

Sigma Alimentos, S. A. de C. V. and subsidiaries
Consolidated Financial Statements
December 31, 2016 and 2015

Sigma Alimentos, S. A. de C. V. and subsidiaries

Index

December 31, 2016 and 2015

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Report of independent auditors

To the Shareholders and Directors of
Sigma Alimentos, S. A. de C. V. and subsidiaries

Monterrey, N.L., February 17, 2017

Opinion

We have audited the consolidated financial statements of Sigma Alimentos, S. A. de C. V. and subsidiaries (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2016 and 2015, and the related consolidated statements of income, of other comprehensive income, of changes in stockholders' equity and of cash flows for the years then ended, as well as the explanatory notes to the consolidated financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent from the Company in accordance with the Ethics Code of the Mexican Institute of Public Accountants, A.C., and with other requirements applicable to our audits of consolidated financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with those requirements and that Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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



Key audit matter

How our audit addressed the key audit matter

Business combinations

As mentioned in Note 2 a to the consolidated financial statements, in the year ended on December 31, 2016 the Company finalized the following business combinations:

- On July 31, 2015, a strategic alliance was signed by Sigma Alimentos, S. A. de C. V. ("Sigma") and Kinesis Food Service, S. A. de C. V. ("Kinesis"), whereby Sigma acquires control of the operations of a group of subsidiaries collectively identified as "PACSA", with the subscription of all PACSA voting shares. The total consideration was \$494 million and the fair value of acquired assets, assumed liabilities and goodwill determined and recognized at the acquisition date amounted to \$689 million, \$269 million and \$74 million, respectively.
- On August 31, 2015, Sigma acquired the totality of the shares of Elaborados Carnicos, S. A. ("ECARNI"), a company in Ecuador engaged in the raising, buying and selling cattle, pigs and sheep, and industrializing and selling the related byproducts. The total consideration of those operations was \$883 million and the fair value of acquired assets, assumed liabilities and goodwill determined and recognized at the acquisition date amounted to \$877 million, \$233 million and \$239 million, respectively.

We focused on the recognition of those acquisitions in our audit, mainly because of the importance of the fair value of the acquired assets and assumed liabilities and because the determination of those items requires applying significant judgments based on a wide range of complex variables, such as negative factors, EBITDA multiples, sales multiples and determination of the useful lives of assets.

We particularly focused on the most relevant identified assets, specifically:

Because of the significant judgments applied by Management in the valuation models for determining the consideration, the fair values of the acquired assets and assumed liabilities, particularly in the case of property, plant and equipment, as well as the intangible assets, we involved our valuation experts to selectively evaluate the assumptions and criteria used by Management and its independent expert in these models. Namely:

- We assessed the capability and independence of the independent expert.
- With the help of our valuation experts, we matched the models used by Management in determining fair values to those used and recognized in assessing assets of a similar nature in the industry. Likewise, we verified that equally recognized methods were used in calculating the terminal value, which is based on a normalized cash flow.
- We challenged Management's financial projections, including the terminal value, by comparing it to the performance and historical trends of the Company's businesses, for which purpose we obtained Management's explanations, where available, of any differences, as well as the related supporting evidence.
- We assessed that Management's projections were consistent with the budgets approved by the Company's Board.
- We compared the budgeted figures to actual results to identify if any of the assumptions contemplated in the projections could be considered to be very optimistic.
- We compared the most relevant valuation assumptions (applied discount rate, betas, negative factors, EBITDA multiples, and sales multiples, as well as the assessment of the useful life of assets) against independent market sources for the industry in which each entity of the Company develops.



(i) property, plant and equipment of \$105 million, and intangible assets composed of brands of \$3 million, non-compete agreements of \$49 million and customer relationships of \$326 million for PACSA; and

(ii) property, plant and equipment of \$160 million, and intangible assets composed of brands of \$62 million, non-compete agreements of \$72 million and customer relationships of \$336 million for ECARNI.

Intangible asset impairment assessment

As described in Note 12 to the consolidated financial statements, the Company performs annual impairment tests to the balance of intangible assets with indefinite useful lives.

We have focused on this matter due to the importance of the balance of intangible assets for the Company's consolidated financial statements, which is comprised of goodwill of \$10,911 million, brands of \$12,690 million, development costs of \$125 million, customer relationships of \$1,660 million, software and licenses of \$1,195 million and others of \$83 million, and because impairment testing requires applying significant judgment by the Company's Management in determining the assumptions and premises related to the estimation of the recoverable value of the cash generating units ("CGUs").

In particular, we focused on the following significant assumptions that the Company considered when estimating future projections to assess the recoverability of intangible assets: industry growth rate, significant new projects and customers, estimated revenue, expected gross profit margin and projected EBITDA. Certain intangible assets require an impairment assessment only if there are indicators.

As part of our audit, we assessed future cash flow projections prepared by Management and the processes followed to prepare them. Specifically, we assessed whether all relevant CGUs were identified and whether internal processes were carried out by Management to prepare its projections, including timely oversight and analysis by the Board of Directors, and whether the projections are consistent with budgets approved by the Board.

Due to the significant judgments used in the valuation models for determining recovery values, our valuation experts assisted us in questioning the premises and criteria used by Management and its independent expert in such models, which include the procedures set down below.

- We assessed the capability and objectivity of the independent expert.
- We verified that the methods applied in determining the recovery values of assets correspond to those used and recognized in valuing similar assets.
- We challenged the financial projections, including terminal value, matching them to the performance and historical trends of the Company, and obtained and verified Management's explanations of any variations.



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- We compared actual results for the current year with the figures budgeted for prior year to determine whether any of the assumptions included in those projections could be considered very optimistic.
 - We compared the most relevant valuation assumptions (industry growth rate, new projects and significant customers, expected gross income margin and projected) and verified that they are consistent with those commonly used and accepted for assets of these characteristics for the industry in which the Company operates.

We discussed with Management the sensitivity calculations for all CGUs and evaluated the extent to which the assumptions would need to be modified for impairment to be required. Moreover, we discussed with Management the probability of those changes being made.

With respect to the significant judgment required to group CGUs, we analyzed and considered the following aspects:

- Understanding of the workings of the commercial and sales strategy area
- Understanding of the production allocation
- Analysis of the operating cash flows and indebtedness policies
- Analysis of the legal structure

Assessment of the estimation and recoverability of deferred income tax

As described in Note 17 to the consolidated financial statements, the Company recorded deferred an income tax asset as a result of tax losses; therefore, Management performed an assessment of its recoverability before recognizing it in its financial statements.

We have focused on this item in our audit due to the importance of the deferred income tax asset balance arising from tax losses as of December 31, 2016 (\$2,995 million) and because the estimation

As part of our audit, we evaluated the projections used to determine the recovery of the deferred income tax asset arising from tax losses. We compared these projections to those used to determine the recoverable value of the aforementioned intangible assets, to which we applied procedures similar to those indicated above.



of its recoverable value requires applying significant judgments by Company Management; specifically, in determining the Company's future expected income, future projections, as well as future tax results.

Specifically, we focused our audit efforts on the projections and the items mentioned in the preceding paragraph.

With the support of experts, we also evaluated and considered the projected tax results prepared by Management, as well as the processes used to prepare them, by applying the above procedures to them.

We also challenged, with the support of our tax experts, the assumptions used by Management in preparing the tax projections.

We compared the actual results of the current year to the budgeted figures of the previous year for the current year, to consider whether any assumptions included in the projections could be considered very optimistic.

Likewise, as discussed above, we discussed sensitivity calculations with Management and assessed the extent to which assumptions would need to be modified to require an adjustment.

Additional Information

Management is responsible for the additional information presented. The additional information comprises the Annual Report presented to Comisión Nacional Bancaria y de Valores ("CNBV") and the Annual Information presented to shareholders (but does not include the consolidated financial statements and our auditor's report thereon), which are expected to be made available to us after the date of this report.

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

However, in connection with our audit of the Company's financial statements, our responsibility is to read the additional information identified above when it becomes available and, in doing so, consider whether said information is materially inconsistent with the consolidated financial statements or our knowledge obtained from the audit, or otherwise appears to be materially misstated.

When we read the additional information not yet received, we will issue the report required by the CNBV and if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if required, describe the issue in our report.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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



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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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



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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Miguel Angel Puente Buentello.

PricewaterhouseCoopers, S. C.

A handwritten signature in black ink, appearing to read "Miguel Angel Puente Buentello", written over a faint, illegible printed name.

C.P.C. Miguel Angel Puente Buentello
Audit Partner

Sigma Alimentos, S. A. de C. V. and subsidiaries
Consolidated Statements of Financial Position
December 31, 2016 and 2015

(In thousands of Mexican pesos)

| <u>Assets</u> | <u>Note</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-----------------------|----------------------|
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | 6 | Ps 12,837,614 | Ps 8,448,094 |
| Restricted cash | 7 | 123,973 | 215,073 |
| Customers and other accounts receivable, net | 8 | 9,039,428 | 7,875,384 |
| Recoverable income tax | | 846,056 | 664,842 |
| Inventories | 9 | 13,751,274 | 12,018,969 |
| Prepaid expenses and others | | <u>343,884</u> | <u>327,808</u> |
| Total current assets | | <u>36,942,229</u> | <u>29,550,170</u> |
| NON-CURRENT ASSETS: | | | |
| Property, plant and equipment, net | 11 | 33,089,282 | 26,598,056 |
| Goodwill and intangible assets, net | 12 | 26,664,845 | 23,243,322 |
| Deferred income taxes | 17 | 2,995,464 | 1,956,551 |
| Investments accounted for using the equity method and others | 13 | <u>1,068,949</u> | <u>1,839,821</u> |
| Total non-current assets | | <u>63,818,540</u> | <u>53,637,750</u> |
| Total assets | | <u>Ps 100,760,769</u> | <u>Ps 83,187,920</u> |
| <u>Liabilities and Stockholders' equity</u> | | | |
| CURRENT LIABILITIES: | | | |
| Current debt | 16 | Ps 442,237 | Ps 2,413,177 |
| Suppliers and other accounts payable | 15 | 26,098,551 | 20,225,792 |
| Income taxes payable | 17 | 667,648 | 737,831 |
| Provisions | 18 | 211,005 | 207,763 |
| Other liabilities | 19 | <u>299,624</u> | <u>217,355</u> |
| Total current liabilities | | <u>27,719,065</u> | <u>23,801,918</u> |
| NON-CURRENT LIABILITIES: | | | |
| Non-current debt | 16 | 47,400,372 | 38,885,415 |
| Provisions | 18 | 348,473 | 576,246 |
| Deferred income taxes | 17 | 3,846,026 | 3,876,662 |
| Income taxes payable | 17 | 2,460,047 | 398,749 |
| Employee benefits | 20 | 1,117,998 | 951,176 |
| Other liabilities | 19 | <u>821,219</u> | <u>344,554</u> |
| Total non-current liabilities | | <u>55,994,135</u> | <u>45,032,802</u> |
| Total liabilities | | <u>83,713,200</u> | <u>68,834,720</u> |
| STOCKHOLDERS' EQUITY: | | | |
| Controlling interest | | | |
| Capital stock | 21 | 27,081 | 27,081 |
| Share premium | | 666,988 | 666,988 |
| Retained earnings | 21 | 15,522,200 | 13,504,111 |
| Other reserves | 21 | <u>213,317</u> | <u>(344,605)</u> |
| Total controlling interest | | 16,429,586 | 13,853,575 |
| Non-controlling interest | 14 | <u>617,983</u> | <u>499,625</u> |
| Total stockholders' equity | | <u>17,047,569</u> | <u>14,353,200</u> |
| Total liabilities and stockholders' equity | | <u>Ps 100,760,769</u> | <u>Ps 83,187,920</u> |

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


 Mario H. Páez González
 Chief Executive Officer



 Eugenio Caballero Sada
 Chief Financial and Marketing Officer

Sigma Alimentos, S. A. de C. V. and subsidiaries
Consolidated Statements of Income
For the years ended December 31, 2016 and 2015

(In thousands of Mexican pesos)

| | <u>Note</u> | <u>2016</u> | <u>2015</u> |
|---|-------------|----------------------|----------------------|
| Net sales | | Ps 106,340,864 | Ps 93,567,683 |
| Cost of sales | 24 | <u>(75,369,775)</u> | <u>(66,707,923)</u> |
| Gross profit | | 30,971,089 | 26,859,760 |
| Selling expenses | 24 | (17,397,744) | (15,329,767) |
| Administrative expenses | 24 | (4,578,817) | (4,132,152) |
| Other (expenses) income, net | 25 | <u>(475,656)</u> | <u>3,506,215</u> |
| Operating profit | | <u>8,518,872</u> | <u>10,904,056</u> |
| Financial income, including foreign exchange gain of Ps1,937,953 in 2016 and Ps807,658 in 2015, respectively | 26 | 2,070,722 | 900,898 |
| Financial expenses, including foreign exchange loss of Ps2,434,212 in 2016 and Ps1,791,262 in 2015, respectively | 26 | <u>(4,827,691)</u> | <u>(3,507,382)</u> |
| Financial costs, net | | <u>(2,756,969)</u> | <u>(2,606,484)</u> |
| Share in profit (loss) of associates accounted for using the equity method | | <u>50,236</u> | <u>(401,413)</u> |
| Profit before income tax | | 5,812,139 | 7,896,159 |
| Income taxes | 28 | <u>(859,554)</u> | <u>(1,586,017)</u> |
| Net consolidated profit | | <u>Ps 4,952,585</u> | <u>Ps 6,310,142</u> |
| Profit (loss) attributable to: | | | |
| Controlling interest: | | Ps 4,919,166 | Ps 6,335,145 |
| Non-controlling interest: | 14 | <u>33,419</u> | <u>(25,003)</u> |
| | | <u>Ps 4,952,585</u> | <u>Ps 6,310,142</u> |
| Earnings per basic and diluted share, in pesos | | <u>Ps 3.81</u> | <u>Ps 4.91</u> |
| Weighted average of outstanding shares | | <u>1,290,654,555</u> | <u>1,290,654,555</u> |

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


Mario H. Páez González
Chief Executive Officer


Eugenio Caballero Sada
Chief Financial and Marketing Officer

Sigma Alimentos, S. A. de C. V. and subsidiaries
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2016 and 2015

(In thousands of Mexican pesos)

| | <u>Note</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|---------------------|---------------------|
| Net consolidated profit | | <u>Ps 4,952,585</u> | <u>Ps 6,310,142</u> |
| Other comprehensive income for the year: | | | |
| Items not to be reclassified to the statement of income | | | |
| Remeasurement of obligations for employee benefits, net of tax | 20 and 28 | 37,095 | (7,178) |
| Items to be reclassified to the statement of income | | | |
| Effect of translation of foreign entities | 20 and 28 | <u>605,766</u> | <u>(1,082,583)</u> |
| Total other comprehensive income for the year | | <u>642,861</u> | <u>(1,089,761)</u> |
| Consolidated comprehensive income | | <u>Ps 5,595,446</u> | <u>Ps 5,220,381</u> |
| Attributable to: | | | |
| Controlling interest | | Ps 5,477,088 | Ps 5,481,800 |
| Non-controlling interest | | <u>118,358</u> | <u>(261,419)</u> |
| Comprehensive income for the year | | <u>Ps 5,595,446</u> | <u>Ps 5,220,381</u> |

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



Mario H. Páez González
 Chief Executive Officer



Eugenio Caballero Sada
 Chief Financial and Marketing Officer

Sigma Alimentos, S. A. de C. V. and subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2016 and 2015

(In thousands of Mexican pesos)

| | Note | Capital stock | Share premium | Retained earnings | Other reserves | Total controlling interest | Non-controlling interest | Total stockholders' equity |
|---|------------|---------------|---------------|-------------------|----------------|----------------------------|--------------------------|----------------------------|
| Balances at January 1, 2015 | | Ps 27,081 | Ps 666,988 | Ps 11,030,837 | Ps 746,622 | Ps 12,471,528 | Ps 3,470,657 | Ps 15,942,185 |
| Transactions with stockholders: | | | | | | | | |
| Change in functional currency of controlling entity | 3c | | | | (363,767) | (363,767) | - | (363,767) |
| Dividends declared | 21 | | | (1,922,105) | - | (1,922,105) | - | (1,922,105) |
| Dividends canceled | 21 | | | 842,922 | - | 842,922 | - | 842,922 |
| Changes in the non-controlling interest | 2c | | | (2,656,803) | - | (2,656,803) | (2,709,613) | (5,366,416) |
| Total transactions with stockholders | | | | (3,735,986) | (363,767) | (4,099,753) | (2,709,613) | (6,809,366) |
| Net profit | | | | 6,335,145 | - | 6,335,145 | (25,003) | 6,310,142 |
| Total other comprehensive income for the year | 21 | | | (125,885) | (727,460) | (853,345) | (236,416) | (1,089,761) |
| Comprehensive income | | | | 6,209,260 | (727,460) | 5,481,800 | (261,419) | 5,220,381 |
| Balances at December 31, 2015 | | 27,081 | 666,988 | 13,504,111 | (344,605) | 13,853,575 | 499,625 | 14,353,200 |
| Transactions with stockholders: | | | | | | | | |
| Put option held by Non-controlling interest | 3.x and 21 | | | (1,187,996) | - | (1,187,996) | - | (1,187,996) |
| Dividends declared | 21 | | | (1,713,081) | - | (1,713,081) | - | (1,713,081) |
| Total transactions with stockholders | | | | (2,901,077) | - | (2,901,077) | - | (2,901,077) |
| Net profit | | | | 4,919,166 | - | 4,919,166 | 33,419 | 4,952,585 |
| Total other comprehensive income for the year | 21 | | | - | 557,922 | 557,922 | 84,939 | 642,861 |
| Comprehensive income | | | | 4,919,166 | 557,922 | 5,477,088 | 118,358 | 5,595,446 |
| Balances at December 31, 2016 | | Ps 27,081 | Ps 666,988 | Ps 15,522,200 | Ps 213,317 | Ps 16,429,586 | Ps 617,983 | Ps 17,047,569 |

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



Mario H. Páez González
 Chief Executive Officer




Eugenio Caballero Sada
 Chief Financial and Marketing Officer

Sigma Alimentos, S. A. de C. V. and subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015

(In thousands of Mexican pesos)

| | Note | <u>2016</u> | <u>2015</u> |
|--|------|----------------------|---------------------|
| Cash flows from operating activities | | | |
| Profit before income taxes | | Ps 5,812,140 | Ps 7,896,159 |
| Depreciation and amortization | 24 | 3,494,252 | 2,829,566 |
| Costs associated with seniority premiums and pension plans | 20 | 118,823 | 105,620 |
| Gain on sale of property, plant and equipment | 25 | (16,891) | (2,429) |
| Exchange fluctuation, net | 26 | 496,259 | 983,604 |
| Interest accrued | 26 | 2,335,329 | 1,657,909 |
| Interest income | 26 | (106,360) | (69,152) |
| Other operating expenses | | 466,651 | 666,377 |
| Increase in customers and other accounts receivable | | (237,402) | (840,841) |
| Increase in inventories | | (363,402) | (949,602) |
| Increase in suppliers and other accounts payable | | 2,812,060 | 484,516 |
| Income taxes paid | | <u>(233,927)</u> | <u>(989,220)</u> |
| Net cash generated from operating activities | | <u>14,577,532</u> | <u>11,772,507</u> |
| Cash flows from investing activities | | | |
| Business acquisitions, net of cash acquired | 2 | (84,919) | (1,320,417) |
| Interest received | | 101,224 | 58,658 |
| Acquisition of intangible assets | | (100,564) | (163,077) |
| Acquisition of property, plant and equipment | 11 | (6,088,859) | (3,505,521) |
| Sale of property, plant and equipment | 25 | <u>16,891</u> | <u>2,429</u> |
| Net cash used in investing activities | | <u>(6,156,227)</u> | <u>(4,927,928)</u> |
| Cash flows from financing activities | | | |
| Proceeds from loans and debt | | 17,693,462 | 7,149,185 |
| Payments of loans and debt | | (18,987,768) | (2,656,075) |
| Interest paid | | (2,262,368) | (1,697,641) |
| Dividends paid to owners | | (1,713,081) | (1,080,300) |
| Changes in the non-controlling interest | 2c | <u>-</u> | <u>(5,366,416)</u> |
| Net cash used in financing activities | | <u>(5,269,755)</u> | <u>(3,651,247)</u> |
| Net increase in cash and cash equivalents | | 3,151,550 | 3,193,332 |
| Exchange fluctuation on cash and cash equivalents | | 1,237,970 | 342,750 |
| Cash and cash equivalents at the beginning of the year | 6 | <u>8,448,094</u> | <u>4,912,012</u> |
| Cash and cash equivalents at the end of the year | 6 | <u>Ps 12,837,614</u> | <u>Ps 8,448,094</u> |

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


 Mario H. Páez González
 Chief Executive Officer


 Eugenio Caballero Sada
 Chief Financial and Marketing Officer

Sigma Alimentos, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

Thousands of Mexican pesos

Note 1 - Operations of SIGMA companies:

Sigma Alimentos, S. A. de C. V. and subsidiaries ("SIGMA" or the "Company"), a subsidiary of Alfa, S. A. B. de C. V. (ALFA), is a company engaged in the production, sale and distribution of processed meat, dairy products, and other refrigerated and frozen foods. It operates through various subsidiary companies.

The Company conducts manufacturing operations in Mexico, the U.S.A., Costa Rica, El Salvador, the Dominican Republic, Peru, Ecuador, Spain, France, Italy, the Netherlands, Belgium and Portugal. The Company sells its products to more than 530,000 customers through different distribution channels in those countries as well as in Germany, Honduras, Nicaragua, Guatemala and 80 more countries through independent distributors. Distribution channels include the modern channel that consists of supermarkets, hypermarkets and convenience stores; the traditional channel that consists of small grocery stores, traditional butchers, delicatessens and wholesalers; and the foodservice channel that consists of hotels, restaurants, hospitals, among others. Sigma has maintained a close relationship for at least 15 years with some of its major customers in Mexico, the United States and Europe, which has allowed the Company to develop different businesses that provide added value to its operations. Its large brand portfolio has managed to cover different socioeconomic levels, allowing the Company to diversify its sales through a variety of markets.

