remain optimistic about the opportunities that lie ahead. We are focused on sustaining solid growth through disciplined cost management and strategic expansions. With a robust foundation and a clear vision, AXO is well-positioned to capitalize on emerging opportunities and deliver lasting value to all its stakeholders.

I extend my gratitude to our dedicated team, customers and investors for your continued support. Together, we are setting the stage for another successful chapter in AXO's story."

Andrés Gómez, CEO

Operating Results by Segment

Lifestyle Sales

This segment operates 444 direct-to-consumer retail stores, 75 Shop-in-Shops, 6,167 corners, 26 digital stores and, with the recent release of the Bath and Body Works app, we currently have a total of 4 Apps, within Mexico, Chile, Peru, and Uruguay. This segment is composed of a portfolio of internationally recognized brands managed through JVs and exclusive partnerships, such as Tommy Hilfiger, Brooks Brothers, Victoria Secret, Gap, Calvin Klein, Old Navy. Starting in February 2024, Guess has been included in the portfolio for Chile and Peru.

Off-Price Sales

This segment operates 231 direct-to-consumer retail stores, 2 digital platforms and 1 App under the following store formats: Promoda (Mexico), Urban Store (Mexico), Reduced (Mexico), Privalia (Mexico), and Surprice (Chile and Peru). These banners offer hundreds of well-known brands at deep discounts.

Athletics & Outdoors Sales

The Athletics & Outdoors segment has 215 direct-to-consumer retail stores, 8 Shop-in-Shops, 743 corners, 9 e-commerce websites and 3 Apps. This segment is composed of a portfolio of license agreements with international brands as well as owned multi-brand store concepts, including: The North Face, TAF, Nike, Andesgear, Lust, among others.

We have recently opened new stores, introducing our products to fresh audiences, and our online presence is expanding, reflecting an omnichannel strategy that is in line with current customer preferences.

FINANCIAL ANALYSIS

Income Statement Analysis

MXN&mm	1Q24	1Q23	Var %
Net Sales and Service Revenue	5,415.0	4,794.6	12.9%
Cost of Goods Sold	(2,665.0)	(2,480.4)	7.4%
Gross Margin	50.8%	48.3%	252 bps
Total Expenses	(2,349.5)	(2,003.8)	17.2%
EBITDA	959.6	779.3	23.1%
Net Financial Cost	(386.2)	(189.6)	N/M
Income Taxes	(4.6)	(32.7)	(85.8%)
Net Income	9.7	88.1	(89.0%)

Net Sales and Service Revenue

Net Sales and Service Revenue for the first quarter increased 12.9% to Ps. 5,415.0 million, compared to Ps. 4,794.6 million in the same period of 2023. This growth was due to a strong performance mainly in our Lifestyle and Athletics and Outdoors segments.

- Total sales Lifestyle segment, including merchandise sold through retail, wholesale, e-commerce channels, and other service revenue, increased 20.8% vs 1Q23, reaching Ps. 2,919.6 million, mainly driven by the Acquisition as well as a very solid performance across channels and brands, partly due to the addition of point of sales. Excluding the Acquisition, net sales increased 10.9%, supported by our strategic focus on quality sales and inventory optimization, which led to on-time delivery of merchandise.
- Total sales Off-Price segment, including the retail and e-commerce channels, decreased 1.4% during the first quarter of 2024 vs the first quarter of 2023, reaching Ps. 1,298.2 million. As previously mentioned, the drop in sales was a result of inventory shortage in the online channel. In the offline channel, we can observe a growth of 15.3%, driven by competitive pricing strategies, inventory delivery optimization and a significant increase in traffic. Excluding the Acquisition, the segment stood at a (5.9%) compared to the same period last year.
- Total sales Athletics & Outdoors segment which includes merchandise, sold through retail, wholesale and ecommerce channels, increased 12.8% to Ps. 1,197.2 million for 1Q24, compared to Ps. 1,061.8 million in 1Q23. This growth was mainly due to the strong

performance of brands and the remodeling efforts in some of our stores. Excluding the Acquisition, the segment stood at a 1.6% growth compared to the same period last year.

Total digital sales for the first quarter of 2024 reached Ps. 715.0 million, representing 13.2% of total sales. These sales include e-commerce platforms of our Lifestyle, Off-Price and Athletics & Outdoors segments.

Cost of Goods Sold

Cost of Goods Sold increased 7.4% to Ps. 2,665.0 million from Ps. 2,480.4 million in the first quarter of 2023. Costs as a percentage of net sales were 49.2%, compared to 51.7% in the same period of last year, driven by higher sales from existing brands with attractive margins, as well as by the Acquisition.

Gross Margin

Following our focus on margin expansion, Gross Margin increased by 252 bps, reaching 50.8%, compared to 48.3% in 1Q23. This was mainly driven by an efficient pricing strategy and inventory optimization in the offline channel.

Total Expenses

Expenses for the first quarter of 2024 increased 17.2% to Ps. 2,349.5 million, compared to Ps. 2,003.8 million in the same period of 2023, mainly driven by:

- Administrative Expenses, which increased 23.4% to Ps. 1,278.8 million in the first quarter of 2024, compared to Ps. 1,036.6 million in 1Q23. This was mainly due to an increase in payroll, utilities, depreciation and right of use assets depreciation due to the Acquisition. Total depreciation and amortization for the quarter increased from Ps. 468.9 million in 2023 to Ps. 559.1 million in 2024. Right of use assets depreciation, included in total depreciation and amortization, was Ps. 334.2 million in 1Q24 compared to Ps. 278.1 million in 2023.
- Selling Expenses, which increased 12.4% to Ps. 1,117.8 million in the first quarter of 2024, compared to Ps. 994.4 million in 1Q23. The upward trend, in line with sales, was mainly due to an increase in payroll, logistics expenses, in-store maintenance expenses and royalties.
- Other Income and Other Expenses (including profit sharing and net income of associates), which for the three months ended March 31st, 2024, increased to Ps. 47.2 million, compared to Ps. 27.5 million in the first quarter of 2023. This was mainly due to profit sharing.

Net Financial Cost

Net Financial Cost for the first quarter of 2024 increased to Ps. 386.2 million, from Ps. 189.6 million in the same period of last year. This effect was the result of:

- Interest Expenses for 1Q24, which increased to Ps. 426.4 million from Ps. 342.1 million in 1Q23. This was driven by a combination of factors: higher interest rates, the growth in financial debt, and the interest expenses increase related to lease liabilities. Lease liabilities interest expenses represented Ps. 91.4 million compared to Ps. 64.6 million for 1Q23.
- Interest Income increased 20.1% to Ps. 86.1 million in 1Q24, from Ps. 71.7 million in 1Q23. This growth was mainly driven by the issuance of overnight investments at higher interest rates.
- Foreign exchange, net and other expenses, registered a loss of Ps. 45.9 million compared to a gain of Ps. 80.9 million in the same period of 2023. This was due to the fluctuation of the Mexican peso against the U.S. dollar and its impact on our U.S. currency denominated obligations.

Income Taxes

The effective tax rate for the annual financial statements as of March 31st, 2024, was 32.3%, compared to an effective annual tax rate of 43.4% as of December 31st, 2023. Income tax expense is recognized at an amount determined by multiplying the profit before tax for the interim reporting period by management's representing annual income tax rate for the full financial year, adjusted for the tax effect of certain items recognized in full period.

Net Income

Net Income for the first quarter of 2024 decreased to Ps. 9.7 million, from Ps. 88.1 million of the same period of last year. The decrease in net income is mainly due to the unrealized exchange loss for this quarter compared to the unrealized exchange profit for 1Q23 related to the senior notes hedge.

Balance Sheet Analysis

Cash and Cash Equivalents

Cash and Cash Equivalents were Ps. 2,675.8 million at the end of the first quarter of 2024, compared to Ps. 3,458.1 million in the same period of 2023. This decrease was mainly attributed to the payment of dividends from JV's.

Additionally, as of March 31st, 2024, CapEx amounted to Ps. 147.5 million and dividends to Ps. 492.8 million.

Inventories, Net

Inventories as of March 31st, 2024, were Ps. 5,537.5 million, compared to Ps. 5,429.3 million in 2023.

Debt

Axo's debt balance as of March 31st, 2024, including lease liabilities, was Ps. 13,540.3 million compared to Ps. 13,754.9 million in March 31st, 2023. Debt includes Ps. 3,437.9 million for the first quarter of 2024 in lease liabilities, compared to Ps. 3,265.5 million for the same period of the previous year.

Our Debt / EBITDA ratio was 2.57x on March 31st, 2024, in line with our covenants.

	March 31 st , 2024				March 31 st , 2023			
	Gross Debt	Amortized Cost	Hedge Impact	Total Debt	Gross Debt	Amortized Cost	Hedge Impact	Total Debt
Short Term Bank Debt	384.0	(5.8)	-	378.2	163.7	-	-	163.7
Short Term Public Debt	-	-	-	-	-	-	-	-
Short Term right of Use (Lease) Liabilities	1,161.2	-	-	1,161.2	975.8	-	-	975.8
Long Term right of Use (Lease) Liabilities	2,276.7	-	-	2,276.7	2,289.7	-	-	2,289.7
Working Capital Debt	286.8	-	-	286.8	368.1	-	-	368.1
Long Term Public Debt	1,651.6	(7.3)	-	1,644.3	1,651.6	(10.7)	-	1,640.9
Long Term Bank Debt	1,524.8	(7.6)	22.6	1,539.8	2,088.1	(18.5)	-	2,069.6
International Bond	5,420.4	(50.4)	883.3	6,253.3	5,884.2	(73.6)	436.4	6,247.0
Total Debt	12,705.5	(71.7)	905.9	13,540.3	13,421.2	(102.8)	436.4	13,754.8

Cash Flow Statement Analysis

Net Cash Flow from Operating Activities

For the three months ended on March 31st, 2024, net cash outflow from operating activities reached Ps. 457.5 million compared to Ps. 839.0 million in the same period in 2023. The decrease is mainly due to the collection of accounts receivable and unrealized exchange effects. Working capital remains negative in Ps. 1,422.2 million from Ps. 1,475.3 million for the same period for the previous year, given the business's seasonality.

Net Cash Flow from Investing Activities

For the three months ended on March 31st, 2024, net cash flow from investing activities reached Ps. 71.4 million compared to negative Ps. 1,813.8 million in the same period of 2023. The net cash flow was partly related to dividends received from our subsidiaries and the business Acquisition in 2023.

Net Cash Flow from Financing Activities

For the three months ended on March 31st, 2024, net cash flow from financing activities resulted in negative Ps. 1,471.2 million, compared to positive Ps. 1,259.7 million in 2023. This was a result of the payment of dividends which amounted to Ps. 441.0 million and an increase in payment of bank debt related to letters of credit. In 2023, the cash generation is mainly due to the loans obtained for the business Acquisition.

Analyst Coverage

As of March 31st, 2024, analyst coverage was provided by:

- Bank of America

About Axo

Axo is a Mexican multi-brand, fashion platform with 29 years of experience distributing and operating a portfolio of nationally and internationally recognized brands. Axo has operations in Mexico, Chile, Peru, and Uruguay and has a curated brand portfolio at diverse price points that caters to a broad spectrum of socioeconomic segments. Some of the brands in Mexico include Abercrombie & Fitch, Bath & Body Works, Brooks Brothers, Calvin Klein, Coach, Guess, Hollister, Laces, Lust, Nike, Old Navy, Olga, Rapsodia, Speedo, Taf, Taf Kids, Tommy Hilfiger, Victoria's Secret, Warner's, Privalia and Promoda; in Chile Abercrombie & Fitch, Andesgear, Bath & Body Works, Banana Republic, Brooks Brothers, DC, GAP, Guess, Kipling, Kivul, Marmot, Marmot, Old Navy,

Surprice, The North Face, UGG and Victoria's Secret; in Perú, Banana Republic, GAP, Guess, Old Navy, Kipling, The North Face, SiSi, Surprice and Hydroflask; and in Uruguay Caffarena and SiSi.

Disclaimer

This report has been prepared by Grupo Axo, S.A.P.I. de C.V., (the "Company") solely for informational purposes and should not be construed as an offer to buy, invitation, recommendation, or a solicitation of an offer to sell any securities in any jurisdiction. Any decision to purchase or enter into any transaction should be made solely on the basis of the information contained in an offering document that is distributed in connection with an offering by the Company, and after conducting such investigations as the recipient hereof deems necessary and consulting its own legal, accounting and tax advisers. This report and the information contained herein does not constitute an investment recommendation.

This report is a summary by nature and, unless otherwise noted, is based on matters as they exist as of the date of preparation and not as of any future date. The information may be subject to updating, completion, revision and amendment and such information may change materially. The Company assumes no obligation to update any information provided herein, and any opinions expressed in it are subject to change without notice. No representation or warranty, express or implied, is made and no responsibility or liability is accepted by the Company, its advisors, parent or subsidiary undertakings of any of the foregoing or any such person's affiliates, directors, officers or employees, or any other person as to the accuracy, completeness or fairness of the information or opinions contained in this presentation and any reliance you place on them will be at your sole risk. Neither the CNBV nor any other governmental authority has reviewed, approved or disapproved the information contained in this report, its sufficiency or its truthfulness.

Forward-looking Statements

This report contains certain forward-looking statements relating to the business, financial performance, and results of the Company and/or the industry in which it operates. Forward-looking statements concern future circumstances and results and other statements that are not historical facts. The forward-looking statements contained in this report, including assumptions, opinions, and views of the Company, or cited from third party sources are solely opinions and forecasts which are uncertain and subject to risks. A multitude of factors can cause actual events to differ significantly from any anticipated development and trends described herein could differ materially from those described by forward-looking statements due to various factors, including those beyond our ability to control or predict and you should not place reliance on the forward-looking statements.

Financial Statements

Financial statements include Komax acquisition starting March 2023.

Income Statement

Grupo AXO S.A.P.I. de C.V. and Subsidiaries			
Consolidated Income Statements			
THREE MONTHS ENDED			
(million MXN)	March 31 st , 2024	March 31 st , 2023	% Δ
Net sales and service revenue	5,415.0	4,794.6	12.9%
Cost of goods sold	2,665.0	2,480.4	7.4%
Gross profit	2,750.0	2,314.2	18.8%
<i>% Gross profit margin</i>	<i>50.8%</i>	<i>48.3%</i>	<i>252 bps</i>
Administration expenses	1,278.8	1,036.6	23.4%
Selling expenses	1,117.9	994.7	12.4%
Other (income) and expenses, net	(47.2)	(27.5)	71.6%
Total Expenses	2,349.5	2,003.8	17.2%
<i>% of revenue</i>	<i>43.4%</i>	<i>41.8%</i>	
Operating income (loss)	400.5	310.4	29.1%
Interest expense (income)	426.4	342.1	24.6%
Other (income) expense, net	(40.2)	(152.5)	(73.7%)
Financial cost, net	386.2	189.6	N/A
Earnings (loss) before taxes	14.4	120.8	(88.1%)
Income tax expense	4.6	32.7	(85.8%)
Net Income (loss)	9.7	88.1	(89.0%)
Non-controlling interest	84.7	103.0	(17.8%)
Controlling interest	(75.0)	(14.9)	N/A
Notes:			
Depreciation and amortization	224.9	190.8	17.8%
Right of use assets depreciation	334.2	278.1	20.2%
Total depreciation and amortization	559.1	468.9	19.2%
Non-operating and non-cash items	-	-	-
EBITDA	959.6	779.3	23.1%
EBITDA Margin	17.7%	16.3%	147 bps

Balance Sheet

Grupo AXO S.A.P.I. de C.V. and Subsidiaries		
Consolidated Statements of Financial Position		
(Unaudited)		
(MXN million)	March 31st, 2024	March 31st, 2023
ASSETS		
<i>Current assets:</i>		
Cash and cash equivalents	2,675.8	3,458.1
Accounts receivable, net	1,012.2	1,086.6
Related parties	13.3	43.0
Other receivables, net	1,101.5	540.5
Inventories, net	5,537.5	5,429.3
Prepaid expenses	270.5	304.5
Derivative financial instruments	-	-
Total current assets	10,610.8	10,862.0
<i>Non-current assets</i>		
Leasehold improvements, furniture and equipment, net	2,460.4	2,011.7
Right-of-Use Assets	3,421.0	3,212.2
Equity-accounted investees	631.8	579.7
Goodwill	4,822.8	5,336.5
Other long-term credits	-	23.2
Intangible assests, net	3,039.1	2,795.6
Deferred income taxes	1,961.1	2,071.2
Guarantee deposits	159.4	139.9
Derivative financial instruments LT	85.2	280.6
Total non-current assets	16,580.7	16,450.6
TOTAL ASSETS	27,191.5	27,312.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
<i>Current liabilities</i>		
Current installments of notes payable to banks	665.0	163.7
Accounts payable	4,097.3	3,884.0
Short-term debt	-	-
Provisions	506.6	501.5
Income taxes payable and deferred income tax optional regime	424.0	413.8
Contract liabilities	85.9	78.5
Lease liabilities	1,161.2	945.2
Derivative financial instruments	-	170.6
Total current liabilities	6,939.9	6,157.3
<i>Non-current liabilities</i>		
Deferred income taxes	1,168.5	1,138.4
Notes payable to banks, excluding current installments	1,517.2	2,437.8
International Bond	5,370.0	5,810.6
Long-term debt	1,644.3	1,640.9
Other liabilities LT	1,016.9	745.3
Lease liabilities LT	2,276.7	2,320.3
Total non-current liabilities	12,993.7	14,093.2
TOTAL LIABILITIES	19,933.6	20,250.5
Total stockholders' equity	7,257.9	7,062.1
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	27,191.5	27,312.6

Cash Flow Statement

Grupo AXO S.A.P.I. de C.V. and Subsidiaries		
Consolidated Cash Flow Statement		
(Unaudited)		
(MXN million)	March 31 st , 2024	March 31 st , 2023
Profit for the Period	9.7	88.1
Other Operating Non-Cash Items ¹	955.0	548.2
Changes in Working Capital ²	(1,422.2)	(1,475.3)
Net Cash Provided by Operating Activities	(457.5)	(839.0)
Business Acquisition ³	-	(1,777.2)
Investment in associates	-	-
Acquisition of Furniture, Equipment and Leasehold Improvements	(153.9)	(95.8)
Other ⁴	225.3	59.1
Net Cash Provided by Investing Activities	71.4	(1,813.8)
Unlevered Free Cash Flow ⁵	(386.0)	(2,652.8)
Equity Related ⁶	(492.8)	276.6
Differed Business Acquisition Payment ³	-	-
Debt Related ⁷	(978.4)	983.1
Net Cash Provided by Financing Activities	(1,471.2)	1,259.7
Net Increase (decrease) in Cash and Cash Equivalents	(1,857.2)	(1,393.2)
Effect of Exchange Rate Changes	179.1	23.6
End of Period Cash and Cash Equivalents	2,675.8	3,458.1

Notes: ¹Income taxes, depreciation, right-of-use asset depreciation, amortization, impairment of goodwill, loss on disposal of fixed assets, intangibles & key money, share profit of equity accounted investees, employee statutory profit sharing, interest income and expense, changes in employee benefit valuation, derivative financial instruments, unrealized exchange rate gain and loss, amortized cost of debt, one-times and non-cash / non-recurring expenses for, effect of exchange rate changes on cash and cash equivalents; ² Includes accounts receivable, accounts receivable from related parties, other receivables, inventories, prepayments, trade accounts payable and acquired liabilities, accruals, royalties and commissions payables, income taxes paid, derivative financial instruments, employee statutory profit sharing paid, accounts payable to related parties, differed revenue and advances from customers. Net of the Acquisition; ³ For payments related to business acquisition that were paid after a year or more, they are registered in financing activities; ⁴ Includes acquisition of intangible assets, increase in security deposits, dividends received from associates, and interest received; ⁵ Net cash provided by operating activities + net cash provided by investing activities. Does not include interest expense and IFRS 16 cashflow effect; ⁶ Includes proceeds from issue of share capital, repurchase of treasury shares, payment of dividends, sale of shares, repurchase of shares; ⁷ Includes lease payments, acquisition of key money paid to a lessor, incentives received from landlords, proceeds from issue of debt, cost of issuing debt, proceeds from loans, cost of obtaining bank loans, interests paid, payments of bonds and payments of loans

Shareholders' Equity Statement

Grupo Axo S.A.P.I. de C.V. and subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity as of March 31, 2024
(MXN million)

	Capital stock	Additional paid-in capital	Retained earnings	Other comprehensive income	Stockholders' equity - controlling interest	Non-controlling interest	Total Stockholders' equity
Balances as of December 31, 2023	\$ 4,183.8	1,063.9	773.7	(166.1)	5,855.4	1,771.6	7,626.9
Dividends decreed		-	(51.8)	-	(51.8)	(441.0)	(492.8)
Executive stock option plan	-	7.6	-	-	7.6	-	7.6
	4,183.8	1,071.5	721.9	(166.1)	5,811.2	1,330.6	7,141.7
Net comprehensive income							
Profit for the period	-	-	(75.0)	-	(75.0)	84.7	9.7
Translation effect of subsidiaries	-	-	-	179.1	179.1	-	179.1
Profit and Loss				(1.3)	(1.3)	(0.1)	(1.4)
Change in valuation of derivative financial instruments	-	-	-	(80.3)	(80.3)	7.6	(72.7)
Net comprehensive income	-	-	(75.0)	98.8	23.9	92.3	116.2
Balances as of Marzo 31, 2024	\$ 4,183.8	1,071.5	646.9	(67.3)	5,835.1	1,422.9	7,257.9

Notes corresponding in the prior fiscal year. December 2023

Reporting Entity-

Grupo Axo, S. A. P. I. de C. V. and its subsidiaries (together referred to as “Axo” or the “Company”) is a company incorporated under the laws of the United Mexican States or Mexico on January 27, 2000, for an indefinite term. The Company is a legal entity that promotes the growth of companies through the injection of private capital. The address of Axo is at Boulevard Manuel Ávila Camacho No. 5, Torre C, Piso 22, Fraccionamiento Lomas de Sotelo, Municipio de Naucalpan de Juárez, C.P. 53390, Estado de México.

The primary purpose of Axo is the sale and marketing of premium brands clothes and accessories, and it develop its operations in shopping malls located in Mexico, Republic of Chile, Republic of Peru and in the Oriental Republic of Uruguay, as well as through the use of digital platforms.

Significant Transactions -

(a) Business Combination

i. Komax

On November 30, 2022, Axo and Axo Chile Inversora SpA (subsidiary of Axo) jointly signed a sale and purchase agreement to acquire 100% of shares in Komax S.A. (the “Transaction”), an entity dedicated to the representation of exclusive brands of clothing, footwear and accessories. Komax S.A. comprise three entities located in three different countries: Komax S.A. in Chile, Komax Perú S.A.C. in Peru and Abolam S.A. in Uruguay.

As a result of the Transaction, Axo determined to be the acquirer, in accordance with the guidance established in the International Financial Reporting Standard 3 (“IFRS 3”) and obtained control over the acquired business on March 22, 2023 (“acquisition date”), Axo accounted the business combination under the acquisition method. The amounts corresponding to the assets acquired and the liabilities assumed have been taken, based on a purchase price allocation analysis (“PPA”) prepared with the support of an external advisor, see note 10.

ii. On Stores México

On August 1, 2022, LT Fashion, S.A. de C.V. (“LT Fashion” or the “Buyer”), a subsidiary of the Company, acquired certain assets of ON Stores in Mexico, pursuant to the Asset Purchase and Assignment Agreement signed together with ON Stores México, S. de R.L. de C.V. (“ON Stores México” or the “Seller”), a subsidiary of The Gap Inc., upon compliance with the conditions defined therein and considering the approval by the Federal Economic Competition Commission

("Comisión Federal de Competencia Económica" or "COFECE"), Based on the analysis carried out under IFRS 3, the transaction qualified as a business combination. See note 10.

