

***Sigma Alimentos, S. A. de C. V. and subsidiaries***  
Consolidated Financial Statements  
As of December 31, 2012 and 2011 and January 1, 2011

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

## **Content**

**As of December 31, 2012 and 2011 and January 1, 2011**

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## **Report of the Independent Auditors**

Monterrey, N. L., February 25, 2013

To the Stockholders' Meeting of  
Sigma Alimentos, S. A. de C. V.

We have audited the accompanying consolidated financial statements of Sigma Alimentos, S. A. de C. V. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and January 1, 2011, and the consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory notes.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS, see Note 3), 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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit consists of examining, on a test basis, evidence supporting the figures and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

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



***Opinion***

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sigma Alimentos, S. A. de C. V. and subsidiaries as of December 31, 2012 and 2011, and January 1, 2011, and their financial performance and their cash flows for the years ended December 31, 2012 and 2011, in accordance with International Financial Reporting Standards (IFRS).

PricewaterhouseCoopers, S. C.

A handwritten signature in black ink, appearing to read "Miguel Angel Puente Buentello", written over a light blue horizontal line.


Miguel Angel Puente Buentello  
Audit Partner

***Sigma Alimentos, S. A. de C. V. and subsidiaries***  
**Consolidated Balance Sheets**  
**As of December 31, 2012 and 2011 and January 1, 2011**

(In thousands of Mexican pesos)

	Note	December 31, <u>2012</u>	December 31, <u>2011</u>	January 1, <u>2011</u>
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	6	Ps 2,439,623	Ps 1,097,730	Ps 834,206
Trade and other receivables, net	7	3,828,576	3,895,007	3,530,655
Income tax recoverable		396,206	470,197	474,038
Inventories	8	3,349,328	2,484,775	2,377,131
Prepaid expenses		<u>116,687</u>	<u>81,024</u>	<u>110,619</u>
<b>Total current assets</b>		<u>10,130,420</u>	<u>8,028,733</u>	<u>7,326,649</u>
<b>Non-current Assets:</b>				
Property, plant and equipment, net	10	10,198,577	10,303,045	10,358,024
Goodwill and intangible assets, net	11	8,899,768	9,230,720	8,787,533
Deferred income tax	15	1,007,159	952,738	805,563
Other non-current assets	12	<u>380,154</u>	<u>340,472</u>	<u>73,956</u>
<b>Total non-current assets</b>		<u>20,485,658</u>	<u>20,826,975</u>	<u>20,025,076</u>
<b>Total Assets</b>		<u>Ps 30,616,078</u>	<u>Ps 28,855,708</u>	<u>Ps 27,351,725</u>
<b>Liability and Equity</b>				
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Current debt	14	Ps 303,293	Ps 378,506	Ps 650,807
Trade and other payables	13	5,096,199	4,577,547	3,656,990
Derivative financial instruments	9	24,086	-	-
Other current liabilities	16	<u>205,265</u>	<u>194,157</u>	<u>540,328</u>
<b>Total current liabilities</b>		<u>5,628,843</u>	<u>5,150,210</u>	<u>4,848,125</u>
<b>Non-current liabilities:</b>				
Non-current debt	14	13,368,741	14,151,645	13,581,967
Non-current derivative financial instruments	9	-	129,300	212,156
Deferred income tax	15	908,517	845,778	778,732
Employees' benefits	17	398,324	178,194	227,644
Other non-current liabilities	16	<u>111,498</u>	<u>127,389</u>	<u>38,072</u>
<b>Total non-current liabilities</b>		<u>14,787,080</u>	<u>15,432,306</u>	<u>14,838,571</u>
<b>Total Liability</b>		<u>20,415,923</u>	<u>20,582,516</u>	<u>19,686,696</u>
<b>Equity</b>				
<b>Controlling portion:</b>				
Capital stock	18	27,081	27,081	27,081
Share premium	18	666,988	666,988	666,988
Retained earnings	18	9,608,108	6,956,023	6,965,544
Other reserves	18	<u>(102,022)</u>	<u>623,100</u>	<u>5,416</u>
<b>Total Equity</b>		<u>10,200,155</u>	<u>8,273,192</u>	<u>7,665,029</u>
<b>Total Liabilities and Equity</b>		<u>Ps 30,616,078</u>	<u>Ps 28,855,708</u>	<u>Ps 27,351,725</u>