SIGMA is located in Avenida Gómez Morín Sur No. 1111, Col. Carrizalejo, San Pedro Garza García, Nuevo León, México.

In the following notes to the financial statements, references to pesos or "Ps" mean thousands of Mexican pesos. References to "US\$" or dollars, mean thousands of dollars of the United States. References to "€", means thousands of euros.

Note 2 - Acquisitions and other significant events:

2016

a. Debt refinancing process

In May 2016, SIGMA refinanced its debt through the issuance of bonds in the amount of US\$1,000 million in foreign exchange markets. The notes were sold in the U.S., on behalf and for the benefit of U.S. citizens, except for qualified institutional buyers in relation with the exceptions of the registration provided by Rule 144A under the U.S. Securities Act of 1933 and for certain investors outside the U.S. under Regulation S of such Act. The proceeds from that note offering were used to repay in advance short-and long-term existing debt.

The following is a summary of the comparative conditions of the debt prior and subsequent to the aforementioned reorganization:

| | <u>Subsequent to refinancing</u> | <u>Prior to refinancing</u> |
|---------------------|--|--|
| Debt level | US\$ 997,970 | US\$ 1,041,469 |
| Next maturity dates | 2026 | 2018 |
| Interest rate | 4.125% | 1.77% |
| General conditions | <u>Guarantee and endorsements of some subsidiaries</u> | <u>Guarantee and endorsements of some subsidiaries</u> |

Sigma Alimentos, S. A. de C. V. and subsidiaries

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b. Acquisition of RJ Trading, S. A. de C. V.

On January 8, 2016, SIGMA acquired the totality of the shares of RJ Trading, S. A. de C. V., a company of the food industry engaged in distributing dry goods for the Foodservice area in the Northern region. This transaction supplements SIGMA's strategy to expand its interest in the distribution of dry goods in the Northern region and broaden its knowledge of the Foodservice market of the Industrial and Tourism areas together with the acquisitions made in prior years. The business acquisition is included in the Mexico segment, see Note 30.

The total consideration paid was Ps83,364 in cash, including a gain of Ps2,822.

The final purchase price allocation carried out in accordance with the fair value was as follows.

| | |
|------------------------------------|------------------|
| Current assets ⁽¹⁾ | Ps 74,562 |
| Property, plant, and equipment | 6,285 |
| Intangible assets ⁽²⁾ | 70,272 |
| Current liabilities ⁽³⁾ | (62,528) |
| Employee benefits | (70) |
| Deferred income taxes | (2,335) |
| Gain | <u>(2,822)</u> |
| Consideration paid | <u>Ps 83,364</u> |

No contingent liabilities have arisen from this acquisition that require recognition. Neither are there contingent consideration agreements in place.

Costs related to the acquisition amounted to Ps111 and were recorded in the statement of income under the other expenses caption.

Revenues contributed by RJ Trading assets included in the consolidated statement of income from the date the agreement was signed through December 31, 2016 totaled Ps159,082 and net loss totaled Ps4,471.

2015

c. Acquisition of additional shares of Campofrío from WH Group

On June 18, 2015, the Company, through its subsidiary Sigma Alimentos Exterior, S. L., acquired 37% additional shares of Campofrío Food Group. The shares that up to June 3, 2015 were owned by WH Group were acquired firstly by ALFA for a consideration of Ps5,366,416 (US\$354,000), and were subsequently transferred to Sigma. Prior to the acquisition date, the accounting value of the 37% was Ps2,709,613, consequently, a decrease in retained earnings of Ps2,656,803 was recorded.

After this acquisition, equity in this subsidiary is as shown below:

| | |
|--|---------------|
| Indirect equity of SIGMA as of December 31, 2014 | 57.52% |
| Repurchase of shares (i) | 0.97% |
| Acquisition of shares from WH Group on June 18, 2015 | <u>37.00%</u> |
| Indirect equity of SIGMA as of December 31, 2015 | <u>95.49%</u> |

Sigma Alimentos, S. A. de C. V. and subsidiaries

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(i) Previously, on May 14, 2015, Campofrío had repurchased own shares that were held among the investing public and represented 0.97% of the stock ownership at the acquisition date. This repurchase amounted to \$18,350 and was considered jointly with the aforementioned effects.

On June 9, 2014, SIGMA obtained control over Campofrío Food Group, S. A. ("Campofrío") as a result of the following: i) the end of the Public Offer of shares of Campofrío in the Spanish stock market and ii) the coming into force of the agreement signed on January 1, 2014 between SIGMA and WH Group Ltd. (WH). The aforementioned agreement was concluded on June 3, 2015 as a result of the acquisition by Sigma of the equity of WH Group Ltd. in Campofrío.

This agreement established several rights and obligations of the parties involved in relation to the corporate governance and the transfer of shares of Campofrío, which conferred SIGMA the capacity to steer relevant activities. The purpose of the agreement was to fairly anticipate probable events in the future of the subsidiary and its stockholders during the effective term of the agreement and to anticipate the way in which they would be treated. Examples include: the approval of the business plan, the approval of ordinary and extraordinary corporate events; changes in the ownership of Campofrío; the need for additional capital contributions of the existing stockholders or new investors and the resolution of claims between stockholders. It also provided the flexibility required to face unforeseen events, such as maintaining the capacity to make decisions quickly and effectively; establishing termination conditions when a shareholder wishes to terminate the relationship for any reason; and bases for the resolution of disputes among stockholders or to resolve an agreement interpretation issue. The agreement created incentives for the parties to resolve controversies through consensus, so that they be determined as efficiently as possible in order for Campofrío operations to continue with a minimum of interruptions.

The indirect equity of SIGMA in Campofrío at the date the agreement became effective, accounted for using the equity method, was 45% as shown below:

| | |
|---|----------------|
| Equity of SIGMA in Campofrío at December 31, 2013 | 46.31% |
| Acquisitions at June 9, 2014 | 3.29% |
| Sales at June 9, 2014 | <u>(4.60%)</u> |
| Equity of ALFA in Campofrío at June 9, 2014 | <u>45.00%</u> |

Since its acquisition and until June 9, 2014, the net income of Campofrío was not significant.

For business combinations made in stages, International Financial Reporting Standards (IFRS) require that any previous equity of the acquiring party in an acquired party be adjusted at fair value at the acquisition date and that any resulting gain (or loss) be reported in the consolidated statement of income. IFRS also require all amounts previously recorded in the consolidated comprehensive statement of income in relation to such investments be reclassified to the consolidated income account, as though such investment had been sold. SIGMA has estimated the fair value of 45% of equity in Campofrío at Ps5,499,087 at June 9, 2014, on which date control was obtained. The effect of measuring the 45% equity ownership of Campofrío at fair value before the date on which control was obtained was immaterial to the consolidated statements of income for the year ended on December 31, 2014.

Since no additional consideration was incurred by SIGMA to obtain control (June 9, 2014), the 45% fair value is considered the acquisition price of Campofrío.

The consideration incurred by Campofrío at the date on which control was obtained was Ps 5,499,087.

Sigma Alimentos, S. A. de C. V. and subsidiaries

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Assets and liabilities recorded as a result of the business combination at June 9, 2014 are as follows:

| | |
|--|---------------------|
| Fair value | |
| Cash and cash equivalents | Ps 1,576,000 |
| Trade and other accounts receivable, net | 2,830,184 |
| Inventory | 6,949,237 |
| Property, plant and equipment | 14,269,824 |
| Intangible assets | 8,484,004 |
| Investment recorded by the equity method | 693,197 |
| Deferred income tax asset | 3,007,717 |
| Other assets | 191,564 |
| Suppliers and other accounts payable | (11,830,714) |
| Debt | (10,820,822) |
| Deferred income tax liability | (5,343,151) |
| Provisions and other liabilities | (1,329,089) |
| Employee benefits | <u>(1,144,224)</u> |
| Total identifiable net assets | 7,533,727 |
| Non-controlling equity | (4,143,090) |
| Goodwill | <u>2,108,450</u> |
| Total | <u>Ps 5,499,087</u> |

As a result of the transactions conducted, goodwill in the amount of Ps2,108,450 was recorded at June 9, 2014, which was assigned to the Europe operating segment (see Note 30). The factors contributing to the recognition of goodwill include economies of scale through combined opportunities, obtaining better operating margins on packaging material and the exchange of better practices. Goodwill associated to this business combination is not deductible for income tax purposes.

No contingent liabilities have arisen from this acquisition that should be recorded. Neither are there any contingent consideration agreements in place.

The consolidated statement of income includes revenues from Campofrío in the amount of Ps17,571,889 for the period from June 9 to December 31, 2014. Campofrío contributed to the net income by Ps222,852, in the same period. If the acquisition had occurred on January 1, 2014, the contribution of Campofrío to consolidated income for the year ended on December 31, 2014 would have amounted to Ps33,971,734 and the net profit to Ps225,651. Information on combined revenues and net profit for the period does not include any savings in costs or other effects of the integration of Campofrío into SIGMA. Consequently, those amounts do not necessarily indicate the results had the acquisition occurred on January 1, 2014, or those that might result in the future.

After taking control of Campofrío, SIGMA acquired the additional indirect equity mentioned below:

| | |
|---|---------------|
| Indirect equity of SIGMA at June 9, 2014: | 45.00% |
| Acquisitions after June 9 to December 31, 2014: | <u>12.52%</u> |
| Indirect equity of SIGMA at December 31, 2014: | <u>57.52%</u> |

The acquisitions line item at December 31, 2014 corresponds mainly to the purchase of shares of Campofrío after the Public Offering of the non-controlling equity. Since control over Campofrío was obtained as a result of the agreement signed with WH, those transactions have been accounted for as acquisitions of the non-controlling equity. The difference between the accounting value of the non-controlling equity acquired and the price paid was recorded in retained earnings. Additionally, expenses were incurred with regard to transaction costs related to the acquisition in the amount of Ps83,669.

Sigma Alimentos, S. A. de C. V. and subsidiaries

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The shares of Campofrío were listed in the Spanish stock market until September 19, 2014, on which date they were delisted.

d. Strategic alliance between Sigma Alimentos, S. A. de C. V. and Kinesis Food Service, S. A. de C. V.

On July 31, 2015, a strategic alliance framework agreement was signed by Sigma Alimentos, S. A. de C. V. and Kinesis Food Service, S.A. de C.V. (“Kinesis”), a company that through its subsidiaries (collectively identified as “PACSA”) is the leading distributor of meat and dairy products by means of a food service channel in certain regions of Mexico, mainly in the Southeast of Mexico. This transaction complements Sigma’s expansion strategy in Mexico through the food service channel. Under the agreement, Sigma acquired total control over PACSA’s operations, subscribing substantially all of PACSA’s voting shares. In accordance with International Financial Reporting Standard 3, “Business Combinations” (“IFRS 3”), this alliance represents a business combination; therefore, it has been recorded by the acquisition method established in IFRS 3. This alliance is included in the Mexico segment, see Note 30.

Sigma’s contribution to this alliance was Ps494,223, which was paid in cash. At the agreement signature date, the Company had determined goodwill of Ps73,873 (difference between the amount of Sigma’s contribution and PACSA’s net assets).

After the aforementioned purchase, the equity in that subsidiary is as follows:

| | |
|------------------------------------|-------------------|
| Current assets ⁽¹⁾ | Ps 204,673 |
| Property, plant, and equipment | 105,144 |
| Intangible assets ⁽²⁾ | 379,153 |
| Current liabilities ⁽³⁾ | (120,153) |
| Employee benefits | (7,618) |
| Long – term debt | (9,759) |
| Deferred income tax | (131,090) |
| Goodwill | <u>73,873</u> |
| Consideration paid | <u>Ps 494,223</u> |

⁽¹⁾ Current assets consist of cash Ps12,744, accounts receivable Ps77,398, inventories of Ps107,224 and sundry debtors and other current assets Ps7,307.

⁽²⁾ Intangible assets consist of brands Ps3,428, non-compete agreements Ps49,026, market development Ps325,844 and others Ps855.

⁽³⁾ Current liabilities consist of suppliers and accounts payable Ps81,623, taxes payable Ps2,985, short-term debt Ps33,948 and personnel benefits Ps1,597.

Certain prior year balances related to the allocation of the purchase price were modified in 2016 to recognize the final fair values of the acquired assets and assumed liabilities. As of December 31, 2016, the Company reclassified certain items of the statement of financial position that had previously been presented as part of goodwill. The reclassified amounts were adjusted by increasing the value of intangible assets with finite useful lives by Ps206,523; increasing the balance of deferred income tax by Ps61,350; decreasing the value of goodwill by Ps139,339 and the value of property, plant and equipment by Ps5,834. For comparative purposes, the Company did not perform those reclassifications retrospectively considering that the aforementioned adjustments do not significantly modify the value of total assets, short- and long-term liabilities and stockholders' equity as of December 31, 2015. The aforementioned reclassification had no significant effects on the consolidated financial statements of income, of stockholders' equity and of cash flows.

Goodwill is comprised mainly of the market share obtained through expanded capacities of the Company’s asset basis. The goodwill recorded is not deductible for tax purposes.

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No contingent liability has arisen from this alliance that requires recognition. Neither are there contingent payment agreements in place.

Costs related to the alliance amounted to Ps2,846 and were recorded in the statement of income under other expenses.

Revenues contributed by PACSA's assets included in the consolidated statement of income as of the agreement signing date through December 31, 2015 amounted to Ps355,535 and net income to Ps27,223. Had the acquisition taken place on January 1, 2015, revenues would have increased by Ps533,976 and net income by Ps11,349, approximately.

e. Acquisition of Elaborados Cárnicos, S. A. (ECARNI)

On August 31, 2015, Sigma acquired the totality of the shares of Elaborados Cárnicos, S. A., a company engaged in breeding, purchasing and selling cattle, swine, sheep, as well as industrializing and marketing byproducts of the aforementioned livestock in Ecuador. This transaction complements Sigma's expansion strategy in Latin America. The business acquisition is included in the Other countries segment, see Note 30.

The total consideration paid amounted to Ps882,991 (US\$52,658) in cash, including restricted cash as guarantee payable to SIGMA of Ps 77,429, see Note 7. At the acquisition date, the Company had determined goodwill of Ps239,070.

The final purchase price allocation carried out in accordance with fair value was as follows.

| | |
|------------------------------------|-------------------|
| Current assets ⁽¹⁾ | Ps 246,503 |
| Property, plant, and equipment | 159,769 |
| Intangible assets ⁽²⁾ | 469,702 |
| Current liabilities ⁽³⁾ | (66,594) |
| Employee benefits | (50,685) |
| Long-term debt | (23,105) |
| Deferred income taxes | (91,669) |
| Goodwill | <u>239,070</u> |
| Consideration paid | <u>Ps 882,991</u> |

⁽¹⁾ Current assets consist of cash Ps19,559, accounts receivable Ps94,721, inventories Ps98,193, notes receivable Ps26,651 and other current items Ps7,379.

⁽²⁾ Intangible assets consist of brands Ps61,779, non-compete agreements Ps72,104 and customer relations Ps335,819.

⁽³⁾ Current liabilities consist of suppliers and accounts payable Ps52,728, taxes payable Ps10,934 and short-term debt Ps2,932.

Certain previous year balances related to the distribution of the purchase price were modified in 2016 to recognize the final fair values of acquired assets and assumed liabilities. As of December 31, 2016, the Company reclassified certain items of the statement of financial position that had previously been presented as part of goodwill. The reclassified amounts were adjusted by increasing the value of intangible assets with finite useful lives by Ps275,156; increasing the deferred income tax balance by Ps36,489; decreasing the value of goodwill by Ps110,328 and decreasing the value of property, plant and equipment by Ps99,022. For comparative purposes, the Company did not perform those reclassifications retrospectively considering that the aforementioned adjustments do not significantly modify the value of total assets, of short- and long-term liabilities and stockholders' equity as of December 31, 2015. The aforementioned reclassification had no significant impact on the consolidated financial statements of income, of stockholders' equity and of cash flows.

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Goodwill is mainly comprised of market participation obtained through expanded capacities of the Company's asset basis. The recorded goodwill is not deductible for tax purposes.

No contingent liabilities have arisen from this acquisition that require recognition. Neither are there contingent consideration agreements in place.

Costs related to the acquisition amounted to Ps6,038 and were recorded in the statement of income under Other expenses.

Revenues contributed by ECARNI's assets included in the consolidated statement of income from the acquisition date through December 31, 2015 totaled Ps220,320 and net income totaled Ps12,427. Had the acquisition taken place on January 1, 2015, revenues would have increased by Ps380,474 and net income by Ps29,095 approximately.

Note 3 - Summary of significant accounting policies:

The accompanying consolidated financial statements and notes were authorized for issuance on February 17, 2017, by officials with the legal power to sign the basic financial statements and accompanying notes.

The following are the most significant accounting policies followed by SIGMA, which have been consistently applied in the preparation of their financial information in the years presented, unless otherwise specified:

a. Basis for preparation

The consolidated financial statements of SIGMA have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The IFRS include all International Accounting Standards ("IAS") in force and all related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), including those previously issued by the Standing Interpretations Committee (SIC).

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets available for sale, which are measured at fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Additionally, it requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where judgments and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

b. Consolidation

i. Subsidiaries

The subsidiaries are all the entities over which the Company has control. The Company controls an entity when it is exposed or has the right to variable returns from its interest in the entity and it is capable of affecting the returns through its power over the entity. When the Company's shareholding in subsidiaries is less than 100%, the shareholding attributed to outside stockholders is recorded as non-controlling interest. Subsidiaries are consolidated in full from the date on which control is transferred to the Company and up to the date it loses such control.

Sigma Alimentos, S. A. de C. V. and subsidiaries

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The method of accounting used by the Company for business combinations is the acquisition method. The Company defines a business combination as a transaction through which it obtains control over a business, whereby it has the power to steer and manage the relevant operations of all assets and liabilities of the business for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable acquired assets and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree based on the share of the non-controlling interest in the net identifiable assets of the acquired entity.

The Company accounts for business combinations by the predecessor method in a jointly controlled entity. The predecessor method consists of incorporating the carrying amounts of the acquired entity, which include goodwill recognized at the consolidated level with respect to the acquiree. Any differences between the consideration paid by the Company and the carrying value of the net assets acquired at the level of the subsidiary are recognized in equity.

Acquisition-related costs are recognized as expenses in the statement of income when incurred.

Goodwill is initially measured as the excess of the sum of the consideration paid and the fair value of the non-controlling interest in the acquired subsidiary over the fair value of net identifiable assets and liabilities acquired. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of income.

If the business combination is conducted in stages, the book value at the date of acquisition of the equity previously held by the Company in the acquired entity is remeasured at its fair value at acquisition date. Any loss or gain resulting from such remeasurement is recorded in income for the year.

Transactions and intercompany balances and unrealized gains on transactions between SIGMA companies are eliminated in preparing the consolidated financial statements. In order to ensure consistency with the policies applied by the Company, the accounting policies of subsidiaries have been changed where it was deemed necessary.

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At December 31, 2016 and 2015, the principal subsidiary companies of SIGMA were:

| | <u>Country ⁽ⁱ⁾</u> | <u>Percentage of ownership</u> | <u>Functional currency</u> |
|---|-------------------------------|--------------------------------|----------------------------|
| Alimentos Finos de Occidente, S. A. de C. V. (a) | | 100 | Mexican Peso |
| Bar-S Foods Co. (a and c) | U. S. A. | 100 | U. S. Dollar |
| Bonanza Industrial, S. A. de C. V. (d) | | 100 | Mexican Peso |
| Braedt, S. A. (a y c) | Peru | 100 | Peruvian Sol |
| Campofrío Food Group, S. A. (iv) (a and c) | Spain | 95.49 | Euro |
| Carnes Selectas Tangamanga, S. A. de C. V. (a) | | 100 | Mexican Peso |
| Comercial Hacienda de Cerdos, S. A. (d) | Dominican Republic | 100 | Dominican Peso |
| Comercializadora de Embutidos ICO, S. A. de C. V. (a and c) | | 100 | Mexican Peso |
| Comercial Norteamericana, S. de R. L. de C. V. (d) | | 100 | Mexican Peso |
| Empacadora de Carnes Frías Hidalmex, S. A. de C. V. (a and c) | | 100 | Mexican Peso |
| Empacadora de Embutidos del Centro, S. A. de C. V. (a and c) | | 100 | Mexican Peso |
| Empacadora de Carnes Premium, S. de R. L. de C. V. (a and c) | | 100 | Mexican Peso |
| Empacadora Supremo de Monterrey, S. A. de C. V. (a and c) | | 100 | Mexican Peso |
| Employee Services Unlimited S. de R. L. de C. V. (b) | | 100 | Mexican Peso |
| Elaborados Cárnicos, S. A. (ii) (a and c) | Ecuador | 100 | U. S. Dollar |
| Fabrica Juris CIA, LTDA (a and c) | Ecuador | 100 | U. S. Dollar |
| Freedman Logistic, S. de R. L. de C. V. (b) | | 100 | Mexican Peso |
| Grupo Chen, S. de R. L. de C. V. and subsidiary (b) | | 100 | Mexican Peso |
| Industrias Alimentarias del Sureste, S. A. de C. V. (a and c) | | 100 | Mexican Peso |
| Mexican Cheese Producers, Inc. (a) | U. S. A. | 100 | U. S. Dollar |
| Kinesis Food Service, S. A. de C. V. (ii) (d) | Mexico | 100 | Mexican Peso |
| Productos Cárnicos, S. A. de C. V. (a) | El Salvador | 100 | U. S. Dollar |
| Productos de Importación, S. A. de C. V. (c) | Honduras | 100 | Lempira |
| RJ Trading, S. A. de C. V. (iv) | | 100 | Mexican Peso |
| Savi San José de Alajuela, S. A. (e) | Costa Rica | 100 | Colon |
| Servilac, S. A. de C. V. (b) | | 100 | Mexican Peso |
| Sigma Alimentos Centro, S. A. de C. V. (a) | | 100 | Mexican Peso |
| Sigma Alimentos Costa Rica, S. A. (a) | Costa Rica | 100 | Colon |
| Sigma Alimentos Comercial, S. A. de C. V. (c) | | 100 | Mexican Peso |
| Sigma Alimentos Congelados, S. A. de C. V. (a) | | 100 | Mexican Peso |
| Sigma Alimentos Corporativo, S. A. de C. V. (b) | | 100 | Mexican Peso |
| Sigma Alimentos Dominicana, S. A. (a and c) | Dominican Republic | 100 | Dominican Peso |
| Sigma Alimentos Lácteos, S. A. de C. V. (a) | | 100 | Mexican Peso |
| Sigma Alimentos Noreste, S. A. de C. V. (a) | | 100 | Mexican Peso |
| Sigma Alimentos Nicaragua, S. A. (c) | Nicaragua | 100 | Córdoba |
| Sigma Alimentos Guatemala, S. A. (a) | Guatemala | 100 | Quetzal |
| Sigma Alimentos International, Inc. (d) | U. S. A. | 100 | U. S. Dollar |
| Sigma Alimentos Prom, S. A. de C. V. (b) | | 100 | Mexican Peso |
| Sigma Foods, LLC. (c) | U. S. A. | 100 | U. S. Dollar |
| Sigma Processed Meats, LLC. (a) | U. S. A. | 100 | U. S. Dollar |

- (i) Companies incorporated in Mexico, except as mentioned.
(ii) Subsidiaries acquired during 2015.
(iii) In 2015, the Company acquires 37% additional shares, see Note 2c.
(iv) In 2016, the Company acquires 100% of shares, See Note 2b.