Simultaneously with the indicated business combination, a Franchise Agreement was signed between GPS Strategic Alliances, LLC (the "Franchisor"), Old Navy (ITM) Inc. (the "Licensor") and the Buyer (the "Franchisee"), in order to grant the Company a license with the rights to operate, manage and distribute the Old Navy® brand in Mexico, as well as a Temporary Services Agreement between the Seller and the Buyer.

Basis of preparation-

Basis of accounting and statement of compliance

The accompanying Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

In accordance with the General Corporations Law and the bylaws of Grupo Axo, S. A. P. I. de C. V. and subsidiaries, the stockholders are empowered to modify the Consolidated Financial Statements after issuance. The accompanying Consolidated Financial Statements will be submitted to the next stockholders' meeting for approval.

Functional and reporting currency

The Consolidated Financial Statements are presented in Mexican pesos ("pesos" or "\$") the national currency of Mexico, which is Axo's functional currency.

For purposes of disclosure in the notes to the Consolidated Financial Statements when reference is made to "dollars" or "USD", it means dollars of the United States of America.

Use of estimates and judgments

The preparation of Consolidated Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results could differ from these estimates and assumptions.

Estimates and relevant assumptions are reviewed on an ongoing basis. The changes resulting from these reviews are recognized prospectively.

Judgements

Information about judgements made in applying accounting policies that have significant effect on the amounts recognized in the Consolidated Financial Statements is included in the following notes:

Note 4 (a) (i) – consolidation: whether Axo has de facto control over an investee (Baseco, S. A. P. I. de C. V. and Moda Rapsodia, S. A. de C. V.);

Note 4 (n) –revenue recognition: whether revenue from the sale of the products is recognized over time or at a point in time;

Note 4 (h) – lease term: whether Axo is reasonably certain to exercise renewal or extension options;

Note 19 - Equity-accounted investees: whether Axo has significant influence over an investee.

Assumptions and estimation uncertainties

Information on assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next year, is included in the following notes:

Note 4 (b) - business combinations: fair value of the consideration transferred and fair value of the acquired assets acquired and liabilities assumed, measured on a provisional basis;

Note 4 (g) (iii) - useful life of leasehold improvements, furniture and equipment;

Note 4 (i) (iii) - useful life of intangible assets;

Note 4 (d) (v) - measurement of the expected credit losses allowance for accounts receivable; key assumptions in determining the weighted-average loss rate;

Note 4 (i) (i) - impairment test of goodwill and other intangible assets of indefinite life, key assumptions underlying recoverable amounts;

Note 4 (e) - allowance for slow movement of inventories;

Notes 4 (k) and 4 (r) - recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of economic resources;

Note 4 (l) (i) – measurement of defined benefit obligations: key actuarial assumptions;

Note 4 (l) (iv) – actuarial assumptions used in the determination of the likelihood of instruments to be vested and business valuations techniques for the determination of the value of the options at the grant date.

Note 4 (q)- recognition of deferred tax assets: availability of future taxable profits against which deductible temporary differences and tax losses carried forward can be used; and

Note 4 (n) – revenue recognition: estimate of variable considerations and expected returns.

Material accounting policies-

The accounting policies set out below have been applied consistently by Axo to all periods presented in these Consolidated Financial Statements, except if mentioned otherwise.

In addition, Axo adopted the Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from January 1, 2023. The amendments require the disclosure of "material" accounting policies rather than "significant" accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policies information disclosed in financial statements.

Basis of consolidation and equity method-

Subsidiaries and Associates-

Subsidiaries are entities controlled by Axo. Axo controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commences until the date on which control ceases.

Axo companies are incorporated in Mexico, Chile, Peru and Uruguay. As of December 31, 2023, and 2022, the Company has 39 subsidiaries and 2 associates (equity-accounted investees):

Main Activities	Companies	Shareholding (%)
Merchandising of apparel and accessories of the brands Tommy Hilfiger, Calvin Klein, Speedo, Warner's, Olga, Rapsodia, Brooks Brothers, Brunello Cucinelli, Coach, Abercrombie & Fitch, Hollister, Promoda Outlet, Urban Store, Reduce, Rewind, Old Navy, Banana Republic, Kipling, GAP, The North Face, Marmot, among others	Baseco, S. A. P. I de C. V. (1)	51%
	Moda Rapsodia, S. A. de C. V. (1)	50%
	I Nostri Fratelli, S. de R. L. de C. V. (1)	99.99%
	Cotone Italiano, S. A. de C. V. (1)	99%
	Ledery México, S. A. de C. V. (1)	99.99%
	East Coast Moda, S. A. de C. V. (1)	99%
	Multibrand Outlet Stores, S. A. P. I. de C. V. (1)	100%
	LT Fashion, S. A. de C. V. (1)	99%
	Komax S. A. (1) (5) (6)	100%
	El Hogar De Las Medias S. A. (1) (5) (7)	100%
	Komax Perú S. A. C. (1) (5)	100%
Merchandising of shoes and sports equipment	Teoría Básica, S. A. de C. V. (1)	99%
	Downtown Guru, S. A. de C. V. (1)	60%

Main Activities	Companies	Shareholding (%)
	Tennix, S. A. de C. V. (1)	100%
Merchandising of beauty items, personal care and accessories of the Victoria's Secret brand and the Bath & Body Works brand	Stripes Chile, SpA. (1)	100%
	Red Stripes, S. A. de C. V. (1)	99%
	Blue Stripes, S. A. de C. V. (1)	99%
	Blue Stripes Chile, SpA (1)	100%
Merchandising of products on internet	Privalia Venta Directa, S. A. de C. V. (1)	100%
Inactive entities	Cherry Stripes, S. A. de C. V. (1)	99%
	East Coast Chile SpA (1)	100%
	Chps México, S. A. de C. V. (1)	99%
	Polka Dot, S. A. de C. V. (1)	99%
	Administradora GEP, S. A. de C. V. (1)	100%
	Alianza Retail and Outlet, S. A. de C. V. (1)	100%
	Integración de Capital Axo, S. A. de C. V. (1)	99.99%
	Talented People, S. de R. L. de C. V. (1)	100%
	CTBL México, S. A. de C. V. (1) (4)	99.99%
	East Coast Chile SpA	100%
Axo Chile SpA (1)	100%	
Human resources provider	Servicios de Capital Humano Axo, S. A. de C. V. (1)	99.99%
Technology services and royalties	Media Partnering, S. A. P. I. de C. V. (1)	99.99%
	Imperio Italiano, S. A. de C. V. (1)	99.99%
	Mexpress Moda, S. A. de C. V. (1)	99.99%
	Intercambio Italiano, S. A. de C. V. (1)	99.99%
Lease and sublease of commercial facilities	Tiendas Urbanas, S. A. de C. V. (1)	99%
Financial services	Retail Moda México, S. A. P. I. de C. V. SOFOM	
	ENR (1)	100%
Holding company	Axo Rig, S. A. P. I. de C. V. (1)	99.99%

Associates	Companies	Shareholding (%)
Merchandising of apparel and accessories of Guess? Brand.	Guess, S. de R.L. de C. V. (2)	49%
Buying and reselling second handed clothes	Vopero Inc (3)	29.77%

- (1) Axo controls these two entities based on the control model established by IFRS 10.
- (2) Associate through which Axo have the right to market the brand. Axo recognizes its ownership interest using the equity method.
- (3) Associate in which Axo has significant influence. Axo recognizes its ownership interest in profit or loss using the equity method.
- (4) On August 23, 2022, CTBL México, S. A. de C. V. and Crate & Barrel Holdings, Inc. signed a termination agreement where Axo can continue selling the merchandise until February 2023.
- (5) Since the business combination carried out on March 22, 2023, Axo owns 100% of the acquired business (see Note 10).
- (6) On May 2, 2023, the merger of Axo Chile Inversora SpA (as the acquiree entity) with Komax S.A. (as the acquirer entity) was approved. As this is a transaction under common control, it was recognized under the predecessor method.
- (7) On August 31, 2023, Axo carried out a corporate restructuring, acquiring all the shares of EHDLM by signing a share purchase agreement with Abolam, therefore, from that date onwards, such company is directly controlled by Axo.

Non-controlling interest (NCI)-

NCI is measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in Axo's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control-

When Axo loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation-

Intragroup balances and transactions and unrealized income or expenses (except for foreign currency transaction gains or losses) arising from intragroup transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Axo's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Interests in equity-accounted investees -

Investments accounted for under the equity method include shares in associates and joint ventures.

An associate is an entity over which Axo has significant influence but not joint control or control over its financial and operating policies. Decisions and the use of resources coming from the associate must be approved by its majority shareholder.

A joint venture is an agreement in which Axo has joint control, through which Axo is entitled to the net assets of the agreement and not rights to its assets and obligations for its liabilities.

Interests in associates are accounted for using the equity method. They are initially recognized at cost, including transaction costs. After initial recognition, the Consolidated Financial Statements include Axo's share in profit or loss and the comprehensive income of equity-accounted investments, until the date when significant influence or joint control ceases.

Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

When Axo's share of the losses of an associate equal or exceeds its interest in the associate (which includes any long-term interest that in substance forms part of Axo's net investment in the associate), Axo does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between Axo companies and their associates are eliminated up to the amount of Axo's interest in the associate. Unrealized losses are also eliminated unless the transaction provides some evidence of impairment of the transferred asset. The accounting policies of equity-accounted investees have changed when necessary to ensure consistency with the policies adopted by Axo.

The carrying amount of investments under the equity method is tested for impairment in accordance with the policy described in note 4 (j).

Business combinations-

Axo accounts for business combinations under the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Company. In determining whether a particular set of activities and assets is a business, Axo assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Company has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. The consideration is calculated as the sum of all assets transferred, less all liabilities incurred thereby with the previous owners of the company acquired as of the date of acquisition. The transaction costs are generally recognized in profit or loss, as incurred, except if they are related to the issue of debt or equity instruments. As of the date of acquisition, the identifiable assets acquired, and the liabilities assumed shall be recognized at fair value.

Goodwill is measured as the excess resulting from adding the consideration transferred, the amount of any non-controlling interest in the company acquired, and the fair value of the previous stock trend of the acquirer in the company acquired (if any) over the net amount of the identifiable assets acquired and liabilities assumed as of the date of acquisition. If after a revaluation of the net of the identifiable assets and liabilities assumed as of the date of acquisition exceeds the amount resulting from adding the consideration transferred, the amount of any non-controlling interest in the company acquired (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

The non-controlling interests that are equity interests and that grant their holders a proportional share of the entity's net values in case of liquidation, may be initially measured either at fair value or at the value of the non-controlling interest's proportional share in the recognized amounts of the identifiable net assets of the acquired company. Other types of non-controlling interests are measured at fair value or, when applicable, based on the specifications of another IFRS.

The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for a business combination. The accounting treatment for changes in fair value of the contingent consideration that do not qualify as adjustments to the measurement period depends on how the contingent consideration is classified. The contingent consideration classified as capital is not remeasured on later reporting dates and its

later settlement is accounted for within the capital. The contingent consideration that is classified as an asset or a liability is remeasured on later reporting dates under IAS 39 or IAS 37, Provisions, contingent liabilities, and contingent assets, as appropriate, recognizing the corresponding gain or loss in the Consolidated Statement of Comprehensive Income.

If in an acquisition of a subsidiary the seller has a "call option" on its non-controlling interest, Axo recognizes a liability. This liability is initially recognized at market value, and changes in its value are recognized within the equity.

When a business combination is achieved in stages, the previous equity interest of the entity in the acquired company is remeasured at fair value as of the date of acquisition and the resulting gain or loss, if any, is recognized in the income statement. The amounts derived from interests in the acquired company before the date of acquisition that have been previously recognized in other taxable results, are reclassified in the income statement when this treatment is appropriate if such interest is eliminated.

If the initial accounting treatment of a business combination is incomplete by the end of the reporting period where the combination occurs, the entity shall report in its Consolidated Financial Statements provisional amounts for the items for which the accounting is incomplete. Such provisional amounts are adjusted during the measurement period or additional assets or liabilities are recognized to reflect the new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the entity receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable.

When Axo loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, any related non-controlling interest, and other components of equity. Any resulting gain or loss is recognized in profit or loss. If Axo retains any interest in the former subsidiary, it will be measured at its fair value on the date on which control is lost.

i. Business Combinations under Common Control

The Company applies the predecessor method to account for business combinations between entities under common control, such as mergers between Axo entities, from the date the transactions are materialized.

For these transactions, the following considerations are made:

- The acquired assets and assumed liabilities of the involved entities are recognized considering the carrying amounts included in the consolidated financial statements of the ultimate controlling entity. Fair value measurement is not required.

- The carrying amounts may include goodwill recognized in the ultimate controlling entity with respect to the involved entities, as well as any fair value adjustments that remain recognized in such financial statements on the entities involved in the transaction (usually called “PPA adjustments”). No new goodwill is generated.
- Any difference between the carrying value of net assets acquired and the consideration received is included as an equity reserve as of the transaction date.
- The results in the financial statements after transaction include the results of the entities involved in the transaction from the date it occurs. Therefore, comparative information is not restated.

This accounting policy is consistently applied to similar transactions, other similar events and conditions, unless a standard or interpretation requires or permits a different accounting treatment, for which other accounting policies may be appropriate.

Foreign currency-

i. Foreign currency transactions-

Transactions in foreign currencies are translated into the respective functional currencies of Axo companies at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are valued at fair value in a foreign currency are reconverted to the functional currency at the exchange rate on the date the fair value was determined. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. Foreign currency differences are generally recognized in profit or loss and presented within finance cost.

However, foreign currency differences arising from the translation of the flow hedge items or cash hedges valuation are recognized in other comprehensive income (OCI) until the risk for which they were contracted is concluded and it is taken through profit or loss in the same line of the hedged item.

ii. Foreign operations-

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Mexican pesos at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into Mexican pesos at the exchange rates at the dates of the transactions.

Foreign currency translation differences are recognized in Other Comprehensive Income (OCI) and presented in the translation reserve, except if the translation difference is allocated to the non-controlling interest.

When a foreign operation is fully or partially disposed of so that control, significant influence, or joint control is lost, the amount accumulated in the currency translation reserve relating to foreign business should be reclassified to profit or loss as part of the disposition gain or loss on disposal.

If Axo disposes of part of its interest in a subsidiary but retains control, the relevant proportion of the accumulated amount is reattributed to the non-controlling interest.

If Axo disposes of only part of an associate or joint business while retaining significant influence or joint control, the relevant proportion of the cumulative amount reclassified to profit or loss.

Financial instruments-*i. Recognition and initial measurement*

Financial assets and liabilities - including accounts receivable and payable - are initially recognized when they are originated or acquired, or when these liabilities are issued or assumed. All other financial assets and financial liabilities are initially recognized when Axo becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities (unless it is an account receivable or payable without a significant financing component) are initially measured at fair value plus, or minus, for an item not at fair value through profit or loss, transaction costs directly attributable to its acquisition or issuance. An account receivable without a significant financing component is initially measured at the transaction price.

ii. Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified in the following categories, according to the business model and the characteristics of the contractual cash flows therefrom, as follows:

- Accounts receivable, which includes accounts receivable derived from the sale of goods and services and other accounts receivable derived from activities other than the sale of goods and services.
- Financial instruments to collect principal and interest (SPPI), whereby the holder intends to recover the contractual cash flows that the instrument entails. The terms of the contract provide for cash flows on pre-established dates, which correspond only to payments of principal and interest (yield), typically based on the amount of the outstanding principal. The SPPI must have characteristics of a financing arrangement and be managed based on contractual performance.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit or loss (FVTPL):

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI").

Financial assets are measured at fair value through other comprehensive income ("FVOCI") when the objective of holding such financial assets is both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets (see Note 28). On initial recognition, Axo may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The classification of financial assets is based on both the business model and the characteristics of the contractual cash flows therefrom. According to the business model, a financial asset, or a class of financial assets (a portfolio), can be managed under:

- A model that seeks to recover contractual cash flows (consisting of principal and interest).
- A business model that seeks both, to recover contractual cash flows as in the previous model and selling financial assets.
- A model that seeks maximum return through the purchase and sale of financial assets.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified to the new category at the time the change in the business model has occurred.

The reclassification of investments in financial instruments between categories is applied prospectively as of the date of change in the business model, without modifying any previously recognized income, such as interest or impairment losses.

Financial assets - Business model assessment:

The Company make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining an interest rate profile, matching the duration of the financial assets to the duration of any related liabilities, or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume, and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest (SPPI) –

For the purposes of this assessment, “principal” is defined as the fair value of the financial asset on initial recognition. “Interest” is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI), the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- Contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g., non-recourse features).

A prepayment feature is consistent with the sole payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets - Subsequent measurement and gains and losses -

Financial assets at fair value through profit or loss (FVTPL)	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss. However, see section iii. of this note for derivatives designated as hedging instruments.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in income. Any gain or loss on derecognition is recognized in income.
Debt investments at fair value through other comprehensive income (FVOCI)	These assets are subsequently measured at fair value. Interest income calculated under the effective interest method, gains, and losses from translation of foreign currency and impairment are recognized in income. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss

Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is reclassified at fair value through profit or loss if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at fair value through profit or loss are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

iii. Derecognition

Financial assets

Axo derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expire, or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
 - substantially all the risks and rewards of ownership of the financial asset are transferred;
 - or
 - Axo neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability from its consolidated statement of financial position when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability from its consolidated statement of financial positions, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

v. Derivative financial instruments and hedge accounting

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. After initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

The Company designates certain derivatives swaps, forwards, CAP as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and interest rates and certain derivatives and non-derivative financial liabilities as hedges of foreign exchange risk on a net investment in a foreign operation.

At inception of designated hedging relationships, the Company documents the risk management objective and strategy for undertaking the hedge. The Company also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Hedge accounting-

Cash flow hedges

When a derivative instrument is designated as a cash flow hedge instrument, the effective portion of the changes in the fair value of the derivative is recognized in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The Company designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts (forward points) is separately accounted for as a cost of hedging and recognized in a cost of hedging reserve within equity.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventory, the amount accumulated in the hedging reserve and the cost of hedging reserve is included directly in the initial cost of the non-financial item when it is recognized.

For all other hedged forecast transactions, the amount accumulated in the hedging reserve and the cost of hedging reserve is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated, or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial item, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognized in profit or loss within finance

costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognized in profit or loss within other gains/(losses).

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity using a recalculated effective interest rate.

Financial instruments

The Company recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost.

The Company measures loss allowances at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 - 120 days past due, except in cases where the Company has information that the risk has not increased significantly.

The Company considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to Axo in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 90 - 120 days past due, or when the Company has reasonable and supported information to consider that a longer term is a more appropriate criterion.

For Axo it is necessary to calculate the expected credit losses (ECL) for the accounts receivable of the portfolio, based on certain risk characteristics assumed by the Company, these are measures using individual analysis and under a financial situation review approach of each client.

According to the IFRS 9, the ECL must be calculated for the lifetime of the instrument if the credit risk of the instrument has increased significantly since its initial recognition. In any other case, it must be measure at 12-months ECLs.

Collective analysis requires the estimation of credit risk parameters considering past, present, and future information that is available without incurring a disproportionate cost or effort. In accordance with the foregoing, the Company has decided to determine the expected loss based on the behavior and a collection analysis of each client in which it determines the difference in expected flows against contractual flows as the value of the provision.

The Company does not consider the criteria for significant risk increases and risk stage classification, as its assessment of unrecoverable accounts is individually per customer. In addition, in the case of accounts receivable of commercial origin, the Company may use a simplified method of estimating expected loss.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

Expected credit losses are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at fair value through OCI are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the debtor;
- a breach of contract such as a default or being more than 90 - 120 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss is charged to profit or loss and is recognized in OCI.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 180 days past due, based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Inventories and cost of sales-

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is determined using the average costs method and includes the disbursements in acquiring the inventories and other costs incurred in their transfer to their current location and conditions.

Cost of sales represents the cost of inventories at the time of their sale, decreased, as appropriate, up to their net realizable value. Net realizable value is the estimated sales price in the normal course of business, less estimated termination costs and selling expenses.

Within reportable segment of Off-Price, the Company has merchandise paid after it is sold ("PAS Merchandise"). Under these arrangements the Company takes possession and control, but not legal title, of merchandise once it is received at stores and/or distribution centers. Once the Company takes possession of PAS Merchandise, it is able to market the merchandise as provided for such arrangements.

Upon the sale of PAS Merchandise to the end customer, the Company: (i) act as a principal vis-à-vis the end customer, fulfilling the performance obligation to provide the merchandise and it is the sole responsible party for claims and returns, (ii) receives an invoice from the supplier that is typically payable within 30 and 60 days, and (iii) simultaneously books the PAS Merchandise as inventory, recognizes the income from the sale and records the cost of goods sold.

To represent the value of inventories appropriately in the statement of financial position, and considering the risks associated with the realization and sale of inventories due to slow inventory movement, an allowance for this concept has been directly deducted from the carrying amount of the inventories. Such allowance is dependent upon factors such as historical sales trends and promotional environment. Write downs are recorded in cost of sales in the consolidated statements of comprehensive income.

Prepayments-

Mainly includes the prepaid expense for inventory purchases, and services that are received in the ordinary course of operations.

Leasehold improvements, furniture, and equipment-

i. Initial recognition

Leasehold improvements, furniture, and equipment are stated at cost of acquisition less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Acquired computer programs that are integral to the functionality of the corresponding asset is capitalized as part of that equipment.

Gains and losses on the sale of an item of furniture and equipment are determined by comparing the sales price against the book value of furniture and equipment and are recognized net as an "other income" in profit or loss.

Subsequent costs

Subsequent costs of an item of leasehold improvements, furniture and equipment is recognized in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Axo and its cost may be measured reliably. The carrying amount of the replaced items are eliminated. All other repairs and maintenance costs of furniture and equipment are recognized in the Consolidated Statement of Comprehensive Income as incurred.

Depreciation and amortization

Depreciation is calculated to write off the cost of items of leasehold improvements, furniture, and equipment less their estimated residual values under the straight-line method over the estimated useful lives of the assets and is generally recognized in profit or loss as of the month following that in which the assets are available for use.

The estimated useful lives of the main groups of assets for current and comparative periods are as follows in next page.

	<u>Useful life</u>
Leasehold improvements	According to the contract term
Office furniture and equipment	10 years
Transportation equipment	4 to 10 years
Computer equipment	3 to 5 years

Leasehold improvements are amortized over the lesser of the useful life of the improvement or the related lease contract term.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if appropriate.

Minor repairs and maintenance costs are expensed as incurred.

Leases-

At inception of the contract, Axo assesses to determine whether the arrangement is or contains a lease. A contract or part of a contract contains a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

i. As a lessee-

At commencement or on modification of a contract that contains a lease component, Axo allocates the consideration in the contract to each lease component based on the relative stand-alone price. However, in the case of real estate leases, Axo has chosen not to separate non-lease components and account for the lease components and the non-lease components as a single lease component.