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

  
Mario H. Páez González  
Chief Executive Officer

  
Ricardo J. Döehner Cobián  
Chief Financial Officer

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

## **Consolidated Statements of Income**

**For the years ended December 31, 2012 and 2011**

*(In thousands of Mexican pesos)*

	Note	2012	2011
Net sales		Ps 45,476,295	Ps 41,077,731
Cost of sales	21	<u>(30,209,704)</u>	<u>(27,937,276)</u>
Gross profit		15,266,591	13,140,455
Selling expenses	21	(8,611,234)	(7,859,740)
Administrative expenses	21	(1,836,113)	(1,605,364)
Other income (expenses), net	22	<u>(37,579)</u>	<u>(280,246)</u>
Operating profit		<u>4,781,665</u>	<u>3,395,105</u>
Financial income	23	1,070,569	103,805
Financial expenses	23	<u>(1,016,800)</u>	<u>(2,041,412)</u>
Comprehensive financing expense, net		<u>53,769</u>	<u>(1,937,607)</u>
Profit before income tax		4,835,434	1,457,498
Income tax	25	<u>(1,164,115)</u>	<u>(646,357)</u>
Profit for the year		<u>Ps 3,671,319</u>	<u>Ps 811,141</u>
Basic and diluted earnings per share		<u>Ps 2.84</u>	<u>Ps 0.63</u>
Weighted average of outstanding shares (in thousands)		<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

  
Ricardo J. Doehner Cobián  
Chief Financial Officer


***Sigma Alimentos, S. A. de C. V. and subsidiaries***  
**Consolidated Statements of Comprehensive Income**  
**For the years ended December 31, 2012 and 2011**

*(In thousands of Mexican pesos)*

	Note	<u>2012</u>	<u>2011</u>
Profit for the year		<u>Ps 3,671,319</u>	<u>Ps 811,141</u>
Other comprehensive income for the year, net of taxes:			
Actuarial (losses) gains of labor obligations	17 and 25	(154,151)	31,666
Translation effect of foreign entities	18	<u>(725,122)</u>	<u>617,684</u>
Total items of the comprehensive income for the year, net of tax		<u>(879,273)</u>	<u>649,350</u>
Total comprehensive income for the year		<u>Ps 2,792,046</u>	<u>Ps 1,460,491</u>

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

  
 Mario H. Páez González  
 Chief Executive Officer

  
 Ricardo J. Doehner Cobián  
 Chief Financial Officer

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

## Consolidated Statements of Changes in Equity

For the years ended December 31, 2012 and 2011

(In thousands of Mexican pesos)

	Note	Capital stock	Share premium	Retained earnings	Other reserves	Total stockholders' equity
Balance at January 1, 2011		<u>Ps 27,081</u>	<u>Ps 666,988</u>	<u>Ps 6,965,544</u>	<u>Ps 5,416</u>	<u>Ps 7,665,029</u>
Transactions with stockholders:	18	-	-	<u>(852,328)</u>	-	<u>(852,328)</u>
Dividends declared		-	-	811,141	-	811,141
Profit for the year		-	-	31,666	617,684	649,350
Other comprehensive income for the year		-	-	<u>842,807</u>	<u>617,684</u>	<u>1,460,491</u>
Total comprehensive income for the year		-	-	<u>6,956,023</u>	<u>623,100</u>	<u>8,273,192</u>
Balances at December 31, 2011		<u>27,081</u>	<u>666,988</u>	<u>(865,083)</u>	-	<u>(865,083)</u>
Transactions with stockholders:	18	-	-	3,671,319	-	3,671,319
Dividends declared		-	-	<u>(154,151)</u>	<u>(725,122)</u>	<u>(879,273)</u>
Profit for the year		-	-	3,517,168	<u>(725,122)</u>	<u>2,792,046</u>
Other comprehensive income for the year		-	-	<u>3,517,168</u>	<u>(725,122)</u>	<u>2,792,046</u>
Total comprehensive income for the year		-	-	<u>Ps 9,608,108</u>	<u>(Ps 102,022)</u>	<u>Ps 10,200,155</u>
Balances at December 31, 2012		<u>Ps 27,081</u>	<u>Ps 666,988</u>	<u>Ps 9,608,108</u>	<u>(Ps 102,022)</u>	<u>Ps 10,200,155</u>

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

  
 Mario H. Páez González  
 Chief Executive Officer

  
 Ricardo J. Doehner Cobián  
 Chief Financial Officer





***Sigma Alimentos, S. A. de C. V. and subsidiaries***  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2012 and 2011**

(In thousands of Mexican pesos)