- a. Refrigerated food production.
b. Administrative and human resources services.
c. Commercialization and distribution of refrigerated foods.
d. Processing and commercialization of several types of meat.

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At December 31, 2016 and 2015, there are no significant restrictions for investment in shares of the subsidiary companies mentioned above.

ii. Absorption (dilution) of control in subsidiaries

The effect of absorption (dilution) of control in subsidiaries, that is, an increase or decrease in the percentage of control, is recorded in stockholders' equity, directly in retained earnings, in the period in which the transactions that cause such effects occur. The effect of absorption (dilution) of control is determined by comparing the book value of the investment before the event of dilution or absorption against the book value after the relevant event. In the case of loss of control the dilution effect is recognized in income.

When the Company issues a call option on certain non-controlling interests in a consolidated subsidiary and the non-controlling shareholders retain the risks and benefits of said interests in the consolidated subsidiary, they are recognized as financial liabilities at the present value of the amount to be reimbursed of the options, initially recorded with the respective reduction in stockholders' equity and subsequently accrued through financial charges to income during the contractual period (See Note 21).

iii. Sale or disposal of subsidiaries

When the Company ceases to have control any retained interest in the entity is re-measured at fair value, and the change in the carrying amount is recognized in income for the period. The fair value is the initial carrying value for the purpose of accounting for any subsequent retained interest in the associate, joint venture or financial asset. Any amount previously recognized in comprehensive income in respect of that entity is accounted for as through the Company had directly disposed of the related assets and liabilities. This implies that the amounts recognized in the comprehensive income are reclassified to income for the year.

iv. Associates

Associates are all entities over which the Company has significant influence but not control. Generally an investor must hold between 20% and 50% of the voting rights in an investee for it to be an associate. Investments in associates are accounted for by the equity method and are initially recognized at cost. The Company's investment in associates includes goodwill identified at acquisition, net of any accumulated impairment loss.

If the equity in an associate is reduced but significant influence is maintained, only a portion of the amounts recognized in comprehensive income is reclassified to income for the year, where appropriate.

The Company's share in profits or losses of associate post-acquisition is recognized in the statement of income and its share in other comprehensive income post acquisition is recognized as other comprehensive income. The cumulative movements after acquisition are adjusted against the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its equity in the associate, including unsecured receivables, the Company does not recognize further losses unless it has incurred obligations or made payments on behalf of the associate.

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The Company assesses at each reporting date whether there is objective evidence that the investment in the associate is impaired. If so, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes it in "share of profit/loss of associates recognized by the equity method" in the statement of income.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's equity in such gains. Unrealized losses are also eliminated unless the transaction provides evidence that the asset transferred is impaired. In order to ensure consistency with the policies applied by the Company, the accounting policies of associates have been modified. When the Company ceases to have significant influence over an associate, any differences between the fair value of the retained investment, including any consideration received from the partial disposal of the investment, and the book value of the investment is recognized in the statement of income.

v. Joint ventures

Joint arrangements are those where there is joint control, since the decisions over relevant activities require the unanimous consent of each of the parties sharing control.

Investments in joint arrangements are classified in accordance with the contractual rights and obligations of each investor, as: joint operations or joint ventures. When the Company holds the right over assets and obligations of related assets under a joint arrangement, it is classified as a joint operation. When the company holds rights over net assets of the joint arrangement, this is classified as a joint venture. The Company has assessed the nature of its joint arrangements and classified them as joint ventures. Joint ventures are accounted for by the equity method applied to an investment in associates.

c. Foreign currency translation

i. Functional and presentation currency

The amounts included in the financial statements of each of the Company's entities should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). In the case of SIGMA, the functional currency is determined to be the Mexican peso. The consolidated financial statements are presented in Mexican pesos, which is the Company's reporting currency.

As of July 1, 2015, the Company concluded that the most adequate functional currency of Sigma Alimentos S. A. de C. V. is the US dollar ("US\$") based on the economic environment in which the entity generates and uses cash. This is due primarily to the fact that revenues from dividends and revenues from brand use, as of the aforementioned date, are collected in US\$. The previous functional currency was the Mexican peso and in accordance with the International Accounting Standard 21- "Effects of changes in foreign exchange rates" ("IAS 21"), the change was made prospectively. At the date of the change in the functional currency, all assets, liabilities, capital and income statement items were translated into US\$ at the exchange rate in effect at that date

ii. Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rates prevailing at the transaction date or valuation date when the amounts are re-measured. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing exchange rates are recognized as foreign exchange gain or loss in the statement of income.

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Changes in the fair value of securities or monetary financial assets denominated in foreign currency classified as available for sale are divided between fluctuations resulting from changes in the amortized cost of such securities and other changes in value. Subsequently, currency fluctuations are recognized in income and changes in the carrying amount arising from any other circumstances are recognized as part of comprehensive income.

Translation differences on non-monetary assets, such as investments classified as available for sale, are included in other comprehensive income.

iii. Consolidation of subsidiaries with a currency different from the reporting currency.

Incorporation of subsidiaries whose functional currency is different from their recording currency.

The financial statements of subsidiaries with a recording currency different from their functional currency were translated to the functional currency in accordance with the following procedure:

- a. The balances of monetary assets and liabilities denominated in the recording currency were translated at the closing exchange rates.
- b. The historical balances of non-monetary assets and liabilities and shareholders' equity translated to the functional currency were added to the movements occurred in the period, which were translated at historical exchange rates. On the other hand, movements of non-monetary items recognized at fair value that occurred in the period, stated in the recording currency, were translated using the historical exchange rates in effect on the date when the fair value was determined.
- c. The income, costs and expenses for the periods, expressed in the recording currency, were translated at the historical exchange rate of the date they were accrued and recognized in the statement of income, except when they arose from non-monetary items, in which case the historical exchange rate for non-monetary items was used.
- d. The differences in exchange arising in translation from the recording currency to the functional currency were recognized as income or expense in the statement of income for the period in which they arose.

Incorporation of subsidiaries whose functional currency is different from their presentation currency.

The results and financial position of all SIGMA entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the reporting currency are translated to the reporting currency as follows:

- a) Assets and liabilities for each statement of financial position presented are translated at the closing exchange rate in effect at the date of the statement of financial position;
- b) The stockholders' equity of each statement of financial position presented is translated at historical rates.
- c) Income and expenses for each statement of income are translated at the average exchange rate (when the average exchange rate is not a reasonable approximation of the cumulative effect of transaction rates, the exchange rate at transaction date is used); and.

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d) All the resulting exchange differences are recognized in other comprehensive income.

The goodwill and adjustments to fair value arising at acquisition date of a foreign operation so as to be measured at fair value, are recognized as assets and liabilities of the foreign entity and translated at the exchange rate in effect at the closing date. Exchange differences arising are recognized in equity.

Listed below are the principal exchange rates in the various translation processes:

| | | <u>Local currency to Mexican pesos</u> | | | |
|----------------|-----------------------|---|-------------|---|-------------|
| | | <u>Closing exchange rate at the end of December 31,</u> | | <u>Average exchange rate at the end of December 31,</u> | |
| <u>Country</u> | <u>Local currency</u> | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| United States | U.S. Dollar | Ps20.664 | Ps 17.206 | Ps 18.657 | Ps 15.848 |
| Peru | Peruvian sol | 6.160 | 5.039 | 5.519 | 4.967 |
| Spain | Euro | 21.800 | 18.703 | 20.586 | 17.518 |
| Ecuador | U. S. Dollar | 20.664 | 17.206 | 18.657 | 15.848 |
| Germany | Euro | 21.800 | 18.703 | 20.586 | 17.518 |
| Belgium | Euro | 21.800 | 18.703 | 20.586 | 17.518 |
| Netherlands | Euro | 21.800 | 18.703 | 20.586 | 17.518 |
| Italy | Euro | 21.800 | 18.703 | 20.586 | 17.518 |
| France | Euro | 21.800 | 18.703 | 20.586 | 17.518 |
| Costa Rica | Colon | 0.037 | 0.032 | 0.034 | 0.029 |
| El Salvador | U.S. dollar | 20.664 | 17.206 | 18.657 | 15.848 |
| Dominican Rep. | Dominican peso | 0.446 | 0.378 | 0.405 | 0.352 |
| Guatemala | Quetzal | 2.746 | 2.254 | 2.450 | 2.070 |
| Nicaragua | Cordoba | 0.704 | 0.616 | 0.651 | 0.582 |
| Honduras | Lempira | 0.880 | 0.777 | 0.816 | 0.725 |

d. Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits available for operations and other highly liquid short-term investments with original maturities of three months or less, all of which are subject to insignificant risk of changes in value. Bank overdrafts are presented as other liabilities.

e. Restricted cash

Cash whose restrictions cause it not to comply with the definition of cash and cash equivalents provided above, are presented in a separate line in the statement of financial position and are excluded from cash and cash equivalents in the statement of cash flows.

f. Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and investments held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets upon initial recognition. Purchases and sales of financial assets are recognized on the settlement date.

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Financial assets are written off in full when the right to receive the related cash flows expires or is transferred and the Company has also transferred substantially all risks and rewards of ownership, as well as control of the financial asset.

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for sale in the short term. At December 31, 2016 and 2015, the Company had no derivative financial instruments held for trading purposes or for hedging purposes.

Financial assets recorded at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of income. Gains or losses from changes in fair value of these assets are presented in income for the period in which they are incurred.

ii. Loans and receivables

Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets when they must be settled in the following 12 months; otherwise, they are classified as non-current assets.

Loans and receivables are measured initially at fair value plus directly attributable transaction costs, and subsequently at amortized cost by the effective interest method. When circumstances occur that indicate that the amounts receivable will not be collected at the amounts originally agreed or will be collected in a different period, accounts receivable are impaired.

Financial liabilities

Financial liabilities that are not financial derivatives are initially recognized at fair value and are subsequently valued at amortized cost by the effective interest method. Liabilities in this category are classified as current liabilities if expected to be settled within the next 12 months; otherwise they are classified as non-current.

Accounts payable are obligations to pay for goods or services that have been acquired or received from suppliers in the ordinary course of business. Loans are initially recognized at fair value, net of transaction costs incurred. Loans are subsequently carried at amortized cost; any difference between the funds received (net of transaction costs) and the settlement value is recognized in the statement of income over the term of the loan by the effective interest method.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Impairment of financial instruments

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a) Financial assets carried at amortized cost

At the end of each year, the Company assesses whether there is objective evidence of impairment of each financial asset or group of financial assets. An impairment loss is recognized if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and provided that the loss event (or events) has an impact on the estimated future cash flows arising from the financial asset or group of financial assets that can be reliably estimated.

Aspects evaluated by the Company to determine whether there is objective evidence of impairment are:

- Significant financial difficulty of the issuer or debtor.
- Breach of contract, such as late payments of interest or principal
- Granting a concession to the issuer or debtor by the Company, as a result of financial difficulties of the issuer or debtor and that would not otherwise be considered.
- It is likely that the issuer or debtor will file for bankruptcy or conduct other financial reorganization.
- Disappearance of an active market for that financial asset due to financial difficulties.
- Verifiable information that indicates that there is a measurable decrease in the estimated future cash flows related to a group of financial assets after initial recognition, although the decrease cannot yet be related to the individual financial assets of the Company, including:

- (i) Adverse changes in the payment status of borrowers in the group of assets
- (ii) National or local conditions that correlate to breaches by the issuers of the group of assets.

Based on the items listed above, the Company assesses whether there is objective evidence of impairment. Subsequently, for the purpose of the category of loans and receivables, when impairment is identified, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future loan losses not yet incurred) discounted at the original effective interest rate. The carrying amount of the asset is reduced by that amount, which is recognized in the statement of income.

If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment losses is the current effective interest rate determined under the contract. Alternatively, the Company could determine impairment of the asset considering its fair value determined on the basis of a current observable market price.

If in the subsequent years, the impairment loss decreases and the decrease can be related objectively to an event occurring after the date on which such impairment was recognized (such as an improvement in the debtor's credit rating), reversal of the impairment loss is recognized in the statement of income.

b) Financial assets available for sale

In the case of debt financial instruments, the Company also uses the above-listed criteria to identify whether there is objective evidence of impairment. In the case of equity financial instruments, a significant reduction of at least to 30% of the cost of the investment versus its fair value or a reduction of the fair value against the cost for a period longer than 12 months is considered objective evidence of impairment.

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At December 31, 2016 and 2015, the Company only had loans and accounts receivable.

g. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined by the average cost method. The cost of finished goods and work in progress includes costs of product design, raw materials, direct labor, other direct costs and indirect production overheads (based on normal operating capacity). It excludes borrowing costs. The net realizable value is the estimated selling price in the normal course of business, less the applicable variable selling expenses. Costs of inventories include any gain or loss transferred from equity corresponding to raw material purchases that qualify as cash flow hedges.

h. Prepaid expenses

Prepaid expenses represent expenditures made by the Company whereby the benefits and risks inherent in the assets to be acquired or the services to be received have not been transferred yet. Prepaid expenses are recorded at cost and are presented in the Statement of Financial Position as current or non-current assets, depending on the item under which they are to be recorded. Once the goods and / or services relating to prepayments are received, they should be recognized as an asset or as an expense in the statement of income for the period, respectively. At 31 December 2016 and 2015, the prepaid expenses balance is comprised mainly of advertising and prepaid insurance.

i. Property, plant and equipment

Property, plant and equipment items are recorded at cost less accumulated depreciation and any accrued impairment losses. The costs include expenses directly attributable to asset acquisition.

Subsequent costs are included 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 the Company and the cost of the item can be reliably measured. The carrying amount of the replaced part is derecognized. Repairs and maintenance are recognized in the statement of income in the year they are incurred. Major improvements are depreciated over the remaining useful life of the related asset.

Depreciation is calculated by the straight-line method, considering separately each of the asset's components, except for land, which is not subject to depreciation. The average useful lives of asset families are as follows:

| | |
|---|---------------|
| Buildings and constructions | 30 years |
| Machinery and equipment | 5 to 30 years |
| Transportation equipment | 7 to 10 years |
| Furniture and laboratory and IT equipment | 4 years |
| Tooling | 7 to 10 years |
| Leasehold improvements | 20 years |

The spare parts to be used after one year and attributable to specific machinery are classified as property, plant and equipment in other fixed assets.

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Borrowing costs related to financing of property, plant and equipment whose acquisition or construction requires a substantial period (nine months) are capitalized as part of the cost of acquiring such qualifying assets, up to the moment when they are suitable for their intended use or sale.

Assets classified as property, plant and equipment are subject to impairment tests when events or circumstances occur indicating that the carrying amount of the assets may not be recoverable. An impairment loss is recognized in the statement of income in other expenses, net, for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

The residual value, useful lives and depreciation method of assets are reviewed at least at the end of each reporting period and, if expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

In the event that the carrying value is greater than the estimated recoverable amount, a decrease in the carrying amount of the asset is recognized and it is immediately recognized at the recoverable value.

Gains and losses on disposal of assets are determined by comparing the sales value to the carrying amount and they are recognized under other expense, net, in the statement of income.

j. Leases

The classification of leases as financial or operating depends on the substance of the transaction rather than on the form of the contract.

Leases whereby a significant portion of the risks and rewards relating to the leased property are retained by the lessor are classified as operating leases. Payments made under operating leases (net of incentives received by the lessor) are recognized in the statement of income by the straight-line method over the lease period.

Leases whereby the Company assumes substantially all the risks and rewards of ownership are classified as financial leases. Financial leases are capitalized at the beginning of the lease, at the lower of the fair value of the leased property and the present value of the minimum lease payments. If its determination is practical for the purpose of discounting the minimum lease payments to present value, the interest rate implicit in the lease is used; otherwise, the incremental borrowing rate of the lessee should be used. Any initial direct costs of the leases are added to the original amount recognized as an asset.

Each lease payment is allocated between the liability and financial charges to achieve a constant rate on the outstanding balance. The corresponding rental obligations are proportionally included in non-current debt, net of finance charges. Interest on the financial cost is charged to income for the year during the period of the lease, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

k. Intangible assets

Intangible assets are recognized in the balance sheet when they meet the following conditions: they are identifiable, provide future economic benefits and the Company has control over such benefits.

Intangible assets are classified as follows:

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- i) Indefinite useful life - These intangible assets are not amortized and are subject to annual impairment assessment. At December 31, 2016 and 2015, no factors have been identified limiting the useful life of these intangible assets.
- ii) Finite useful life. - These assets are recognized at cost less accumulated amortization and impairment losses. They are amortized on a straight line basis over their estimated useful life, determined based on the expectation of generating future economic benefits, and are subject to impairment tests when triggering events of impairment are identified.

The estimated useful lives of the intangible assets with finite useful lives are as follows:

| | |
|--|----------------|
| Development costs | 10 to 22 years |
| Customer relationships | 14 years |
| Software, licenses and trademarks | 15 to 22 years |
| Other (Market development, non-compete agreements and intellectual property rights.) | 7 to 10 years |

(a) Goodwill

Goodwill represents the excess of the acquisition cost of a subsidiary over the Company's equity in the fair value of the identifiable net assets acquired, determined at the date of acquisition, and it is not subject to amortization. Goodwill is shown under goodwill and intangible assets and is recognized at cost less accumulated impairment losses, which are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Research costs

Research costs are recognized in income as incurred. Expenditures on development activities are recognized as intangible assets when such costs can be reliably measured, the product or process is technically and commercially feasible, potential future economic benefits are obtained and the Company expects to incur and also has sufficient resources to complete the development and use or sell the asset. Amortization thereof is recognized in income by the straight-line method over the estimated useful life of the asset. Development expenditures that do not qualify for capitalization are recognized in income as incurred.

(c) Intangible assets acquired in a business combination

When an intangible asset is acquired in a business combination it is recognized at fair value at the acquisition date. Subsequently, said assets, such as trademarks, customer relations, intellectual property rights, and no-competition agreements are carried at cost less accumulated amortization and the accumulated impairment losses.

(d) Trademarks and licenses

Trademarks and licenses acquired in a separate transaction are recorded at acquisition cost. Trademarks and licenses acquired in a business combination are recognized at fair value at acquisition date. Licenses that have a defined useful life are presented at cost less accumulated amortization. Amortization is recorded by the straight-line method over its estimated useful life of 15 to 22 years.

Trademarks that have demonstrated their ability to survive changes in the economic environment over the last 30-40 years are not amortized but are subject to annual impairment tests.

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Software license acquisitions are capitalized based on costs incurred to acquire and use the specific software. Costs are amortized based on their useful life of 15 to 22 years.

Software development

Costs associated with the maintenance of software are recorded as expenses as incurred.

Development costs directly related with the design and tests of unique and identifiable software products controlled by the Company are recorded as intangible assets when they fulfill the following criteria:

- Technically, it is possible to complete the intangible asset so that it may be available for its use or sale;
- The intangible asset is to be completed for use or sale;
- The ability to use or sell the intangible asset;
- The way in which the intangible asset is to generate probable future economic benefits;
- The availability of adequate technical, financial or other type of resources, to complete the development and use or sell the intangible asset; and
- The ability to reliably calculate the disbursement attributable to the intangible asset during its development.

The amount initially recognized for an intangible asset generated internally will be the sum of disbursements incurred from the moment the element fulfills the conditions for recording, as established above. When no intangible asset internally generated may be recognized, the disbursements for development are charged to income in the period they are incurred.

Software development costs recorded as assets are amortized based on their useful life, which does not exceed twenty two years.

l. Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not depreciable or amortizable and are subject to annual impairment tests. Assets that are subject to amortization are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized under other expenses in the statement of income in the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels at which separately identifiable cash flows exist (cash generating units). Non-financial long-term assets other than goodwill that have suffered impairment are reviewed for possible reversal of impairment at each reporting date.

m. Income taxes

The item of income taxes in the statement of income represents the sum of the current and deferred income taxes.

Deferred income taxes are determined in each subsidiary by the asset and liability method, applying the rate established by legislation enacted or substantially enacted at the balance sheet date wherever SIGMA and its subsidiaries operate and generate taxable. The applicable rates are applied to the totality of the temporary differences resulting from comparing the accounting and tax values of assets

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and liabilities in accordance with the years in which the deferred asset tax is realized or the deferred liability tax is expected to be settled, considering, when applicable, any tax loss carry forwards expected to be recoverable. The effect of a change in tax rates is recognized in income for the period in which the rate change is enacted.

Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable law is subject to interpretation. Provisions are recognized when appropriate based on the amounts expected to be paid to the tax authorities.

Deferred tax assets are recognized only when it is probable that future taxable profits will exist against which the deductions for temporary differences can be taken.

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

Deferred tax assets and liabilities are offset when a legal right exists and when the taxes are levied by the same tax authority.