Axo recognizes a right of use (ROU) asset and lease liability at the lease commencement date. The ROU asset is initially measured at cost, which includes the initial amount of the lease liability adjusted for the lease payments made at or before the commencement date, plus all initial direct costs incurred and estimated costs for dismantling and removing the underlying asset, or restoring the site on which it is located, minus any lease incentives received.

Subsequently, the ROU asset is depreciated using the straight-line method at the commencement date and through the lease end date, unless the lease transfers ownership of the underlying asset to Axo at the lease end date or the cost of the ROU asset reflects that Axo is going to exercise a purchase option. In that case, the ROU asset is depreciated over the useful life of the underlying asset, which is determined on the same basis used for improvements made to leasehold premises, furniture, and equipment. In addition, the ROU asset is periodically reduced for impairment losses, if any, and adjusted for certain new measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that have not been paid on the commencement date and discounted using the interest rate implicit in the lease or Axo's incremental borrowing rate if that rate cannot be readily determined. In general, Axo uses its incremental borrowing rate as the discount rate. Axo determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the asset type and term lease.

Lease payments included in measuring lease liabilities include the following:

- Fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate on the commencement date;
- amounts that the lessee expects to pay to the lessor under a residual value guarantee; and
- the exercise price of a purchase option if Axo is reasonably certain to exercise that option, lease payments in an optional renewal period if Axo is reasonably certain to exercise an extension option, and payment of penalties for early termination of the lease, if the lease term reflects Axo exercising that option.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when: (i) there is a change in future lease payments resulting from a change in an index or rate; (ii) there is a change in Axo's estimate of the amount expected to be paid under a guaranteed residual value; (iii) Axo changes its assessment of whether it will exercise a purchase or expansion option or an option to terminate; or (iv) there is an essential fixed lease payment has been modified.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset or recognized under profit or loss if the carrying amount of the ROU asset has been reduced to zero.

Key money paid to a lessor

They represent space rights in shopping centers (key money) paid to a landlord and that do not allow the right to the entity to be able to commercialize the right. Amortization is calculated using the straight-line method, over a period ranging from 5 to 10 years according to the non-cancellable lease period. Axo presents the key money paid to a lessor as Right of use assets.

Short-term leases and leases of low-value assets

Axo does not recognize right-of-use asset (ROU) and lease liabilities for leases of low-value assets and short-term leases. Axo recognizes lease payments associated with these leases as an expense on a straight-line basis.

Leases acquired in a business combination

Lease contracts acquired as part of a business combination are recognized as if they were new lease contracts at the entity's acquisition date in accordance with IFRS 3. For initial measurement, IFRS 16 is applied, considering the present value of the remaining rental payments at the acquisition date to determine the lease liability. The right-of-use asset is recognized for an amount equal to the lease liability, adjusted to reflect any favorable or unfavorable conditions of the contracts relative to market conditions.

Intangible assets and goodwill-

Goodwill-

The goodwill arising from acquisition of subsidiaries is presented separately from intangible assets and is not amortized, but impairment reviews are conducted annually or more frequently if events or changes in circumstances indicate possible impairment and recorded at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying value of goodwill related to the entity sold.

For the purpose of testing for impairment, goodwill acquired in a business combination is assigned to each of the Cash Generating Units (CGU) or Groups of cash generating units. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Units or groups of units are identified at the lowest level within the entity to which goodwill is controlled for internal management purposes.

Intangible assets with indefinite useful life-

Intangible assets with an indefinite useful life include trademarks, exclusive contracts, relationship with clients, franchises and key money paid to a third party (these agreements allow the transfer or sale of rights). Key money is considered intangible because this right allows the Company to generate future cash flows controlled by Axo through its use or disposition. It is considered to have an indefinite useful life since there are no legal, regulatory, contractual, competitive, or

economic factors that limit its useful life, and they are subject to impairment tests annually, and at any time there is an indication of impairment.

Intangible assets with finite useful life-

Intangible assets with finite useful life include licenses of software. Amortization is calculated by the straight-line method, in a period ranging from 5 to 10 years according to the duration of the licenses of software.

Impairment-

Non-derivative financial assets

The Company recognizes loss allowances for expected credit losses (ECLs) for financial assets measured at amortized cost.

The Company measures loss allowances at an amount equal to asset lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment, that includes forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 - 120 days past due, except in cases where the Company has information that the risk has not increased significantly.

The Company considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 90 - 120 days past due, or when the Company has reasonable and supported information to consider that a longer term is a more appropriate criterion.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial

asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. However, financial assets that are written off could still be subject to enforcement activities to comply with the Company's procedures for recovery of amounts due.

Non-financial assets

The carrying amount of the Company's non-financial assets, other than inventories and deferred tax assets, is reviewed on each reporting date to determine whether there is any indicator of impairment. Goodwill and the intangible assets with indefinite useful life are subject to annual impairment tests. If signs of impairment are identified, then the asset or CGU's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs of disposal. When assessing value in use, estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the value of money attributable to time and asset-specific risks. For impairment testing purposes, assets that cannot be tested individually are integrated into smaller groups of assets that generate cash inflows through ongoing use and that are largely independent of cash inflows from other assets or groups of assets, assets (the CGU).

For purposes of goodwill impairment tests, it is distributed to the CGUs that are expected to benefit from the synergies of the business combination that gave rise to such goodwill. This allocation is subject to an operating segment cap test and reflects the lower level at which goodwill is monitored for internal reporting purposes.

Axo's corporate assets do not generate separate cash inflows. If there is any indication that a corporate asset may be impaired, then the recovery value of the CGU to which the corporate asset belongs is determined.

An impairment loss is recognized if the carrying amount of an asset or its CGU is greater than its recovery value. Impairment losses are recognized in profit or loss. Impairment losses recorded in relation to CGUs reduce the carrying amount of any goodwill that has been allocated to the units and then reduce the carrying amount of the other assets in the unit (group of units) over a pro rata basis. Impaired non-financial assets other than goodwill are reviewed to determine the possible reversal of impairment at the end of each reporting period.

Inventories

The impairment of inventories is recorded if the net realizable value is less than the carrying amount. Signs of impairment being considered are, among others, obsolescence; drop in market prices; and physical damage.

Provisions-

Provisions are recognized when the Company has a present obligation arising from a past event, it is probable that the Company will have to settle an obligation, and a reliable estimate of the amount of the obligation can be determined. Provisions are recognized at the present value of management's best estimate of the disbursements that are expected to be required to settle the obligation using a pre-tax rate that reflects current market conditions with respect to the value of money and the specific risks for such obligation. The increase in the provision due to the passage of time is recognized as an interest expense.

Employee benefits-

Defined benefit obligations-

Axo has defined benefit obligations; the seniority premium is granted to all employees under the Mexican Federal Labor Law. The Law establishes that the seniority premiums are payable based on the salary and years of service for employees who resign after at least fifteen years of service. According to the Law, benefits are also paid to dismissed employees.

Axo's net obligations in respect of defined benefit obligations are calculated estimating the amount of the future benefit that employees have earned in the current and prior periods. Such benefit is discounted to arrive at its present value. The discount rate is the yield at the reporting date of government bonds with maturity dates that approximate the maturity of Axo's obligations, denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method in accordance with IAS 19 (see note 26).

Remeasurement of the net defined benefit liability, which comprise actuarial gains and losses, are recognized immediately in other comprehensive income.

Short-term benefits-

Short-term employee benefit obligations are accounted for on a undiscounted basis and are expensed as the related services are provided, considering current salaries. A liability is recognized in the amount expected to be paid under the plans if Axo has a present legal or assumed obligation to pay such amounts as a result of past services provided by the employee, and the obligation can be estimated reliably.

Being short term, the respective liabilities are expressed at fair value and include, mainly, employee statutory profit sharing (ESPS) payable, compensated absences, vacation, vacation premium and incentives.

Termination benefits-

Termination benefits are recognized as an expense at the earlier of when Axo is committed to a detailed formal plan either to terminate the employment relationship before the normal retirement date or to provide termination benefits as a result of an offer made for encouraging voluntary retirement.

Termination benefits in case of voluntary retirement are recognized as an expense only if Axo has made a voluntary retirement offer, it is probable that the offer will be accepted, and the number of acceptances may be reliably estimated. If benefits are payable beyond twelve months after the reporting period, then they are discounted at present value.

Share-based payment arrangements

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the options. The amount recognized as an expense is adjusted to reflect the number of options for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of options that meet the related service and non-market performance conditions at the vesting date.

For share-based payment options with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Stockholders' equity

Incremental costs directly attributable to the issue of shares are recognized as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12 (see note 4, (q)).

Revenue from contract with customers-

Revenue is measured based on the consideration specified in a contract with a customer. Revenue is recognized when performance obligations under the terms of a contract with the customer are satisfied based on the transfer of control of promised goods or services. Depending on the contract terms, transfer of control typically occurs upon receipt of goods by the customer.

Principal vs. Agent - Some of our sales of goods are made with inventory bought through consignment arrangements with suppliers, otherwise referred to as PAS arrangements (see note 4 e). To determine if those revenues should be reported gross or net of payments to suppliers,

the Company evaluated whether it acted as a principal in those sales. An entity is the principal if it controls a specified good or service before it is transferred to the end customer. Key criteria that management assessed in determining whether it acted as a principal and, therefore, recognize sales for the gross amount of the consideration, were among others:

- The nature of the Company's promise to the customer, as well as the distinct performance obligation identified.
- The underlying contract terms and conditions between the parties to the transaction.
- Which party is primarily responsible for fulfilling the promise to provide the specified good or service to the end customer.
- Which party has inventory risk before the specified good or service has been transferred to the end customer.
- Which party has discretion in establishing the price for the specified good or service.

Based on an assessment of the criteria above, management determined that the Company act as principal in the sales to the end customers. The Company has control over the promised goods before to the goods being transferred to the final customer. The Company is primarily responsible for delivery to the end customers and is responsible for goods returned.

The Company also has substantial discretion in establishing prices for goods. Therefore, the Company reports the gross purchase price paid by the customer related to these arrangements as revenue in its profit or loss and recognize the costs paid to suppliers as part of its inventories' costs in its profit or loss.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms and the related revenue recognition policies.

Type of product/ service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Wholesale Wholesale of clothes, sports products,	Customers obtain control of the products when the goods are delivered to and have been accepted at their premises and / or warehouses, except when there is a consignment arrangement, in which case	Revenue is recognized when they have been delivered and accepted by the customer at their facilities and / or warehouses. When a consignment arrangement is performed, revenue is recognized upon the sale to the end-customer. The Company does not adjust the promised amount of consideration for the effects of a

<p>Type of product/ service</p>	<p>Nature and timing of satisfaction of performance obligations, including significant payment terms</p>	<p>Revenue recognition policies</p>
<p>footwear, luxury and fashion accessories, perfumery, watchmaking, jewelry, etc.</p> <p>Retail</p> <p>Products for personal use, retail of clothes,</p>	<p>the customer does not obtains control of the products until they are sold to the end-customer.</p> <p>Payment terms are usually within 30-90 days, depending on the individual agreement with each customer.</p> <p>Some contracts include variable consideration, which adjust revenue recognition. Variable consideration includes right of return, discounts, markdown compensation and penalties, among others.</p> <p>The customer obtains control of the products when the products are delivered to the store.</p> <p>Some customers return items based on the policy of each of the brands, in which Axo issues electronic wallets, make merchandise changes or refund the amount in the same form of payment.</p>	<p>significant financing component as it is expected, at contract inception, that the period between the transfer of the promised good or service to the customer and the customer payment for the good or service will be one year or less.</p> <p>For those contracts that include variable consideration, an estimation of variable consideration included in such contracts (right of return, discounts, markdown compensation, penalties, among others) is made.</p> <p>The Company utilizes the expected value method in determining its estimates of variable consideration, based on evaluations of specific product and customer circumstances, historical and anticipated trends, and current economic conditions.</p> <p>The Company reviews the estimates for variable consideration as of the financial statements date and updates assets and liabilities amounts accordingly.</p> <p>Revenues related to the sale of products are recognized when they have been delivered to the customer at the point of sale.</p> <p>For those customers who return an item, revenue is recognized when the products are delivered to customers in the store and the sales ticket is issued. The write-off of the income and the inventory receipt is accounted when the item is returned physically.</p> <p>Therefore, the amount of revenue recognized is adjusted by the returns received.</p>

Type of product/ service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
<p>sports, footwear, luxury and fashion accessories, perfumery, watchmaking, jewelry, etc.</p> <p>Franchises</p>	<p>The final customer obtains control of the products when the products are delivered to the Franchise where the purchase was made.</p> <p>Some customers return items based on the policy of each of the Company's brands (variable consideration).</p>	<p>The consideration is paid before the transfer of control to the customer is made.</p> <p>The Company performed an analysis of this type of revenue and determined that, despite having a contract with the Franchisees, since control of the products is never transferred to them, the final consumer is considered a customer.</p> <p>Revenues from this channel are recognized when they have been delivered to the end customer at the Franchise where the purchase was made.</p> <p>For those customers who return an item, revenue is recognized when the products are delivered to the customers at the Franchise and the sales receipt is issued. The write-off of the revenue and the receipt of the inventory is recorded when the item is physically returned.</p>
<p>Electronic Commerce</p>	<p>The customer obtains control of the products when the products are delivered and accepted at their homes.</p>	<p>Revenues related to the sale of products are recognized when they have been delivered and have been accepted by the customer at their facilities or homes.</p>

Type of product/ service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Retail trade of clothes, sports, footwear, luxury and fashion accessories, electronics, perfumery, decoration, watches, jewelry, etc., through digital stores.	When a customer requests the return of items, the refund is made through the same payment method that the customer used for the purchase.	<p>The amount of recognized income is adjusted by the expected returns, which are estimated based on the actual returns of the products sold, except for articles or intimate garments since there are no returns for these.</p> <p>A contract liability is recognized for the sales made in the digital store of products not delivered to customers and an asset for the payment made by customers.</p> <p>The right to recover the returned goods is valued at the carrying value of the inventory less the expected costs to recover the goods.</p> <p>The refund obligation is included in other accounts payable and the right to recover the returned goods is included in the inventory.</p> <p>Contract liabilities arise from this type of contract since the consideration is paid before the transfer of control to the customer is made.</p>
Discount program	During January and February 2022, customers registered in our "Club Promoda" discount program obtained a 5 % discount in their first purchase and a 3% additional discount on their following purchases. Starting March 2022, registered customers obtain only a 3% discount from their second purchase onwards.	<p>Axo allocates a portion of the consideration received to the discount given. This allocation is based on the relative stand-alone selling prices. The amount allocated to the discount program is deferred and is recognized as revenue when the discounts are redeemed or when the likelihood of the customer redeeming such discounts becomes remote. The deferred revenue is included in contract liabilities.</p>

Type of product/ service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
	In both periods, those discounts do not expire and have no purchase amount restriction.	
Service contracts	Personnel services - These are related to the administrative services that Axo provides to its Equity-accounted investees. Invoices for services are issued monthly and are usually payable within 30 days.	Revenue is recognized over time as the services are provided.

Advertising costs-

Advertising costs are expensed as incurred in selling expenses.

Finance income and costs-

Finance income includes income from interest on invested highly liquid funds and foreign exchange gains. Interest income is recognized in the income as earned, using the effective-interest method.

Finance costs comprise interest expenses on debt, and on accounts payable to related parties, financial cost of defined benefit plans and foreign exchange losses. Loan-related costs are recognized in income using the effective-interest method.

Foreign exchange gains and losses are reported on a net basis.

Income Tax-

Income tax expense comprises current and deferred tax. Income taxes are recognized in profit or loss, except to the extent that it relates to items recognized directly in stockholders' equity or in other comprehensive income.

Axo has determined that interest and penalties related to income taxes, including uncertain tax

treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37, "Provisions, Contingent Liabilities and Contingent Assets".

Current Tax

Current income taxes are determined in accordance with legal and fiscal requirements for companies in Mexico and Chile, applying the tax rates published or substantially published at the reporting date, and any adjustment to the tax due regarding previous years.

Deferred Tax

Deferred IT is recognized using the asset and liability method. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction (other than in a business combination) that at the time of the transaction affects neither accounting nor taxable income or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is recovered or the deferred income tax liability is settled.

Deferred tax assets and liabilities are offset where there is legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same fiscal authorities. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

A deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that in the future there will be taxable income against which they may be offset. Deferred tax assets are reviewed at each reporting date and reduced to the extent that the realization of the corresponding tax benefit is no longer likely.

Uncertainty over income tax treatments

Based on IFRIC 23, Uncertainty over income tax treatments, the income tax effects from an uncertain tax position are recognized when it is probable that the position will be sustained based on its technical merits and assuming that the tax authorities will examine each position and have full knowledge of all relevant information.

Management periodically evaluates positions taken in tax return with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. Axo measures its tax balances based on the most likely amount, or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

As of December 31, 2023, and 2022, there were no uncertain tax positions, and Axo does not anticipate any potential future adjustments which would result in a material change to its tax positions.

Contingencies-

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, disclosure is provided in the notes to the Consolidated Financial Statements. Contingent revenues, earnings or assets are not recognized until realization is assured.

Segment information-

Axo reports segment information in accordance with the provisions of IFRS 8 "Segment Information". An operating segment is one of Axo's components that carries out business activities from which it may obtain income from ordinary activities and incur in expenses, including income from ordinary activities and expenses for transactions with other components of the same entity. Segment operations are reviewed and analyzed on a regular basis by Axo's General Director for decision making concerning resources to be allocated to the segment and assessing its performance, to which end, segmented financial information is available.

Changes in material accounting policies-

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

Axo adopted the *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* from January 1, 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policies information disclosed in the Financial Statements.

The amendment require the disclosure of "material", rather than "significant" accounting policies. The amendments also provide guidance on the application of materiality for the disclosure of accounting policies, assisting entities to provide useful and specific information that users need to understand other information in the Financial Statements.

Management reviewed the accounting policies and, in certain cases, made updates to the disclosed information in Note 4 "Material Accounting Policies", derived from the mentioned amendments.

Definition of Accounting Estimates - Amendments to IAS 8

The amendment to *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* clarifies how companies should distinguish changes in their accounting policies from changes in accounting estimates. The distinction is important since changes in accounting estimates are applied prospectively to future transactions and other future events, while changes in accounting policies are generally applied retrospectively to past transactions and other past events, as well as the current period.

In this regard, Management determined that this amendment has no impact within the consolidated financial statements, given that Axo had been already applying the criteria established in this amendment prior to the current period.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

Axo also adopted *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)* from January 1, 2023. The amendment narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences, such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the entity is required to recognize the associated deferred tax assets and liabilities from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the entity applies the amendments to transactions occurring on or after the beginning of the earliest period presented.

The Company recognized deferred taxes related to leases in a similar manner as required by the current update of IAS 12, but on a net basis. As a result of the amendment, the Company separately recognizes the deferred tax asset related to the lease liability and the corresponding deferred tax liability related to the right-of-use asset. However, there was no impact on the statement of financial position as these balances qualify for offsetting in accordance with paragraph 74 of IAS 12. There was also no impact on the opening balance of retained earnings as at January 1, 2022, as a result of the change. The main impact for Axo relates to disclosure of the deferred tax assets and liabilities recognized.

Segment information

A. Basis for segmentation

Axo offers merchandise and consumer services through a portfolio of brands. The Company has the following three reportable segments: "Lifestyle," "Off-Price" and "Athletics & Outdoors."

The following summary describes the operations of each reportable segment:

Reportable segments	Operations
Lifestyle	The Lifestyle segment includes internationally recognized brands in the casual, affordable luxury, homeware categories, share of profit of equity-accounted investees that has the same economic characteristics as the Company's Lifestyle segment brands and the revenue from the services rendered to them.
Off-Price	Promoda is the leading off-price retailer in Mexico offering well-known brands at deep discounts to the growing middle class. Privalia is a subscription based, off-price online marketplace that offers well-known brands at deep discounts via flash sales. Regarding Chile and Peru, the off-price segment is represented by Surprice stores.
Athletics & Outdoors	The Athletics & Outdoors segment markets casual and performance footwear and apparel, which is among the fastest growing retail sectors, and operates in Mexico, primarily under The Athlete's Foot ("TAF") which is Mexico's leading specialized streetwear sneaker retailer in terms of points of sale, Lust, Laces, Speedo and Nike stores as well as through e-commerce platforms. In regard to Chile and Peru, brands such as Andesgear, Mammut, The North Face, among others, are commercialized within this segment.

The segments share similar economic characteristics, mainly such as customer base, nature of products and services, distribution methods, which includes the types of stores, where products are sold.

Operating segments are components of Axo responsible for developing commercial activities that can generate revenue or incur expenses and whose operating profit or loss are regularly reviewed by the chief operating decision maker ("CODM") of Axo and for which financial information is available. Operating segment information is consistent with the internal reports provided to the CODM and it is reviewed on a monthly basis.

Axo's CODM reviews the financial information of each of its operating segments and assesses the performance of each segment based on Statements of Financial Position and the Statement of Income of each of them, and on certain credit risk indicators, as described in note 4(s).

B. Information about reportable segments

Net sales and service revenue from each segment present net sales from inter-segment. Segment operating income is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries. The Company's non-reportable segment relates to assets, liabilities, income and expenses at the corporate company level, which includes, long-term debt, notes payable to banks and related interest expenses.

The following is the detail of the reportable financial information summarized for each segment as of December 31, 2023, and 2022.

	<u>As of December 31, 2023</u>				
	<u>Lifestyle</u>	<u>Off-Price</u>	<u>Athletics & Outdoors</u>	<u>Non reportable segment⁽²⁾</u>	<u>Total</u>
Sales and service revenue	\$ 12,941,545,531	6,498,109,876	5,268,991,681	-	24,708,647,088
Cost of sales	5,194,312,460	4,117,952,934	2,900,745,354	-	12,213,010,748
Gross profit	\$ 7,747,233,071	2,380,156,942	2,368,246,327	-	12,495,636,340
Depreciation and Amortization	\$ 609,435,050	112,718,970	127,922,912	-	850,076,932
Depreciation of right of use	588,955,987	394,163,530	278,184,909	-	1,261,304,426
Operating expenses	5,687,898,909	2,202,266,752	1,738,044,243	61,563,672	9,689,773,576
Share of profit of equity-accounted associates, net of tax	\$ (166,065,760)	-	-	-	(166,065,760)
Operating income (loss)	\$ 2,225,399,922	177,890,190	630,202,084	(61,563,672)	2,971,928,524
Interest income	(149,570,779)	(52,506,211)	(12,225,841)	(39,355,504)	(253,658,335)
Interest from lease liabilities	151,710,224	92,399,283	54,871,414	-	298,980,921
Interest expense	-	-	-	1,251,555,322	1,251,555,322
Foreign exchange loss, net	-	-	-	(174,034,995)	(174,034,995)
Financial cost of defined benefit plans	-	-	-	1,958,770	1,958,770
Income before taxes	2,223,260,477	137,997,118	587,556,511	(1,101,687,265)	1,847,126,841
Total assets	\$ 8,114,884,024	4,978,285,018	3,011,749,655	12,157,399,021	28,262,317,718
Addition to non-current assets ⁽¹⁾	766,179,575	202,424,115	160,308,005	-	1,128,911,695
Total liabilities	\$ 6,108,223,563	2,907,594,354	2,193,461,663	9,426,091,094	20,635,370,674

(1) Additions for leasehold improvements, furniture and equipment, right-of-use assets and intangible assets for the corresponding period.

