

# Risk Management



## Integral

GRI 2-12, 2-13, TCFD GDR-C

At El Puerto de Liverpool, we are aware of the risks that could affect our activities, including ESG risks (focused on environmental, social, and corporate governance aspects). Our objective is to address them in a preventive manner with precaution and mitigation plans.

Risk identification is carried out by different specialized teams depending on the type of risk, which also propose prevention and mitigation measures.

At the Group level, we delimit corporate governance and regulatory compliance risks; in the operation, by store, we integrated compliance and environmental performance risks. This year at the company level, we added the analysis of possible risks and obstacles to the progress of our Sustainability Strategy, as well as those related to climate change (read the following section). In addition, we have a matrix of the main financial and ESG risks.

The compliance team is responsible for the identification of regulatory risks and participates in the implementation of controls.

Regarding climate change risks, as of 2023, they will be reported to the compliance team given their recent identification.

We also promote a culture of risk prevention among our employees. This is especially true for environmental risks, in which we instruct those positions mostly related (e.g., maintenance managers, store managers, etc.). Additionally, our staff is trained in health and safety, to prevent accidents and promote self-care.

In terms of labor issues, we also encourage our employees to be alert to any risks they identify and report them to their immediate supervisor. Moreover, the human capital team of every location works closely with the corporate team to respond and prevent these risks.

In environmental matters, we have an experienced team that analyzes the operation of our locations, identifying critical points from which internal audits are carried out, risks are identified, and a response is given; this is aligned with our environmental management standard, based on the ISO 14001 standard.

Physical risks involving infrastructure damages, are communicated, and handled by our internal personnel under the policies and protocols for the mitigation of incidents. In this way, with the commitment and support of all our collaborators, we advance towards a stronger management.

The following table shows a classification of risks by potential impact; each risk can have multiple causes (e.g., climate change incidence).

## MAJOR RISKS – EL PUERTO DE LIVERPOOL

Risk	Description
<b>Market</b>	
Consumer spending	Customer spending may be affected by many factors beyond our control, including the economic conditions, the disposable income levels of Customers, consumer confidence levels, the cost of basic needs, among others. It also considers the seasonality of Customer spending.
Competition in the retail industry	There are several competitors at both the national and local levels in Mexico, including omni-channel retailers, traditional department stores, e-commerce and mail order retailers, and informal retailers which may sell products like those we commercialize.
Consumer preferences	Given that Customer preferences change rapidly, we need to be aware to anticipate significant patterns, manage inventories and avoid the need to sacrifice profit margins.
Sales channel strategy	The evolution of the omnichannel strategy, through the combination of the network of physical stores and stores with the development of digital channels, to create an integrated experience for the Customer.
Real estate sector dynamics	There may be a negative impact by the evolution of land prices, the availability of land, the evolution of leasing costs, the competitiveness of our rates and the tenants' ability to pay.
<b>Regulatory</b>	
Regulations related to marketing and product information	Evolution of regulatory and normative provisions, involved in the relationship with the Customer/potential Customer, especially regarding information on promotions, discounts, payment terms, and other sensitive aspects.
Information privacy regulations	Evolution of regulatory and normative provisions on managing Customer information, preventing it from being used without their consent. This is complemented by the mitigation of cybersecurity risks.
Environmental, labor and health and safety laws	Evolution of the regulatory and normative provisions linked to water discharges and waste treatment, as well as those for the promotion of the circular economy that involve the Customer. Additionally, the provisions on labor relations, specialized services and occupational health and safety measures.

<b>Operational</b>	
Supply chain disruptions	Ability to find qualified suppliers and access products in a timely and efficient manner, especially outside of Mexico. Likewise, product availability, given the difficulties experienced in global trade.
ESG practices in supply chains	Implementation of quality standards and practices in environmental, social (labor practices) and governance (and ethics) issues with our suppliers. For this purpose, an analysis is available within the Responsible Purchasing Program framework, in line with El Puerto de Liverpool's strict guidelines.
Talent acquisition and retention	Includes the availability and commitment of management teams and strategic personnel, as well as the availability of collaborators in the workforce, in the face of other employment alternatives, especially in the most innovative positions, such as those linked to technology.
Interference and/or interruptions in the systems	Includes possible damage to the computer systems' infrastructure, and possible attempted attacks through the network, which could compromise the operation of the systems and the safeguarded information.
<b>Financial</b>	
Capital availability	Potential capital requirements, especially in capex, used to upgrade the network of shopping centers, stores, and department stores, as well as the logistics infrastructure for distribution. There may be difficulties on accessing additional capital.
Customer's ability to pay	Possible difficulties from Clients in the credit segment, to meet their payment obligations, due to the volatile economic and social environment.
Evolution of product prices	Conditions that cause the price of the products to increase, in a generalized manner and/or particularly, for certain types and/or source. For example, the impact that the volatile price of fuels may have.
Operating input and utility price evolution	Conditions that cause our operating costs to rise, such as the cost of fuel used for our distribution.
Exchange rate volatility	Given the acquisition of products in USD, related to commercializing imports from abroad, when the merchandise is sold in Mexico in local currency.
<b>Physical</b>	
Locations' remodeling or repair	Damage to infrastructure, products and/or merchandise due to natural phenomena, such as heavy rain, floods, lightning, tornadoes, or hurricanes, among others.
Consequential losses	From the closure of locations due to direct damage or from closure during an event and/or collateral damage.
Failure in merchandise delivery	From damage occurring in distribution centers or stores that prevent the delivery of sold merchandise or inventory assortment, as well as from the obstruction of communication routes that obstruct logistic traffic.