The statutory income tax rates applicable to the main foreign subsidiaries were as follows:

| | <u>2016</u> | <u>2015</u> |
|--------------------------|-------------|-------------|
| Costa Rica | 30.0% | 30.0% |
| Germany | 30.0% | 30.0% |
| Belgium | 33.9% | 34.0% |
| Dominican Republic | 27.0% | 27.0% |
| El Salvador | 30.0% | 30.0% |
| Honduras | 25.0% | 25.0% |
| Guatemala | 25.0% | 25.0% |
| Nicaragua | 30.0% | 30.0% |
| Peru | 28.0% | 28.0% |
| United States of America | 35.0% | 35.0% |
| Spain | 25.0% | 28.0% |
| Netherlands | 25.0% | 25.0% |
| Italy | 27.5% | 27.5% |
| France | 33.3% | 33.3% |
| Portugal | 21.0% | 23.0% |
| Ecuador | 22.0% | 22.0% |

n. Employee Benefits

i. Pension plans

Defined contribution plans:

A defined contribution plan is a pension plan under which the Company pays fixed contributions to a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to their service in the current and past periods. Those contributions are recognized as employee benefit expenses on the date that the contribution is mandatory.

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Defined benefit plans:

A defined benefit plan is a plan which specifies the amount of the pension an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries by the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rates established in IAS 19 that are denominated in the currency in which the benefits will be paid, and which have maturities that approximate the terms of the pension liability.

Actuarial gains and losses from adjustments and changes in actuarial assumptions are recognized directly in stockholders' equity under other comprehensive income in the year they occur.

The Company determines the net financial expense (income) by applying the discount rate to the liabilities (assets) from net defined benefits.

Past-service costs are recognized immediately in the statement of income.

ii. Post-employment medical benefits

The Company provides medical benefits to retired employees after termination of employment. The right to access these benefits usually depends on the employee's having worked until retirement age and completing a minimum of years of service. The expected costs of these benefits are accrued over the period of employment using the same criteria as those described for defined benefit pension plans.

iii. Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or when an employee accepts voluntary termination of employment in exchange for these benefits. The Company recognizes termination benefits on the first of the following dates: (a) when the Company can no longer withdraw the offer of these benefits, and (b) when the Company recognizes restructuring costs within the scope of IAS 37 and it involves payment of termination benefits. If there is an offer that promotes the termination of the employment relationship voluntarily by employees, termination benefits are valued based on the number of employees expected to accept the offer. Any benefits to be paid more over the long term are discounted at their present value.

iv. Short term benefits

The Companies provide benefits to employees in the short term, which may include wages, salaries, annual compensation and bonuses payable within the next 12 months. SIGMA recognizes an undiscounted provision when it is contractually obligated or when past practice has created an obligation.

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v. **Employee share in profits and bonuses**

The Company recognizes a liability and an expense for bonuses and employee share in profits when it has a legal or assumed obligation to pay those benefits and determines the amount to be recognized based on the profit for the year after certain adjustments.

o. **Provisions**

Liability provisions represent a present legal obligation or a constructive obligation as a result of past events where an outflow of resources to meet the obligation is likely and where the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the value of money over time and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the obligations as a whole. A provision is then recognized even if the likelihood of a cash outflow with respect to any one item included in the same class of obligations is small.

Provisions for legal claims are recognized when the Company has a present obligation (legal or assumed) as a result of past events, it is likely that an outflow of economic resources will be required to settle the obligation and the amount can be reasonably estimated.

A restructuring provision is recorded when the Company has developed a formal detailed reorganization plan, and a valid expectation of the reorganization has been created between those affected, possibly due to having started the plan implementation or to having announced its main characteristics to them.

p. **Stock based compensation**

The Company's compensation plans are based on the market value of shares of ALFA in favor of certain senior executives of SIGMA. The conditions for granting such compensation to the eligible executives include among other things, compliance with certain metrics such as the level of profit achieved and remaining in the Company for up to 5 years. The ALFA Board of Directors has appointed a technical committee to manage the plan, which reviews the estimated cash settlement of said compensation at the end of the year. The payment plan is always subject to the discretion of the senior management of ALFA. Adjustments to this estimate are charged or credited to the statement of income.

The fair value of the amount payable to employees with respect to share-based payments which are settled in cash is recognized as an expense in the statement of income under administrative expenses, with the corresponding increase in liabilities, over the period of service required. The liability is included under other liabilities and is adjusted at each reporting date and the settlement date. Any change in the fair value of the liability is recognized as a compensation expense in the statement of income.

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q. Capital stock

SIGMA common shares are classified as capital stock within stockholders' equity. Incremental costs directly attributable to the issue of new shares are included in equity as a deduction of the consideration received, net of tax. The capital stock includes the effects of inflation recognized until December 31, 1997.

r. Comprehensive income

Comprehensive income is composed of net income plus other capital reserves, net of taxes, which are comprised of the effects of translation of foreign entities, remeasurement of obligations for employee benefits and of other items specifically required to be reflected in stockholders' equity and which do not constitute capital contributions, reductions or distributions.

s. Segment reporting

Segment information is presented consistently with the internal reporting provided to the chief executive who is the highest authority for operational decision-making, resource allocation and assessment of operating segment performance purposes.

t. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the normal course of operations. Revenue is shown net of estimated customer returns, rebates and similar discounts and after eliminating intercompany sales.

The Company grants discounts and incentives to customers, which are recognized as a deduction from income or as selling expenses depending on their nature. These programs include customer discounts for sales of products based on: i) sales volume (usually recognized as a reduction of revenue) and ii) promotions in retail products (usually recognized as selling expenses) mainly.

Revenue from the sale of goods and products is recognized when all and each of the following conditions are met:

- The risks and rewards of ownership have been transferred
- The amount of revenue can be reliably measured
- It is likely that future economic benefits will flow to the Company
- The company retains no involvement associated with ownership nor effective control of the sold goods
- The costs incurred or to be incurred in relation to the transaction can be measured reasonably.

Dividend income from investments is recognized once the rights of shareholders to receive this payment have been established (when it is probable that the economic benefits will flow to the entity and the revenue can be reliably valued).

Interest income is recognized when it is likely that the economic benefits will flow to the entity and the amount of revenue can be reliably valued by applying the effective interest rate.

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u. Earnings per share

Earnings per share are calculated by dividing the profit attributable to the shareholders of the parent by the weighted average number of common shares outstanding during the year. At December 31, 2016 and 2015, there are no dilutive effects from financial instruments potentially convertible into shares.

v. Changes in accounting policy and disclosures

The following accounting policies were applied by the Company beginning January 1, 2016 and did not have a material impact on the Company:

- Annual revisions to the IFRS - 2012-2014 cycle. Adoption of those changes had no impact on the current period or any previous periods and it is not likely to affect future periods.

w. New accounting pronouncements

A new number of standards, amendments and interpretations to the accounting policies have been published, which are not effective for reporting periods at December 31, 2016, and have not been applied in advance by the Company. The Company's assessment of the effects of those new standards and interpretations are detailed below:

IFRS 9 - "Financial instruments", addresses the classification, measurement and recognition of financial assets and liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made additional changes to the classification and measurement rules and also introduced a new impairment model. These last changes now comprise the entire new financial instruments standard. Following the approved changes, the Company no longer expects any impact from the new rules of classification, measurement and disposal of its financial assets or liabilities. There will be no impact on the Company's accounting from financial liabilities, since the new requirements only affect financial liabilities at fair value through income and the Company has no such liabilities. The new rule also introduces requirements regarding extense disclosure and presentation changes, which are still under evaluation by the Company. The new impairment model is a model of expected credit losses; therefore, it would result in advance recognition of credit losses. The Company continues assessing how its hedge agreements and impairment provisions are affected by the new rules. The standard is effective for the periods beginning on or after January 1, 2018. Early adoption is allowed.

IFRS 15 - "Revenue from contracts with customers", is a new standard issued by the IASB for revenue recognition. This standard replaces IAS 18 "Revenues", IAS 11 "Construction contracts", as well as the interpretations to the aforementioned standards. The new standard is based on the fact that revenue should be recorded when control over the different good or service is transferred to the customer, and therefore this control notion replaces the existing notion of risks and benefits.

This standard is effective for periods beginning on or after January 1, 2018. The standard allows for a complete retrospective approach and a modified retrospective approach for its adoption. The Company is assessing which of the two approaches it can use and to date, it considers that the modified retrospective approach might be used for adoption. Under this approach the entities will recognize adjustments from the effect of initial application (January 1, 2018) in retained earnings in the financial statements at December 2018 without restating comparative periods, by applying the new rules to contracts effective as of January 1, 2018 or those that even when held in prior years continue to be effective at the date of initial application.

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For purposes of disclosure in the 2018 financial statements, the amounts of affected items must be disclosed, considering the application of the current revenue standard, as well as an explanation of the reason for the significant changes made.

During 2016, management conducted an assessment to identify areas of possible impact of the new revenue standard. The most relevant issues that Management is evaluating are the following:

- There are variable considerations such as returns and discounts. Management should evaluate and apply the most appropriate method to estimate the variable consideration.
- The Company makes different payments to customers; this makes it necessary to analyze whether they should be classified as "different" under IFRS 15. If so, they will not be considered an income reduction and will be accounted for in the same manner as purchases of goods or services.

As of December 31, 2016, the Company is in the process of evaluating the impact of this new standard on its financial statements.

This standard is effective for periods beginning on or after January 1, 2018. The expected application date for the Company is January 2018.

IFRS 16 - "Leases". In January 2016, the IASB issued a new standard for lease accounting. This standard will replace current standard IAS 17, which classifies leases into financial and operating. IAS 17 identifies leases as financial in nature when the risks and benefits of an asset are transferred, and identifies the rest as operating leases. IFRS 16 eliminates the classification between financial and operating leases and requires the recognition of a liability showing future payments and assets for "right of use" in most leases. The IASB has included some exceptions in short-term leases and in low-value assets. The aforementioned amendments are applicable to the lease accounting of the lessee, while the lessor maintains similar conditions to those currently available. The most significant effect of the new requirements is an increase in leasing assets and liabilities, also affecting the statement of income in depreciation expenses and financing of recorded assets and liabilities, respectively, and decreasing expenses for leases previously recognized as operating leases. As of the date of issuance of these financial statements, the Company has non-cancelable operating lease commitments of Ps961,723; however, it has not yet been determined to what extent those commitments will result in recognition of an asset and a liability for future payments and how this affects the gain and classification of the Company's cash flows. This standard is effective for periods beginning on or after January 1, 2019.

There are no other additional standards, amendments, or interpretations issued but not effective that might have a significant impact on the Company.

Note 4 - Financial risk management:

4.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk on cash flows, and interest rate risk on fair values), credit risk and liquidity risk and input and product risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. The Company constantly analyzes the impact of financial risk in order to determine the representative changes that can gradually be passed on to the sales prices of their products and thereby hedge the risks of exchange rates and interest rates, mainly.

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The objective is to protect the financial health of the business considering the volatility associated to exchange rates and interest rates.

The parent company of SIGMA has a Risk Management Committee (RMC), comprised of the Board's Chairman, the CEO, the CFO of the parent company and a top Risk Management officer of the parent company acting as technical secretary. The RMC supervises derivative transactions proposed by the subsidiaries of ALFA, including SIGMA, in which a worst case scenario analysis surpasses US\$1 million.

This Committee supports both the CEO and the President of Board of the parent company. All new derivative transactions which the Company proposes to enter into, as well as the renewal or cancellation of derivative arrangements, must be approved both by the subsidiary company, as well as by ALFA according to the following schedule of authorizations:

| | <u>Maximum Possible Loss US\$ million</u> | |
|----------------------------------|---|---------------------------------------|
| | <u>Individual Transaction</u> | <u>Annual Cumulative Transactions</u> |
| Chief Executive Officer of SIGMA | 1 | 5 |
| ALFA Risk Management Committee | 30 | 100 |
| Finance Committee | 100 | 300 |
| ALFA Board of Directors | >100 | >300 |

The proposed transactions must meet certain criteria, including that the hedges are lower than exposures, and that they are the result of a fundamental analysis and are properly documented. Sensitivity analyses and other risk analyses should be performed before the operation is carried out.

(a) Market risk

(i) Exchange risk

The Company operates internationally and is exposed to foreign exchange risk, primarily related to the Mexican peso and currencies other than the functional currency in which its subsidiaries operate. The Company is exposed to foreign exchange risk arising from future commercial transactions of assets and liabilities in foreign currencies and investments abroad.

The respective exchange rates of the Mexican pesos, the U.S. dollar and the euro, are very important factors for SIGMA due to the effect they have on their performance. Moreover, SIGMA has no interference in their determination. On the other hand, SIGMA estimated that 59% and 57% of its revenues are denominated in a foreign currency different from the Mexican peso, either because they come from products that are exported from Mexico, or because of products that are manufactured and sold abroad.

For this reason, in the past when the Mexican Peso has appreciated in real terms against other currencies such as the dollar, SIGMA profit margins have increased. On the other hand, when the Mexican Peso has lost value, SIGMA profit margins have decreased. However, although this factor correlation has appeared on several occasions in the recent past, there is no assurance that it will happen again if the exchange rate between the Mexican Peso and other currencies fluctuate again.

The Company depends on imported inputs and has a debt in US dollars; therefore, its costs are exposed to exchange variation risks. A depreciation of the Mexican peso would negatively affect production costs, the service cost of debt and/or sales prices.

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The cost of imported goods, denominated in US dollars and euros represents 56.8% and 50.0% of the production cost in Mexico. As a result of the foregoing, a depreciation of the Mexican peso would increase production costs, thus affecting the Company's operating results. On the one hand, if the increase in production cost is absorbed, the operating margin would be reduced; on the other hand, if increase in the production cost is transferred to the consumer, sales would suffer a negative effect.

The Company has certain investments in foreign operations, the net assets of which are exposed to foreign currency exchange risk. Currency exposure arising from net assets of the Company's foreign transactions is mainly managed through loans denominated in the corresponding foreign currency.

At December 31, 2016 and 2015, if the exchange rate increased / decreased by 10%, monetary position in foreign currency and non-monetary assets related to investments in foreign currencies would be modified by Ps5,509,762 and Ps4,604,752, respectively.

Based on the exposure of the exchange rate in general at December 31, 2016 and 2015, a hypothetical variation of 10% in the MXN/USD exchange rate while all other variables remain constant would result in an impact on the statement of income of Ps 3,346,604 and Ps2,649,494, respectively.

(ii) Price risk

The Company acquires inputs for its manufacturing process; therefore, its costs are exposed to variations in the prices of such inputs and services. Considerable increases in those prices would negatively affect the operating margin and/or sales. On the one hand, if the increase is absorbed by the production cost, the operating margin would decrease; on the other hand, if this increase is transferred to the final price, sales would suffer a negative impact.

Prices of the most important inputs, such as chicken, turkey, pork pastes, powdered milk and fuel, are subject to international prices. Meat paste prices depend on the price of cereals, since these are used as food for the animals. When the price of cereals increases, the price of meat increases; therefore, the Company's inputs do too.

At December 31, 2016 and 2015, the Company had no input price hedging for the manufacturing process. Based on the exposure of inputs in general at December 31, 2016 and 2015, a hypothetical increase (decrease) of 10% in prices of inputs with all other variables constant, such as exchange rates, would result in an increase (decrease) that would affect the statement of income by of Ps5,891,908 and Ps5,236,153, respectively.

(iii) Interest rate and cash flow risk

The interest rate risk for the Company arises from long-term loans. Loans at variable rates expose the Company to interest rate risk on cash flows that are partially offset by cash held at variable rates. Loans at fixed rates expose the Company to interest rate risk at fair value.

At December 31, 2016, interest rates are fixed, See Note 16.

(b) Credit risk

Credit risk is managed on a group basis, except for the credit risk related to accounts receivable balances. Each local entity is responsible for managing and analyzing credit risk for each of its new customers before setting the terms and conditions of payment. Credit risk is generated from cash and cash equivalents and deposits in banks and financial institutions, as well as credit exposure to customers, including accounts receivable. If wholesale customers are rated independently, those are the ratings used.

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If there is no independent rating, the Company's risk control group evaluates the creditworthiness of customers, taking into account their financial position, past experience and other factors.

Individual risk limits are determined based on internal and external ratings in accordance with limits set by the Board. The use of credit risk is monitored regularly. Sales to retail customers are in cash or by credit card.

During 2016 and 2015, credit limits were not exceeded and management does not expect losses in excess of the impairment recognized in the corresponding periods.

The provision for impairment of doubtful accounts represents estimated losses resulting from the inability of customers to make required payments. In determining the allowance for doubtful accounts, significant estimates have to be made. The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by a review of their current credit information. In addition, the Company considers a number of factors to determine the size and appropriate timing for the recognition of allowances, including historical collection experience, customer base, current economic trends and the ageing of the accounts receivable portfolio.

(c) Liquidity risk

Cash flows projections are prepared at each operating entity of the Company and subsequently, the finance department consolidates this information. The Company's finance department continuously monitors the cash flow projections and liquidity requirements of the Company ensuring there is a proper level of cash and investment with immediate implementation to meet operational needs, as well as to maintain some flexibility through unused open credit lines, committed and uncommitted. The Company regularly monitors and makes decisions considering not violating the limits or covenants set forth in debt contracts. The projections consider financing plans of the Company, compliance with covenants, compliance with minimum liquidity ratios and internal legal or regulatory requirements.

The Company's treasury invests those funds in term deposits and marketable securities whose maturities or liquidity allow flexibility to meet the cash needs of the Company. At December 31, 2016 and 2015, the Company had term deposits of Ps5,962,442 and Ps4,840,531, respectively, which are considered sufficient to adequately manage liquidity risk.

The table analyzes the financial liabilities of the Company, grouped according to their maturity, as of the reporting date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are required to understand the timing of cash flows of the Company. The amounts disclosed in the table are contractual undiscounted cash flows.

Following is a breakdown of financial liability maturities at December 31, 2016 and 2015 ⁽¹⁾:

| | Less than <u>1 year</u> | Between 1 and 2 <u>years</u> | Between 3 and 5 <u>years</u> | Over <u>5 years</u> |
|---|----------------------------|------------------------------------|------------------------------------|------------------------|
| At December 31, 2016 | | | | |
| Suppliers and other accounts payable | Ps 26,098,551 | Ps - | Ps - | Ps - |
| Bank loans | - | - | - | - |
| Senior Notes | - | 14,382,024 | - | 31,207,169 |
| Stock certificates | - | 1,690,862 | - | - |
| Financial lease | - | 25,751 | 46,310 | 48,256 |
| Accrued interest payable on bank | | | | |
| Loans, Senior Notes and stock certificates | 2,683,619 | 3,385,533 | 2,431,882 | 4,587,834 |
| Other current and non-current liabilities (2) | 132,277 | 553,403 | 74,868 | 153,304 |

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| | <u>Less than 1 year</u> | <u>Between 1 and 2 years</u> | <u>Between 3 and 5 years</u> | <u>Over 5 years</u> |
|---|-----------------------------|--------------------------------------|--------------------------------------|-------------------------|
| At December 31, 2015 | | | | |
| Suppliers and other accounts payable | Ps 20,225,792 | Ps - | Ps - | Ps - |
| Bank loans | 2,107,437 | 15,941,292 | - | - |
| Senior Notes | - | 7,718,191 | 4,261,881 | 9,351,750 |
| Stock certificates | - | 1,668,295 | - | - |
| Financial lease | 19,575 | 40,159 | 17,974 | 55,176 |
| Accrued interest payable on bank | | | | |
| Loans, Senior Notes and stock certificates | 1,421,230 | 2,646,142 | 962,622 | 473,432 |
| Other current and non-current liabilities (2) | 79,685 | 113,496 | 21,220 | 148,850 |

(1) The amounts included are undiscounted contractual cash flows; therefore, they differ from the amounts included in the consolidated financial statement and in Note 16.

(2) The amounts include accounts payable of related parties and notes payable, see Note 19.

SIGMA expects to meet its obligations with cash flows generated by operations. Additionally, SIGMA has access to credit lines with various banks to meet possible requirements.

4.2 Equity risk management

The Company's objectives when managing equity are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure so as to reduce the cost of equity.

To maintain or adjust the equity structure, the Company may adjust the amount of dividends paid to shareholders, return equity to shareholders, issue new shares or sell assets to reduce debt.

SIGMA monitors capital based on the degree of leverage. This percentage is calculated by dividing the total liabilities by total equity.

The financial ratio of total liabilities/total equity was 4.70 and 4.79 as of December 31, 2016 and 2015, respectively.

4.3 Fair value estimation

The following is an analysis of financial instruments measured at fair value by the valuation method. The 3 different levels used are presented below:

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Other valuations including quoted prices for similar instruments in active markets that are directly or indirectly observable.
- Level 3: Valuations made through techniques in which one or more of the significant data are not observable.

At December 31, 2016 and 2015 SIGMA has no assets or liabilities measured at fair value.

There are no transfers between Levels 1 and 2, or between Levels 2 and 3 in the reported periods.

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Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is considered active if quoted prices are clearly and regularly available from a stock exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regular market transactions at arm-length conditions. The trading price used for financial assets held by SIGMA is the current bid price.

Level 2

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximize the use of observable market data when available and relies as little as possible on estimates specific to the Company. If all significant inputs required to measure the fair value of an instrument are observable, the instrument is classified at Level 2.

Level 3

If one or more of the significant inputs are not based on observable market data, the instrument is categorized in Level 3.

Specific valuation techniques used to value financial instruments include:

- Market quotations or offers from retailers for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on observable yield curves.
- The fair value of forward exchange contracts is determined using the exchange rates for the statement of financial position date, with the resulting value discounted at present value.
- Other techniques, such as the analysis of discounted cash flows, which is used to determine fair value for the remaining financial instruments.

Note 5 - Critical accounting estimates and judgments:

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment, in accordance with the established accounting policy (see Note 12). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

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(b) Income taxes

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. At December 31, 2016 and 2015 if income before taxes increases/decreases by 5%, income tax will increase/decrease by Ps87,182 and Ps118,442, respectively.

(c) Pension benefits

The present value of pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates according to IAS 19 "Employee benefits" that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions.

(d) Long-lived assets

The Company estimates the useful lives of long-lived assets in order to determine the depreciation and amortization expenses to be recorded during the reporting period. The useful life of an asset is calculated when the asset is acquired and is based on past experience with similar assets, considering anticipated technological changes or any other type of changes. Were technological changes to occur faster than estimated, or differently than anticipated, the useful lives assigned to these assets would have to be reduced. This would lead to the recognition of a greater depreciation and amortization expense in future periods. Alternatively, these types of technological changes could result in the recognition of a charge for impairment to reflect the reduction in the value of the assets. The Company reviews assets on an annual basis for signs of impairment, or when certain events or circumstances indicate that the value in books may not be recovered during the remaining useful life of the assets.