(2) The amounts reflected in the non-reportable segment mainly correspond to expenses that cannot be allocated to a segment because they do not comply with IFRS8, among which are mainly fees and consulting services of the holding company.

As of December 31, 2022

	<u>Lifestyle</u>	<u>Off-Price</u>	<u>Athletics & Outdoors</u>	<u>Non reportable segment ⁽²⁾</u>	<u>Total</u>
Sales and service revenue	\$ 9,738,514,022	5,627,359,826	3,681,692,630	-	19,047,566,478
Cost of sales	4,233,795,269	3,562,032,634	2,066,937,519	-	9,862,765,422
Gross profit	\$ 5,504,718,753	2,065,327,192	1,614,755,111	-	9,184,801,056
Depreciation and Amortization	\$ 468,655,490	128,785,512	62,242,993	-	659,683,995
Depreciation of right of use	394,169,016	353,010,625	190,453,013	-	937,632,654
Operating expenses	3,797,642,308	1,755,120,472	1,209,216,102	124,252,086	6,886,230,968
Share of profit of equity-accounted associates, net of tax	\$ (130,890,390)	-	-	-	(130,890,390)
Operating income (loss)	\$ 1,837,966,835	310,206,720	405,539,009	(124,252,086)	2,429,460,478
Interest income	(88,844,856)	(43,162,236)	(14,502,015)	(16,618,785)	(163,127,892)
Interest from lease liabilities	91,875,444	74,915,228	33,361,124	-	200,151,796
Interest expense	-	-	-	974,769,884	974,769,884
Foreign exchange loss, net	-	-	-	26,551,191	26,551,191
Financial cost of defined benefit plans	-	-	-	1,107,482	1,107,482
Income before taxes	1,834,936,247	278,453,728	386,679,900	(1,110,061,858)	1,390,008,017
Total assets	\$ 5,428,755,562	2,612,062,738	2,791,575,893	12,589,477,734	23,421,871,927
Addition to non-current assets ⁽¹⁾	432,999,414	94,319,483	209,876,500	-	737,195,397
Total liabilities	\$ 3,825,651,604	2,857,517,447	1,954,866,634	7,986,355,878	16,624,391,563

- (1) Additions from leasehold improvements, furniture and equipment, right-of-use-assets, and intangible assets for the corresponding period. As of December 31, 2022, it includes the addition of assets for \$261,012,777 for the acquisition of Old Navy business.
- (2) The amounts reflected in the non-reportable segment mainly correspond to expenses that cannot be allocated to a segment because they do not comply with IFRS8, among which are mainly fees and consulting services of the holding company.

C. Geographic Information

The geographic information analyzes Axo's revenue and non-current assets by the country of domicile of the Company and other countries. Assets by segment are based on the geographic location of the assets.

Revenue		<u>2023</u>	<u>2022</u>
Mexico	\$	21,078,911,273	18,398,072,215
Chile		2,631,928,517	649,494,263
Uruguay		612,426,388	-
Perú		385,380,910	-
Total	\$	<u>24,708,647,088</u>	<u>19,047,566,478</u>
Non-current assets			
Mexico	\$	14,404,161,015	13,200,150,506
Chile		1,871,405,952	298,943,582
Perú		169,570,148	-
Uruguay		127,849,763	-
Total	\$	<u>16, 572,986,878</u>	<u>13,499,094,088</u>

D. Major customers

Revenues from major customers of Axo's operations in Mexico and Chile are concentrated in Liverpool, Costco, Palacio de Hierro, Amazon, Sears and Falabella, which together represented 15% of Axo's total revenue during 2022 (18% in 2022).

E. Reconciliations of information on reportable segments to the amounts reports in the financial statements

In mexican pesos	Note	2023	2022
i. Revenues			
Total revenue for reportable segments	32 \$	24,708,647,088	19,047,566,478
Inter-segment revenue		1,753,998,826	1,771,782,582
Elimination of inter-segment revenue		(1,753,998,826)	(1,771,782,582)
Consolidated revenue	\$	24,708,647,088	19,047,566,478
ii. Profit before tax			
Total profit (loss) for reportable segments	\$	2,948,814,106	2,500,069,874
Inter-segment profit (loss)		126,798,014	217,099,785
Elimination of inter-segment profit (loss)		(126,798,014)	(217,099,785)
Unallocated amounts:			
Other corporate expenses		(1,139,083,999)	(1,125,573,160)
Other corporate income		37,396,734	15,511,303
Consolidated profit before tax	\$	1, 847,126,841	1,390,008,017
iii. Assets			
Total assets for reportable segments	\$	16, 104,918,697	10,832,394,193
Other unallocated amounts		12,157,399,021	12,589,477,734
Consolidated total assets	\$	28, 262,317,718	23,421,871,927
iv. Liabilities			
Total liabilities for reportable segments	\$	11, 209,279,580	8,638,035,685
Other unallocated amounts		9,426,091,094	7,986,355,878
Consolidated total liabilities	\$	20, 635,370,674	16,624,391,563

The Company, in accordance with the analysis of operating segments, identifies that there are expenses that cannot be allocated to any reportable segment due to the characteristics of the expense, such as: the provision for impairment of the Nike prepayment made in 2021 because the expenses for new business acquisitions remain in the holding company, as well as finance interest, since they derive from the financing obtained by the parent company for new business acquisitions and the current debt corresponds to refinancing due to maturities, among other expenses.

Measurement of fair Value-

Several Axo accounting and disclosures policies require the determination of the fair value of both financial and non-financial assets and liabilities. The fair values have been determined based on the methods mentioned in paragraphs a, b, and c. When applicable, more information on the assumptions made in determining the specific fair values of that asset or liability is disclosed in the notes to the Consolidated Financial Statements.

Accounts receivable-

Axo's accounts receivable are short-term, without interest rate, and are valued at the original invoice amount since the effect of discounting is immaterial. Fair value is determined at initial recognition and is disclosed at the date of the Consolidated Financial Statements.

Non-derivative financial liabilities-

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future cash flows of principal and interest, discounted at the market interest rate on the date of the report.

Derivative financial instruments-

Fair value of derivative financial instruments: foreign exchange forwards and foreign exchange rate options obtained from the financial counterparties with whom it operates and are tested on a reasonable basis by discounting estimated future cash flows based on each contract's terms and maturity date, and the use of market inputs.

On the part of derivative financial instruments: Interest rate options, cap rate spreads, and interest rate swaps, Axo independently estimates the fair value by discounting the estimated future cash flows based on the term and maturity date of each coupon instrument, and the use of market inputs.

Financial risk management-

Axo is exposed to risks - described below - associated with the use of financial instruments, on which it exercises risk management:

- Credit risk
- Liquidity risk
- Market risk

This note presents information on Axo's exposure to each of the risks noted above, as well as its objectives, policies, and processes for measuring and managing risks. Other quantitative disclosures related to financial risk management are included in Notes 27 and 28 of these Consolidated Financial Statements.

Risk management framework-

The Board of Directors monitors the principal risks Axo is exposed to, which are identified based on the information presented by the General Director, and by accounting, internal control, and internal audit systems. With this process in place, the Board of Directors ensures the establishment of mechanisms for identifying, analyzing, managing, controlling, and duly disclosing risks.

The risk management policies are established for identifying and analyzing risks faced, setting appropriate limits and controls, monitoring risks, and respecting the limits. The risk management policies and systems are reviewed periodically for reflecting changes in market conditions and Axo's activities. Through training, administrative standards and procedures, Axo intends to develop a disciplined and constructive control environment where all the employees understand their roles and obligations.

The Finance and Audit Committee oversees how management monitors compliance with Axo's risk management policies and procedures and reviews that this is in line with the risk management framework regarding the risks facing Axo. Axo's Audit Committee is supported by Internal Audit in its oversight role. Internal Audit conducts routine and special reviews of risk management controls and procedures; as a result, it reports the results to the Audit Committee.

Credit risk-

Credit risk represents the potential loss in the portfolio of accounts receivable and other receivables due to payment default from a debtor.

Accounts receivable and other receivables-

Axo's exposure to credit risk is primarily affected by the characteristics of each customer. However, management also considers the factors that may affect the credit risk of its customer base, including the risk of default of the industry and the country in which the customer operates.

The Finance and Audit Committee has implemented an individual credit policy for each customer, setting purchase limits, which represent the maximum open amount that does not require approval from the Risk Management Committee. These limits are reviewed on a quarterly basis. Customers who fail to meet Axo credit references may only engage in cash or advance payment transactions with Axo.

Axo limits its exposure to credit risk related to accounts receivable by establishing a maximum payment period of one and three months for individual and corporate customers, respectively.

The record of the estimate is within the selling expenses of the Consolidated Statement of Comprehensive Income.

Investments-

Axo limits its exposure to credit risk by investing only in highly liquid and minimum risk investments, upon Finance Vice President and Management's prior consent.

Liquidity risk-

Liquidity risk is the probability that Axo may find it difficult to comply with obligations concerning its financial liabilities, settled by delivering cash or other financial assets.

Axo's approach to manage its liquidity consists of ensuring, to the extent possible, that it will have enough liquidity for settling its liabilities as they mature, both in normal and extraordinary conditions, without incurring unacceptable losses or risking Axo's reputation.

For derivative financial transactions, see Note 28 Financial instruments and risk management.

Market risk-

Market risk is the risk that changes in market prices, such as exchange rates and interest rates, may affect Axo's revenue. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

Axo is exposed to the following risks that may have an impact on financial results:

Currency risk-

With respect to other monetary assets and liabilities denominated in foreign currency, Axo ensures that its net exposure is maintained at an acceptable level through the purchase and sale of foreign currencies using cash or the spot conversion rate to cover short-term contingencies.

Interest rate risk-

Interest rate risk refers to the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. The fluctuation in interest rates largely depends on the world economic situation. An improvement in the long-term economic outlook tends to move

long-term rates upward. In contrast, a decline tends to be associated with periods of slow economic growth.

To the date, Axo has hedged currency and interest rate risks through derivative financial instruments, due to current market conditions. (see Note 28).

Financial instruments

Derivatives held for trading

At December 31, 2023 and 2022, Axo held derivative financial instruments specifically for exchange rate options that were not formally designated or that did not qualify as hedges; therefore, changes at fair value were carried to the (cost) financial income in the Consolidated Statement of Comprehensive Income. These effects came from the following derivative financial instruments.

Hedge Accounting-

Exchange rate forward contracts

Axo uses forward contracts on the MXN - USD exchange rate, to hedge the exposure to market risk, which are formally designated as Cash Flow hedges derivatives, and the effective portion of changes in the fair value of derivatives is recognized in Other Comprehensive Income disclosed in Stockholders' Equity and recycling these effects towards the Consolidated Statement of Comprehensive Income when the primary position materializes.

Counterparty	Notional (USD)	Agreed Price Range	Underlying	Expiration	Fair Value	Equity Impact (OCI) 2022
HSBC	1,000,000	19.62	MXN/USD	2024	(2,580,950)	(2,580,950)
HSBC	3,000,000	19.63	MXN/USD	2024	(7,770,238)	(7,770,238)
	1,000,000 -					
SunTrust	2,000,000	19.75 - 19.87	MXN/USD	2024	(7,760,323)	(7,760,323)

Start Date of the Relationship	Expiration Date	Total Purchase Amount in USD	Total Sales Amount in USD	Total Fair Value
2023	2024	1,291,848,998	26,604,616,339	(18,111,511)

Counterparty	Notional (USD)	Agreed		Expiration	Fair Value	Equity Impact (OCI) 2022
		Price Range	Underlying			
BBVA	900,000 - 2,300,000	19.53 - 22.15	MXN/USD	2023	(12,095,607)	(12,095,607)
HSBC	600,000 - 2,000,000	19.74 - 21.87	MXN/USD	2023	(26,072,889)	(26,072,889)
BBVA	1,300,000 - 3,000,000	20.91 - 22.26	MXN/USD	2023	(24,374,866)	(24,374,866)
HSBC	900,000 - 2,100,000	19.52 - 22.41	MXN/USD	2023	(23,158,406)	(23,158,406)
SunTrust	900,000 - 2,000,000	19.86 - 21.52	MXN/USD	2023	(13,660,981)	(13,660,981)

Start Date of the Relationship	Expiration Date	Total Purchase Amount in USD	Total Sales Amount in USD	Total Fair Value
2022	2023	97,900,000	2,060,779,709	(99,362,749)

As of December 31, 2023, and 2022, Axo has \$76,272,779 and 34,409,465 corresponding to paid hedges that are included in inventory, pending to reclassification once the hedged item materializes.

Interest rate derivatives

To cover the interest rate risk and exposure from its financial liabilities with floating interest rates, Axo has a Cap Spread Interest Rate Options that uses to cover interest within an agreed-upon rate range, likewise Axo has formally designated hedging of the interest rate swaps it uses to set the rate.

The relationships of these types of instruments were designated as Cash Flow hedges, the effective portion of changes in the fair value of the derivatives is recognized in Other Comprehensive Income presented in Stockholders' Equity and recycling these effects towards the Consolidated Statement of Comprehensive Income during the life of the primary position hedged that produces a periodic impact on profit or loss.

Counterparty	Notional	Underlying	Expiration Date	Asset Fair Value*	Balance in OCI 2023 ⁽¹⁾
BBVA		USD/MXN y tasa fija			
Bancomer	81,250,000	TIIIE	02/06/2026	(17,660,412)	-
HSBC	55,000,000	USD/MXN	02/06/2026	(12,182,451)	12,182,450
Morgan Stanley	26,250,000	USD/MXN	08/06/2026	(4,637,515)	4,637,515

Counterparty	Notional	Underlying	Expiration Date	Liability Fair Value	Balance in OCI 2023 ⁽¹⁾
BBVA					
Bancomer	81,250,000	USD/MXN	08/06/2026	(179,592,847)	-
Morgan Stanley					
FXCCS	100,000,000	USD/MXN y tasa fija	08/06/2025	(331,285,428)	34,479,005
Merril Lynch / BofA					
FXCCS	62,500,000	USD/MXN y tasa fija	08/06/2025	(206,973,179)	3,279,815
HSBC	55,000,000	MXN tasa fija	08/06/2026	(40,034,423)	27,225,240
Morgan Stanley	26,250,000	MXN tasa fija	02/06/2026	(17,351,508)	14,879,767
BBVA					
Bancomer	1,386,341,302	MXN tasa fija	16/03/2028	11,231,119	(9,651,539)

* Figures are presented net of the liability due to the Call Spread premium.

¹ Negative figures in OCI correspond to losses in Other Comprehensive Income.

Counterparty	Notional	Underlying	Expiration Date	Asset Fair Value*	Balance in OCI 2022 ⁽¹⁾
BBVA	81,250,000	USD/MXN and fixed TIIIE			
Bancomer		rate	02/06/2026	39,441,650	-
HSBC	55,000,000	USD/MXN	02/06/2026	26,195,085	(26,195,085)
Morgan Stanley	26,250,000	USD/MXN	08/06/2026	13,987,657	25,267,304

Counterparty	Notional	Underlying	Expiration Date	Liability Fair Value	Balance in OCI 2022 ⁽¹⁾
BBVA					
Bancomer	81,250,000	USD/MXN	08/06/2026	(169,904,782)	-
Morgan Stanley	100,000,000	USD/MXN and fixed rate			
FXCCS			08/06/2025	(87,318,452)	39,254,961
Merrill Lynch / BofA	62,500,000	USD/MXN and fixed rate	08/06/2025	(54,722,759)	6,494,769
FXCCS					
HSBC	55,000,000	MXN fixed rate	08/06/2026	(22,972,652)	10,923,244
Morgan Stanley	26,250,000	MXN fixed rate	02/06/2026	(8,499,052)	(7,602,431)

* Figures are presented net of the liability due to the Call Spread premium.

¹ Negative figures in OCI correspond to loss in Other Comprehensive Income.

As of December 31, 2023 and 2022, Axo has retrospectively assessed the effectiveness of all hedging relationships, concluding that such relationships are highly effective, and that they are within the established range of 95% - 105%.

The balance as of December 31, 2023, in Stockholders' Equity for current derivatives for the designated hedges, amounted to \$97,533,789 in 2023 and \$71,424,580 in 2022.

Business combination

Business combination - Komax S.A.

On November 30, 2022, Axo and Axo Chile Inversora SpA (subsidiary of Axo) jointly signed the Sale and Purchase Agreement to acquire 100% of shares in Komax S.A. (the "Transaction"), an entity dedicated to the representation of exclusive brands of clothing, footwear and accessories. Komax S.A. is made up of three entities located in three different countries: Komax S.A. in Chile, Komax Perú S.A.C. in Peru and Abolam S.A. in Uruguay.

As a result of the Transaction, Axo determined to be the acquirer, in accordance with the guidance established in the International Financial Reporting Standard 3 ("IFRS 3") and obtained control over the acquired business on March 22, 2023 ("acquisition date"), being accounted for under the acquisition method. For recognition purposes, the amounts corresponding to the assets acquired and the liabilities assumed have been taken, based on a purchase price allocation analysis ("PPA") prepared with the support of an external advisor.

If the acquisition had occurred on 1 January 2023, management estimates that consolidated revenue would have been \$28,119,798,308 and consolidated profit for the year would have been \$1,428,037,422. In determining these amounts, management has assumed that the fair value

adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2023.

a) Consideration transferred

The table below summarizes the total consideration at the acquisition date:

	<u>Total</u>
Base consideration (paid in cash on the transaction closing date) ⁽¹⁾	2,427,598,104
Adjustment to the base consideration (paid on August 24, 2023)	24,008,916
Total consideration	<u>2,451,607,020</u>

(1) The base consideration has been paid for 130,000,000 USD at the exchange rate of the transaction date and an adjustment made for 1,226,832 USD was paid on August 24, 2023 and converted at the exchange rate of such date. The amounts stated before were first converted to Chilean pesos and later to Mexican pesos.

b) Identifiable acquired assets and assumed liabilities.

As of the acquisition date, all the fair values of the identified acquired assets and assumed liabilities have been recognized as stated below:

<u>Acquired Assets</u>	<u>Fair value</u>
Cash and cash equivalents	418,033,187
Accounts receivable, net	124,894,247
Other accounts receivable	203,258,518
Inventories, net	1,151,513,776
Prepayments	78,518,189
Leasehold improvements, furniture and equipment	298,383,430
Right of use asset	590,247,950
Intangible assets	433,731,206
Deferred taxes	145,600,138
Guarantee deposits	<u>11,335,563</u>
Total acquired assets	<u>3,455,516,204</u>

Assumed Liabilities

Bank payables, short term	577,243,330
Suppliers and accumulated liabilities	374,787,649
Provisions	12,710,410
Income tax liabilities	90,540,764
Employee profit sharing	387,427
Contract liabilities	32,947,864
Lease liabilities short term	176,280,750
Lease liabilities long term	413,967,200
Deferred taxes	236,397,633
Bank payables, long term	426,271,536

Total assumed liabilities	<u>2,341,534,563</u>
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Consideration transferred	<u>2,451,607,020</u>
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Goodwill	<u>1,337,625,379</u>
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Goodwill results from the exceed between the consideration transferred and the fair value of the net acquired assets. At the date of the acquisition, goodwill has been recognized as an asset.

Acquisition-related costs

Acquisition-related legal, audit, advisory, and consulting costs for \$13,770,943 were recognized as expenses in the results of the period. Likewise, Komax S.A. paid its own costs incurred to sell its business and no refunds were given to be considered as part of the consideration transferred.

Acquisition of assets of ON Stores México

On August 1, 2022, LT Fashion, SA de CV ("LT Fashion" or the "Buyer"), a subsidiary of the Company, acquired certain assets of ON Stores in México, in accordance with the provisions in the Asset Purchase and Assignment Agreement signed together with ON Stores México, S. de RL de CV ("ON Stores México" or the "Seller"), a subsidiary of The Gap Inc., to the conditions defined in it must be met and considering the approval by the Federal Economic Competition Commission ("*Comisión Federal de Competencia Económica*" or "COFECE"). Based on the analysis carried out under IFRS 3, the transaction qualified as a business combination.

Simultaneously with the business combination, a Franchise Agreement was entered into between GPS Strategic Alliances, LLC (the "Franchisor"), Old Navy (ITM) Inc. (the "Licensor"), and Buyer (the "Franchisee"), in order to grant the Company a license with the rights to operate, manage and

distribute the Old Navy® brand in Mexico, as well as a Temporary Services Agreement between the Seller and the Buyer.

a) Consideration transferred

The following table summarizes the total consideration as of the acquisition date:

	Total
Base consideration (paid in cash on the closing date of the transaction) ⁽¹⁾	<u>115,939,698</u>

⁽¹⁾ Base consideration was paid for 6,593,917 USD at the exchange rate of the date of the transaction.

b) Identifiable assets acquired and liabilities assumed

At the acquisition date, all the fair values of identified assets acquired, and liabilities assumed have been recognized and are presented below:

Acquired Assets	Fair Value
Cash and cash equivalents	\$ 1,227,000
Inventories	117,555,391
Guarantee deposits	733,849
Leasehold improvements, furniture, and equipment	261,012,757
Right-of-use assets	302,059,932
Total acquired assets	<u>682,588,929</u>
Assumed Liabilities	
Contractual liabilities	3,576,562
Lease liability - short and long term	302,059,932
Employee benefit obligation	728,931
Deferred tax asset	76,929,547
Total assumed liabilities	<u>383,294,972</u>
Net identifiable acquired assets	<u>299,293,957</u>
Consideration transferred	<u>115,939,698</u>
Gain from bargain purchase	<u>\$ (183,354,259)</u>

The gain from bargain purchase of the business combination results from the excess of the fair value of the net assets acquired over the consideration transferred. At the acquisition date, the gain from the bargain purchase has been recognized in comprehensive income for the period.

Acquisition-related costs

Acquisition-related legal, audit, advisory, and consulting costs for \$7,232,687 were recognized as expenses in the results of the period. Likewise, ON Stores México paid its own costs incurred to sell its business and no refunds were given to be considered as part of the consideration transferred.

Cash and cash equivalents

	<u>2023</u>	<u>2022</u>
Petty cash	\$ 12,782,680	9,644,746
Cash at banks national currency	4,113,447,480	2,989,810,892
Cash at banks foreign currency	16,939,911	108,614,419
Temporary investments (*)	210,746,098	1,719,616,799
	<u>\$ 4,353,916,169</u>	<u>4,827,686,856</u>

(*) Mainly includes short-term investments in debt instruments with a maturity of less than 3 months since its acquisition and it is classified and recognized as assets at fair value through profit and loss.

Accounts receivable

Accounts receivable at December 31, 2023 and 2022, are as shown below:

	<u>2023</u>	<u>2022</u>
Wholesalers	\$ 1,202,793,311	906,782,764
Financial services and others	170,753,141	150,566,396
	<u>1,373,546,452</u>	<u>1,057,349,160</u>
Less allowance for expected discounts and returns	161,882,948	162,452,934
Less allowance for doubtful accounts	5,400,529	4,580,619
	<u>\$ 1,206,262,975</u>	<u>890,315,607</u>

Note 28 discloses Axo's exposure to credit and foreign exchange risks related to accounts receivable.

Related-party transactions and balances-

Key personnel compensation-

The key members of management received the following compensation during the years ended December 31, 2023 and 2022, which are included within staff costs (see note 26), and are mentioned below:

	<u>2023</u>	<u>2022</u>
Short-term benefits	\$ 393,243,581	197,856,954
Long-term benefits	2,017,485	933,258
Share-based payments (see note 32)	111,173,067	111,947,844
	<u>\$ 506,434,133</u>	<u>310,738,056</u>

Key management personnel transactions

A number of these entities performed transactions with Axo during the year, which were made under market conditions.