	Note	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities</b>			
Profit before income tax		Ps 4,835,434	Ps 1,457,498
Depreciation and amortization	10 y11	1,422,858	1,397,431
Costs related to seniority premiums and pension plans	17	50,915	20,393
(Loss) gain on the sale of property, plant and equipment		(28,514)	58,506
Income tax paid		(996,031)	(1,046,141)
Effect due to changes in the fair value of derivative financial instruments	23	(2,704)	26,083
Exchange rate fluctuation, net		(955,918)	993,604
Interest accrued	23	963,761	978,284
Interest income	23	(56,131)	(46,926)
Operating expenses		73,321	80,212
Increase (decrease) in trade and other receivables		26,537	(485,119)
Increase in inventories		(930,926)	(19,612)
Increase in trade and other accounts payable		<u>504,566</u>	<u>699,782</u>
Net cash generated from operating activities		<u>4,907,168</u>	<u>4,113,995</u>
<b>Cash flows from investing activities</b>			
Business acquisitions, net of cash acquired	2	(171,342)	-
Interest collected		43,786	36,451
Acquisition of intangible assets		(44,898)	-
Investments in associated companies	2	(27,994)	-
Purchase of property, plant and equipment	10	(1,390,859)	(930,765)
Cash on sale of property, plant and equipment	10	28,514	(58,506)
Other		<u>6,763</u>	<u>40,398</u>
Net cash used in investing activities		<u>(1,556,030)</u>	<u>(912,422)</u>
<b>Cash flows from financing activities</b>			
Proceeds from loans and debt		2,147,178	7,489,558
Payments of loans and debt		(2,168,651)	(8,541,541)
Interest paid		(1,055,230)	(1,127,917)
Dividends paid		<u>(865,083)</u>	<u>(852,328)</u>
Net cash flows used in financing activities		<u>(1,941,786)</u>	<u>(3,032,228)</u>
Increase in cash and cash equivalents		1,409,352	169,345
Foreign exchange on cash and cash equivalents		(67,459)	94,179
Cash and cash equivalents at the beginning of the period	6	<u>1,097,730</u>	<u>834,206</u>
Cash and cash equivalents at the end of the period	6	<u>Ps 2,439,623</u>	<u>Ps 1,097,730</u>

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

  
 Mario H. Pérez González  
 Chief Executive Officer

  
 Ricardo J. Doehner Cobián  
 Chief Financial Officer

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

## **Consolidated Statement of Cash Flows**

### **December 31, 2012 and 2011**

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*(In thousands of Mexican pesos, except where otherwise indicated)*

#### **Note 1 - Activities of Sigma Alimentos companies**

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

The address of SIGMA's registered office is in Avenida Gomez Morin Sur No. 1111, Col. Carrizalejo, San Pedro Garza Garcia, Nuevo León, Mexico.

The following notes to the financial statements when referring to "Pesos" or "Ps", it means thousands of Mexican Pesos. When referring to "US\$" or "Dollars", it means thousands of dollars from the United States of America.

#### **Note 2 - Acquisitions and other significant events**

##### **2012**

##### **a) Acquisition of Hidalmix**

During the last quarter of 2012, SIGMA completed the acquisition of Empacadora de Carnes Frías Hidalmix, S. A. de C. V. ("Hidalmix"), a company engaged in the import, export and marketing of refrigerated meats and its by-products. This transaction has several significant advantages for SIGMA, among which are the expansion of local markets, mainly the Valle de México. The company operates a manufacturing plant located in Tlanepantla, Estado de México. Effective October 4, 2012, the consolidated financial statements included the assets of Hidalmix. The business acquisition is included in the Mexican segment in Note 27.

The total consideration paid for the business amounted to Ps95,964 in cash. The preliminary purchase price allocation carried out in accordance with its estimated fair value at the acquisition date was as follows:

Current assets <sup>(1)</sup>	Ps 15,523
Property, plant and equipment	25,871
Intangible assets <sup>(3)</sup>	418
Current liability <sup>(2)</sup>	(21,352)
Goodwill	<u>75,504</u>
	<u>Ps 95,964</u>

(1) Current assets consist of cash and cash equivalents of Ps 29, accounts receivable of Ps 8,902, inventories of Ps5,789 and prepayments of Ps 803.

(2) Current liabilities consist of trade and accounts payable amounting to Ps 19,520, taxes payable of Ps 314 and Employees' statutory profit sharing of Ps 318.

(3) The information, classification and percentage of amortization are part of the assets described in Note 11.

Goodwill consists mainly of market positions obtained through the expanded capabilities of the assets base of the Company. The recorded goodwill is not deductible for tax purposes.

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

## **Notes to the Consolidated Financial Statements**

**As of December 31, 2012 and 2011 and January 1, 2011**

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No contingent liability to be registered arose from this acquisition and there was no contingent agreement.

Costs related to the acquisition were Ps 135 and were recognized in the income statement in the other expenses caption.