To evaluate impairment, the Company uses cash flows, which consider management's estimates for future transactions, including estimates for revenues, costs, operating expenses, capital expenses and debt service. According to IFRS, if an assessment is required, estimated future discounted cash flows associated to an asset would be compared to the value in books of the asset to determine if an asset is impaired. In this case, the asset is reduced to its fair value. Based on the analysis of Company's cash flow, there was no impairment at December 31, 2016 and 2015.

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5.2 Critical judgments in the application of accounting policies of the Company.

(a) Revenue recognition

The Company has recognized revenues of Ps106,340,864 from the sale of goods to third parties during 2016. Customers have the right to return the products if not satisfied. The Company believes that, based on previous experience in similar sales, the dissatisfaction rate and maturity shall not exceed 1%. Consequently, the Company has recognized revenues from those transactions with the corresponding provision against revenues from the estimate of returns. At December 31, 2016 and 2015, if the estimate changes by 10%, revenues will decrease/increase by Ps106,340 and Ps93,567, respectively.

(b) Recognition of deferred tax assets

SIGMA alone has tax losses to be applied derived mainly from significant exchange losses, which can be used in the following years before their expiration.(See Note 17).

Based on the projections of tax revenues and gains to be obtained by SIGMA alone in the following years through a structured and solid business plan, including the sale of non-strategic assets , new services to be rendered to the Company's entities, increase in the collection of royalties, among others, management has considered using current tax losses before they expire. Therefore, it has been deemed adequate to record a deferred tax asset for those losses.

Note 6 - Cash and cash equivalents:

Cash and cash equivalents shown in the statement of financial position are comprised as follows:

| | <u>At December 31,</u> | |
|---------------------------------|------------------------|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Cash at bank and on hand | Ps 6,875,172 | Ps 3,607,563 |
| Short term bank deposits | <u>5,962,442</u> | <u>4,840,531</u> |
| Total cash and cash equivalents | <u>Ps 12,837,614</u> | <u>Ps 8,448,094</u> |

Nota 7 - Restricted cash and cash equivalents:

At December 31, the value of restricted cash and cash equivalents is composed as follows:

| | <u>At December 31,</u> | |
|--------------------------------------|------------------------|-------------------|
| | <u>2016</u> | <u>2015</u> |
| Current | Ps 61,992 | Ps 137,644 |
| Non-current | <u>61,981</u> | <u>77,429</u> |
| Restricted cash and cash equivalents | <u>Ps 123,973</u> | <u>Ps 215,073</u> |

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Restricted cash constitutes a guarantee deposit in favor of SIGMA held with the former shareholders of JURIS and Ecarni (see Note 2e). Restricted cash will be released in full after two years of the purchase and will have partial releases during the two year period according to the contracts, once the purchase price allocation is concluded and once the titles certifying the recording of the acquisition before the intellectual property institute of Ecuador have been issued. At December 31, 2016 and 2015, the requirements for cash to stop being presented as restricted cash have not been met in full. At December 31, 2016, the restricted cash related to the operation of Juris amounts to Ps30,985 and of Ecarni to Ps92,988 (Ps61,981 as a long term asset and Ps61,992 as current asset).

Note 8 - Trade and other accounts receivable - Net:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Trade | Ps 7,144,013 | Ps 6,275,039 |
| Provision for impairment of trade receivables | <u>(481,484)</u> | <u>(419,214)</u> |
| Customers, net | 6,662,529 | 5,855,825 |
| Accounts receivable from related parties (Note 29) | 33,554 | 21,953 |
| Value-added tax recoverable | 1,816,339 | 1,573,920 |
| Interest receivable | 2,032 | 1,341 |
| Other debtors: | | |
| Short-term notes receivable | 153,684 | 131,146 |
| Sundry debtors | <u>371,290</u> | <u>291,199</u> |
| | <u>Ps 9,039,428</u> | <u>Ps 7,875,384</u> |

Trade and other receivables include unimpaired due balances of Ps1,344,845 and Ps903,935 at December 31, 2016 and 2015, respectively.

The aging analysis of balances due from trade and other receivables not impaired is as follows:

| | <u>At December 31,</u> | |
|--------------------|------------------------|-------------------|
| | <u>2016</u> | <u>2015</u> |
| 1 to 30 days | Ps 930,675 | Ps 717,472 |
| 30 to 90 days | 261,958 | 107,662 |
| 90 to 180 days | 106,574 | 22,010 |
| More than 180 days | <u>45,637</u> | <u>56,791</u> |
| | <u>Ps 1,344,845</u> | <u>Ps 903,935</u> |

At December 31, 2016 and 2015, trade and other accounts receivable of Ps7,223,089 and Ps6,301,464, respectively, have an impairment provision (represented by customers and sundry debtors). The amount of the impairment provision at December 31, 2016 and 2015 amounts to Ps481,484 and Ps419,214, respectively. Trade and other accounts receivable impaired correspond mainly to companies going through difficult economic situations. Part of the impaired accounts are expected to be recovered

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Movements in the provision for impairment of customers are analyzed as follows:

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Opening balance (January 1) | Ps 419,214 | Ps 389,865 |
| Provision for impairment of trade receivables and other accounts receivable | 105,376 | 75,982 |
| Increase from acquisitions (Note 2) | - | 2,079 |
| Trade receivables written-off during the year | <u>(43,106)</u> | <u>(48,712)</u> |
| Ending balance (December 31) | <u>Ps 481,484</u> | <u>Ps 419,214</u> |

Increases in the provision for impairment of customers and other receivables are recorded in the statement of income under sales expenses.

Note 9 - Inventories:

| | <u>At December 31,</u> | |
|--|------------------------|----------------------|
| | <u>2016</u> | <u>2015</u> |
| Finished goods | Ps 3,803,678 | Ps 3,383,127 |
| Raw materials and other consumable goods | 4,944,926 | 4,574,516 |
| Production in progress | <u>5,002,670</u> | <u>4,061,326</u> |
| | <u>Ps 13,751,274</u> | <u>Ps 12,018,969</u> |

The cost of inventories recognized as an expense and included in "cost of sales" amounted to Ps58,919,080 and Ps52,631,532 for 2016 and 2015, respectively.

In the years ended on December 31, 2016 and 2015, damaged, slow-moving and obsolete inventory was recognized in the amount of Ps15,810 and Ps24,542, respectively.

At December 31, 2016 and 2015, there were no inventories pledged.

Note 10 - Financial instruments:

a. Financial instruments by category

At December 31, accounts receivable and liabilities at amortized cost are analyzed as follows:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------------|----------------------|----------------------|
| Financial assets: | | |
| Cash and cash equivalents | Ps 12,837,614 | Ps 8,448,094 |
| Restricted cash | 123,973 | 215,073 |
| Trade and other accounts receivable | 7,223,089 | 6,301,464 |
| Prepaid expenses | 343,884 | 327,808 |
| Other non-current assets | <u>122,982</u> | <u>1,031,171</u> |
| | <u>Ps 20,651,542</u> | <u>Ps 16,323,610</u> |

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| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|----------------------|----------------------|
| Financial liabilities | | |
| Debt (Note 16) | Ps 47,842,609 | Ps 41,298,592 |
| Suppliers and other accounts payable | 26,098,551 | 20,225,792 |
| Other financial liabilities | <u>916,790</u> | <u>366,209</u> |
| | <u>Ps 74,857,950</u> | <u>Ps 61,890,593</u> |

b. Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

| | <u>At December 31,</u> | |
|---|------------------------|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Counterparties with external credit rating | | |
| "A" | Ps 1,040,281 | Ps 1,241,132 |
| "BBB+" | 100,697 | 81,490 |
| Other categories | <u>211,765</u> | <u>164,339</u> |
| | <u>Ps 1,352,743</u> | <u>Ps 1,486,961</u> |
| Counterparties without external credit rating | | |
| " Y type Clients " | <u>Ps 5,870,346</u> | <u>Ps 4,814,503</u> |
| Total accounts receivable not impaired | <u>Ps 7,223,089</u> | <u>Ps 6,301,464</u> |
| Cash and cash equivalents, Except for petty cash | | |
| "A" | Ps 5,196,485 | Ps 1,738,778 |
| "A+" | 45,699 | 1,627,281 |
| "BBB" | 3,905,394 | 3,408,168 |
| "BB" | 84,688 | 438,992 |
| "BB+" | 1,214,147 | 518,786 |
| Other categories | 447,983 | 30,681 |
| Not rated | <u>1,943,218</u> | <u>685,408</u> |
| | <u>Ps 12,837,614</u> | <u>Ps 8,448,094</u> |

Group Y - clients/current related parties (less than 12 months) with no past lack of compliance.

Other categories - Mainly Banco Mercantil del Norte, S. A. Institución de Banca Múltiple Grupo Financiero Banorte and local Banks of foreign entities.

Not Rated - relate mainly to bank balances of subsidiaries that are within the "other countries" segment and have no external rating, and which have not incurred in non-compliance in the past for disposal of cash.

Sigma Alimentos, S. A. de C. V. and subsidiaries

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c. Fair value of financial assets and liabilities

The amounts of cash and cash equivalents, customers and other receivables, other current assets, suppliers and other accounts payable, debt and other liabilities outstanding approximate their fair value due to their short maturity. The carrying value of these accounts represents the expected cash flow.

The carrying value and estimated fair value of financial assets and financial liabilities carried at amortized cost are as follows (in millions of Mexican pesos):

| | <u>At December 31, 2016</u> | | <u>At December 31, 2015</u> | |
|------------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | <u>Carrying amount</u> | <u>Fair value</u> | <u>Carrying amount</u> | <u>Fair value</u> |
| Financial assets: | | | | |
| Related parties | Ps - | Ps - | Ps 260 | Ps 265 |
| Financial liabilities: | | | | |
| Non-current debt | 47,429 | 48,203 | 38,885 | 39,964 |

At December 31, 2016 and 2015, the weighted average discount rate applied to determine the fair value of financial assets was 1.01% and 2.5%, respectively.

The estimated fair values were determined based on discounted cash flows. These fair values do not consider the current portion of financial assets and liabilities because the current portion approximates their fair value. This is a level 3 fair value measurement.

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Note 11 - Property, plant and equipment, net:

| | Land | Buildings and constructions | Machinery and equipment | Transportation equipment | Furniture, Lab equipment and information technology | Tooling | Construction in process | Leasehold improvements | Other fixed assets | Total |
|---|---------------------|-----------------------------|-------------------------|--------------------------|---|------------------|-------------------------|------------------------|--------------------|----------------------|
| For the year ended December 31, 2015 | | | | | | | | | | |
| Opening balance | Ps 2,673,163 | Ps 8,089,585 | Ps 10,709,433 | Ps 1,034,993 | Ps 375,477 | Ps 59,887 | Ps 987,206 | Ps 190,329 | Ps 56 | Ps 24,120,129 |
| Exchange differences | 117,145 | 396,687 | 559,880 | 18,953 | 25,676 | 1,535 | 60,374 | 378 | 41 | 1,180,669 |
| Additions | 41,828 | 109,061 | 1,393,714 | 471,976 | 79,031 | 5,994 | 1,746,087 | 22,536 | 9 | 3,870,236 |
| Additions from business combinations (Note 2) | 62,640 | 77,294 | 123,451 | 23,773 | 18,505 | - | 53,560 | 10,546 | - | 369,769 |
| Disposals | (4,074) | (296,879) | (117,066) | (12,895) | (15,176) | (4,274) | (145,138) | (2,473) | 274 | (597,701) |
| Transfers | (35,517) | 187,117 | 657,094 | 50,152 | 116,086 | - | (971,741) | (3,291) | 100 | - |
| Depreciation charges of the year | - | (395,464) | (1,529,027) | (266,632) | (138,807) | 1 | - | (15,048) | (69) | (2,345,046) |
| Balances at December 31, 2015 | 2,855,185 | 8,167,401 | 11,797,479 | 1,320,320 | 460,792 | 63,143 | 1,730,348 | 202,977 | 411 | 26,598,056 |
| At December 31, 2015 | | | | | | | | | | |
| Cost | 2,855,185 | 11,972,258 | 25,689,317 | 3,140,603 | 1,726,827 | 63,143 | 1,730,348 | 377,560 | 1,201 | 47,556,442 |
| Accumulated depreciation | - | (3,804,857) | (13,891,838) | (1,820,283) | (1,266,035) | - | - | (174,583) | (790) | (20,958,386) |
| Net book value at December 31, 2015 | Ps 2,855,185 | Ps 8,167,401 | Ps 11,797,479 | Ps 1,320,320 | Ps 460,792 | Ps 63,143 | Ps 1,730,348 | Ps 202,977 | Ps 411 | Ps 26,598,056 |
| For the year ended December 31, 2016 | | | | | | | | | | |
| Opening balance | Ps 2,855,185 | Ps 8,167,401 | Ps 11,797,479 | Ps 1,320,320 | Ps 460,792 | Ps 63,143 | Ps 1,730,348 | Ps 202,977 | Ps 411 | Ps 26,598,056 |
| Exchange differences | 310,258 | 1,060,688 | 1,397,810 | 30,501 | 57,477 | 2,441 | 262,179 | 3,499 | 80 | 3,124,933 |
| Additions | 61,279 | 700,610 | 1,938,940 | 474,645 | 62,489 | 39,918 | 3,121,592 | 29,063 | 1,605 | 6,430,141 |
| Additions from business combinations (Note 2) | - | - | 2,551 | 3,320 | 414 | - | - | - | - | 6,285 |
| Disposals | (2,436) | (26,745) | (132,340) | (31,915) | (3,466) | (12,450) | (84,309) | (1,421) | (8) | (295,090) |
| Transfers | (222) | 213,118 | 1,230,295 | 54,431 | 42,090 | - | (1,566,806) | 27,093 | 1 | - |
| Depreciation charges of the year | - | (468,037) | (1,797,674) | (337,188) | (153,802) | - | - | (18,320) | (22) | (2,775,043) |
| Ending balance at December 31, 2016 | 3,224,064 | 9,647,035 | 14,437,061 | 1,514,114 | 465,994 | 93,052 | 3,463,004 | 242,891 | 2,067 | 33,089,282 |
| At December 31, 2016 | | | | | | | | | | |
| Cost | 3,224,064 | 14,423,676 | 31,663,619 | 3,643,633 | 2,003,602 | 93,052 | 3,463,004 | 412,987 | 2,591 | 58,930,228 |
| Accumulated depreciation | - | (4,776,641) | (17,226,558) | (2,129,519) | (1,537,608) | - | - | (170,096) | (524) | (25,840,946) |
| Net book value at December 31, 2016 | Ps 3,224,064 | Ps 9,647,035 | Ps 14,437,061 | Ps 1,514,114 | Ps 465,994 | Ps 93,052 | Ps 3,463,004 | Ps 242,891 | Ps 2,067 | Ps 33,089,282 |

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At December 31, 2015 there are acquisitions of property, plant and equipment that required no cash flows, since they were made on credit amounting to Ps364,715.

Of total depreciation expenses in the amount of Ps2,775,043 and Ps2,345,046, Ps2,005,742 and Ps1,697,678 have been recorded in cost of sales, Ps602,209 and Ps488,585 in selling expenses, , Ps 167,092 and Ps158,783 and in administrative expenses, in 2016 and 2015, respectively.

At December 31, 2016 and 2015, there are no liabilities guaranteed with property, plant and equipment. At December 31, 2014, there are liabilities for a total of Ps54,074, guaranteed with property, plant and equipment of US\$120,861 (US\$8,212).

At December 31, 2016 and 2015, the Company has no rateable assets for capitalizing costs from loans.

At December 31, assets under financial leases comprise the following amounts in which the Company is the lessee:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------------|-------------------|-------------------|
| Cost - capitalized financial leases | \$ 204,419 | \$ 211,324 |
| Accumulated depreciation | <u>(84,102)</u> | <u>(76,869)</u> |
| Carrying value, net | <u>\$ 120,317</u> | <u>\$ 134,455</u> |

The Company has entered into various non-cancellable lease agreements as lessee. The lease terms are between 2 and 3 years, and the ownership of the assets lies with the Company.

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Note 12 - Goodwill and intangible assets:

| | Finite life | | | Indefinite life | | | Total |
|---|---------------------|------------------------|-----------------------------|------------------------|----------------------|------------------|-----------------------|
| | Development Cost | Customer relationships | Software licenses and other | Goodwill | Trademarks | Other | |
| Cost | | | | | | | |
| At January 1, 2015 | Ps 478,184 | Ps 1,351,946 | Ps 1,521,932 | Ps 8,674,404 | Ps 10,217,871 | Ps 82,681 | Ps 22,327,018 |
| Exchange differences | 67 | 244,884 | 117,800 | 483,250 | 679,009 | - | 1,525,010 |
| Additions due to business combinations (Note 2) | 855 | 167,524 | 140,063 | 562,610 | 58,734 | - | 929,786 |
| Additions | 149 | - | 136,959 | - | - | - | 137,108 |
| Disposals | - | - | (24,110) | - | - | - | (24,110) |
| Reclassification Juris (Note 2) | - | 61,107 | 61,423 | (181,442) | 49,246 | - | (9,666) |
| At December 31, 2015 | Ps 479,255 | Ps 1,825,461 | Ps 1,954,067 | Ps 9,538,822 | Ps 11,004,860 | Ps 82,681 | Ps 24,885,146 |
| Exchange differences | 3,137 | 320,819 | 445,270 | 1,622,688 | 1,887,183 | - | 4,279,097 |
| Additions due to business combinations (Note 2) | - | 70,678 | 10,117 | - | 1,130 | - | 81,925 |
| Additions | 3,374 | - | 94,570 | - | - | - | 97,944 |
| Disposals | - | - | - | - | (25,787) | - | (25,787) |
| Impairment | - | - | - | - | (183,831) | - | (183,831) |
| Reclassification PACSA and ECARNI (Note 2) | - | 494,139 | (18,933) | (249,667) | 6,473 | - | 232,012 |
| At December 31, 2016 | Ps 485,766 | Ps 2,711,097 | Ps 2,485,091 | (Ps 10,911,843) | Ps 12,690,028 | Ps 82,681 | Ps 29,366,506 |
| Accumulated amortization | | | | | | | |
| At January 1, 2015 | (Ps 351,305) | (Ps 420,908) | (Ps 176,773) | Ps - | Ps - | Ps - | (Ps 948,986) |
| Amortization | (2,250) | (145,924) | (336,347) | - | - | - | (484,521) |
| Exchange differences | (906) | (107,189) | (100,222) | - | - | - | (208,317) |
| At December 31, 2015 | (Ps 354,461) | (Ps 674,021) | (Ps 613,342) | Ps - | Ps - | Ps - | (Ps 1,641,824) |
| Amortization | (3,200) | (293,751) | (409,557) | - | - | - | (706,508) |
| Exchange differences | (3,119) | (83,485) | (266,725) | - | - | - | (353,329) |
| At December 31, 2016 | (Ps 360,780) | (Ps 1,051,257) | (Ps 1,289,624) | Ps - | Ps - | Ps - | (Ps 2,701,661) |
| Net book value | | | | | | | |
| Cost | \$ 479,255 | \$ 1,825,461 | \$ 1,954,067 | \$ 9,538,822 | \$ 11,004,860 | \$ 82,681 | \$ 24,885,146 |
| Accumulated amortization and impairment | (354,461) | (674,021) | (613,342) | - | - | - | (1,641,824) |
| At December 31, 2015 | Ps 124,794 | Ps 1,151,440 | Ps 1,340,725 | Ps 9,538,822 | Ps 11,004,860 | Ps 82,681 | Ps 23,243,322 |
| Cost | Ps 485,766 | Ps 2,711,097 | Ps 2,485,091 | Ps 10,911,843 | Ps 12,690,028 | Ps 82,681 | Ps 29,366,506 |
| Accumulated amortization and impairment | (360,780) | (1,051,257) | (1,289,624) | - | - | - | (2,701,661) |
| At December 31, 2016 | Ps 124,986 | Ps 1,659,840 | Ps 1,195,467 | Ps 10,911,843 | Ps 12,690,028 | Ps 82,681 | Ps 26,664,845 |

Other intangible assets consist of: Use rights, market development and non-compete agreements.

From the total amortization expense of Ps 718,889 and Ps 484,521, Ps 7,726 and Ps 16,192 have been recorded in cost of sales, Ps 395,710 and Ps 193,847 in selling expenses, and Ps 315,453 and Ps 274,482 in administrative expenses, in 2016 and 2015, respectively.

Goodwill increased in 2015 due to acquisition of PACSA and Ecarni and to the adjustments of the final valuation in 2016 (see Note 2).

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Impairment testing of goodwill

Goodwill is allocated to operating segments that are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquired entity are assigned to those units or groups of units, as follows:

| | <u>December 31,</u> | |
|----------------|----------------------|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Mexico | Ps 2,032,465 | Ps 1,783,553 |
| USA | 4,866,872 | 4,175,480 |
| Europe | 2,576,242 | 2,210,259 |
| Other segments | <u>1,436,264</u> | <u>1,369,530</u> |
| | <u>Ps 10,911,843</u> | <u>Ps 9,538,822</u> |

The estimated gross margin has been budgeted based on past performance and on market development expectations. The growth rate used is consistent with the projections included in industry reports. The discount rate used is before taxes and reflects the specific risks related to the Company's operations.

The recovery amount of the operating segments has been determined based on the calculations of the values in use. These calculations use cash flow projections based on pretax financial budgets approved by management covering a period of five years.

The key assumptions used in calculating the value in use in 2016 and 2015 are as follows:

| | <u>2016</u> | | | |
|------------------------|---------------|------------|---------------|-----------------------|
| | <u>Mexico</u> | <u>USA</u> | <u>Europe</u> | <u>Other segments</u> |
| Estimated gross margin | 34.5% | 31.2% | 21.7% | 33.0% |
| Growth rate | 8.8% | 11.8% | 0.7% | 6.6% |
| Discount rate | 8.8% | 6.3% | 6.9% | 10.0% |
| | <u>2015</u> | | | |
| | <u>Mexico</u> | <u>USA</u> | <u>Europe</u> | <u>Other segments</u> |
| Estimated gross margin | 34.8% | 30.3% | 20.6% | 16.9% |
| Growth rate | 6.8% | 12.9% | 2.0% | 7.3% |
| Discount rate | 10.0% | 7.9% | 8.7% | 13.6% |

Regarding the calculation of the value in use of the operating segments, SIGMA Management considers that a possible change in the key assumptions used would not cause the carrying value of the operating segments to materially exceed its value in use.