Other related-party transactions

Transactions carried out with related parties during the years ended December 31, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
<i>Income from services rendered</i>		
Associates	\$ 148,085,964	116,734,830
<i>Income from leases</i>		
Associates	748,559	296,981
<i>Income from advertising services</i>		
Associates	3,876,876	463,122

	<u>2023</u>	<u>2022</u>
<i>Other income</i>		
Associates	750,105	-
<i>Logistic income</i>		
Associates	13,009,342	14,156,373
<i>Purchase of finished goods</i>		
Associates	143,686,655	152,297,620
Other related parties	312,840,664	239,725,650
<i>Expenses from technical assistance</i>		
Other related parties	316,530,254	280,151,216
<i>Expenses from administrative services</i>		
Other related parties	38,599,032	42,714,199
<i>Commissions on purchases</i>		
Other related parties	174,261,108	271,637,693
<i>Other expenses</i>		
Other related parties	31,196,181	18,309,570
<i>Sale of finished goods</i>		
Associates	245,423	1,028,428
<i>Income from Interest</i>		
Associates	1,429,848	215,128
<i>Loans granted</i>		
Associates	15,194,651	16,530,417

Balances with related parties

Balances receivable from and payable to related parties as of December 31, 2023 and 2022, are as follows next page.

	<u>2023</u>	<u>2022</u>
<u>Receivables:</u>		
Grupo Guess, S. de R. L. de C. V.	\$ 1,879,109	658,035
Calvin Klein Europe BV	138,621	15,559
Vopero Inc 1	-	17,198,538
Pvh Far East, Ltd.	-	4,037,079
Tommy Hilfiger Europe BV	-	258,720
	<u>\$ 2,017,730</u>	<u>22,167,931</u>
Accounts receivable (short-term)	2,017,730	5,818,220
Accounts receivable (long-term)	-	16,349,711
<u>Payables:</u>		
Grupo Guess, S. de R. L. de C. V.	\$ 78,034,156	43,150,771
Grupo Axo, S. C.	44,774,877	41,958,771
Pvh Far East, Ltd.	13,386,560	-
Tommy Hilfiger Europe BV	3,558,044	-
Raspsodia Uruguay S.A.	1,298,643	11,578,476
Las Blondas, S. A.	76,021	5,191,448
Tommy Hilfiger Hk Limited	-	86,184
Tommy Hilfiger Licensing Llc	-	33,097
	<u>\$ 141,128,301</u>	<u>101,998,747</u>

Accounts receivable and payable as of December 31, 2023 and 2022, correspond to purchases of goods, without interest and with a specific maturity.

¹ The account receivable with Vopero Inc. as of December 31, 2022, which includes interest.

Other receivables-

Other receivables at December 31, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Recoverable income taxes	\$ 535,555,035	219,587,810
Recoverable value added tax	132,260,182	47,841,396
Sundry debtors	36,117,893	33,595,411
Other accounts receivables (Amex and other payment methods)	114,056,556	7,603,130
	<u>\$ 817,989,666</u>	<u>308,627,747</u>

Inventories-

Inventories at December 31, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Merchandise for sale	\$ 4,562,050,660	3,206,257,383
Merchandise granted on consignment	70,325,499	42,354,976
Goods in-transit*	522,035,244	502,928,794
	<hr/>	<hr/>
	5,154,411,403	3,751,541,153
Less allowance for slow movement of inventory	114,216,274	110,524,751
	<hr/>	<hr/>
	\$ 5,040,195,129	3,641,016,402
	<hr/> <hr/>	<hr/> <hr/>

* It refers to final sale merchandise that was acquired but has yet to be received. The Company's policy is to acquire merchandise free-on-board (FOB) from suppliers. As a result, the inventory risk lies with the Company from the moment the merchandise leaves the supplier's premises.

Finished goods recognized as cost of sales, without including losses and allowances amounted to \$12,004,553,112 and 9,642,959,055 during 2023 and 2022, respectively.

Write-off and reversals of cost of sales for sales returns and reservations of obsolete merchandise are included in cost of sales.

Prepaid expenses-

Prepaid expenses at December 31, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Inventories ¹	\$ 180,800,209	197,061,660
Services	88,148,962	52,251,347
	<hr/>	<hr/>
	\$ 268,949,171	249,313,007
	<hr/> <hr/>	<hr/> <hr/>

1. Include advances to our suppliers relating to the acquisition of inventory that have not been shipped by the suppliers.
2. Include transportation, business and life insurance payments.

Leasehold improvements, furniture, and equipment-

Cost	January 1, 2023	Acquisitions	Business combination	Disposals ⁽¹⁾	December 31, 2023
Leasehold improvements	\$ 2,925,521,280	470,140,350	622,855,384	(180,719,640)	3,837,797,374
Furniture and equipment	1,694,214,181	276,030,074	261,064,368	(46,857,745)	2,184,450,878
Transportation equipment	5,271,675	70,471	2,099,190	(2,415,609)	5,025,727
Computer equipment	169,920,553	26,578,160	33,293,428	(10,990,279)	218,801,862
Fixed assets in process	124,481,239	146,248,223	13,161,608	(7,531,758)	276,359,312
	<u>4,919,408,928</u>	<u>919,067,278</u>	<u>932,473,978</u>	<u>(248,515,031)</u>	<u>6,522,435,153</u>
Accumulated depreciation					
Leasehold improvements	(1,855,191,519)	(431,960,567)	(402,504,808)	174,828,780	(2,514,828,114)
Furniture and equipment	(1,004,185,481)	(171,497,436)	(211,356,327)	42,541,908	(1,344,497,336)
Transportation equipment	(4,105,740)	(429,811)	(1,661,397)	1,932,241	(4,264,707)
Computer equipment	(134,480,595)	(23,583,692)	(18,568,016)	9,168,969	(167,463,334)
	<u>(2,997,963,335)</u>	<u>(627,471,506)</u>	<u>(634,090,548)</u>	<u>228,471,898</u>	<u>(4,031,053,491)</u>
Net carrying amount	\$ 1,921,445,593	291,595,772	298,383,430	(20,043,133)	2,491,381,662

Cost	January 1, 2022	Acquisitions ⁽²⁾	Business combination	Disposals ⁽¹⁾	December 31, 2022
Leasehold improvements	\$ 2,442,988,496	281,325,998	261,012,737	(59,805,951)	2,925,521,280
Furniture and equipment	1,482,890,488	221,994,415	20	(10,670,742)	1,694,214,181
Transportation equipment	7,650,388	-	-	(2,378,713)	5,271,675
Computer equipment	153,322,348	19,383,192	-	(2,784,987)	169,920,553
Fixed assets in process	48,660,409	86,603,850	-	(10,783,020)	124,481,239
	<u>4,135,512,129</u>	<u>609,307,455</u>	<u>261,012,757</u>	<u>(86,423,413)</u>	<u>4,919,408,928</u>
Accumulated depreciation					
Leasehold improvements	(1,599,866,027)	(314,915,442)	-	59,589,950	(1,855,191,519)
Furniture and equipment	(879,010,672)	(135,844,506)	-	10,669,697	(1,004,185,481)
Transportation equipment	(5,716,321)	(717,957)	-	2,328,538	(4,105,740)
Computer equipment	(115,377,112)	(21,802,310)	-	2,698,827	(134,480,595)
	<u>(2,599,970,132)</u>	<u>(473,280,215)</u>	<u>-</u>	<u>75,287,012</u>	<u>(2,997,963,335)</u>
Net carrying amount	\$ 1,535,541,997	136,027,240	261,012,757	(11,136,401)	1,921,445,593

(1) For the year 2023 includes the write-off of fixed assets derived from the closing of stores due to Hurricane Otis in the amount of \$4,969,510. The write-off in 2022 corresponds to store closings due to store profitability analysis and store closings due to termination of license agreements (CTBL 2022).

(2) Includes depreciation of assets acquired from August to December 2022.

For the years ended December 31, 2023, and 2022, the depreciation expense recognized as part of administrative expenses was \$627,471,506 and \$473,280,215 respectively.

Lease assets (rights of use) and lease liability-

Axo leases properties (commercial premises, distribution centers, and corporate and administrative offices, primarily). Leases are generally signed for a five-year term, with an option to renew the lease after that date. Lease payments are renegotiated at different periods or in agreement with the lessor to reflect the market rental conditions. Some leases provide for additional rental payments based on changes in local price indexes. For certain leases, Axo has restrictions to enter into sublease agreements.

ROU assets-

ROU assets related to leased properties that do not meet the definition of investment property are included under the heading "Right of use," as is shown next page.

	<u>January 1, 2023</u>	<u>Acquisitions</u>	<u>Incentives received</u>	<u>Business Combination</u>	<u>Disposals</u>	<u>December 31, 2023</u>
Cost						
Rights of use for leasehold improvements	\$ 5,098,564,404	1,413,138,423	(14,884,140)	681,096,036	(64,090,315)	7,113,824,408
Rights of use for furniture and equipment	72,893,411	-	-	-	-	72,893,411
Rights of use for cars	64,950,235	18,101,037	-	-	(345,355)	82,705,917
Key money paid to a lessor	682,328,386	80,267,340	(17,623,122)	28,897,808	-	773,870,412
	5,918,736,436	1,511,506,800	(32,507,262)	709,993,844	(64,435,670)	8,043,294,148
Accumulated depreciation						
Rights of use for leasehold improvements	(2,783,277,563)	(1,180,894,803)	-	(93,305,568)	(1,090,472)	(4,058,568,406)
Rights of use for furniture and equipment	(70,494,267)	(1,925,067)	-	-	-	(72,419,334)
Rights of use for cars	(37,871,491)	(7,305,086)	-	-	-	(45,176,577)
Key money paid to a lessor	(493,319,615)	(71,179,470)	-	(26,440,326)	(272,145)	(591,211,556)
	(3,384,962,936)	(1,261,304,426)	-	(119,745,894)	(1,362,617)	(4,767,375,873)
Net carrying value	\$ 2,533,773,500	250,202,374	(32,507,262)	590,247,950	(65,798,287)	3,275,918,275

	<u>January 1,</u> <u>2022</u>	<u>Acquisitions</u>	<u>Business</u> <u>Combinatio</u> <u>n</u>	<u>Disposals</u>	<u>December 31,</u> <u>2022</u>
Cost					
Rights of use for leasehold improvements	\$ 3,744,247,412	1,116,587,974	302,059,932	(64,330,914)	5,098,564,404
Rights of use for furniture and equipment	74,517,562	-	-	(1,624,151)	72,893,411
Rights of use for cars	41,917,236	23,032,999	-	-	64,950,235
Key money paid to a lessor	668,361,757	72,735,334	-	(58,768,705)	682,328,386
	4,529,043,967	1,212,356,307	302,059,932	(124,723,770)	5,918,736,436
Accumulated depreciation					
Rights of use for leasehold improvements	(2,016,472,290)	(831,136,187)	-	64,330,914	(2,783,277,563)
Rights of use for furniture and equipment	(53,698,944)	(16,795,323)	-	-	(70,494,267)
Rights of use for cars	(26,386,235)	(11,485,256)	-	-	(37,871,491)
Key money paid to a lessor	(473,872,432)	(78,215,888)	-	58,768,705	(493,319,615)
	(2,570,429,901)	(937,632,654)	-	123,099,619	(3,384,962,936)
Net carrying value	\$ 1,958,614,066	274,723,653	302,059,932	(1,624,151)	2,533,773,500

Amounts recognized in the Consolidated Statement of Comprehensive Income:

	<u>2023</u>	<u>2022</u>
Interest on lease liabilities	\$ 298,980,921	200,151,796
Depreciation of right of use	1,190,124,956	859,416,766
Amortization of key money paid to a lessor	71,179,470	78,215,888
Variable rents	188,774,543	145,857,094
Low-value or short-term leases*	89,646,107	58,702,864
	<u>\$ 1,838,705,997</u>	<u>1,342,344,408</u>

* Axo has classified short-term lease payments and low-value asset lease payments within operating activities in accordance with the IFRS 16 "Leases".

Lease liabilities-

Total cash outflows for leasing during 2023 and 2022 were 1,520,248,827 and \$1,082,597,586, respectively.

The terms and conditions of the leases as of December 31, 2023, and December 31, 2022, are as follows:

2023	Currency	Nominal interest rate	Expiration date		Nominal value	Present value
Less than one year	Pesos	9.57%	2024	\$	1,244,422,571	1,175,133,181
One to five years	Pesos	10.11%	2025 - 2030		2,201,665,683	2,068,886,587
More than five years	Pesos	10.68%	2031		114,426,305	76,235,616
				\$	3,560,514,559	3,320,255,384

2022	Currency	Nominal interest rate	Expiration date		Nominal value	Present value
Less than one year	Pesos	9.57%	2023	\$	1,094,602,983	936,765,355
One to five years	Pesos	10.11%	2024 - 2029		1,864,990,252	1,535,861,448
More than five years	Pesos	10.68%	2030		127,692,803	111,844,747
				\$	3,087,286,038	2,584,471,550

Lease liabilities and right of use assets acquired in the business combinations with Komax and Old Navy (note 10) have been recognized at each acquisition date, amounted to \$590,247,950 and \$302,059,932, respectively.

Equity-accounted investees-

As of December 31, 2023 and 2022, Axo owns 49% of the equity interest in its associate Grupo Guess, S. de R. L. de C. V., whose main activity is the import and sale of clothing and accessories of the Guess? brand through a license for the distribution in Mexico. Guess? Europe B.V. holds the remaining 51% of share in Grupo Guess, S. de R. L. de C. V.

As of December 31, 2023 and 2022, Axo owns 29.77% and 20%, respectively, of Vopero Inc., its associate. Vopero Inc., which is an online platform that offers a convenient and sustainable experience when buying and selling second-hand clothes.

The following table shows Axo's interest in Grupo Guess, S. de R. L. de C.V. and Vopero Inc:

	<u>Ownership</u>		<u>Main Activity</u>
	<u>2023</u>	<u>2022</u>	
Grupo Guess, S. de R. L. de C. V.	49%	49%	Sells apparel and accessories of the Guess? Brand
Vopero Inc	29.77%	20%	Online clothing resale store

On October 25, 2022, Axo and Vopero, Inc. signed the Note Purchase Agreement, as amended on March 3, 2023 through the Omnibus Amendment to the Note Purchase Agreement ("NPA") whereby it is agreed to grant a loan to Vopero, through the issuance (by Vopero) of convertible notes in favor of Axo. The financing to be granted by Axo through the NPA is divided into three tranches for amounts of US\$833,333, \$416,666.66 and \$416,666.66, documented through convertible notes dated October 31, 2022, March 16, 2023 and May 12, 2023, respectively, which were capitalized in September 2023.

At the date of issuance of these consolidated financial statements, the convertible notes have been paid and therefore there is no longer an account receivable, and the amount is recorded in investments accounted for under the equity method.

As of December 31, 2023 and 2022, investments accounted for under the equity method are made up as follows next page.

	2023	2022
Stockholders' equity		
Grupo Guess, S. de R. L. de C. V.	\$ 1,414,250,174 49%	1,040,044,147 49%
Guess Interest	692,982,585	509,621,632
Vopero Inc	\$ (7,527,862) 29.77%	416,654 20%
Vopero Interest	(2,241,045)	83,331
Capitalization of convertible notes	29,851,099	-
Surplus (1)	34,752,813	49,694,008
Vopero Interest	62,362,867	49,777,339
Ownership interest in stockholders' Equity	\$ 755,345,452	559,398,971

(1) The surplus between the value of the investment and the capital stock of the subsidiary corresponds to subscription of shares premiums or excess of the purchase price of the value of the shares in the acquisition of businesses.

As of December 31, 2023 and 2022, the share in the comprehensive income of the investments accounted for under the equity method is integrated as shown in the following table:

	2023	2022
Net income		
Grupo Guess, S. de R. L. de C. V.	\$ 374,344,425 49%	307,349,122 49%
Vopero Inc	\$ (59,872,441) 29.77%	(98,553,399) 20%
Ownership interest in equity comprehensive income for the year	\$ 166,065,760	130,890,390

A summary of certain financial information of the statement of financial position and statement of income of the associated companies at December 31, 2023 and 2022 and for the years ended on those dates is presented in next page.

	<u>2023</u>	<u>2022</u>
Grupo Guess, S. de R. L. de C. V.		
Current assets	\$ 1,438,608,149	1,108,011,502
Leasehold improvements, furniture and equipment, net	311,591,716	152,416,819
Other assets	247,274,504	215,077,236
	<hr/>	
Total assets	1,997,474,369	1,475,505,557
	<hr/>	
Current liabilities	482,766,802	348,794,286
Long term liabilities	100,457,393	86,667,124
	<hr/>	
Total liabilities	583,224,195	435,461,410
	<hr/>	
Stockholders' equity	\$ 1,414,250,174	1,040,044,147

	<u>2023</u>	<u>2022</u>
Vopero Inc		
Current assets	\$ 24,192,281	23,801,826
Leasehold improvements, right of use, furniture and equipment, net	7,635,000	8,782,402
Other assets	6,724,999	8,576,975
	<hr/>	
Total assets	38,552,280	41,161,203
	<hr/>	
Current liabilities	41,945,733	34,574,637
Non-current liabilities	4,134,409	6,169,912
	<hr/>	
Total liabilities	46,080,142	40,744,549
	<hr/>	
Stockholders' equity	\$ (7,527,862)	416,654

	<u>2023</u>	<u>2022</u>
Grupo Guess, S. de R. L. de C. V.		
Net sales	\$ 2,015,694,210	1,840,129,120
Operating income	469,259,813	400,790,180
Net income	374,344,425	307,349,122
	<hr/>	
Vopero Inc		
Net sales	\$ 27,956,394	26,699,180
Operating expense	(41,502,734)	(95,416,468)
Net loss	(59,872,441)	(98,553,399)
	<hr/>	

On February 28, 2022, Grupo Guess S. de RL de CV declared dividends for an amount of \$200,000,000 from retained earnings. The Company received \$98,000,000 corresponding to its equity interest.

Goodwill-

At December 31, 2023 and 2022, goodwill is integrated as follows:

		2023	2022
Privalia Venta Directa, S. A. de C. V. ("Privalia") (A)	\$	1,911,294,930	1,911,294,930
Komax S.A. ⁽¹⁾		1,337,625,379	-
Multibrand Outlet Stores, S. A. P. I. de C. V. ("Promoda") (B)		1,261,017,598	1,261,017,598
Tennix, S. A. de C. V. ("TAF")		367,405,850	367,405,850
Baseco, S. A. P. I. de C. V. ("Baseco")		162,473,965	162,473,965
Moda Rapsodia, S. A. de C. V. ("Rapsodia")		15,918,975	15,918,975
Imperio Italiano, S. A. de C. V. (C) ⁽²⁾		-	2,446,273
Intercambio Italiano, S. A. de C. V. (D) ⁽²⁾		-	2,279,492
		<hr/>	<hr/>
		5,055,736,697	3,722,837,083
Less accumulated impairment (B), (C) and (D)		14,257,759	18,983,524
Less accumulated impairment (A)		218,683,832	-
		<hr/>	<hr/>
	\$	4,822,795,106	3,703,853,559

(1) The increase in goodwill corresponds to the acquisition of Komax S.A. and Subsidiaries (see note 10).

(2) During 2023 the Company decided to write-off both goodwill and its related impairment of Imperio Italiano, S.A. de C.V. and Intercambio Italiano, S.A de C.V., which had no effects on profit and loss during fiscal year 2023, since said impairments were recorded in prior periods.

Impairment test for cash-generating units that include goodwill-

In 2023 and 2022, impairment tests were performed considering the discounted cash flow methodology, using financial projections based on Axo expectations, calculating a terminal value at the end of the period based on the perpetuity of the flow of the last projection period.

The value in use of the goodwill was determined using the income approach, through which the present value of the future benefits of each CGU (Cash Generating Unit) was calculated.

Axo applied the Discounted Cash Flow ("DCF") method uses financial projections based on Management's expectations. Additionally, a terminal value was calculated at the end of the Projected Period ("Terminal Value"), estimated based on the perpetuity of the normalized flow of the last projection year, and considering a constant growth of the discount rate applicable to each CGU. The sum of the present values of the free flows of the Projected Period and the Terminal Value represents as a whole the Value in Use of the CGU.

2023	TAF	%	Privalia	Promoda	Baseco	Rapsodia	Komax
			%	%	%	%	%
Discount rate after tax		15	15.8	16.4	15.4	14.1	14.4
2022			TAF %	Privalia %	Promoda %	Baseco %	Rapsodia %
Discount rate after tax			16.0	17.2	18.0	16.2	14.6

For the CGUs "TAF, Promoda, Baseco, Rapsodia, Komax" if the discount rates in the years ended December 31, 2023 and 2022, were 1 base point higher/lower, there would be no impairment

Derived from the impairment study conducted for Privalia, the Group determined that the carrying amount of the CGU was higher than its recoverable amount, resulting in the recognition of an impairment loss of \$218,683,832 as of the end of 2023. This was mainly driven by the fact that the e-commerce industry growth, to which Privalia belongs, does not align with the Group's estimated projections. The impairment loss was fully allocated to goodwill and included in the "administrative expenses" category within the Statement of Comprehensive Income.

Following the impairment loss recognized in Privalia's CGU, the recoverable amount is equal to the carrying amount, therefore, any adverse variation in the key assumptions used could derived in the recognition of additional impairment.

Intangible assets-

Intangible assets as of December 31, 2023 and 2022 are included as follows next page.

Intangible assets with indefinite useful life:

<u>Cost</u>	<u>Brands</u>	<u>Exclusivity contracts</u>	<u>Franchises</u>	<u>Key money paid to third parties</u>	<u>Other intangibles</u>	<u>Total</u>
Balances as of January 1, 2023	\$ 413,900,000	184,000,000	945,202,000	418,240,644	48,277,359	2,009,620,003
Acquisitions	-	-	-	-	686,572	686,572
Disposals	(15,325,154)	-	-	(14,216,966)	-	(29,542,120)
Business combinations	219,128,685	-	-	-	248,903	219,377,588
Balances as of December 31, 2023	\$ 617,703,531	184,000,000	945,202,000	404,023,678	49,212,834	2,200,142,043

<u>Cost</u>	<u>Brands</u>	<u>Exclusivity contracts</u>	<u>Franchises</u>	<u>Key money paid to third parties</u>	<u>Other intangibles</u>	<u>Total</u>
Balances as of January 1, 2022	\$ 413,900,000	184,000,000	945,202,000	443,357,401	48,277,359	2,034,736,760
Disposals	-	-	-	(25,116,757)	-	(25,116,757)
Balances as of December 31, 2022	\$ 413,900,000	184,000,000	945,202,000	418,240,644	48,277,359	2,009,620,003

During 2023 and 2022, impairment tests were carried out on intangible assets with indefinite useful lives and the Company has recognized impairment losses for \$50,000 and 755,085, respectively, which are included within the disposals line.