Revenue contributed by Hidalmex assets included in the consolidated income statement from the date of acquisition to December 31, 2012 was Ps 43,480 and a net loss of Ps437. If the acquisition had taken place on January 1, 2012, income would have increased by Ps130,440 and the net loss by approximately Ps1,311.

### **b) Acquisition of SUPREMO**

On July 31, 2012, SIGMA concluded the acquisition of Empacadora Supremo de Monterrey, S. A. de C. V. ("SUPREMO"), a company engaged in the manufacturing, purchase/sale of frozen meats and dairy products. This transaction has several significant advantages for SIGMA, among which are the expansion in local markets, mainly the north of Mexico. The company operates a manufacturing plant located in San Nicolás de los Garza, Nuevo León, México. Effective July 31, 2012, the consolidated financial statements include SUPREMO's assets. The business acquisition is included in the Mexican segment in Note 27.

The final purchase price allocation was determined during the fourth quarter of the year, in accordance with their fair value at acquisition date. The total consideration paid for the business amounted to Ps 79,050 in cash.

The allocation is as follows:

Current assets <sup>(1)</sup>	Ps 30,903
Property, plant and equipment	37,073
Intangible assets <sup>(3)</sup>	452
Other assets <sup>(4)</sup>	59,891
Current liability <sup>(2)</sup>	(29,057)
Provision for labor obligations	<u>(6,805)</u>
	<u>Ps 92,457</u>

(1) Current assets consist of cash and cash equivalents of Ps 3,643, accounts receivable of Ps 17,982 and inventories of Ps9,278.

(2) Current liabilities consist of trade and accounts payable amounting to Ps 26,552, taxes payable of Ps 2,470 and Employees' statutory profit sharing of Ps 35.

(3) The information, classification and percentage of amortization are part of the assets described in Note 11.

(4) Other assets consist of deferred income tax of Ps 39,205, prepayments and security deposits of Ps 1,128 and property improvements of Ps19,558.

The net value of assets acquired was greater than the consideration paid in the acquisition by Ps13,407. This gain was recognized in the income statement in other income and was primarily due to the recognition of deferred tax assets and accumulated tax losses from the purchase date (see Note 22).

No contingent liability to be registered arose from this acquisition and there was no contingent agreement.

Costs related to the acquisition were Ps105 and were recognized in the income statement in the other expenses caption.

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

## **Notes to the Consolidated Financial Statements**

**As of December 31, 2012 and 2011 and January 1, 2011**

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Revenue contributed by SUPREMO assets included in the consolidated income statement from the date of acquisition to December 31, 2012 was Ps 51,246, and a net loss of Ps4,659. If the acquisition had been carried out on January 1, 2012, income would have increased by Ps298,935 and the net loss by Ps6,523 approximately..

### **c) Subscription of shares of Neoalimentos**

On June 15, 2012, the Company subscribed 33% of the shares representing the capital stock of Neoalimentos, S. A. P. I. de C. V. (associated company); the total amount of the transaction amounted to Ps48,990 (See Note 12). At June 15, 2012, the Company paid Ps27,994 and signed promissory notes for the remaining balance (See Note 3.b.).

## **2011**

### **d) Debt refinancing process**

During 2011, SIGMA completed a debt financing through the issuance of senior notes amounting to US\$450 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 to certain investors outside the U.S. under Regulation S of such Act. The proceeds from the senior notes offering were used to repay in advance short-and long-term existing debt.

The following is a summary of the maturity dates stated in dollars, immediately prior and subsequent to that offering and the use of proceeds there from:

	<u>Subsequent to refinancing</u>	<u>Prior to refinancing</u>
Debt level	USDPs 442,633	USDPs 450,000
Maturity	2018	2013
Interest rate	5.625%	2.609%
General conditions	<u>Guarantee and endorsements of some subsidiaries</u>	<u>Guarantee and endorsements of some subsidiaries</u>

### **Note 3 - Summary of significant accounting policies**

These consolidated financial statements and notes have been approved for issuance on February 22, 2013, by the officers with legal power to sign at the bottom of the basic financial statements and accompanying notes.

Following is a summary of the most significant accounting policies followed by the Company and its subsidiaries, which have been applied on a consistent basis in the preparation of their financial information for the periods presented, unless otherwise indicated:

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

## **Notes to the Consolidated Financial Statements**

**As of December 31, 2012 and 2011 and January 1, 2011**

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### **a. Basis for preparation**

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

In accordance with the amendments to the regulations for Public Companies and Other Participants of the Mexican Securities Market, issued by the National Banking and Securities Commission (“Comisión Nacional Bancaria y de Valores”) (“CNBV”) on January 27, 2009, the Company is required to prepare its financial statements starting from 2012, using the IFRS accounting policy framework.