Climate change is one of the causes and/or accelerator of part of the risks presented in the previous section. In the following section, we detail this connection and the implications for our Company.

Related to emerging risks, there are three, that we consider to be directly related to people:



- **Change in consumer expenditure patterns**, related to the type of product they want and the channels through which they are acquired. The connection is as follows:

- 1) the evolution of digital media, e-commerce, and omni-channel.
- 2) the trend to “use over acquisition”, in an economic practice that promotes collaborative/sharing models.

- **Impact of climate change** on two aspects, especially on the textile portfolio:
  - 1) product and sale seasonality
  - 2) raw material availability for suppliers.

- **Labor market evolution**, the requirements of the next generations to join the workforce, talent availability in emerging professions and the competition for operational talent with other sectors in the evolution of Mexico’s economic activities.

### Climate change risks and opportunities

GRI 3-3, TCFD EST-A, EST-B, EST-C, GDR-A, GDR-B, GOB-B

At El Puerto de Liverpool, we are aware of the wide range of risks and opportunities to which we are exposed, particularly the major challenge that climate change represents for our industry worldwide. Therefore, in 2022 we began our risk and opportunity analysis related to climate change, to ensure we are aligned with the recommendations of the Climate-Related Financial Disclosures (TCFD) task force.

We develop the process through the following activities:

1. We identified our sector’s potential risks and opportunities, integrating Mexico’s background, into the analysis.
2. The potential risks and opportunities identified were presented in workshops with strategic teams to integrate every perspective on the impact our business strategy could suffer. During these workshops, we evaluated the following: severeness, probability of happening and mitigation/exploitation potential; as a result, the 10 main risks and opportunities for El Puerto de Liverpool were obtained.



3. For our main risks, based on the above, a scenario analysis was performed under two term horizons, 2030 and 2050. The scenarios are the following:

**For physical risks:**

- RCP1 8.5: High-emissions scenario with no changes in mitigation policies. This is the worst scenario in terms of potential impacts, since it considers an increase in temperatures of between 2.6 and 4.8°C above pre-industrial levels, by 2100.
- RCP 4.5: This scenario contemplates relatively ambitious mitigation actions, where GHG emissions increase slightly, before decreasing around 2040. This scenario considers a temperature increase of between +1.1 and 2.6°C above pre-industrial levels.

**For transition risks, two International Energy Agency (IEA) scenarios were addressed:**

- Business as-usual (BAU): STEPS2-based scenario, which performs a business-as-usual trajectory including existing and announced government policies and plans. This scenario contemplates a temperature increase of 2.5°C above pre-industrial levels.
- APS3: This higher mitigation scenario considers the full implementation of announced plans and policies, as well as stricter climate targets. The temperature reduction achieved under this scenario would be 1.7°C, by the end of the century.

4. Based on the scenario projections, risks and opportunities were rated as high, moderate, low, or uncertain, subject to the projected significance each risk and opportunity reports, compared to the current situation.

The identification of these risks and opportunities will allow us to:

- Develop and implement initiatives to enhance our operations' resilience. Identify and
- prevent related financial impacts. Integrate
- identified climate opportunities into our business strategy.

The following tables show the risks and opportunities identified, as well as the classification assigned under each scenario and time horizon.

We present the result, according to TCFD's proposed nomenclature:

**Transition risks:**

Those associated with changes towards a low-carbon economy (e.g., in legislation to mitigate and address climate change).

**Physical hazards:**

Those associated with higher intensity events and/or long-term changes in weather patterns (e.g., temperature). They can cause damage to infrastructure, affect operational stability, etc.

<sup>1</sup> RCP: Representative Concentration Pathway provided by the IPCC.

<sup>2</sup> STEPS: Stated Policies Scenario

<sup>3</sup> APS: Announced Pledges Scenario