Intangible assets with finite life:

<u>Cost</u>	<u>2023</u>		<u>Franchises</u>	<u>2022</u>	
	<u>Customer relationships</u>	<u>Software licenses</u>		<u>Customer relationships</u>	<u>Software licenses</u>
Beginning balance	\$ 449,159,468	966,112,675		449,159,468	926,105,888
Acquisitions	-	209,157,845		-	127,887,942
Business combinations	-	125,120,888	156,991,112		
Disposals	-	(7,776,048)		-	-
	449,159,468	1,292,615,360	156,991,112	449,159,468	1,053,993,830

	2023			2022	
	<u>Customer relationships</u>	<u>Software licenses</u>	<u>Franchises</u>	<u>Customer relationships</u>	<u>Software licenses</u>
<i>Amortization</i>					
Beginning balance	(130,814,900)	(602,527,789)	-	(86,663,692)	(548,156,376)
Additions	(43,604,967)	(176,727,841)	(2,272,618)	(44,151,208)	(142,252,572)
Business combinations	-	(67,758,382)	-	-	-
Disposals	-	1,445,088	(1,652,160)	-	-
Total amortization	(174,419,867)	(845,568,924)	(3,924,778)	(130,814,900)	(690,408,948)
	\$ 274,739,601	447,046,436	153,066,334	318,344,568	363,584,882

Senior Notes due 2026-

In connection with the Senior Notes issued on June 8, 2021, disclosed in note 2 (e), there are certain covenants that, reaching the limit established within the "Indenture", among other things, will limit the Company's and its subsidiaries' ability of what is shown below:

- incur additional indebtedness;
- pay dividends on the capital stock or redeem, repurchase or retire the capital stock or subordinated indebtedness;
- make investments;
- create liens;
- create any consensual limitation on the ability of the restricted subsidiaries to pay dividends, make loans or transfer property; engage in transactions with affiliates;
- sell assets, including capital stock of the subsidiaries; and
- consolidate, merge or transfer assets.

If the notes obtain investment grade ratings from at least two of Standard and Poor's Ratings Group, Fitch Ratings Inc. and Moody's Investors Services, Inc. and no default has occurred and is continuing, the foregoing covenants will cease to be in effect with the exception of covenants that contain limitations on liens and on, among other things, certain consolidations, mergers and transfer of assets for so long as each of the foregoing rating agencies maintains its investment grade rating. At December 31, 2023 and 2022 Axo is in compliance with covenants related the Senior Notes.

Notes payable to banks-

The notes payable to banks, which are measured at amortized cost, are contracted with various financial institutions. As of December 31, 2023 are as shown next page.

	2023
Interest-bearing credit line at a TIE rate plus 1.95 percentage points maturity on March 21, 2023 through March 16, 2028. Payable in quarterly amortizations from June 28, 2024 to March 16, 2028. Credit received in Mexican pesos. (1)	\$ 1,374,851,472
Interest-bearing credit line at a fixed rate of 8.30% maturity on March 21, 2023 through March 16, 2028. Payable in quarterly amortizations from June 28, 2024 to March 16, 2028. Credit of 9,900,000 Chilean pesos.	189,606,571
Interest-bearing credit line at a fixed rate of 6.70% maturity on March 25, 2026. Payable in monthly repayments. Credit as of December 31, 2023 for 14,025,921,501 Chilean pesos.	267,574,926
Interest-bearing line of credit at a fixed rate of 1.10% maturity on May 11, 2024. Payable in monthly repayments. Credit as of December 31 of 1,706,756 soles.	7,801,838
Interest-bearing credit line at a fixed rate of 1.15% maturity on June 22, 2024. Payable in monthly repayments. Credit as of December 31, 2023 of 515,007 soles.	2,340,458
Letters of credit that accrue interest at an average rate of 8.31%. They consist of 32 letters of credit of which 25 are negotiated for a value of 12,991,713 dollars and 7 are negotiated for a value of 4,785,317,871 Chilean pesos. Maturity on January to June 2024.	310,662,197
Interest-bearing line of credit at a rate of 2.95% maturity on January 3, 2027. Payable in semi-annual amortization. Credit in indexed units 38,209,064 representing 224,428,582 Uruguayan pesos.	97,586,036
Interest-bearing credit facility at a rate of 3.25% maturity on July 04, 2026. Payable in semi-annual amortization. Credit in indexed units 24,257,724 representing 142,494,338 Uruguayan pesos.	61,959,388
Total notes payable to bank	\$ 2,312,382,886
Excluding current maturities	655,709,134
Long-term debt, excluding current maturities	1,656,673,752
Long-term debt, excluding current installments	2,312,382,886

Interest expense on loans for the years ended December 31, 2023 was \$243,992,878.

(1) During the term of the credit, they establish certain financial ratios such as:

- Leverage ratio equal to or less than 3.50x. (debt with financial cost between consolidated UAFIDAR*)
- Interest coverage ratio equal to or greater than 3.25x.
- Stockholders' equity of not less than \$5,881,320,731 (five thousand eight hundred and eighty-one million three hundred and twenty thousand seven hundred and thirty-one pesos 00/100 M.N.)

As of December 31, 2023, Axo has complied with the requirements regarding the existence of such credit.

*EBITDA = Total Sales/Revenue minus Cost of Sales, Less Operating Expenses plus Depreciation and Amortization including IFRS16 depreciation.

Reconciliation between changes in liabilities and cash flows arising from financing activities

	Debt securities (Note 28)	Bank payables (Note 23)	Stockholders equity (Note 30)	Senior Notes (Note 22)	Lease liabilities (Note 18)
Balances at January 1, 2023	\$ 1,640,107,990	-	3,970,554,947	6,213,050,964	2,584,471,550
<i>Changes in cash flow from financing</i>					
Interest expense	170,661,669	237,148,795	-	342,094,768	298,980,921
Amortized cost of debt securities	3,362,868	4,632,493	-	23,249,718	-
Increment due to business acquisition with no cash flow	-	-	-	-	-
Other items that did not generate cash flow	(75,133,333)	(53,097,046)	213,269,502	(817,749,695)	1,399,311,052
<i>Total changes due to cash flow from financing</i>	98,891,204	188,684,242	213,269,502	(452,405,209)	1,698,291,973
New loans	-	2,321,115,686	-	-	590,247,950
Debt due to business combination	-	1,003,514,866	-	-	590,247,950
Incentives received	-	-	-	-	(32,507,262)
Payments of debt securities	-	(1,028,873,802)	-	-	-
Lease payments	-	-	-	-	(1,221,267,906)
Interest payments	(95,528,336)	(172,058,106)	-	(326,445,073)	(298,980,921)
<i>Total other changes related to liabilities</i>	(95,528,336)	2,123,698,644	-	(326,445,073)	(962,508,139)
<i>Balance as of December 31, 2023</i>	\$ 1,643,470,858	2,312,382,886	4,183,824,449	5,434,200,682	3,320,255,384

	Debt securities	Stockholders equity	Senior Notes	Lease liabilities
	(Note 28)	(Note 30)	(Note 22)	(Note 18)
Balances at January 1, 2022	\$ 1,767,726,509	3,956,391,990	6,586,951,247	2,026,860,588
<i>Changes in cash flow from financing</i>				
Interest expense	176,677,345	-	374,792,820	200,151,797
Amortized cost of debt securities	3,362,868	-	23,249,717	-
Increment due to business acquisition with no cash flow	-	-	-	302,059,932
Other items that did not generate cash flow	1,379,488	14,162,957	(398,282,692)	1,137,996,819
<i>Total changes due to cash flow from financing</i>	181,419,701	14,162,957	(240,155)	1,640,208,548
Payments of debt securities	(130,981,387)	-	-	-
Lease payments	-	-	-	(1,082,597,586)
Interest payments	(178,056,833)	-	(373,660,128)	-
<i>Total other changes related to liabilities</i>	(309,038,220)	-	(373,660,128)	(1,082,597,586)
<i>Balance as of December 31, 2022</i>	\$ 1,640,107,990	3,970,554,947	6,213,050,964	2,584,471,550

Provisions-

Movements in provisions as of December 31, 2023, are as follows:

	Balances at December 31, 2023	Provisions made during the year	Provisions used during the year	Balances at December 31, 2023
Variable rent payments	\$ 56,614,958	224,300,025	(223,331,844)	57,583,139
Fees	30,248,400	64,245,755	(73,206,147)	21,288,008
Other benefits to employees	160,063,843	625,087,272	(663,188,680)	121,962,435
Advertising expenses	58,815,579	10,045,839	(7,430,002)	61,431,416
Logistic expenses	15,026,066	95,565,251	(87,129,764)	23,461,553
Interest	40,173,843	12,387,009	(10,407,057)	42,153,795
External services	23,306,255	247,114,540	(257,449,445)	12,971,350
Others	74,402,167	2,941,249,891	(2,897,322,702)	118,329,356
	\$ 458,651,111	4,219,995,582	(4, 219,465,641)	459,181,052

Earnings per share

A. Basic earnings per share

The calculation of basic EPS has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

i. Profit attributable to ordinary shareholders (basic)

	<u>2023</u>	<u>2022</u>
Profit for the year, attributable to the owners of the Company	\$ 590,566,309	564,381,042
Dividends on non-redeemable preference shares	(236,251,700)	(71,484,317)
Profit attributable to ordinary shareholders	\$ 354,314,609	492,896,725

ii. Weighted-average number of ordinary shares (basic)

	<u>2023</u>	<u>2022</u>
Issued ordinary shares at 1 January	\$ 149,550,995	143,587,273
Weighted-average number of ordinary shares at 31 December	\$ 150,369,223	149,550,995

B. Diluted earnings per share

i. Profit attributable to ordinary shareholders (diluted)

	<u>2023</u>	<u>2022</u>
Profit attributable to ordinary shareholders (basic)	\$ 354,314,609	492,896,725
Profit attributable to ordinary shareholders	\$ 354,314,609	492,896,725

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on prices determined by the Company for the year during which the options were outstanding.

Employee benefits-

Axo has a legal seniority premium that covers all its employees. The benefits are based on years of service and the employee's compensation. The cost, obligations, and other elements of the seniority premium for reasons other than restructuring, mentioned in note 4 (I), have been determined based on computations prepared by independent actuaries as of December 31, 2023 and 2022.

	<u>2023</u>	<u>2022</u>
Defined Benefit Obligations (DBO)	\$ 23,607,097	17,793,754

Movements in the present value of defined benefit obligations (DBO)-

	<u>2023</u>	<u>2022</u>
DBO at January 1	\$ 17,793,754	15,198,499
Current service cost	4,493,050	2,114,227
	22,286,804	17,312,726
Actuarial losses	1,320,293	(244,045)
Business combination	-	728,931
Benefits paid	-	(3,858)
DBO at December 31	\$ 23,607,097	17,793,754

Net periodic cost-

	<u>2023</u>	<u>2022</u>
Current services cost (recognized in the category of wages and salaries)	\$ 2,534,279	1,006,745
Interest expense (income)	1,958,771	1,107,482
	\$ 4,493,050	2,114,227

Actuarial losses recognized in other comprehensive income-

	<u>2023</u>	<u>2022</u>
Amount accumulated at January 1	\$ (1,926,673)	(1,926,673)
Recognized during the year	(1,329,164)	178,078
Amount accumulated at December 31	\$ (3,255,837)	(1,748,595)

Actuarial assumptions-

The main actuarial assumptions used at the report dates are listed below:

	<u>2023</u>	<u>2022</u>
Discount rate used to reflect the present value of the obligations	10.3%	9.3%
Future salary growth	7.2%	6.5%
Expected inflation	6.8%	6.7%
Amortization period of unrecognized items (applicable to retirement benefits)	Between 15 and 20 years	Between 15 and 20 years

Sensitivity analysis-

As of December 31, 2023, and 2022 a 0.50% increase over the discount rate used would have decrease the projected net liability by \$20,216,507 and \$16,750,223, respectively, and a 0.5% decrease over the discount rate used would have decreased the projected net liability by \$21,893,058 and \$17,872,564 respectively. The analysis assumes that all other actuarial assumptions remain constant.

Axo has not planned to make contributions to the defined benefit plans in 2024.

Employee benefit expenses-

The employee benefit expenses for the years ended as of December 31, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Wages and salaries	\$ 2,291,008,410	1,491,950,192
Social security contributions	365,268,984	266,476,111
Other personnel benefits	133,420,855	140,032,172
Local payroll tax	60,271,298	48,732,483
Employee statutory profit sharing	111,175,016	103,828,593
Expenses related to defined benefit plans	2,534,279	1,006,745
Equity-settled share-based payments	111,173,067	111,947,844
	<u>\$ 3,074,851,909</u>	<u>2,163,974,140</u>

Income taxes (IT)-

Mexican Income Tax ("IT") Law ("Ley de ISR") in effect from January 1, 2014 imposes an IT rate of 30% for 2014 and thereafter.

Amount recognized on the Consolidated Statement of Comprehensive Income -

The income tax expense at December 31, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Current IT	\$ 906,182,810	621,137,695
Deferred IT	(114,971,434)	(247,470,827)
Updating by optional regime	10,464,120	36,524,498
Total income tax	\$ 801,675,496	410,191,366

Amount recognized in OCI -

	<u>2023</u>		
	<u>Before</u>	<u>IT</u>	<u>Net IT</u>
	<u>IT</u>		
Items that will be reclassified to comprehensive income:			
Cash flow hedges reserve:	(97,533,789)	1,661,842	(95,871,947)
OCI Hedges	\$ (3,077,777)	923,333	(2,154,444)
Actuarial loss			
	\$ (100,611,566)	2,585,175	(98,026,391)

	<u>2022</u>		
	<u>Before</u>	<u>IT</u>	<u>Net IT</u>
	<u>IT</u>		
Items that will be reclassified to comprehensive income:			
Cash flow hedges reserve:	\$ (92,253,049)	6,181,517	(86,071,532)
OCI Hedges	(1,748,595)	569,977	(1,178,618)
Actuarial loss			
	\$ (94,001,644)	6,751,494	(87,250,150)

Reconciliation of the Effective Tax Rate -

	2023	2022
Income from continuing operations before income taxes	\$ 1,847,126,841	1,390,008,017
Statutory rate	30%	30%
Tax using the Company's domestic tax rate	\$ 554,138,052	417,002,405
Increase (reduction) resulting from:		
Effects of inflation, net	14,178,807	58,187,600
Non-deductible expenses	57,482,582	39,129,250
Share of profit of equity-accounted investees reported, net of tax	(49,819,728)	(39,267,117)
Inventory loss deduction	11,847,953	9,999,057
Goodwill impairment	218,683,832	-
Business combination	-	(76,929,547)
Others, net	(4,836,002)	2,069,718
Total income tax expense	\$ 801,675,496	410,191,366

Deferred income tax assets and liabilities-

The tax effects of temporary differences that originate significant portions of deferred tax assets and liabilities, as of December 31, 2023 and 2022, are as follows:

	January 1, 2023	Profit or loss	Other comprehensi ve income	Business Combination	December 31, 2023
Provisions	\$ 137,595,333	(5,122,206)	(1,178,757)	6,459,945	137,754,315
Other liabilities not deductible before payment	81,242,200	(58,114,315)	5,839,854	(5,905,302)	23,062,437
Allowances for return and discounts for doubtful accounts	47,351,695	(1,835,470)	(253,141)	1,672,642	46,944,726
Leasehold improvements, furniture and equipment	506,500,599	(54,856,102)	(640,027)	15,642,027	466,646,497
Net tax operating losses (*)	383,097,762	301,414,584	-	-	684,512,346
Allowance for obsolete inventory	33,157,425	(8,472,176)	(1,694,297)	11,273,930	34,264,882
Employee benefits	5,338,126	394,229	157,274	1,192,501	7,082,130
Profit sharing payable	37,694,389	443,047	-	-	38,137,436
Advance from customers	10,699,029	39,060,625	6,844,003	(42,464,239)	14,139,418
Advance payments	12,173,417	24,910,325	2,074,220	(17,463,102)	21,694,860
Derivative financial instruments	29,808,823	(237,118)	(24,138,253)	-	5,433,452
Contract liabilities	31,731,970	(12,461,702)	-	-	19,270,268

	January 1, 2023	Profit or loss	Other comprehen sive income	Business Combination	December 31, 2023
Debt issuance expenses	4,865,858	913,183	-	-	5,779,041
Lease liabilities	34,541,867	(14,628,772)	(168,525)	7,692,618	27,437,188
Interest to be deductible	286,580,993	(120,512,205)	-	-	166,068,788
Deferred tax assets	\$ 1,642,389,486	90,894,927	(13,157,649)	(21,898,980)	1,698,227,784
Offset deferred tax by subsidiaries (**)	(58,731,027)	-	-	-	135,780,682
Net deferred tax assets	\$ 1,583,658,459	90,894,927	(13,157,649)	(21,898,980)	1,834,008,466
Senior Notes issuance expense	\$ (23,830,961)	6,974,916	-	-	(16,856,045)
Key money	(106,366,265)	(931,304)	-	-	(107,297,569)
Step up Leasehold improvements, furniture and equipment	-	728,198	-	(4,628,870)	(4,628,870)
Brand derived from the acquisition	-	-	-	(26,003,062)	(26,003,062)
Brand and exclusivity contracts derived from the acquisition of Multibrand Franchises derived from the acquisition of TAF	(56,100,000)	-	-	-	(56,100,000)
Intangible assets from acquisitions	(283,560,600)	613,607	-	-	(38,266,584)
Key money from acquisitions	(86,982,000)	12,426,000	-	-	(74,556,000)
	(70,322,098)	4,265,090	-	-	(66,057,008)
Deferred tax liabilities	\$ (627,161,924)	24,076,507	-	(68,898,516)	(671,983,933)
Offset of deferred tax by subsidiaries*	58,731,027	-	-	-	(135,780,682)
Net deferred tax liabilities	\$ (568,430,897)	24,076,507	-	(68,898,516)	(807,764,615)

	January 1, 2022	Profit or loss	Other comprehen sive Income	Business Combination	December 31, 2022
Provisions	\$ 99,688,893	37,906,440	-	-	137,595,333
Other liabilities not deductible before payment	53,964,204	27,277,996	-	-	81,242,200
Allowances for return and discounts for doubtful accounts	48,938,911	(1,577,216)	-	-	47,361,695
Leasehold improvements,	489,600,633	93,829,513	-	-	506,500,599

	January 1, 2022	Profit or loss	Other comprehen sive Income	Business Combination	December 31, 2022
furniture and equipment				(76,929,547)	
Net tax operating losses (*)	357,911,276	25,186,486	-	-	383,097,762
Allowance for obsolete inventory	25,612,494	7,544,931	-	-	33,157,425
Employee benefits	3,858,894	261,373	1,217,859	-	5,338,126
Profit sharing payable	19,076,312	18,618,077	-	-	37,694,389
Advance from customers	2,081,981	8,617,048	-	-	10,699,029
Advance payments	(23,146,029)	35,319,446	-	-	12,173,417
Derivative financial instruments	31,150,548	(35,511,198)	34,169,473	-	29,808,823
Contract liabilities	14,178,070	17,553,900	-	-	31,731,970
Debt issuance expenses	3,952,675	913,183	-	-	4,865,858
Lease liabilities	50,004,404	(15,462,537)	-	-	34,541,867
Interest to be deductible	262,940,373	23,640,620	-	-	286,580,993
Deferred tax assets	\$ 1,439,813,639	244,118,062	35,387,332	(76,929,547)	1,642,389,486
Offset deferred tax by subsidiaries (**)	(104,794,081)	-	-	-	(58,731,027)
Net deferred tax assets	\$ 1,335,019,558	244,118,062	35,387,332	(76,929,547)	1,583,658,459
Senior Notes issuance expenses	\$ (30,805,876)	6,974,915	-	-	(23,830,961)
Key money	(83,009,613)	(23,356,652)	-	-	(106,366,265)
Brand and exclusivity contracts derived from the acquisition of Multibrand Franchises derived from the acquisition of TAF	(56,100,000)	-	-	-	(56,100,000)
Intangible assets from acquisitions	(99,408,000)	12,426,000	-	-	(86,982,000)
Key money from acquisitions	(77,630,601)	7,308,503	-	-	(70,322,098)
Deferred tax liabilities	\$ (630,514,690)	3,352,766	-	-	(627,161,924)
Offset of deferred tax by subsidiaries*	104,794,081	-	-	-	58,731,027
Net deferred tax liabilities	\$ (525,720,609)	3,352,766	-	-	(568,430,897)

(*) Axo only recognizes deferred tax assets for tax loss carryforwards whose recoverability is reasonably certain, otherwise it is not recognized or is partially recognized up to the amount expected to be recovered.

(**) Deferred tax is presented on a consolidated basis, therefore this effect is presented to reflect the net deferred tax assets and liabilities at the subsidiary level.

At December 31, 2023 and 2022, Axo's operating loss carried forward expire as shown in the following table:

Years	<u>2023</u>	<u>2022</u>
2023	-	2,746,741
2024	13,541,971	12,890,977
2025	19,013,528	28,071,299
2026	107,828,641	102,645,064
2027	204,650,237	207,829,349
2028	238,774,327	259,725,275
2029	448,561,794	464,942,240
2030	109,387,257	153,325,044
2031	225,105,532	230,641,432
2032	256,264,525	254,640,048
2033	1,101,690,036	-
	\$ <u>2,724,817,848</u>	<u>1,717,457,469</u>

Axo only recognizes deferred taxes arising from tax losses that are likely to be recovered in the future.

As of December 31, 2023 and 2022, Axo has interest expense to be deducted as follows:

Years	<u>2023</u>	<u>2022</u>
2030	38,649,400	934,973,480
2031	311,917,393	493,913,351
2032	40,327,803	39,708,777
	\$ <u>390,894,596</u>	<u>1,468,595,608</u>

As of December 31, 2023 and 2022, Axo opted to defer income tax in accordance with Chapter VI, Title II of the Mexican Law on Income Tax, Optional Regime for Group Companies. Therefore, the deferred tax payable is shown in next page.

Years	Deferred income tax optional regimen	
	2023	2022
2023	-	148,642,118
2024	99,995,118	99,138,840
2025	67,468,719	64,785,492
2026	73,042,359	82,870,018
2027	321,527,236	-
	\$ 562,033,432	395,436,468

Unrecognized deferred tax assets

No deferred tax assets have been recognized for the following items since it is unlikely that there will be future taxable profits against which Axo can use the corresponding profits, which are shown in the following table.

	Unrecognized deferred tax assets	
	2023	2022
Tax loss carryforwards	\$ 74,700,919	\$ 72,867,689
	\$ 74,700,919	72,867,689

Unrecognized deferred tax liabilities

As of December 31, 2023 and 2022, the deferred tax liability for temporary differences related to investments in subsidiaries was not recognized because Axo controls the dividend policy of its subsidiaries and may veto the payment of dividends from its Associate, that is, Axo controls the timing of the reversal of the corresponding taxable temporary differences and management is satisfied that they will not reverse in the foreseeable future.

Financial instruments and risk management-

Credit risk-

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is next page.

	Carrying amount	
	<u>2023</u>	<u>2022</u>
Cash and cash equivalents net of petty cash (note 11)	\$ 4,341,133,489	4,818,042,110
Accounts receivable (note 12)	1,206,262,975	890,315,607
Accounts receivable from related parties (note 13(c))	2,017,730	5,818,220
Accounts receivable from related parties long-term (note 13 (c))	-	16,349,711
Other accounts receivables (PayPal and Amex)	114,056,556	7,603,130
Sundry debtors (note 14)	16,512,765	11,720,462
	<u>\$ 5,679,983,515</u>	<u>5,749,849,240</u>

The maximum exposure to credit risk for accounts receivable at the reporting period by geographic region is as follows:

	Carrying amount	
	<u>2023</u>	<u>2022</u>
Mexico	\$ 1,133,539,502	881,529,121
Chile	46,056,702	8,786,486
Uruguay	18,375,493	-
Peru	8,291,278	-
	<u>\$ 1,206,262,975</u>	<u>890,315,607</u>

The maximum exposure to credit risk associated with accounts receivable at the reporting period by type of customer is next page.