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Trademark impairment

In 2016, the Italian stock market declined by 4.1% as a result of the country's economic situation and the significantly more stringent regulatory standards imposed by the World Health Organization "WHO" on this market compared to the rest of the markets where the Company operates. As a result of these factors, management recalculated the recoverable amount of the CGU in Italy, recognizing an impairment of PS\$183,831 at December 31, 2016 in the intangible assets of the CGU.

The recoverable amount of the CGUs was determined based on the calculations of the value-in-use, consistent with the methods used as at December 31, 2015. The following table sets out the key assumptions for the CGU impairment calculations as at December 31, 2016.

| | Italy | |
|-------------------------------------|-------|-------|
| | 2016 | 2015 |
| Sales growth (% annual growth rate) | 4.51% | 8.40% |
| EBITDA/ budgeted sales (%) | 7.54% | 7.82% |
| Long term growth rate (%) | 1.00% | 1.00% |
| Discount rate | 7.18% | 7.18% |

Note 13 - Investments accounted for by the equity method and others:

| | December 31, | |
|---|---------------------|---------------------|
| | 2016 | 2015 |
| Long-term related parties (Note 29) | Ps - | Ps 259,599 |
| Long-term notes receivable (Note 19 and 21) | 82,578 | 734,484 |
| Investment in shares of associates ⁽¹⁾ | 945,968 | 808,650 |
| Other non-current assets | <u>40,403</u> | <u>37,088</u> |
| Total other non-current assets | <u>Ps 1,068,949</u> | <u>Ps 1,839,821</u> |

Investment in associates

The change in investment in associates for the years ended on December 31, 2016 and 2015 is as follows:

| | 2016 | 2015 |
|--|-------------------|-------------------|
| Balance at January 1, | Ps 808,650 | Ps 755,812 |
| Equity method | 50,236 | (401,413) |
| Payment of commitments (i) | - | 426,364 |
| Exchange differences and dividends received, net | <u>87,082</u> | <u>27,887</u> |
| Balance at December 31, | <u>Ps 945,968</u> | <u>Ps 808,650</u> |

- (i) Campofrío decided to divest in its associate Jean Caby through the transfer of its equity at the price of one euro to Foxlease Food, an unrelated entity holding 51% of the rest of Grupo Jean Caby's capital. The operation has led to giving up the net debit position that grupo Campofrío held before Grupo Jean Caby and that had been fully provisioned in prior years, as well as the to contribution of additional resources of \$454,251. Additionally, Campofrío reserves the right to receive 33% of the net benefits from the possible sale of fixed assets owned by Grupo Jean Caby.

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The accumulated summarized financial information for associates of the group accounted for by the equity method, not considered material, is as follows.

| | <u>2016</u> | <u>2015</u> |
|---|-------------|--------------|
| Operating losses | Ps 77,893 | (Ps 604,239) |
| Comprehensive income (loss) | 77,893 | (604,239) |
| Investment in associates at December 31 | 945,968 | 808,650 |

There are no contingent liabilities related to the investment of the group in the associates.

Nota 14 - Subsidiaries with significant non-controlling interest:

The non-controlling interest for the year ended December 31, 2016 and 2015 is made up as follows:

| | Non-controlling ownership percentage | Non-controlling interest income for the period | | Non-controlling interest at December 31, | |
|--------------------------|--------------------------------------|--|-------------|--|-------------|
| | | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Campofrío ⁽¹⁾ | 4.51% | Ps 33,419 | (Ps 25,003) | Ps 617,983 | Ps 499,625 |

⁽¹⁾ See Note 2c

The summarized consolidated financial information at December 31, 2016 and 2015 and for the year then ended, corresponding to Campofrío, a subsidiary with a significant non-controlling interest, is shown below:

Statement of financial position

| | <u>2016</u> | <u>2015</u> |
|-------------------------|---------------|---------------|
| Current assets | Ps 17,503,794 | Ps 14,662,981 |
| Non-current assets | 29,850,604 | 23,700,980 |
| Current liabilities | (19,039,663) | (14,264,619) |
| Non-current liabilities | (14,612,222) | (13,021,189) |
| Stockholders' equity | (13,702,514) | (11,078,153) |

Statement of income

| | | |
|-----------------------------------|------------|------------|
| Revenues | 40,071,486 | 33,891,850 |
| Net profit | 741,002 | 2,580,835 |
| Comprehensive income for the year | 490,729 | 2,615,040 |

Cash flows

| | | |
|---|-------------|-------------|
| Cash flows from operating activities | 4,456,363 | 6,100,477 |
| Net cash used from investments activities | (3,564,567) | (1,901,988) |
| Net cash used from financing activities | (121,812) | (1,496,130) |
| Net increase in cash and cash equivalents | 105,503 | 2,702,359 |

The information above does not include the elimination of intercompany balances and transactions.

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Note 15 - Suppliers and other accounts payable:

| | <u>At December 31,</u> | |
|---|------------------------|----------------------|
| | <u>2016</u> | <u>2015</u> |
| Suppliers | Ps 21,376,345 | Ps 15,915,434 |
| Taxes and withholdings payable | 1,211,227 | 1,039,622 |
| Annual performance liabilities | 94,720 | 81,439 |
| Short-term employee benefits | 1,361,195 | 1,419,475 |
| Other accounts payable and accrued expenses | <u>2,055,064</u> | <u>1,769,822</u> |
| | <u>Ps 26,098,551</u> | <u>Ps 20,225,792</u> |

Note 16 - Debt:

| | <u>At December 31,</u> | |
|---|------------------------|----------------------|
| | <u>2016</u> | <u>2015</u> |
| Current: | | |
| Bank loans (1) | Ps - | Ps 126,168 |
| Current portion of non-current debt | <u>442,237</u> | <u>2,287,009</u> |
| Current debt | <u>Ps 442,237</u> | <u>Ps 2,413,177</u> |
| Non-current: | | |
| In dollars: | | |
| Senior Notes (b) | Ps 35,085,761 | Ps 12,065,004 |
| Unsecured bank loans (a) | - | 17,925,218 |
| In euros: | | |
| Senior Notes (b) | 10,879,911 | 9,314,155 |
| Unsecured bank loans | - | 2,522 |
| Financial leases | 120,316 | 132,885 |
| In Mexican pesos: | | |
| Unsecured stock certificates (c) | <u>1,756,621</u> | <u>1,732,640</u> |
| | 47,842,609 | 41,172,424 |
| Less: Current portion of non-current debt | <u>(442,237)</u> | <u>(2,287,009)</u> |
| Non-current debt ⁽²⁾ | <u>Ps 47,400,372</u> | <u>Ps 38,885,415</u> |

(1) At December 31, 2015, current bank loans bore interest at the average rate of 1.82%. At December 31, 2016, there are no registered current bank loans payable.

The fair value of bank loans and current notes payable approximate their current book value, as the impact of discounting is not significant.

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(2) The carrying amounts, terms and conditions of non-current debt are as follows:

| Description | Currency | Balance at December 31, 2016 | Balance December 31, 2015 | Maturity date DD/MM/YYYY | Interest rate | Effective rate |
|---|----------|------------------------------------|---------------------------------|--------------------------------|------------------|-------------------|
| Bond 144 (b) Fixed rate | USD | Ps 9,381,593 | Ps 7,802,448 | 14/04/2018 | 5.625% | 5.764% |
| Bond 144 (b) Fixed rate | USD | 5,128,558 | 4,262,556 | 16/12/2019 | 6.087% | 6.352% |
| Bond 144 (b) Fixed rate | USD | 20,575,610 | - | 02/05/2026 | 4.125% | 4.268% |
| Bond 144 (b) Fixed rate | EUR | <u>10,879,911</u> | <u>9,314,155</u> | 13/03/2022 | 3.375% | 3.658% |
| Total Senior Notes | | <u>45,965,672</u> | <u>21,379,159</u> | | | |
| Syndicated loan (a) | USD | - | 516,449 | 20/06/2016 | 1.47% | 1.47% |
| Syndicated loan (a) | USD | - | 516,610 | 20/06/2016 | 1.47% | 1.47% |
| Syndicated loan (a) | USD | - | 16,892,159 | 13/11/2018 | 1.47% | 1.47% |
| Syndicated loan | EUR | - | <u>2,522</u> | 31/12/2016 | 2.00% | 2.00% |
| Total unsecured bank loans | | | | | | |
| Variable rates | | - | <u>17,927,740</u> | | | |
| SIGMA 08 (d) Fixed rate | MXN | 1,048,403 | 1,047,833 | 12/07/2018 | 10.25% | 10.25% |
| SIGMA 08U (d) Fixed rate | MXN | <u>708,218</u> | <u>684,807</u> | 12/07/2018 | 5.32% | 5.32% |
| Total unsecured stock certificates (d) | | <u>1,756,621</u> | <u>1,732,640</u> | | | |
| Financial leases | EUR | <u>120,316</u> | <u>132,885</u> | | | |
| TOTAL | | <u>Ps 47,842,609</u> | <u>Ps 41,172,424</u> | | | |

At December 31, 2016, the annual maturities of non-current debt are as follows:

| | 2018 | 2019 | 2020 | 2021 onwards | Total |
|--------------------|----------------------|---------------------|------------------|----------------------|----------------------|
| Senior Notes | Ps 9,268,264 | Ps 5,113,760 | Ps - | Ps 31,207,169 | Ps 45,589,193 |
| Stock certificates | 1,690,863 | - | - | - | 1,690,863 |
| Financial leases | <u>25,751</u> | <u>23,918</u> | <u>22,392</u> | <u>48,255</u> | <u>120,316</u> |
| | <u>Ps 10,984,878</u> | <u>Ps 5,137,678</u> | <u>Ps 22,392</u> | <u>Ps 31,255,424</u> | <u>Ps 47,400,372</u> |

At December 31, 2016 and 2015, the Company has unused contractual credit lines for a total of Ps2,066,400 (US\$100,000) and Ps1,720,650 (US\$100,000), respectively.

Relevant debt transactions:

- (a) On June 15, 2015, Sigma signed a loan agreement with The Bank of Tokyo-Mitsubishi UFJ, LTD in the amount of US\$355,000 to acquire 37% of the remaining shares of Campofrío (see Note 2). The loan bears quarterly interest. For the first year, the rate is LIBOR plus 0.50%, for the second year the rate is LIBOR plus 0.90% and from the third year onwards the rate is LIBOR plus 1.25% with three amortizations in December 2016 (US\$55,000), September 2017 (US\$150,000) and June 2018 (US\$150,000). The outstanding balance at December 31, 2015 is \$6,108,307 (US\$355,000). The loan was fully paid in May 2016.

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On November 13, 2013, SIGMA obtained a syndicated loan from the Bank of Tokyo-Mitsubishi UFJ, Ltd. as global coordinator and administrative agent together with a group of banks (the "Syndicated Loan") of up to US\$1,000,000 maturing on November 13, 2018, with four equal repayments in May 2017, November 2017, May 2018 and November 2018 (US\$301,469 had been drawn down as at December 31, 2013). Syndicated Loan interest will be payable monthly at LIBOR plus 1.250% of surtax. The proceeds of the syndicated loan are being used by the Company to complete the acquisition of Campofrío Food Group, SA ("Campofrío"). At December 31, 2015, the balance of this portion amounted to Ps 5,187,228. The loan was fully paid in May 2016.

On May 12, 2014, the Company requested an additional amount to Bank of Tokyo-Mitsubishi UFJ, LTD (Agent Bank) of US\$ 325,000. The loan bears monthly interest based on LIBOR plus 1.25% per year, with four equal installments in May 2017, November 2017, May 2018 and November 2018, maturing on November 13, 2018. At December 31, 2015, the balance of this portion amounted to Ps 5,592,113. The loan was fully paid in May 2016.

On June 20, 2013, the Company entered into an unsecured loan agreement with Rabobank Nederland for U.S.\$30,000. The loan accrues interest monthly based on LIBOR plus 1.20% annually, maturing on June 20, 2016. As of December 31, 2015, the balance amounted to Ps 516,195. The loan was fully paid in May 2016.

On June 21, 2013, the Company entered into an unsecured loan agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. for U.S.\$30,000. The loan accrues interest monthly based on LIBOR plus 1.20% annually, maturing on June 17, 2016. As of December 31, 2015, the balance amounted to Ps516,195. The loan was fully paid in May 2016.

- (b) On May 2, 2016, SIGMA completed the issuance of Senior Notes for a nominal amount of US\$1,000 million (US\$450 in 2011 and US\$250 million in 2009) with a single maturity at May 2, 2026 (December 14 2018 and December 16, 2019 for the second and first issuance, respectively). Senior Notes interest is be payable half-yearly at annual 4.125% (5.625% for the second issuance and 6.875% for the first issuance) starting November 2, 2026 onwards.

These Senior Notes were placed in private offerings pursuant to Rule 144A and Regulation S under the U.S. Securities Act of 1933; these Senior Notes are unconditionally guaranteed on an unsubordinated basis by certain subsidiaries of SIGMA joint obligation.

The Senior Notes were initially issued at a price equivalent to 99.797% (99.163% in 2011 and 98.059% in 2009) of their nominal value to produce a yield to the investor of 4.15% (5.73% in 2011 and 7.10% for 2009). At December 31, 2016 and 2015, the Senior Notes balance is US\$1,700 million and US\$700 million, respectively (Ps35,023,626 and Ps11,980,072 in 2016 and 2015, respectively). The net resources received from the Senior Notes amounted to US\$998 million (US\$446.20 million in 2011 and US\$245.1 million in 2009) net of the unamortized discount of US\$2 million (US\$3.8 million in 2011 and US\$4.9 million in 2009). Additionally, the issuance of Senior Notes originated issuance costs and expenses of approximately US\$10.3 million (US\$3.6 million in 2011 and US\$3.4 million in 2009). The costs and expenses of the issue, including the discount in the placement of the Senior Notes, are presented net of debt and amortized along with the loan based on the method of effective interest rate.

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The Senior Notes can be paid in advance at the Company's option, total or partially at any time, at an amortization price equal to the greatest of any of the following: (i) 100% of the principal amount; or (ii) the sum of the net present value of each payment of principal and interest payable (excluding interest accrued at the amortization date) discounted at the amortization date half-yearly at a rate equal to the sum of the rate of the US treasury plus 0.45%, (0.40% in 2011 and 0.50% in 2009) plus the accrued unpaid interest at the amortization date. In case of a change in the control structure of the Company together with a reduction in the international credit rating under the investment level, the holders of the Senior Notes will have the right to demand from the Company the repurchase of obligations at a price equal to 101% of the principal amount plus unpaid interest accrued.

The proceeds from the issuance of Senior Notes were fully used by the Company to pay the short and long-term bank loans in advance.

Costs and expenses, including the premium, prizes and discounts from the placement of the three new issues, which at December 31, 2016 and 2015 amounted to Ps197,776 and Ps39,652, respectively, are amortized along with the loan by the effective interest method.

- (c) On March 3, 2015, Campofrío issued a bonus in the amount of €500,000 in the international market regulated by standard 144A, Reg-S. The issued bonus shall be settled in 7 years at the interest rate of 3.375%. The bonus was used to refinance the bonus issued in 2009 by Campofrío. Interest is paid semi-annually in March and September. At December 31, 2016 and 2015, the balance was Ps10,900,250 and Ps9,351,750, respectively. Costs and expenses, including the premium, placement promotions and discounts of this issuance, which amounted to Ps128,993 and Ps129,651 at December 31, 2016 and 2015, respectively, are amortized together with the loan based on the effective interest rate method.
- (d) On July 24, 2008, SIGMA issued share certificates of Ps1,000,000 and 500,000 UDIs (Investment Units) maturing in 2018, at the fixed interest rates of 10.25% and 5.32%, respectively.

Covenants:

The loan contracts and debt agreements previously described contain restrictions primarily relating to compliance with financial ratios, incurring additional debt or making loans that require mortgaging assets, dividend payments and submission of financial information, which if not met or remedied within a specified period to the satisfaction of creditors may cause the debt to become payable immediately.

Financial ratios to be fulfilled include the following:

- a) Interest coverage ratio: which is defined as EBITDA or UAFIDA adjusted (See Note 30) for the period of the last four complete quarters, divided by financial expenses, net or gross as appropriate, for the last four quarters, which shall not be less than 3.0 times.
- b) Leverage ratio: which is defined as consolidated debt at that date, being the gross debt or net debt, divided by EBITDA or UAFIDA adjusted for the period of the last four complete quarters, which shall not be more than 3.5 times.

During 2016 and 2015, the financial ratios were calculated according to the formulas set out in the loan agreements.

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The obligations to do and not do contained in the loan agreements of the subsidiaries establish certain obligations, conditions and exceptions, that require or limit the ability of the subsidiaries to:

- Provide certain financial information;
- Maintain books and records;
- Maintain assets in appropriate conditions;
- Comply with applicable laws, rules and regulations;
- Incur additional indebtedness;
- Pay dividends;
- Grant liens on assets;
- Enter into transactions with affiliates;
- Perform a consolidation, merger or sale of assets, and
- Carry out sale and lease-back operations

At December 31, 2016 and 2015 and at the date of issuance of these financial statements, the Company and its subsidiaries complied satisfactorily with such covenants and restrictions.

Pledge assets:

At December 31, 2016 and 2015, there are no liabilities guaranteed with property, plant and equipment.

Note 17 - Deferred taxes:

The analysis of the deferred tax asset and deferred tax liability is as follows:

| | <u>At December 31,</u> | |
|---|------------------------|-----------------------|
| | <u>2016</u> | <u>2015</u> |
| Deferred tax asset: | | |
| - To be recovered after more than 12 months | Ps 5,539,433 | Ps 4,066,446 |
| - To be recovered within 12 months | <u>468,422</u> | <u>597,743</u> |
| | <u>6,007,855</u> | <u>4,664,189</u> |
| Deferred tax liabilities: | | |
| - To be covered after more than 12 months | (6,828,582) | (6,563,515) |
| - To be covered within 12 months | <u>(29,835)</u> | <u>(20,785)</u> |
| | <u>(6,858,417)</u> | <u>(6,584,300)</u> |
| Deferred tax liabilities, net | <u>(Ps 850,562)</u> | <u>(Ps 1,920,111)</u> |

The gross movement in the deferred income tax account is as follows:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|-----------------------|
| At January 1 | (Ps 1,920,111) | (Ps 2,230,185) |
| Credit to the statement of income (Note 28) | 1,216,345 | 414,085 |
| Exchange differences | (130,436) | 17,319 |
| Business acquisition | (199) | (124,920) |
| Tax creditable/(payable) related to components of other comprehensive income (Note 28) | <u>(16,161)</u> | <u>3,590</u> |
| At December 31 | <u>(Ps 850,562)</u> | <u>(Ps 1,920,111)</u> |

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Balances of deferred income tax assets and liabilities during the year are as follows:

| | <u>(Assets)</u> | |
|--|------------------------|-----------------------|
| | <u>At December 31,</u> | |
| | <u>2016</u> | <u>2015</u> |
| Inventories | Ps 48,910 | Ps 29,309 |
| Customers | 32,727 | 20,926 |
| Prepayments from clients | 182,241 | 364,589 |
| Liabilities from retirement benefits | 335,399 | 285,353 |
| Provisions, liabilities and accrued expenses payable | 375,683 | 535,092 |
| Tax loss carryforwards | 5,021,793 | 3,416,505 |
| Other temporary differences, net | <u>11,102</u> | <u>12,415</u> |
| Deferred tax asset | <u>6,007,855</u> | <u>4,664,189</u> |
| | <u>Liabilities</u> | |
| | <u>At December 31,</u> | |
| | <u>2016</u> | <u>2015</u> |
| Prepayments | (Ps 29,835) | (Ps 20,785) |
| Intangible assets | (4,122,447) | (3,151,093) |
| Property, plant and equipment | (2,578,007) | (2,987,786) |
| Other temporary differences, net | <u>(128,128)</u> | <u>(424,636)</u> |
| Deferred tax liability | <u>(6,858,417)</u> | <u>(6,584,300)</u> |
| Deferred tax liability, net | <u>(Ps 850,562)</u> | <u>(Ps 1,920,111)</u> |

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Net movements in temporary differences for the year were as follows:

| | Balance at December 31, 2015 | (Charged) credited to income statement | Business acquisitions | (Charged) credited to other comprehensive income | Balance at December 31, 2016 |
|--|------------------------------------|---|--------------------------|--|------------------------------------|
| Inventories | Ps 29,309 | Ps 19,601 | Ps - | Ps - | Ps 48,910 |
| Customers | 20,926 | 11,801 | - | - | 32,727 |
| Prepayments from clients | 364,589 | (182,348) | - | - | 182,241 |
| Liabilities from retirement benefits ESPS and accrued expenses payable | 285,353 | 66,207 | - | (16,161) | 335,399 |
| Tax loss carryforwards | 535,092 | (159,409) | - | - | 375,683 |
| Other temporary differences, net | 3,416,505 | 1,605,288 | - | - | 5,021,793 |
| | <u>12,415</u> | <u>(1,313)</u> | <u>-</u> | <u>-</u> | <u>11,102</u> |
| Deferred tax asset | <u>Ps 4,664,189</u> | <u>Ps 1,359,827</u> | <u>Ps -</u> | <u>(Ps 16,161)</u> | <u>6,007,855</u> |
| Prepayments | (Ps 20,785) | (Ps 9,050) | Ps - | Ps - | (Ps 29,835) |
| Intangible assets | (3,151,093) | (971,354) | - | - | (4,122,447) |
| Property, plant and equipment | (2,987,786) | 409,978 | (199) | - | (2,578,007) |
| Other temporary differences, net | <u>(424,636)</u> | <u>296,508</u> | <u>-</u> | <u>-</u> | <u>(128,128)</u> |
| Deferred tax liability | <u>(6,584,300)</u> | <u>(273,918)</u> | <u>(199)</u> | <u>-</u> | <u>(6,858,417)</u> |
| Deferred tax liability, net | <u>(Ps 1,920,111)</u> | <u>Ps 1,085,909</u> | <u>(Ps 199)</u> | <u>(Ps 16,161)</u> | <u>(Ps 850,562)</u> |

| | Balance at December 31, 2014 | (Charged) credited to income statement | Business acquisitions | (Charged) credited to other comprehensive income | Balance at December 31, 2015 |
|---|------------------------------------|---|--------------------------|--|------------------------------------|
| Inventories | Ps 39,386 | (Ps 10,077) | Ps - | Ps - | Ps 29,309 |
| Customers | 25,358 | (4,432) | - | - | 20,926 |
| Prepayments from customers | 546,859 | (182,528) | 258 | - | 364,589 |
| Liabilities from retirement compensation | 99,474 | 177,992 | 4,297 | 3,590 | 285,353 |
| ESPS and other accrued expenses payable | 736,029 | (200,937) | - | - | 535,092 |
| Tax loss carryforwards | 2,224,436 | 1,191,924 | 145 | - | 3,416,505 |
| Other temporary differences, net | <u>22,097</u> | <u>(10,214)</u> | <u>532</u> | <u>-</u> | <u>12,415</u> |
| Deferred tax asset | <u>3,693,639</u> | <u>961,728</u> | <u>5,232</u> | <u>3,590</u> | <u>4,664,189</u> |
| Inventories | (Ps 10,552) | Ps 17,724 | (Ps 7,172) | Ps - | Ps - |
| Prepayments | (44,214) | 23,429 | - | - | (20,785) |
| Intangible assets | (2,913,021) | (157,240) | (80,832) | - | (3,151,093) |
| Property, plant and equipment | (2,929,169) | (16,468) | (42,149) | - | (2,987,786) |
| Other temporary differences, net | <u>(26,868)</u> | <u>(397,768)</u> | <u>-</u> | <u>-</u> | <u>(424,636)</u> |
| Deferred tax liability | <u>(5,923,824)</u> | <u>(530,323)</u> | <u>(130,153)</u> | <u>-</u> | <u>(6,584,300)</u> |
| Deferred tax liability, net | <u>(Ps 2,230,185)</u> | <u>Ps 431,405</u> | <u>(Ps 124,921)</u> | <u>Ps 3,590</u> | <u>(Ps 1,920,111)</u> |

Deferred income tax asset is recorded as tax loss carryforwards as the realization of the tax benefit related through future tax profits becomes probable. Tax losses amount to Ps17,480,638 in 2016 and Ps11,162,676 in 2015.