	<u>2023</u>	<u>2022</u>
Wholesale customers, net	\$ 1,017,200,124	739,148,519
Other customers, net (SOFOM related services)	189,062,851	151,167,088
	<u>\$ 1,206,262,975</u>	<u>890,315,607</u>

The sales to Distribuidora Liverpool, S. A. de C. V., Sears Operadora México, S. A. de C. V., Amazon, El Palacio de Hierro, S. A. de C. V., Falabella, Ripley, Regionales Albany Sport and Regionales Boart Longyear Chile Limitada represent 16% and 18% in 2023 and 2022, respectively, of Axo's net sales.

Impairment losses

Below is an aging schedule of trade accounts receivable included at the date of the report:

	Gross	Impairme	Gross	Impairment
	<u>2023</u>	<u>2023</u>	<u>2022</u>	<u>2022</u>
Current (not past due)	\$ 1,112,411,237	-	884,764,054	-
Past due from 0 to 30 days	93,521,290	-	2,012,157	-
Past due from 31 to 120 days	290,351	-	280,749	-
Overdue more than 120 days past due (*)	5,440,626	(5,400,529)	7,839,266	(4,580,619)
	\$ 1,211,663,504	(5,400,529)	894,896,226	(4,580,619)

(*) The main customers in this classification does not represent any risk of collectability mainly due to credit terms granted.

Liquidity risk-

Below are the contractual maturities of financial liabilities, including estimated interest and excluding the impact of netting agreements payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts:

<u>2023</u>	<u>Carrying</u>	<u>0-6 months</u>	<u>6-12 months</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>More than</u>
	<u>amount</u>					<u>3 years</u>
Financial liabilities						
Trade accounts payable	\$ 3,075,134,771	2,155,480,016	919,654,755	-	-	-
Royalties and commissions	190,027,818	33,266,384	156,761,434	-	-	-
Debt securities	1,643,470,858	84,167,840	84,167,840	168,335,680	1,819,935,680	-
Senior Notes	5,434,200,682	137,259,688	137,259,688	274,519,375	5,764,906,875	-
Notes payable to banks	2,312,382,886	431,486,234	413,675,192	562,468,995	567,580,123	904,308,022
Business acquisition liability	79,371,085	-	79,371,085	-	-	-
CCS Only Interest MS	17,351,508	4,599,895	4,756,520	9,365,457	(9,682,594)	-
CCS Only Interest HSBC	40,034,423	11,168,113	10,553,827	21,107,654	10,553,827	-
Full CCS BofA	206,973,179	44,433,034	44,433,034	237,771,923	-	-
CCS Only Interest BBVA	179,592,847	58,730,137	49,823,942	72,980,987	30,166,875	-
Full CCS MS	331,285,428	70,940,354	70,940,354	380,937,299	-	-
Derivative financial instruments - Financed option premium (Call Spread) HSBC	62,290,502	20,236,944	19,908,778	39,817,556	19,908,778	-
Derivative financial instruments - Financed						

2023	Carrying amount	0-6 months	6-12 months	1-2 years	2-3 years	More than 3 years
option premium (Call Spread) BBVA	90,729,079	29,895,486	29,410,694	58,821,389	29,410,694	-
Derivative financial instruments - Financed option premium (Call Spread) MS	28,493,953	9,658,542	9,501,917	19,003,833	9,501,917	-
Financial Derivatives	18,111,511	18,972,852	-	-	-	-
Related parties	141,128,301	16,944,605	124,183,696	-	-	-
	13,850,578,831	3,127,240,124	2,154,402,756	1,845,130,148	8,242,282,173	904,308,022
	\$					
2022	Carrying amount	0-6 months	6-12 months	1-2 years	2-3 years	More than 3 years
Financial liabilities						
Trade accounts payable	\$ 2,498,405,738	1,864,559,644	633,846,094	-	-	-
Royalties and commissions	164,474,268	-	164,474,268	-	-	-
Debt securities	1,640,107,990	91,956,829	91,956,829	183,913,659	183,913,659	1,874,538,216
Senior Notes	6,213,050,964	187,516,395	193,760,530	402,467,718	422,535,436	7,896,471,547
Business acquisition liability	77,393,041	-	77,393,041	-	-	-
CCS Only Interest MS	8,499,052	114,595	93,424	124,415	35,795	70,737
CCS Only Interest HSBC	22,972,652	286,433	242,331	354,423	157,337	135,989
Full CCS BofA	54,722,759	1,979,877	1,938,850	3,729,048	(5,775,907)	954,501
CCS Only Interest BBVA	169,904,781	2,441,545	2,359,684	2,816,173	1,451,930	(293,939)
Full CCS MS	87,318,452	3,159,970	3,094,284	5,950,724	(9,215,512)	1,520,435
Derivative financial instruments - Financed option premium (Call Spread) HSBC	93,181,870	19,908,778	20,018,167	40,145,722	39,817,556	19,908,778
Derivative financial instruments - Financed option premium (Call Spread) BBVA	136,012,769	29,410,694	29,572,292	59,306,181	58,821,389	29,410,694
Derivative financial instruments - Financed option premium (Call Spread) MS	42,899,073	9,501,917	9,554,125	19,160,458	19,003,833	9,501,917
Financial Derivatives	99,362,749	4,215,727	1,116,497	(212,725)	-	-
Related parties	101,998,747	52,365,247	49,317,936	-	-	-
	\$ 11,410,304,905	2,267,417,651	1,278,738,352	717,765,796	710,745,516	9,832,218,875

Market risk-*Foreign Exchange risk-*

Axo's exposure to currency risks, based on national currency amounts is as follows:

		<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$	648,908,084	1,032,847,427
Accounts receivable		70,934,825	8,645,933
Accounts receivable from related parties		-	23,576,551
Sundry debtors		4,523,742	5,568,796
Creditors and other accounts payable		(665,565,906)	(181,003,429)
Current portion of notes payable to banks		(503,591,321)	-
Accounts payable to related parties		(19,086,077)	(16,738,570)
Senior Notes		(5,924,297,991)	(6,292,487,500)
Net foreign exchange exposure	\$	<u>(6,388,174,644)</u>	<u>(5,419,590,792)</u>

The foreign currencies used by Axo are mainly US dollars, Chilean pesos, Uruguayan pesos and Soles. The amounts above include the following: US dollars \$365,002,685 during 2023 (\$280,960,913 in 2022) and euros \$575,719 in 2023 (\$136,203 during 2022).

The following significant exchange rates applied during the year:

		Average exchange Rate <u>2023</u>	Exchange at the closing date <u>2023</u>	Average exchange Rate <u>2022</u>	Exchange at the closing date <u>2022</u>
US Dollar	\$	17.82	16.89	20.08	19.36
Euro	\$	17.62	24.08	22.02	24.08
Chilean pesos		0.02105	0.01929	-	-
Uruguay's pes		0.45268	0.43482	-	-
Soles		4.69172	4.75781	-	-

As of December 31, 2023, and 2022 a foreign exchange profit (loss) amounting to \$174,034,995 and \$(26,551,191), were respectively recorded.

Sensitivity analysis

Axo is exposed to exchange rate risk, since it has forward derivative financial instruments and options on the peso / dollar exchange rate, Axo's functional currency being the Mexican peso.

The analysis carried out on the expected cash flows for the year considers stress scenarios on the peso / dollar exchange rate by adding +/- 1.50 MXN. The following table shows the impact this situation would have on the income statement:

	2023		2022	
	Increase	Decrease	Increase	Decrease
USD (variance of \$1.50 peso variation in the \$ exchange rate)	235,425,301	(303,433,562)	505,434,462	(506,710,363)
Exchange rate forwards \$	235,425,301	(303,433,562)	505,434,462	(506,710,363)

As of December 31, 2023 and 2022, the strengthening of the US dollar and the euro before the peso, as shown below, would have reduced the year's net income by the amounts shown below. The analysis assumes that all the other variables, especially interest rates, remain constant.

	2023	2022
USD (variance of \$1.50 peso variation in the exchange rate)	\$ 71,049,774	35,722,290
EUR (variance of \$1.50 peso variation in the exchange rate)	\$ 6,850,239	2,421,903

A strengthening of the Mexican peso before the aforesaid currencies, at December 31, 2023 and 2022 would have had the same but opposite effect by the amounts referred to above, also assuming that all the other variables remain constant.

Interest rate risk-

Management, within its financing policies, analyzes the rate quotes to determine the most favorable rate for Axo under market conditions on such date and to determine whether the financing will be referenced to a fixed rate or a variable rate during the term and until its maturity, therefore, the interest rate exposure will depend on the financing that Axo has carried out and for which a variable reference rate has been established under the most optimal conditions to which Axo has been able to access.

Axo has hedged the exchange risk and the interest rate risk through derivative financial instruments, due to current market conditions.

Derivative financial transactions

As of December 31, 2023 and 2022, Axo has a framework agreement for derivative financial transactions with the following institutions:

- a) BBVA Bancomer. The contract covers one Coupon Only Swap (USD 5.75% vs Float MXN TIE+0.395%) and one Call Spread USD/MXN for the range [\$20-\$26], both with a maturity date in June 2026
- b) HSBC Mexico. The contract covers one Coupon Only Swap (USD 5.75% vs MXN 6.7013%) and one Call Spread USD/MXN for the range [\$20-\$26], both with a maturity date in June 2026.
- c) Morgan Stanley. The contract covers one Coupon Only Swap (USD 5.75% vs MXN 6.54%) and one Call Spread USD/MXN for the range [\$20-\$26], both with a maturity date in June 2026. And one Full Cross Currency Swap (USD 5.75% vs MXN 11.755%) with a maturity date in June 2025.
- d) Merrill Lynch/Bank of America. The contract covers one Full Cross Currency Swap (USD 5.75% vs MXN 11.77%) with a maturity date in June 2025.
- e) BBVA Bancomer. The Company covers a capped Swap with a contract date of April 27, 2023 (11.5%) with maturity in March 2028.

The characteristics of these instruments are detailed in note 9.

Profile

At the reporting date, the interest rate profile of Axo's interest-bearing financial instruments was as shown below:

		<u>Carrying amount</u>	
		<u>2023</u>	<u>2022</u>
<u>Fixed-rate instruments</u>			
Financial liabilities	\$	(2,110,794,651)	(1,640,107,990)
<u>Variable rate instruments</u>			
Financial liabilities	\$	(7,279,259,775)	(6,213,050,964)

The figures in the above tables include both the position of bank financial liabilities, debt securities and interest rate hedging derivative instruments.

Full Cross currency swaps

		<u>2023</u>	<u>2022</u>
Carrying amount	\$	(538,258,607)	(142,041,212)
Notional amount		US\$ 162,500,000	US\$ 162,500,000
Maturity date		08/06/2026	08-jun-26
Hedge ratio		100%	100%
Change in intrinsic value of outstanding hedging instruments since inception of the hedge		531,245,000	(130,195,000)

Call spread

		<u>2023</u>	<u>2022</u>
Carrying amount	\$	(181,513,534)	(272,093,711)
Notional amount		US\$ 162,500,000	US\$ 162,500,000
Maturity date		02/06/2026	02-jun-26
Hedge ratio		100%	100%
Change in intrinsic value of outstanding hedging instruments since inception of the hedge		26,438,750	(26,438,750)

Sensitivity analysis of fair value for variable rate instruments

A 50 basis-points fluctuation in interest rates at the reporting date would have increased or decreased capital and income or losses in the amounts shown below. This analysis implies that all the other variables in specific exchange rates remain constant. The analysis is made on the same basis for 2023 and 2022, as shown below:

		<u>2023</u>	<u>2022</u>
50-basis points sensitivity for cash flows from variable rate instruments	\$	(22,313,868)	(23,222,882)

Fair value-

Next page are the fair values of financial assets and financial liabilities, jointly with the carrying amounts shown in the consolidated statements of financial position.

	2023		2022	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Financial assets:				
Cash and cash equivalents	\$ 4,353,916,169	4,353,916,169	4,827,686,856	4,827,686,856
Accounts receivable	1,206,262,975	1,206,262,975	890,315,607	890,315,607
Accounts receivable from related parties	2,017,730	2,017,730	5,818,220	5,818,220
Derivative financial instruments - Call Spread BBVA	73,068,667	73,068,667	175,454,420	175,454,420
Derivative financial instruments - Coupon Only Swap and Call Spread HSBC	50,108,052	50,108,052	119,376,955	119,376,955
Derivative financial instruments - Coupon Only Swap, Call Spread and Full Cross Currency Swap Morgan Stanley CB	23,856,438	23,856,438	56,886,728	56,886,728
Capped swap - BBVA Bancomer	11,231,119	11,231,119	-	-
Accounts receivable from related parties, long term			16,349,711	16,349,711
	\$ 5,720,461,150	5,720,461,150	6,091,888,497	6,091,888,497

	2023		2022	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Financial liabilities:				
Suppliers (within "Trade and other payables)	\$ 3,075,134,771	3,075,134,771	2,498,405,738	2,498,405,738
Accounts payable from related parties	141,128,301	141,128,301	101,998,747	101,998,747
Long-term debt securities	1,643,470,858	1,651,600,000	1,640,107,990	1,651,600,000
Notes payable to banks (short-term)	655,709,134	662,655,454	-	-
Notes payable to banks (long-term)	1,656,673,752	1,665,566,869	-	-
Derivative financial instruments (short-term)	18,111,511	18,111,511	99,362,749	99,362,749
Business combination liabilities	77,199,391	77,199,391	77,393,041	77,393,041
Derivative financial instruments - Derivative financial instruments - Coupon Only Swap and financed option premium	90,729,079	90,729,079	305,917,551	305,917,551

	2023		2022	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
(Call Spread) BBVA				
Derivative financial instruments - Financed option premium (Call Spread) HSBC	12,182,451	12,182,451	116,154,522	116,154,522
Derivative financial instruments - Financed option premium (Call Spread) Morgan Stanley CB	28,493,953	28,493,953	42,899,072	42,899,072
Senior notes	5,434,200,682	5,490,387,500	6,213,050,964	6,292,487,500
Lease liabilities short-term	1,175,133,181	1,244,422,571	936,765,354	1,094,602,983
Lease liabilities long-term	2,145,122,203	2,316,091,988	1,647,706,197	1,992,683,054
	\$	16,153,289,267	16,473,703,839	13,679,761,925
				14,273,504,957

Note 7 discloses the basis for determining the fair values.

Interest rates used for discounting estimated cash flows, as appropriate, are based on the government's yield curve at the reporting date, plus a spread for adequate credit risk and were as shown below:

	<u>2023</u>	<u>2022</u>
Loans	13%	13%
Leases	12%	12%

Debt securities and financial instruments-

	<u>2023</u>	<u>2022</u>
Debt securities "Axo16-2" with maturity date on January 22, 2026, that accrues interest at a fixed rate of 8.48%	250,908,995	250,589,990
Debt securities "Axo 19-2" with maturity date on January 22, 2026, that accrues interest at a fixed rate of 10.5%	1,392,561,863	1,389,518,000
Total	\$ 1,643,470,858	1,640,107,990

Accrued interests not paid as of December 31, 2023 and 2022, are included within provisions (see note 24).

On May 21, 2020, a waiver was obtained to capitalize accrued payable interests as part of the outstanding balance of the instrument. On May 31, 2022, the Company paid \$130,981,387 in connection to the Bond Certificates with ticker symbols "Axo 16-2" and "Axo 19-2," which correspond to the capitalized interests.

Risk management - Financial risk management-

This note presents information corresponding Axo's exposure to each of the aforementioned risks, the objectives, policies, and processes for measuring and managing risks as well as additional quantitative disclosures.

Risk management framework-

The Company's risk management policies are established with the objective of identifying, analyzing, monitoring, and controlling risks, in compliance with the established limits. This policies as well as the risk management systems, are reviewed on a regular basis to reflect changes in market conditions.

(a) Liquidity risk

Exposure to liquidity risk

Following are the remaining contractual maturities of financial liabilities at the balance sheets dates. The amounts are shown gross and undiscounted and include estimated interest payments.

Debt securities:

		<u>2023</u>	<u>2022</u>
Carrying Amount	\$	(1,643,470,858)	(1,640,107,990)
Cash flows		(2,156,607,040)	(2,426,279,192)
Up to 6 months		(84,167,840)	(91,956,829)
6 - 12 months		(84,167,840)	(91,956,829)
1 - 2 years		(168,335,680)	(183,913,659)
2 - 3 years		(1,819,935,680)	(183,913,659)
3 - 5 years		-	(1,874,538,216)

Senior Notes:

		<u>2023</u>	<u>2022</u>
Carrying Amount	\$	(5,434,200,682)	(6,213,050,964)
Cash flows		(6,313,945,626)	(9,102,751,626)
Up to 6 months		(137,259,688)	(187,516,395)
6 - 12 months		(137,259,688)	(193,760,530)
1 - 2 years		(274,519,375)	(402,467,718)
2 - 3 years		(5,764,906,875)	(422,535,436)
3 - 5 years		-	(7,896,471,547)

(b) Market risk

It refers to the risk associated with changes in market prices, such as exchange rates, interest rates and the price of stock or commodities may affect the Company's revenue or the fair value of its financial instruments. The objective of market risk management is managing and controlling exposure to market risks within acceptable parameters while optimizing returns.

Axo is exposed to the following risks that may have an impact on the financial results.

Interest rate risk exposure

The interest rate risk is that associated to the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in the market interest rates.

Interest rate fluctuations depend, to a large extent, on the state of the global economy.

Axo's exposure to the interest rate risk is associated with the debt securities, where cash flows from interest payable are tied to the TIIE rate plus a spread. Axo does contract derivative financial instruments specifically with Swap interest rate (TIIE) options to hedging this risk.

Below is the Company's exposure to the interest rate risk at December 31, 2023 and 2022:

<u>Liabilities type</u>		<u>2023</u>	<u>Carrying amount</u> <u>202</u>
Debt securities	\$	1,643,470,858	1,640,107,990
Senior Notes		5,434,200,682	6,213,050,964
Bank debt		2,312,382,886	-
Coupon Only Swap variable-rate (CCS)		179,592,847	169,904,781
Full Cross Currency Swap		538,258,607	142,041,212
Coupon Only Swap fixed-rate (CCS)		57,385,931	31,471,704

Sensitivity analysis on cash flows

According to Debt Securities and Senior Notes hold by the Company, an impact associated with an increase or decrease in the interest rate (TIIE) is not estimated, since the aforementioned instruments are maintained at a fixed rate.

Sensitivity analysis on fair value

Axo does not record the debt securities at its fair value through Consolidated Statement of Comprehensive Income and does not have fair value hedge ratios, so the sensitivity analysis on the fair value of financial instruments focuses on the fair value behavior of the Coupon Only Swaps on variable rate TIIE, in the face of the movements in the interest rate by +/- 100 bp. The following table shows the impact that this situation would have on the Consolidated Statement of Comprehensive Income.

	Results	
	Sensitivity (+100BP)	Sensitivity (-100BP)
2022		
Coupon Only Swap variable-rate	(46,427,058)	46,542,212
	Sensitivity (+100BP)	Results Sensitivity (-100BP)
2023		
Interest rate options (CAP)	(10,509,067)	4,432,295
Cross Currency Swap variable-rate (CCS)	(35,716,786)	35,716,786
Interest Rate Swap variable-rate (IRS)	50,543,366	(16,229,553)

(c) Fair value estimate*Debt securities*

They are debt instruments issued at a variable interest rate plus a spread. For disclosure purposes, their fair value is estimated as the present value of future cash flows, discounted at market rates.

(d) Fair value hierarchy

When measuring the fair value of an asset or a liability, Axo uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: Inputs for the asset or liability that is not based on observable market input (unobservable variables).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

At December 31, 2023 and 2022, Axo hold financial instruments in its consolidated statement of financial position, all of which are classified as level 2 instruments.

(e) **Fair value versus carrying amount**

The following amounts show the book values and fair values of financial assets and financial liabilities (including those whose fair value is calculated for disclosure purposes only), classified according to their corresponding level of fair value hierarchy, corresponding to December 31, 2023 and 2022:

As of December 31, 2023	Carrying amount	Fair value	Level 1	Fair value hierarchy	
				Level 2	Level 3
Financial liabilities measured at fair value					
Coupon Only Swap BBVA	179,592,847	179,592,847	-	179,592,847	-
Coupon Only Swap HSBC	40,034,423	40,034,423	-	40,034,423	-
Coupon Only Swap MS	17,351,508	17,351,508	-	17,351,508	-
Full CCS MS	206,973,179	206,973,179	-	206,973,179	-
Full CCS BofA	331,285,428	331,285,428	-	331,285,428	-
Financed option premium (Call Spread) BBVA	90,729,079	90,729,079	-	90,729,079	-
Financed option premium (Call Spread) HSBC	62,290,503	62,290,503	-	62,290,503	-
Financed option premium (Call Spread) MS	28,493,953	28,493,953	-	28,493,953	-
Forwards HSBC	10,351,188	10,351,188	-	10,351,188	-
Forwards Suntrust	7,760,322	7,760,322	-	7,760,322	-
Financial liabilities not measured at fair value					
Long term debt securities	\$ 1,643,470,858	1,651,600,000	-	1,651,600,000	-
Senior Notes	5,434,200,682	5,490,387,500	-	5,490,387,500	-
Bank loans	2,312,382,886	2,328,222,323	-	2,328,222,323	-

As of December 31, 2022	Carrying	Fair	Fair value hierarchy		
	<u>amount</u>	<u>value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets measured at fair value					
Loan to related parties	16,349,711	16,349,711	-	16,349,711	-
Financial liabilities measured at fair value					
Coupon Only Swap BBVA	169,904,781	169,904,781	-	169,904,781	-
Coupon Only Swap HSBC	22,972,652	22,972,652	-	22,972,652	-
Coupon Only Swap MS	8,499,052	8,499,052	-	8,499,052	-
Full CCS MS	54,722,759	54,722,759	-	54,722,759	-
Full CCS BofA	87,318,452	87,318,452	-	87,318,452	-
Financed option premium (Call Spread) BBVA	136,012,769	136,012,769	-	136,012,769	-
Financed option premium (Call Spread) HSBC	93,181,870	93,181,870	-	93,181,870	-
Financed option premium (Call Spread) MS	42,899,072	42,899,072	-	42,899,072	-
Forwards BBVA	36,470,473	36,470,473	-	36,470,473	-
Forwards HSBC	49,231,296	49,231,296	-	49,231,296	-
Forwards Suntrust	13,660,980	13,660,980	-	13,660,980	-
Financial liabilities not measured at fair value					
Long term debt securities	\$ 1,640,107,990	1,651,600,000	-	-	-
Senior Notes	6,213,050,964	6,292,487,500	-	-	-

Stockholders' equity-

Structure of capital stock-

On March 28, 2023, the Shareholders approved a reduction in the Company's share capital through the amortization of 484,578 (four hundred eighty-four thousand five hundred seventy-eight) and 604,208 (six hundred four thousand two hundred eight) ordinary, nominative, Class II, Series "A" shares, corresponding to the variable share capital of the Company whose beneficiary is the Trustee H and beneficiary B, respectively and the amortization of 72,505 (seventy-two thousand five hundred five) ordinary, nominative, Class II, Series "C" shares, corresponding to the variable share capital of the Company whose beneficiary is Trustee J.

On the same date, the Company approved to increase the share capital of Axo in its variable part by the equivalent in Mexican pesos of US\$20,000,000.00 (Twenty million dollars 00/100 legal currency of the United States of America ("Dollars")) equivalent to \$370,356,000.00 (three hundred and seventy million three hundred and fifty-six thousand pesos), which will be paid and subscribed in an amount equivalent in Mexican pesos at the FIX exchange rate published by the Banco de México (Central Bank of México) and the issuance of 2,416,833 (Two million four hundred sixteen thousand eight hundred thirty-three) Class II, Series E, registered shares, without par value expression and without voting rights.

On July 4, 2022, the Company's shareholders approved to increase the capital stock for \$14,162,957 through the capitalization of 14,162,957 premium Class II shares, with no par value, of which 6,193,301 are series A shares with voting rights, 225,870 are series C shares with voting rights, 5,151,440 are series D shares with voting rights, and 2,592,346 are series E shares with no voting rights.

On July 4, 2022, the Company's shareholders approved an increase in capital stock for \$431.93 by subscription of 431,930 Class II Series A shares, nominatives with no par value.

On July 4, 2022, the Company's shareholders approved an increase of the capital stock for \$93,422.3 by subscribing shares for 934,223 derived from share plan 2, nominatives with no par value, thus resulting in the following shares: 471,062 common shares, nominatives, Class II, Series G, with no par value and with no voting rights, and 463,161 common shares, nominatives, Class II, Series H, with no par value and with no voting rights.

On March 28, 2022, General Atlantic AH BV ("GA") agreed to transfer a portion of up to 13.05% of the shares it owns in the Company in favor of an affiliated fund, GA Atlas GPA BV ("GA Atlas").

Dividends-

On October 10, 2023, the shareholders of Moda Rapsodia, S.A. of C.V. approved the payment of a dividend in favor of the shareholders of such company, up to the amount of MX\$12,000,000 (twelve million pesos 00/100 National Currency).

On June 20, 2023, the shareholders of Baseco approved the payment of a dividend in favor of the shareholders, up to the amount of \$300,000,000.00 pesos (three hundred million pesos 00/100 National Currency), coming from the net tax profit account.

On April 13, 2023, the shareholders of Grupo Axo, S. A. P. I. de C. V., unanimously approved the payment of a preferential dividend to Series "F" shareholders, holders of 935,378 shares at a rate of \$6.2468 per share. Additionally, the shareholders approved to declare the payment of an

ordinary dividend at a rate of \$1.0032 per share. Those dividends will be paid with the balance of the retained earnings account from previous years.

On April 11, 2023, the shareholders of Baseco, S. A. P. I. de C. V. ("Baseco") unanimously approved the issuance of dividends derived from the profit after taxes account, in the amount of \$300,000,000, which must be paid no later than April 30, 2023.

On March 1, 2023, the shareholders of Grupo Axo, S. A. P. I. de C. V., unanimously approved the payment of a preferential dividend to Series "F" shareholders, holders of 962,109 shares at a rate of \$42.00 per share. It was approved that such dividends, amounted \$40,408,578 pesos, will be paid with the balance of the retained earnings account from previous years.

On August 24, 2022, the shareholders of Grupo Axo, S.A.P.I. de C.V., unanimously approved to decree the payment of a preferential dividend to Series "F" shareholders, holders of 3,200,283 shares at \$2.00 per share. Such dividends amounting \$6,400,566 pesos were paid with the retained earnings balance from previous years.

On April 18, 2022, the shareholders of Grupo Axo, S.A.P.I. de C.V., unanimously approved to decree the payment of a preferential dividend to Series "G" shareholders, for a total amount of \$30,877,990 at a rate of \$7.1886 per share. It was approved that such dividends be paid with the balance of the retained earnings from previous years.

On April 13, 2022, the shareholders of Grupo Axo, S.A.P.I. de C.V., unanimously approved to decree the payment of an ordinary dividend in favor of series "A", "C", "D" and "E" shareholders for a total amount of \$359,130,041 at a rate of \$2.3187 per share and approved to decree the payment of a preferential dividend to Series "G" shareholders, for a total amount of \$40,606,327 at a rate of \$4.6374 per share. It was approved that such dividends were paid with the balance of the retained earnings from previous years.

On March 31, 2022, the shareholders of Baseco, S.A.P.I. de C.V. ("Baseco"), unanimously agreed to pay dividends in the amount of \$400,000,000, charged to the after-tax profits account.

Restrictions on stockholders' equity-

In accordance with the General Corporations Law, five percent of net income for the year must be appropriated to the statutory reserve, until it reaches one-fifth of capital stock. As of December 31, 2023, the statutory reserve amounts to \$ 76,848,243 and has not reached the required amount.

Stockholder contributions including inflation effects as provided for by the tax law may be refunded to stockholders tax-free, to the extent that such contributions equal or exceed stockholders' equity.

Retained earnings and other stockholders' equity accounts, on which no income taxes have been paid, are subject to income taxes in the event of distribution, at a 30% rate, payable by the Company; consequently, the stockholders may only receive 70% of such amounts.

Non-controlling interest-

The integration of the non-controlling interest is as follows:

	<u>2023</u>	<u>2022</u>
Opening balance	\$ 1,593,285,857	1,403,534,927
Non-controlling interest	454,885,036	415,435,609
Change in fair value of financial instruments	23,446,668	(29,750,647)
Actuarial (loss) gain, net of income tax	(59,671)	65,968
Dividends of Moda Rapsodia S.A. de C.V.	(6,000,000)	-
Dividends of Baseco S.A.P.I. de C.V.	(294,000,000)	(196,000,000)
	<u>\$ 1,771,557,890</u>	<u>1,593,285,857</u>

Other information on the non-controlling interest

December 31, 2023	Baseco, S. A. P. I. de C. V.	Moda Rapsodia, S. A. de C. V.	Downtown Guru, S. A. de C. V.	Other individually immaterial subsidiaries and Intra-group eliminations	Total
Percentage of Non-controlling Interest	49%	50%	40%		
Current assets	\$ 1,884,370,934	43,027,575	55,420,216	-	1,982,818,725
Non-current assets	487,717,286	22,350,539	20,429,367	-	530,497,192
Current liabilities	(586,861,436)	(18,216,644)	(58,385,068)	-	(663,463,148)
Non-current liabilities	(72,133,215)	(6,876,492)	(8,709,451)	-	(87,719,158)
Net assets	<u>\$ 1,713,093,569</u>	<u>40,284,978</u>	<u>8,755,064</u>	<u>9,424,279</u>	<u>1,771,557,890</u>
Net assets attributable to non-controlling interest	\$ 1,713,093,569	40,284,978	8,755,064	9,424,279	1,771,557,890
Revenue from ordinary activities	5,484,731,556	171,799,549	286,499,523	-	5,943,030,628
Profit or loss	928,534,218	13,990,175	(22,809,891)	-	919,714,502
OCI	47,744,914	(8,557)	-	-	47,736,357
Total comprehensive income	<u>\$ 976,279,132</u>	<u>13,981,618</u>	<u>(22,809,891)</u>	<u>-</u>	<u>967,450,859</u>

Earnings distributed to non-controlling interest	\$	454,981,767	6,995,088	(9,123,956)	2,032,137	454,885,036
Other comprehensive income distributed to non-controlling	\$	23,395,008	(4,279)	-	(3,732)	23,386,997
Cashflow from operating activities	\$	590,348,475	7,502,472	(20,275,273)	-	577,575,674
Cashflow from investment activities		(22,993,974)	298,569	(299,685)	-	(22,995,090)
Cashflow from financing activities		(358,377,167)	(13,396,583)	15,896,487	-	(355,877,263)
Net decrease of cash and cash equivalents	\$	208,977,334	(5,595,542)	(4,678,471)	-	198,703,321

December 31, 2022	Baseco, S. A. P. I. de C. V.	Moda Rapsodia, S. A. de C. V.	Downtown Guru, S. A. de C. V.	Other individually immaterial subsidiaries and Intra-group eliminations	Total
Percentage of Non-controlling Interest	49%	50%	40%		
Current assets	\$ 1,713,932,095	48,638,119	41,271,337	-	1,805,341,293
Non-current assets	455,844,004	23,613,447	20,827,299	-	500,284,750
Current liabilities	(550,160,013)	(25,156,361)	(35,925,214)	-	(612,741,330)
Non-current liabilities	(90,899,292)	(7,800,745)	(8,290,961)	-	(106,990,998)
Net assets	\$ 1,528,716,794	39,294,460	17,882,461	7,392,142	1,593,285,857
Net assets attributable to non-controlling interest	\$ 1,528,716,794	39,294,460	17,882,461	7,392,142	1,593,285,857
Revenue from ordinary activities	5,275,804,740	171,271,122	292,348,078	-	5,739,423,940
Profit or loss	829,752,229	14,467,556	950,395	-	845,170,180
OCI	(60,578,336)	584	-	-	(60,577,752)
Total comprehensive income	\$ 769,173,893	14,468,140	950,395	-	784,592,428

Earnings distributed to non-controlling interest	\$	406,578,592	7,233,778	380,158	1,243,081	415,435,609
Other comprehensive income distributed to non-controlling	\$	(29,683,385)	292	-	(1,586)	(29,684,679)
Cashflow from operating activities	\$	450,774,272	(18,436,017)	(3,758,252)	-	428,580,003
Cashflow from investment activities		(23,217,434)	18,395,670	(3,126,309)	-	(7,948,073)
Cashflow from financing activities		(254,523,768)	(6,391,458)	5,342,667	-	(255,572,559)
Net decrease of cash and cash equivalents	\$	173,033,070	(6,431,805)	(1,541,894)	-	165,059,371

Revenue

Revenue streams

Axo generates revenue primarily from the sale of goods to its customers and service contracts with its equity-accounted investees (associates).

		2023	2022
Sales of goods	\$	30,711,391,196	23,320,416,432
Discounts and returns		(6,137,576,425)	(4,415,990,149)
Revenue from services		134,832,317	143,140,195
Sales and service revenue, net	\$	24,708,647,088	19,047,566,478

Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by major products lines. The table also includes a reconciliation of the disaggregated revenue with Axo's reportable segments (see note 6).

REPORTABLE SEGMENTS**Clothes and accessories**

	<u>2023</u>	<u>2022</u>
Lifestyle	12,941,545,531	9,738,514,022
Off Price	6,498,109,876	5,627,359,826
Athletics & Outdoors	5,268,991,681	3,681,692,630
Total	<u>24,708,647,088</u>	<u>19,047,566,478</u>

Contract balances

The following table provides information about contract liabilities from contracts with customers.

	<u>2023</u>	<u>2022</u>
Contract liabilities	\$ 19,971,264	35,663,428
Contract liabilities from e-commerce revenue	91,394,351	105,773,231
	<u>111,365,615</u>	<u>141,436,659</u>

The contract liabilities primarily relate to the advance considerations received from customers during 2023 and 2022 for \$19,971,265 and \$10,991,553, respectively, for which revenue is recognized at a point of time once the merchandise is delivered to the customers.

As of December 31, 2023 and 2022, an amount of \$27,160,128 and \$24,671,875 is included as a liability for allowance of returns from e-commerce revenues and the sales discount for the Promoda discount program.

No information is disclosed about remaining performance obligations at December 31, 2023, and 2022, that have an original expected duration of one year or less, as allowed by IFRS 15.

Cost and general expenses

The following table shows the main line items of the costs and general expenses as of December 31, 2023 and 2022.

<u>December 31, 2023</u>	<u>Cost of sales</u>	<u>Selling expenses</u>	<u>Administrative expenses</u>
Cost of goods sold	\$ 12,197,563,392	-	-
Administrative services	-	1,500,335,169	1,548,856,796
Depreciation	-	-	627,468,506
Depreciation of right-of-use assets	-	29,060,927	1,232,243,499
Amortization	-	-	222,608,426
Rents	-	198,552,639	79,868,009
Fees	-	-	352,263,880
Goodwill impairment	-	-	218,683,832
Royalties	-	760,176,650	-
Store selling expenses	-	212,711,743	-
Advertising, promotional, and events	-	509,384,634	-
Logistic expenses	-	670,216,210	-
Commissions	-	368,704,345	10,170,963
Maintenance	-	348,845,189	57,074,509
Equity-settled share-based payments	-	-	111,173,067
Electricity	-	-	120,225,995
Others	15,447,356	118,333,746	491,156,327
Total	\$ 12,213,010,748	4,716,321,252	5,071,793,809

<u>December 31, 2022</u>	<u>Cost of sales</u>	<u>Selling expenses</u>	<u>Administrative expenses</u>
Cost of goods sold	\$ 9,855,593,502	-	-
Administrative services	-	1,181,358,241	974,844,041
Depreciation	-	-	473,280,215
Depreciation of right-of-use assets	-	37,061,798	900,570,856
Amortization	-	-	186,410,075
Rents	-	146,713,550	57,846,410
Fees	-	-	275,821,031
Royalties	-	645,274,529	-
Store selling expenses	-	176,201,391	-
Advertising, promotional, and events	-	379,467,673	-
Logistic expenses	-	428,835,374	-
Commissions	-	257,826,289	17,507,498
Maintenance	-	237,848,791	29,177,259
Equity-settled share-based payments	-	-	111,947,844
Electricity	-	-	86,896,648
Others	7,171,920	97,300,977	409,705,108
Total	\$ 9,862,765,422	3,587,888,613	3,524,006,985

		<u>2023</u>	<u>2022</u>
<i>Other income</i>			
Insurance recovery	\$	24,299,692	5,319,345
Facilities improvement recovery		13,764,743	12,268,750
Inflation effect on taxes		13,645,353	18,143,189
Minor income		6,025,496	3,686,754
Bonuses from suppliers and creditors		5,573,156	277,493
Gain from bargain purchase of business		-	183,354,278
Sale of key moneys		-	3,676,513
Other income		40,830,886	1,028,739
		<u>104,139,326</u>	<u>227,755,061</u>
		<u>2023</u>	<u>2022</u>
<i>Other expenses</i>			
Inflation effect on taxes	\$	1,526,237	2,090,431
Other expenses		4,271,604	-
		<u>\$ 5,797,841</u>	<u>2,090,431</u>

Share-based payment arrangements

A. Description of share-based payment arrangements

As of December 31, 2023 and 2022, Axo had the following share-based payment arrangements.

i. Employee Stock Option Plan ("ESOP") or Restricted Stock Units ("RSU")

On December 31, 2021, Axo established an ESOP that entitles key management personnel and senior employees to purchase Restricted Stock Units from the Company, with a vesting period of 3 years after each grant (33% vesting each year). The contractual life of these options is 6 years. Likewise, the shares will be vested in their entirety in the following cases:

- a) upon a full liquidity event by General Atlantic, in a change of control; or
- b) in case of an Initial Public Offering ("IPO"), 70% of non-vested shares will be vested 12 months after the IPO and the remaining 30% will be vested 24 months after the IPO.

This plan will be governed by the Compensation Committee and will not have voting rights. The plan contemplates non-compete and non-solicit clauses and can only be settled with equity instruments (equity-settled).

The key terms and conditions related to this program are as follows; all options will be settled by physical delivery of shares.

Grant date / employees entitled	Number of instruments in thousands	Vesting conditions	Contractual life of options
Options granted to key management personnel			
On December 31, 2022	1,427	33% per year from grant date.	6 years
Options granted to senior employees			
On December 31, 2022	1,849	33% per year from grant date.	6 years
Options granted to key management personnel			
On December 31, 2023	1,638	33% per year from grant date.	6 years
Options granted to senior Employees			
On December 31, 2023	1,849	33% per year from grant date.	6 years

B. Measurement of fair values

i. Equity-settled share-based payment arrangements

The fair value of the employee share options has been measured using the method of last relevant event. For the share options granted during 2023 and 2022, the inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows next page.

	Key management personnel		Senior employees	
	2023	2022	2023	2022
Fair value at grant date	157,641,457	\$115,421,646	224,926,499	154,824,410
Share price at grant date	153.35	121.62 ¹	-	121.62
Exercise price	153.35	121.62	-	121.62
Expected volatility (weighted-average)	0%	0%	0%	0%
Expected life (weighted-average)	6 years	6 years	0	6 years
Expected dividends	0%	0%	0%	0%
Risk-free interest rate (based on government bonds)	0%	0%	0%	0%

¹The price change corresponds to a dilution due to the capitalization of shares on July 4, 2022 mentioned in note 31.

The expected volatility has been based on the individual average of historical volatility compared with the implied volatility of different companies related to the sector.

ii. Expense recognized in profit or loss

The expense for the year ended December 31, 2023 and 2022 was \$111,173,067 and \$111,947,844, respectively.

Commitments and contingent liabilities

- (a) Axo has entered into service agreements with related companies to provide several services required for its operation for an indefinite period. Total service revenue amounted in 2023 and 2022 to \$148,085,964 and \$116,734,830, respectively.
- (b) Axo has entered into license agreements of royalties for the distribution of its several brands in Mexico, which are necessary for its operation and have different renewable terms for a similar period to their maturity. The payment of royalties and licenses fees amounted in 2023 and 2022 to \$760,176,650 and \$645,274,529, respectively, and are recognized in selling expenses in the consolidated statements of comprehensive income.

- (c) Axo is involved in several lawsuits and claims arising in the normal course of business. The outcome of these matters is not expected to have significant adverse effects on the Axo's financial position or profit or loss.
- (d) In accordance with Mexican tax law, the tax authorities are empowered to examine transactions carried out during the five years prior to the most recent income tax return filed. Axo does not expect any significant adverse effect related to such power of the tax authority.
- (e) In accordance with the Income Tax Law, companies that carry out transactions with related parties are subject to certain requirements regarding the determination of prices, which should be similar to those that would be used in arm's-length transactions. In the event that the tax authorities examine the transactions and reject the related-party prices, they could claim additional taxes plus the related inflation adjustment and interests, in addition to penalties of up to 100% of the omitted taxes. Axo carries out transfer pricing studies on an annual basis and at the reporting date there is no knowledge of possible contingencies.
- (f) Pursuant to the debt securities titles, the guarantor companies are required, among other things, to: I) Maintain their legal existence and under a going concern basis, maintain their accounting in accordance with the MFRS in Mexico, the IFRS or the Mexican Stock Exchange ("BMV", for its Spanish acronym) and keep in force all their rights, prerogatives, permits, contracts, licenses, concessions or authorizations that are necessary for the performance of their activities; II) Comply with and be up-to-date in the payment of all relevant tax contributions to which it is obliged except for the exceptions indicated therein; III) Axo must maintain and will enforce its subsidiaries to keep in effect the distribution or licenses agreements entered into with the different suppliers; among other requirements.

Accounting standards issued but not yet effective

A number of new accounting standards are effective for annual periods beginning after January 1, 2024, and early application is permitted; however, Axo has not early adopted the new or amended accounting standards in preparing these consolidated financial statements.

a) Classification of liabilities as current or non-current and Non-current liabilities with covenants (Amendments to IAS 1)

The amendments, as issued in 2020 and 2022, aim to clarify the requirements on determining whether a liability is current or non-current, and require new disclosures for non-current liabilities that are subject to future covenants. The amendments apply for annual reporting periods beginning on or after January 1, 2024.

Axo estimate this amendment will not have any effect on its Financial Statements since current and non-current liabilities are presented depending on the counterparty rights.

b) Supplier finance arrangements (Amendments to IAS 7 and IFRS 7)

The amendments introduce new disclosures relating to supplier finance arrangements that assist users of financial statements to assess the effects of these arrangements on an entity's liabilities and cash flows, as well as on liquidity risk exposure. These amendments apply for annual periods beginning on or after January 1, 2024.

Axo estimate this amendment could have effects on its Financial Statements, whereby the Company is currently analyzing the Supplier Finance Arrangements where its involved.

c) IFRS 18 – Presentation and Disclosure in Financial Statements

On March 28, 2024, the International Accounting Standards Board (IASB) announced that expects to issue IFRS 18 Presentation and Disclosure in Financial Statements on 9 April 2024. The issuance of IFRS 18 will replace International Accounting Standard (IAS) 1: "Presentation of Financial Statements", which has been effective globally since 2001.

While IFRS 18 will improve the transparency and comparability of financial information by providing new relevant disclosures, particularly on financial performance, its adoption will imply the following challenges:

- The new standard will be effective on January 1, 2027, early adoption is permitted; however, its application will be universal, meaning that it will affect all entities that apply IFRS, regardless of their line of business.
- Although certain guidelines of IAS 1 are included in IFRS 18, the latter establishes new accounting requirements for the presentation and disclosures in the financial statements, among which the following stand out:

- a) Subtotals in the income statement
- b) Categories for classifying income and expenses in the income statement: operating, investing and financing.
- c) Principles and requirements for aggregating and disaggregating the information presented in the financial statements.
- d) Requirements for management performance measures or performance measures to be disclosed in the notes to the financial statements.
- e) Disclosures including reconciliations between information prepared under IFRS 18 and IAS 1.
- f) Definition of the line item to be used as a starting point in the statement of cash flows using the indirect method.

g) Classification criteria in the statement of cash flows applicable to interest and dividends

- The only way to implement IFRS 18 will be through retrospective application, i.e., the comparative information in the income statement and applicable notes will have to be restated.

These multiple changes and new requirements described above, could represent costs of implementation and for the continuing application of IFRS 18; however, at this time Axo has not started with this assessment and, therefore, we are not able to quantify the potential impacts on our consolidated financial statements.

d) Other accounting standards

The following amendments to accounting standards are not expected to have a significant impact on the Company's Financial Statements.

- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Lack of Exchangeability (Amendments to IAS 21)

Subsequent events

On March 20, 2024 was informed that a debt securities exchange will be made on March 27, 2024 due to the acquisition of Komax S.A. as the new guarantor of the "AXO 19-2" and "AXO 16-2" debt securities.

On March 15, 2024, the shareholders of Grupo Guess, S. de R.L. de C. V., unanimously approved to declared up to \$400,000,000.00 pesos (four hundred million pesos). The dividends must be paid to the shareholders as follows: (i) \$300,000,000.00 pesos (three hundred million pesos) on March 15, 2024 and (ii) \$100,000,000.00 pesos (one hundred million pesos) will be paid before October 15, 2024.

On March 14, 2024 Grupo Axo, S.A.P.I. of C.V. entered into a joint venture agreement with Ultra Beauty, Inc. in order to launch and operate Ultra Beauty in Mexico in 2025.

On March 1, 2024, the shareholders of Grupo Axo, S. A. P. I. de C. V., unanimously approved the payment of a preferential dividend to Series "F" shareholders, holders of 1,233,726 shares, at a rate of \$42 per share. It was approved that such dividends will be paid with the balance of the retained earnings balance from previous years.

On February 28, 2024, the shareholders of Baseco, S. A. P. I. de C. V. ("Baseco") approved the payment of a dividend to the shareholders of Axo, up to the amount of \$900,000,000.00 pesos (nine hundred million pesos), from Baseco's net tax profit account, and were paid on February 29, 2024.

On February 16, 2024, the entities Distribuidora Guess Chile Limitada and Grupo Guess Perú S.R.L. signed an agreement with Grupo Axo S.A.P.I. de C.V., Komax S.A. and Komax Perú S.A.C., subsidiaries of Axo, to operate the Guess brand in Chile and Peru, which includes the operation of 8 stores in Chile and 7 stores in Peru, as well as the online and wholesale channels.