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Tax losses at December 31, 2016 and 2015 expire in the following years:

| <u>Year loss incurred</u> | | <u>2016</u> | <u>2015</u> | <u>Year of expiration</u> |
|-------------------------------|----|----------------------|----------------------|-------------------------------|
| 2007 and earlier | Ps | 69,080 | Ps 74,039 | 2017 |
| 2008 | | 101,633 | 108,733 | 2018 |
| 2009 | | 26,426 | 25,660 | 2019 |
| 2010 | | 27,020 | 26,237 | 2020 |
| 2011 | | 44,920 | 43,806 | 2021 |
| 2012 | | 108,842 | 108,390 | 2022 |
| 2013 | | 6,938 | 6,746 | 2023 |
| 2014 | | 2,143,897 | 2,042,746 | 2024 |
| 2015 | | 4,593,231 | 4,360,706 | 2025 |
| 2016 | | 5,331,914 | - | 2026 |
| 2014 | | <u>5,026,737</u> | <u>4,365,613</u> | Without maturity (*) |
| | | <u>Ps 17,480,638</u> | <u>Ps 11,162,676</u> | |

(*) Tax losses arise from the acquisition of Campofrio, see note 2c, and do not expire under current tax rules in the countries where they were generated.

Optional regime for groups of companies in Mexico (incorporation regime)

Due to the elimination of the tax consolidation regime in Mexico, the Company chose to incorporate to the new optional regime for groups of companies beginning in 2014. That regime consists of grouping companies with specific characteristics, which are able to defer part of the income tax payable in three years in March 2019 and 2018; the deferral percentage is calculated using a factor determined in accordance with the amount of tax profit and losses of 2016 and 2015, respectively.

The changes to the provision for income tax payable and income tax recoverable are analyzed below:

| | <u>Income tax recoverable</u> | <u>Current income tax payable</u> | <u>Non-current income tax payable</u> |
|---|-----------------------------------|---------------------------------------|---|
| Balances at January 1, 2016 | Ps 664,842 | Ps 737,831 | Ps 398,749 |
| Increase in provision | 53,799 | 768,009 | 1,095,692 |
| Increase (decrease) due to reclassification * | <u>127,415</u> | <u>(838,192)</u> | <u>965,606</u> |
| Ending balance at December 31, 2016 | <u>Ps 846,056</u> | <u>Ps 667,648</u> | <u>Ps 2,460,047</u> |

* Reclassification of IT from current to non-current corresponding to deferral of income tax payable over 3 years; the amounts were determined by ALFA in February 2016 under the optional benefits regime for group companies in Mexico.

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Nota 18 - Provisions:

| | <u>Disputes</u> ⁽¹⁾ | <u>Restructuring</u> ⁽¹⁾ | <u>Indemnities for dismissal and others</u> ⁽¹⁾ | <u>Total</u> |
|------------------------|--------------------------------|-------------------------------------|--|-------------------|
| At January 1, 2015 | Ps 37,989 | Ps 577,866 | Ps 224,481 | Ps 840,336 |
| Additions | 9,408 | 10,979 | 321,738 | 342,125 |
| Effects of translation | 2,195 | 26,459 | 13,531 | 42,185 |
| Payments | <u>(8,473)</u> | <u>(126,380)</u> | <u>(305,784)</u> | <u>(440,637)</u> |
| At December 31, 2015 | <u>Ps 41,119</u> | <u>Ps 488,924</u> | <u>Ps 253,966</u> | <u>Ps 784,009</u> |
| Additions | 29,191 | 49,095 | 35,812 | 114,098 |
| Effects of translation | 6,471 | 83,946 | 39,404 | 129,821 |
| Payments | <u>(13,669)</u> | <u>(322,844)</u> | <u>(131,937)</u> | <u>(468,450)</u> |
| At December 31, 2016 | <u>Ps 63,112</u> | <u>Ps 299,121</u> | <u>Ps 197,245</u> | <u>Ps 559,478</u> |
| | | | <u>2016</u> | <u>2015</u> |
| Short-term provisions | | | Ps 211,005 | Ps 207,763 |
| Long-term provisions | | | <u>348,473</u> | <u>576,246</u> |
| At December 31, | | | <u>Ps 559,478</u> | <u>Ps 784,009</u> |

⁽¹⁾ This provision relates to Campofrío's strategic redefinition process to obtain, among others, efficiencies and a higher level of specialization in the production and logistics centers, as well as to strengthen synergies. At December 31, 2016, the processes are open and are expected to conclude in 2018.

Note 19 - Other liabilities:

| | <u>At December 31,</u> | |
|--|------------------------|-------------------|
| | <u>2016</u> | <u>2015</u> |
| Current portion | | |
| Employees' profit sharing payable | Ps 147,555 | Ps 119,220 |
| Bank overdrafts | 22,807 | - |
| Employee benefits based on shares (Note 23) | 19,792 | 28,227 |
| Notes payable | 57,415 | 20,970 |
| Accounts payable to affiliated companies (Note 29) | <u>52,055</u> | <u>48,938</u> |
| Total other current liabilities | <u>Ps 299,624</u> | <u>Ps 217,355</u> |

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| | <u>At December 31,</u> | |
|---|------------------------|-------------------|
| | <u>2016</u> | <u>2015</u> |
| Non-current portion | | |
| Notes payable and others (Note 21) | Ps 784,514 | Ps 296,301 |
| Employee benefits based on shares (Note 23) | <u>36,705</u> | <u>48,253</u> |
| Total other non-current liabilities | <u>821,219</u> | <u>344,554</u> |
| Total other liabilities | <u>Ps1,120,843</u> | <u>Ps 561,909</u> |

Note 20 - Employee Benefits:

The valuation of employee benefits for retirement plans is based primarily on their years of service, current age and estimated salary at retirement date.

The principal subsidiaries of the Company have established funds for payment of retirement benefits through irrevocable trusts.

The employee benefit obligations recognized in the statement of financial position, by country, are shown below:

| | <u>At December 31,</u> | |
|-------------------------------------|------------------------|-------------------|
| <u>Country</u> | <u>2016</u> | <u>2015</u> |
| Mexico | Ps 496,290 | Ps 463,547 |
| Europe | 509,465 | 400,625 |
| Honduras, Nicaragua and El Salvador | <u>112,243</u> | <u>87,004</u> |
| Total | <u>Ps1,117,998</u> | <u>Ps 951,176</u> |

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The following summarizes key financial data of such employee benefits:

| | <u>At December 31,</u> | |
|--|------------------------|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Obligation in the statement of financial position: | | |
| Pension benefits | Ps 1,112,436 | Ps 944,364 |
| Post-employment medical benefits | <u>5,562</u> | <u>6,812</u> |
| Liability in the statement of financial position | <u>1,117,998</u> | <u>951,176</u> |
| Charge in the statement of income: | | |
| Pension benefits | (Ps 118,247) | (Ps 105,052) |
| Post-employment medical benefits | <u>(576)</u> | <u>(568)</u> |
| | <u>(Ps 118,823)</u> | <u>(Ps 105,620)</u> |
| Remeasurement due to employee benefit obligations recognized in the statement of other comprehensive income for the period | <u>Ps 53,256</u> | <u>(Ps 10,768)</u> |
| Remeasurement of accrued employee benefit obligations recognized in other comprehensive income | <u>Ps 190,118</u> | <u>Ps 136,862</u> |

Pension benefits

The Company operates defined benefit pension plans based on employees' pensionable remuneration and length of service. Most plans are externally funded. Plan assets are held in trusts, foundations or similar entities, governed by local regulations and practices in each country, as is the nature of the relationship between the Company and the respective trustees (or equivalent).

Amounts recognized in the balance sheet are determined as follows:

| | <u>At December 31,</u> | |
|--|------------------------|--------------------|
| | <u>2016</u> | <u>2015</u> |
| Present value of funded obligations | Ps 3,343,424 | Ps 2,835,251 |
| Fair value of plan assets | <u>(2,230,988)</u> | <u>(1,890,887)</u> |
| Present value of unfunded obligations | <u>1,112,436</u> | <u>944,364</u> |
| Liability in the statement of financial position | <u>Ps 1,112,436</u> | <u>Ps 944,364</u> |

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At December 31, 2016 and 2015, the breakdown of plan assets calculated at fair value is as follows:

| | <u>December 31,</u> | |
|---|---------------------|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Fixed income short and long term securities | Ps 1,805,123 | Ps 1,399,017 |
| Shares | <u>425,865</u> | <u>491,870</u> |
| Fair value of plan assets | <u>Ps 2,230,988</u> | <u>Ps 1,890,887</u> |

The movements in the defined benefit obligation during the year are as follows:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| At January 1 | Ps 2,835,251 | Ps 2,681,744 |
| Current service costs (Note 27) | 101,880 | 89,159 |
| Interest cost | 107,983 | 90,573 |
| Contributions to the plan | 110,113 | 51,313 |
| Remeasurements: | | |
| Due to changes in financial assumptions | 45,165 | (133,904) |
| Past service costs | - | 912 |
| Exchange differences | 269,536 | 80,570 |
| Benefits paid | (114,673) | (82,959) |
| Liabilities acquired in a business combination (Note 2) | 70 | 61,654 |
| Reduction losses | <u>(11,901)</u> | <u>(3,811)</u> |
| At December 31 | <u>Ps 3,343,424</u> | <u>Ps 2,835,251</u> |

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The movements in the fair value of plan assets for the year is as follows:

| | <u>2016</u> | <u>2015</u> |
|--------------------------|-----------------------|----------------------|
| At January 1 | (Ps 1,890,887) | (Ps1,926,139) |
| Return on plan assets | (79,715) | (70,869) |
| Employee contributions | (28,664) | (20,953) |
| Benefits paid | 49,878 | 37,532 |
| Exchange differences | (185,005) | (55,165) |
| Actuarial remeasurements | <u>(96,595)</u> | <u>144,707</u> |
| At December 31 | <u>(Ps 2,230,988)</u> | <u>(Ps1,890,887)</u> |

The amounts recognized in the statement of income are as follows:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|---------------------|---------------------|
| Current service cost | (Ps 101,880) | (Ps 89,159) |
| Financial costs, net | (28,268) | (19,704) |
| Reduction losses | <u>11,901</u> | <u>3,811</u> |
| Total included in staff costs | <u>(Ps 118,247)</u> | <u>(Ps 105,052)</u> |

The total recognized in other comprehensive income items is as follows:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Cumulative balance at beginning of year | Ps 136,862 | Ps 147,630 |
| Remeasurements due to employee benefit obligations | <u>53,256</u> | <u>(10,768)</u> |
| Accumulated balance at year end | <u>Ps 190,118</u> | <u>Ps 136,862</u> |

The main actuarial assumptions were as follows:

| | <u>December 31,</u> | |
|-------------------------------|---------------------|-------------|
| | <u>2016</u> | <u>2015</u> |
| Discount rate (México) | 7.75% | 6.75% |
| Discount rate (Europe) | 2.00% | 2% |
| Inflation rate | 3.50% | 4.25% |
| Salary increase rate (México) | 4.50% | 5.25% |
| Salary increase rate (Europe) | 1% a 5% | 1% a 5% |
| Future salary increase | 3.50% | 4.25% |
| Medical inflation rate | 6.50% | 7.50% |

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The average life of defined benefit obligations is 12.63 and 14.5 years at December 31, 2016 and 2015, respectively.

The sensitivity analysis of the main assumptions for defined benefit obligations was as follows:

| | <u>Effect on defined benefit obligations</u> | | |
|---------------|--|--------------------------------|--------------------------------|
| | <u>Change in assumptions</u> | <u>Increase in assumptions</u> | <u>Decrease in assumptions</u> |
| Discount rate | +1% | Increases by Ps326,615 | Decrease by Ps345,971 |

Post-employment medical benefits

The Company operates post-employment medical benefits schemes mainly in Mexico and the United States. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes. Most of these plans are not being funded.

Amounts recognized in the statement of financial position were determined as follows:

| | <u>At December 31,</u> | |
|--|------------------------|-----------------|
| | <u>2016</u> | <u>2015</u> |
| Present value of funded obligations | Ps 5,562 | Ps 6,812 |
| Liabilities in the statement of financial position | <u>Ps 5,562</u> | <u>Ps 6,812</u> |

Movements in defined benefit obligations are as follows:

| | <u>2016</u> | <u>2015</u> |
|---|-----------------|-----------------|
| At January 1 | Ps 6,812 | Ps 6,279 |
| Current service cost (Note 27) | 116 | 143 |
| Cost of interest | 460 | 425 |
| Remeasurements due to changes in financial assumption | <u>(1,826)</u> | <u>(35)</u> |
| At December 31 | <u>Ps 5,562</u> | <u>Ps 6,812</u> |

The amounts recognized in the statement of income are as follows:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|---------------|---------------|
| Current service costs | Ps 116 | Ps 143 |
| Interest cost | <u>460</u> | <u>425</u> |
| Total included in staff costs | <u>Ps 576</u> | <u>Ps 568</u> |

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The sensitivity analysis of the main assumptions for defined benefit obligations were as follows, considering that the remaining assumptions are constant:

| | <u>Effect on defined benefit obligations</u> | | |
|------------------------|--|--------------------------------|--------------------------------|
| | <u>Change in assumptions</u> | <u>Increase in assumptions</u> | <u>Decrease in assumptions</u> |
| Medical inflation rate | +1% | Increases by Ps724 | Decreases by Ps915 |

Note 21 - Stockholders' equity:

At December 31, 2016 and 2015, the capital stock is variable, with a fixed minimum without withdrawal rights of Ps27,081, represented by 1,290,654,555 nominative, Series "A" shares, with no par value, fully subscribed and paid.

The profit for the period is subject to the legal provision requiring at least 5% of the profit for each period to be set aside to increase the legal reserve until it reaches an amount equivalent to one fifth of the capital stock. At December 31, 2016 and 2015, the legal reserve amounted to Ps 5,416, which is included in other capital reserves.

At SIGMA's General Ordinary Meeting held on February 23, 2016, the stockholders agreed to declare dividends in cash for a total of Ps 1,329,645 (Ps1.05 dividends per share in pesos), which derive fully from the CUFIN.

At SIGMA's General Ordinary Meeting held on June 15, 2016, the stockholders agreed to declare dividends in cash for a total amount of Ps383,436 (Ps1.05 dividends per share in pesos), which derived fully from the CUFIN.

At SIGMA's General Ordinary Meeting held on April, 2015, the stockholders agreed to declare dividends in cash for a total amount of Ps 1,922,105 (Ps1.49 dividends per share in pesos), which derived fully from the CUFIN.

At SIGMA's Ordinary General Meeting held on September 1, 2015, the shareholders revoked the resolution on the payment of dividends related to the outstanding amount of dividends declared on April 1, 2015, as a result of which the amount of dividends canceled was Ps 842,922.

In accordance with the new Income Tax Law effective as of January 1, 2014, 10% tax is payable on income generated starting in 2014 on dividends paid to parties resident abroad and to Mexican individuals when they correspond to tax profits generated as of 2014. It also establishes that for fiscal years 2001 to 2013, the net tax profit will be determined as established in the Income Tax Law effective in the respective fiscal year.

Dividends paid are not subject to income tax if paid from the After-tax Earnings Account (CUFIN). Any dividends paid in excess of this account are subject to tax equivalent to 42.86% if paid in 2014. The tax is payable by the Company and may be credited against its income tax in the same year or the following two years. Dividends paid from profits on which income tax has previously been paid are not subject to tax withholding or to any additional tax payment. At December 31, 2016 and 2015, the tax value of the CUFIN was Ps 11,798,596 and Ps10,538,660, respectively.

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In the event of a capital reduction, the procedures of the Income Tax Law establish that any excess of Stockholders' equity over capital contributions must be accorded the same tax treatment as dividends.

Movements in other reserves for 2016 and 2015 are presented below:

| | Effect of foreign currency <u>translation</u> | <u>Legal reserve</u> | <u>Total</u> |
|--|--|----------------------|--------------------|
| At January 1, 2015 | Ps 741,206 | Ps 5,416 | Ps 746,622 |
| Loss on foreign currency translation | <u>(1,091,227)</u> | <u>-</u> | <u>(1,091,227)</u> |
| At December 31, 2015 | (350,021) | 5,416 | (344,605) |
| Losses on translation of foreign entities | <u>557,922</u> | <u>-</u> | <u>557,922</u> |
| At December 31, 2016 | <u>Ps 207,901</u> | <u>Ps 5,416</u> | <u>Ps 213,317</u> |

Foreign currency translation

Exchange differences arising from the translation of financial statements of foreign subsidiaries are recorded.

In relation with Campofrio Food Group, S.A. (hereinafter referred to as "CFG"), there were several signed agreements that could have resulted in the obligation to acquire non-controlling interest in that subsidiary, as well as other claims thereof. Based on the legal assessments, both internal and external, performed in prior years, the validity and scope of the aforementioned agreements and claims were deemed to possibly become void; therefore, the Company's Management considered there was no obligation given the inability to anticipate the date or impact of future negotiations or litigations that, in any case, had not been declared. In June 2016, due to the ongoing negotiations with respect to those issues, a Put option written over non-controlling interests in CFG has been recognized as a financial liability (See Note 3b and Note 19), net of certain related accounts receivable. Those agreements have resulted in recording of those obligations in fiscal year 2016, as well as in the extinction of the associated contingencies. Consequently, on June 15, 2016, the Company recorded a decrease in retained earnings as shown in the statement of changes in stockholders' equity for the twelve-month period ended on December 31, 2016. The option exercise price is determined according to a predefined formula based on the financial performance of the subsidiary and the option is exercisable on a fixed date.

Sigma Alimentos, S. A. de C. V. and subsidiaries

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Note 22 - Foreign currency position:

At February 17, 2017, issuance date of these financial statements, the exchange rate was Ps 20.33 nominal pesos per dollar.

The figures below are expressed in thousands of dollars and thousands of euros, since those are the prevailing foreign currencies of those Companies.

At 31 December 2016 and 2015, the Company has the following assets and liabilities in foreign currencies:

| At December 31, 2016 | | | | | | | |
|----------------------------|--------------------|----------------------------|----------------------|----------------------------|------------------|----------------------------|----------------------------------|
| | Dollars (USD) | | Euros (€) | | Other currencies | | |
| | Thousands of USD | Thousands of Mexican Pesos | Thousands of Euros € | Thousands of Mexican Pesos | Thousands of USD | Thousands of Mexican Pesos | Thousands of Mexican Pesos total |
| Monetary assets | 105,963 | Ps 2,189,623 | 453,497 | Ps 9,886,464 | 91,181 | Ps 1,884,165 | Ps 13,960,252 |
| Liabilities | | | | | | | |
| Current | (197,672) | (4,084,698) | (818,942) | (17,853,351) | (36,603) | (756,369) | (22,694,418) |
| Non-Current | <u>(1,691,237)</u> | <u>(34,947,730)</u> | <u>(520,802)</u> | <u>(11,353,749)</u> | <u>(2,999)</u> | <u>(61,981)</u> | <u>(46,363,460)</u> |
| Currency monetary position | <u>(1,782,946)</u> | <u>Ps(36,842,805)</u> | <u>(886,247)</u> | <u>(Ps19,320,636)</u> | <u>51,579</u> | <u>Ps1,065,815</u> | <u>(Ps 55,097,626)</u> |
| Non-monetary assets | <u>356,208</u> | <u>Ps 7,360,689</u> | <u>1,230,494</u> | <u>Ps26,825,389</u> | <u>167,065</u> | <u>Ps3,452,221</u> | <u>Ps37,638,299</u> |
| At December 31, 2015 | | | | | | | |
| | Dollars (USD) | | Euros (€) | | Other currencies | | |
| | Thousands of USD | Thousands of Mexican Pesos | Thousands of Euros € | Thousands of Mexican Pesos | Thousands of USD | Thousands of Mexican Pesos | Thousands of Mexican Pesos total |
| Monetary assets | 73,033 | Ps 1,256,634 | 463,825 | Ps 7,980,812 | 82,998 | Ps 1,428,105 | Ps 10,655,551 |
| Liabilities | | | | | | | |
| Current | (195,765) | (3,368,437) | (765,001) | (13,162,995) | (47,736) | (821,371) | (17,352,803) |
| Non-Current | <u>(1,741,264)</u> | <u>(29,961,051)</u> | <u>(541,179)</u> | <u>(9,311,795)</u> | <u>(4,500)</u> | <u>(77,429)</u> | <u>(39,350,275)</u> |
| Currency monetary position | <u>(1,863,996)</u> | <u>(Ps32,072,854)</u> | <u>(842,355)</u> | <u>(Ps14,493,978)</u> | <u>(30,762)</u> | <u>Ps 529,305</u> | <u>(Ps46,047,527)</u> |
| Non-monetary assets | <u>372,240</u> | <u>Ps 6,413,545</u> | <u>1,196,255</u> | <u>Ps20,583,367</u> | <u>180,252</u> | <u>Ps3,101,514</u> | <u>Ps30,098,426</u> |

Nonmonetary assets of Mexican subsidiaries are those the that are manufactured abroad and are expressed on the bases described in Note 3.

Note 23 - Shared-based payments:

SIGMA has a compensation arrangement for Directors of the Company and its subsidiaries referenced to the value of the shares of its controlling company. According to the terms of the plan, eligible executives receive a cash payment conditional on the achievement of quantitative and qualitative metrics from the following financial measures:

- Improved stock price
- Improvement in net income
- Continuance of the Directors in the Company

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The program consists of determining a number of shares the Directors shall be entitled to, which will be paid in cash in the next five years, i.e. 20% each year, and which will be paid at the average price per share at the end of each year. The average price per share in 2016 and 2015 is Ps34.3 and Ps37.3 Mexican pesos, respectively.

At December 31, 2016 and 2015 the liability for share-based payments amounted to Ps56,597 and Ps76,480, respectively.

The short-term and long-term liability is comprised as follows:

| | <u>December 31,</u> | |
|----------------------|---------------------|------------------|
| | <u>2016</u> | <u>2015</u> |
| Short term | Ps 19,792 | Ps 28,227 |
| Long term | <u>36,705</u> | <u>48,253</u> |
| Total carrying value | <u>Ps 56,497</u> | <u>Ps 76,480</u> |

Note 24 - Expenses classified by their nature:

Cost of sales and selling and administrative expenses classified by nature are as follows:

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------|-----------------------|
| Changes in inventory of finished goods and in progress | (Ps 58,919,080) | (Ps52,361,532) |
| Employee benefit expenses (Note 27) | (14,717,108) | (12,888,860) |
| Maintenance | (2,694,044) | (2,328,269) |
| Depreciation and amortization | (3,494,252) | (2,829,566) |
| Freight expenses | (2,006,918) | (2,386,687) |
| Advertising expenses | (2,594,470) | (1,771,849) |
| Energy and fuel consumption | (1,451,958) | (1,337,846) |
| Traveling expenses | (542,867) | (472,885) |
| Operating lease expenses | (636,748) | (492,340) |
| Technical assistance, professional fees and administrative services | (2,035,546) | (2,006,513) |
| Other | <u>(8,253,344)</u> | <u>(7,293,495)</u> |
| Total | <u>Ps 97,346,335)</u> | <u>(Ps86,169,842)</u> |

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Note 25 - Other income (expenses), net:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Reimbursement due to claims ⁽¹⁾ | Ps 30,044 | Ps 3,912,524 |
| Gain from sale of properties, plant and equipment | 16,891 | 2,429 |
| Other | <u>48,726</u> | <u>65,690</u> |
| Other income | <u>95,661</u> | <u>3,980,643</u> |
| Expenses related to acquisitions | (Ps 702) | (Ps 8,884) |
| Project consulting | (48,080) | (52,867) |
| Write off for disposal of properties, plant and equipment and intangible assets | (142,711) | (157,917) |
| Impairment of intangible assets | (183,831) | - |
| Other | <u>(195,993)</u> | <u>(254,760)</u> |
| Other expenses | <u>(571,317)</u> | <u>(474,428)</u> |
| Total other income (expenses), net | <u>(Ps 475,656)</u> | <u>Ps 3,506,215</u> |

⁽¹⁾ In November 2014, there was a fire at one of the Campofrío plants located in the city of Burgos, Spain ("Accident"). The fire affected property, plant and equipment, inventory and other assets causing losses in the amount of Ps1,857,915.

These assets are covered by an insurance policy and based on the analysis and confirmations made by the Company's management, it has been concluded that such policy covers material damages, loss of benefits resulting from the reduction of revenues and additional costs that the Company may incur in to recover as a result of the accident. During 2015, insurance payments were received in the amount of Ps2,598,000 and in November 2015, the insurance indemnity was closed for a total of Ps3,912,524.

Note 26 - Income and financial expenses, net:

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------|-----------------------|
| Financial income: | | |
| - Interest income on short-term bank deposits | Ps 70,202 | Ps 36,942 |
| - Other financial income | 36,158 | 32,210 |
| - Interest on accounts receivable | <u>26,409</u> | <u>24,088</u> |
| Financial income, excluding foreign exchange gain | 132,769 | 93,240 |
| Gain on foreign exchange | <u>1,937,953</u> | <u>807,658</u> |
| Total financial income | <u>Ps 2,070,722</u> | <u>Ps 900,898</u> |
| Financial expenses: | | |
| - Interest expense on bank loans | (Ps 481,788) | (Ps 649,343) |
| - Interest expense, stock certificates and Senior Notes | (1,620,496) | (943,542) |
| - Financial expense from sale of portfolio | (36,544) | (18,521) |
| - Financial expense from employee benefits | (21,606) | (20,129) |
| - Other financial expenses | <u>(233,045)</u> | <u>(84,585)</u> |
| Interest expense, excluding foreign exchange loss | (2,393,479) | (1,716,120) |
| Foreign exchange loss | <u>(2,434,212)</u> | <u>(1,791,262)</u> |
| Total financial expenses | <u>(Ps 4,827,691)</u> | <u>(Ps 3,507,382)</u> |
| Financial result, net | <u>(Ps 2,756,969)</u> | <u>(Ps 2,606,484)</u> |

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Note 27 - Employee benefit expenses:

| | <u>2016</u> | <u>2015</u> |
|----------------------------------|----------------------|----------------------|
| Salaries, wages and benefits | Ps 12,636,794 | Ps 10,987,815 |
| Contributions to social security | 1,024,981 | 944,482 |
| Employee benefits (Note 20) | 90,095 | 89,302 |
| Other contributions | <u>965,238</u> | <u>867,261</u> |
| Total | <u>Ps 14,717,108</u> | <u>Ps 12,888,860</u> |

Note 28 - Income tax for the year:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|-----------------------|
| Current: | | |
| Current income tax for the year | (Ps 2,034,855) | (Ps 1,972,026) |
| Adjustment in relation to prior years | <u>(41,044)</u> | <u>(28,076)</u> |
| Total current income tax | <u>(2,075,899)</u> | <u>(2,000,102)</u> |
| Deferred tax: | | |
| Origination and reversal of temporary differences | <u>1,216,345</u> | <u>414,085</u> |
| Total deferred income tax | <u>1,216,345</u> | <u>414,085</u> |
| Income tax charged to income(loss) | <u>(Ps 859,554)</u> | <u>(Ps 1,586,017)</u> |

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The reconciliation of the statutory and effective income tax rates is as follows:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|-----------------------|
| Income before income tax | Ps 5,812,139 | Ps 7,896,159 |
| Statutory rate) | <u>30%</u> | <u>30%</u> |
| Income tax at statutory rate (30% in 2016 and 2015) | (1,743,641) | (2,368,847) |
| Tax rate difference effect | (96,368) | (59,527) |
| Plus (less) IT effect on: | | |
| Inflationary adjustment | (324,631) | (183,329) |
| Non-deductible expenses | (343,137) | (212,214) |
| Reserves | 34,947 | (3,615) |
| Differences in accounting/tax depreciation and amortization | 38,140 | 96,269 |
| Sale, write-off and capitalization of fixed assets and deferred charges | (33,280) | (32,012) |
| Restatement of tax balances receivable | 8,281 | 3,591 |
| Tax deduction due to exchange differences | 1,218,577 | 1,035,148 |
| Non-deductible financial cost | 49,616 | 38,691 |
| Other differences, net | <u>372,986</u> | <u>127,904</u> |
| Provision relating to the operations of the year | (818,510) | (1,557,941) |
| Adjustment in relation to prior years | <u>(41,044)</u> | <u>(28,076)</u> |
| Total provision for income taxes charged to income | <u>(Ps 859,554)</u> | <u>(Ps 1,586,017)</u> |
| Effective rate | <u>15%</u> | <u>20%</u> |

The tax charge/(credit) charge related to components of other comprehensive income is as follows:

| | <u>2016</u> | | | <u>2015</u> | | |
|---|-------------------|--------------------------------|-------------------|-----------------------|--------------------------------|-----------------------|
| | Before tax | Tax payable (receivable) | After tax | Before tax | Tax payable (receivable) | After tax |
| Remeasurement of obligations due to employee benefits | Ps 53,256 | (Ps 16,161) | Ps 37,095 | (Ps 10,768) | Ps 3,590 | (Ps 7,178) |
| Effect of translation of foreign entities | <u>605,766</u> | - | <u>605,766</u> | <u>(1,082,583)</u> | - | <u>(1,082,583)</u> |
| Other comprehensive income items | <u>Ps 659,022</u> | <u>(Ps 16,161)</u> | <u>Ps 642,861</u> | <u>(Ps 1,093,351)</u> | <u>Ps 3,590</u> | <u>(Ps 1,089,761)</u> |

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Note 29 - Related party transactions:

Transactions with related parties for the years ended December 31, 2016 and 2015, which were held under equal conditions for similar transactions with independent parties, were as follows:

| | <u>December 31,</u> | |
|----------------------------------|---------------------|-------------|
| | <u>2016</u> | <u>2015</u> |
| Income (Affiliates) | | |
| Leases | Ps 7,828 | Ps 6,318 |
| Interest | 4,571 | 9,936 |
| Expenses (Affiliates) | | |
| Administrative services | Ps 159,154 | Ps 163,859 |
| Leases and other | 262,408 | 213,856 |
| Dividends paid to ALFA (Holding) | 1,713,081 | 1,080,300 |

In the year ended December 31, 2016, wages and benefits received by top officials of the Company totaled Ps419,494 (Ps418,226 in 2015), which amount comprises the base salary and legal benefits, and is supplemented mainly by a variable compensation program governed primarily based on the results of the Company and the market value of Alfa's stock.

| | <u>Nature of</u> | <u>December 31,</u> | |
|-------------|------------------------|---------------------|-------------|
| | <u>the transaction</u> | <u>2016</u> | <u>2015</u> |
| Receivable: | | | |
| Affiliates | Loan | Ps - | Ps 259,599 |
| Affiliates | Services | 33,554 | 21,953 |
| Payable: | | | |
| Affiliates | Services | Ps 50,640 | Ps 47,730 |
| Affiliates | Interest | 1,415 | 1,208 |

On November 25, 2011, the Company signed an agreement amending the clause regarding the term of the credit line opening agreement signed with Alfa Subsidiarias, S. A. de C. V. dated November 28, 2010. Such changes allow the Company to extend the credit agreement until November 28, 2016. The loan accrues interest at annual TIIE plus 3.0%. On November 27, 2015, the Company made a new amendment to the loan agreement with Alfa Subsidiarias, S. A. de C. V. whereby it agrees to extend the maturity date to November 28, 2019. However, the credit agreement was fully paid in advance on June 16, 2016.

The Company and its subsidiaries declared not to have had significant transactions with other related parties or conflicts of interest to disclose.

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Note 30 - Segment Reporting:

Segment information is presented consistently with the internal reports provided to the CEO (Chief Operating Decision Maker "CODM"), who is the highest authority for operational decision making, resource allocation and performance assessment of the operating segments.

An operating segment is defined as a component of an entity on which separate financial information is regularly being evaluated. Inter-segment revenue from the sale of products and services is based on the approximate market price. The CODM considers the business from a geographic perspective. The geographies monitored by the CODM are defined as the Company's operating segments. For geographical purposes, the CODM considers performance in Mexico, the United States, Europe (as of the purchase of Campofrio) and other countries.

SIGMA controls and assesses its continued operations through segments that have been defined as established above; these segments are managed centrally, since although markets are different, products offered in each one of the segments are similar and correspond to processed meat, dairy products and other refrigerated products.

Operations between operating segments are conducted at market value and the accounting policies with which the financial information by segments is prepared are consistent with those described in Note 3.

The Company evaluates the performance of each of the operating segments based on income before financial results, income taxes, depreciation amortization and impairment of assets and surplus/ deficit in the investment value ("EBITDA" or "UAFIDA Adjusted"), considering that this indicator is a good measure to evaluate operating performance and ability to meet principal and interest obligations with respect to indebtedness, and the ability to fund capital expenditures and working capital requirements. Nevertheless, EBITDA is not a measure of financial performance under IFRS and should not be considered an alternative to net income as a measure of operating performance, or cash flows as a measure of liquidity.

The Company has defined the adjusted EBITDA as the calculation resulting from adding the financial result, depreciation, amortization and asset impairment to the operating profit.

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Following is the condensed financial information of these operating segments in millions of Mexican pesos:

For the year ended December 31, 2016:

| | <u>Mexico</u> | <u>USA</u> | <u>Europe</u> | <u>Other countries</u> | <u>Total</u> |
|--|------------------|-----------------|------------------|------------------------|------------------|
| Total income by segment | Ps 44,454 | Ps 17,998 | Ps 40,002 | Ps 7,825 | Ps 110,279 |
| Intersegment income | <u>(1,021)</u> | <u>(2,690)</u> | <u>-</u> | <u>(227)</u> | <u>(3,938)</u> |
| Income from external customers | <u>43,433</u> | <u>15,308</u> | <u>40,002</u> | <u>7,598</u> | <u>106,341</u> |
| Adjusted EBITDA | 5,905 | 2,492 | 3,096 | 881 | 12,374 |
| Depreciation and amortization | (1,113) | (524) | (1,584) | (273) | (3,494) |
| Comprehensive financing income (loss) | (2,237) | (2) | (528) | 10 | (2,757) |
| Cancellation of deferred charges | (1) | - | (26) | - | (27) |
| Write-off of fixed assets | (121) | - | (27) | (2) | (150) |
| Impairment of intangible assets | - | - | (184) | - | (184) |
| Equity in associates | <u>(4)</u> | <u>-</u> | <u>54</u> | <u>-</u> | <u>50</u> |
| Profit before tax | <u>2,429</u> | <u>1,966</u> | <u>801</u> | <u>616</u> | <u>5,812</u> |
| Capital expenditures (Capex): Property, plant and equipment | <u>Ps 1,703</u> | <u>Ps 478</u> | <u>Ps 4,019</u> | <u>Ps 97</u> | <u>Ps 6,297</u> |
| Non-current assets: | | | | | |
| Property, plant and equipment (*) | Ps 9,531 | Ps 2,285 | Ps 19,282 | Ps 1,992 | Ps 33,090 |
| Intangible assets | 4,029 | 1,045 | 9,951 | 729 | 15,754 |
| Goodwill | <u>2,032</u> | <u>4,867</u> | <u>2,576</u> | <u>1,436</u> | <u>10,911</u> |
| Total | <u>Ps 15,592</u> | <u>Ps 8,197</u> | <u>Ps 31,809</u> | <u>Ps 4,157</u> | <u>Ps 59,755</u> |
| <u>Unallocated</u> | | | | | |
| Deferred taxes | | | | | 2,995 |
| Other non-current assets | | | | | <u>1,069</u> |
| Total non-current assets | | | | | <u>Ps 63,819</u> |
| Total liability | <u>Ps 45,694</u> | <u>Ps 2,380</u> | <u>Ps 34,600</u> | <u>Ps 1,039</u> | <u>Ps 83,713</u> |

Sigma Alimentos, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

As of December 31, 2016 and 2015

For the year ended December 31, 2015:

| | <u>Mexico</u> | <u>USA</u> | <u>Europe</u> | <u>Other countries</u> | <u>Total</u> |
|--|------------------|-----------------|------------------|----------------------------|------------------|
| Total income by segment | Ps 40,834 | Ps 16,892 | Ps 33,892 | Ps 6,230 | Ps 97,848 |
| Intersegment income | <u>(919)</u> | <u>(3,195)</u> | <u>-</u> | <u>(166)</u> | <u>(4,280)</u> |
| Income from external customers | <u>39,915</u> | <u>13,697</u> | <u>33,892</u> | <u>6,064</u> | <u>93,568</u> |
| Adjusted EBITDA | 5,557 | 2,126 | 5,619 | 589 | 13,891 |
| Depreciation and amortization | (945) | (432) | (1,286) | (166) | (2,829) |
| Financial result | (2,213) | 72 | (487) | 21 | (2,607) |
| Cancellation of deferred charges | (11) | - | (26) | - | (37) |
| Write-off of fixed assets | (76) | - | (45) | - | (121) |
| Equity in associates | <u>(2)</u> | <u>-</u> | <u>(399)</u> | <u>-</u> | <u>(401)</u> |
| Profit before taxes | <u>2,310</u> | <u>1,766</u> | <u>3,376</u> | <u>444</u> | <u>7,896</u> |
| Capital expenditures (Capex): Property, plant and equipment | <u>Ps 1,376</u> | <u>Ps 276</u> | <u>Ps 1,929</u> | <u>Ps 57</u> | <u>Ps 3,638</u> |
| | <u>Mexico</u> | <u>USA</u> | <u>Europe</u> | <u>Other countries</u> | <u>Total</u> |
| Non-current assets: | | | | | |
| Property, plant and equipment (*) | Ps 8,780 | Ps 1,854 | Ps 14,225 | Ps 1,739 | Ps 26,598 |
| Intangible assets | 3,387 | 986 | 8,653 | 678 | 13,704 |
| Goodwill | <u>1,784</u> | <u>4,175</u> | <u>2,210</u> | <u>1,370</u> | <u>9,539</u> |
| Total | <u>Ps 13,951</u> | <u>Ps 7,015</u> | <u>Ps 25,088</u> | <u>Ps 3,787</u> | <u>Ps 49,841</u> |
| <u>Unallocated</u> | | | | | |
| Deferred taxes | | | | | 1,957 |
| Other non-current assets | | | | | <u>1,840</u> |
| Total non-current assets | | | | | <u>Ps 53,638</u> |
| Total liability | <u>Ps 38,184</u> | <u>Ps 2,186</u> | <u>Ps 27,515</u> | <u>Ps 950</u> | <u>Ps 68,835</u> |

Sigma Alimentos, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

As of December 31, 2016 and 2015

The reconciliation of the Adjusted EBITDA and income before taxes for the years ended December 31 is as follows (in millions of Mexican pesos):

| | <u>2016</u> | <u>2015</u> |
|--|-----------------|-----------------|
| Adjusted EBITDA | Ps 12,374 | Ps 13,891 |
| Depreciation and amortization (Note 24) | (3,494) | (2,829) |
| Impairment of intangible assets (Note 12) | (184) | - |
| Write-off due to disposal of fixed and intangible assets (Note 25) | <u>(177)</u> | <u>(158)</u> |
| Operating profit | 8,519 | 10,904 |
| Equity in profits of associates recognized by the equity method | 50 | (401) |
| Financial result (Note 26) | <u>(2,757)</u> | <u>(2,607)</u> |
| Profit before taxes | <u>Ps 5,812</u> | <u>Ps 7,896</u> |

(*) These assets are assigned based on operations in the different segments and physical location of assets.

| <u>Revenue from external customers by products:</u> | <u>2016</u> | <u>2015</u> |
|---|-------------------|------------------|
| Processed meat (1) | Ps 82,109 | Ps 72,807 |
| Dairy products (2) | 19,235 | 16,927 |
| Other refrigerated products (3) | <u>4,997</u> | <u>3,834</u> |
| Total | <u>Ps 106,341</u> | <u>Ps 93,568</u> |

(1) Ham, sausage, and other lunch meat.

(2) Cheese, yogurt, cream, margarine and others

(3) Others include ready meals, chilled products, unprocessed meat, desserts and drinks.

SIGMA's customers are commercial establishments classified into supermarkets, convenience stores, institutions and small grocery stores. In 2016 and 2015, sales to its major customer represented 10.4% and 10.7%, respectively, of total sales.

Note 31 - Contingencies and commitments:

In the normal course of its business, the Company is involved in controversies and litigation. While the results of the disputes cannot be predicted at December 31, 2016, the Company does not believe that there are actions pending application or threats, claims or legal proceedings against or affecting the Company which, if determined adversely to its interests, would significantly damage the individual or overall results of its operations or financial position.

Sigma Alimentos, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

As of December 31, 2016 and 2015

At December 31, 2016 and 2015, the Company and its subsidiaries had the following commitments:

- a. Various subsidiaries' contracts with suppliers and customers for acquisition of raw materials used in manufacturing products. The respective contracts are effective for less than a year, and do not stipulate significant restrictions or guarantees for the parties.
- b. Regarding operational expansion projects, the Company signed different agreements related to the acquisition of engineering licenses and own design of production lines. These contracts establish various confidentiality restrictions on the engineering used and monthly royalty payments determined in accordance with monthly production levels.

Note 32 - Subsequent events:

In preparing the financial statements, the Company has evaluated events and transactions to be recognized or disclosed after December 31, 2016 and through February 17, 2017 (date of issuance of the financial statements), and except for the matter mentioned in the following paragraph, no additional subsequent events has been identified.

On February 2, 2017, ALFA, through its subsidiary Sigma, placed bonds in the European market under Rule 144A, Regulation S, in the amount of €600 million. This instrument has a coupon of 2.625% and a seven year term.



Mario H. Páez González
Chief Executive Officer



Eugenio Caballero Sada
Chief Financial and Marketing Officer