For comparison purposes, the consolidated financial statements as of December 31, 2011 and for the year then ended, and the consolidated balance sheet as of January 1, 2011 have been prepared in accordance with IFRS.

The Company changed its accounting policies from Mexican Financial Reporting Standards (“MFRS”) to comply with IFRS as of January 1, 2012. The transition from MFRS to IFRS has been registered in accordance with IFRS 1, setting January 1, 2011 as the transition date. The reconciliation of the effects of the transition from MFRS to IFRS is disclosed in Note 29 on the consolidated financial statements.

The consolidated financial statements have been prepared under the historical cost basis, except for the exemptions applied for the Company disclosed in Note 29, available for sale financial assets and derivative financial instruments.

The preparation of the consolidated financial statements requires the use of certain critical accounting estimates. It also 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 assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

### **b. Consolidation**

#### **i. Subsidiaries**

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. When the interest of the Company in a subsidiary is less than 100%, the interest related to the external shareholders is reflected as non-controlling portion.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company, and until the date that control ceases.

The Company applies the acquisition method to account for business combinations. 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 assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The Company recognizes any non-controlling portion in the acquiree on an acquisition -by-acquisition basis, either at fair value or at the non-controlling portion’s proportionate share of the recognized amounts of acquiree’s identifiable net assets.

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

## **Notes to the Consolidated Financial Statements**

**As of December 31, 2012 and 2011 and January 1, 2011**

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The Company applies predecessor accounting for business combinations of an entity under common control. This consists of incorporating the carrying amounts of the acquired entity, which includes any goodwill recorded at the consolidated level in respect of the acquired entity. Any difference between the carrying amounts of the net assets acquired at a subsidiary level and their carrying amounts at the Company level are recognized in equity.

Acquisition-related costs are expensed as incurred.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling portion over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income.

Inter-company transactions and balances, and unrealized gains between group companies are eliminated in the preparation of the consolidated financial statements. Unrealized losses are eliminated unless the transaction provides evidence of impairment in the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company, accounting policies of the subsidiaries have been modified where considered necessary.

At December 31, 2011 and 2010 the principal subsidiary companies of SIGMA were:

	<u>Country</u> <sup>(i)</sup>	<u>Percentage of Ownership</u>	<u>Functional currency</u>
Alimentos Finos de Occidente, S. A. de C. V.		100	Mexican Peso
Bar-S Foods Co.	U. S. A.	100	U. S. Dollar
Bonanza Industrial, S. A. de C. V.		100	Mexican Peso
Braedt, S. A.	Perú	100	Peruvian Sol
Carnes Selectas Tangamanga, S. A. de C. V.		100	Mexican Peso
Comercial Hacienda de Cerdos, S. A.	Dominican Republic	100	Dominican Peso
Comercializadora de Embutidos ICO, S. A. de C. V.		100	Mexican Peso
Comercializadora Láctica, S. A. de C. V.		100	Mexican Peso
Distribuidora y Comercializadora de Lácteos del Norte, S. A. de C. V.		100	Mexican Peso
Empacadora de Carnes Frías Hidalmix, S. A. de C. V. (ii)		100	Mexican Peso
Empacadora de Embutidos del Centro, S. A. de C. V.		100	Mexican Peso
Empacadora de Carnes Premium, S. de R. L. de C. V.		100	Mexican Peso
Empacadora Supremo de Monterrey, S. A. de C. V. (ii)		100	Mexican Peso
Grupo Chen, S. de R. L. de C. V. and subsidiary		100	Mexican Peso
Industrias Alimentarias del Sureste, S. A. de C. V.		100	Mexican Peso
Mexican Cheese Producers, Inc.	U. S. A.	100	U. S. Dollar
Productos Cárnicos, S. A. de C. V.	El Salvador	100	U. S. Dollar
Productos de Importación, S. A. de C. V.	Honduras	100	Lempira
Servilac, S. A. de C. V.		100	Mexican Peso
Sigma Alimentos Centro, S. A. de C. V.		100	Mexican Peso
Sigma Alimentos Costa Rica, S. A.	Costa Rica	100	Colon

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

## **Notes to the Consolidated Financial Statements**

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	<u>Country</u> <sup>(i)</sup>	<u>Percentage of Ownership</u>	<u>Functional currency</u>
Sigma Alimentos Comercial, S. A. de C. V.		100	Mexican Peso
Sigma Alimentos Congelados, S. A. de C. V.		100	Mexican Peso
Sigma Alimentos Corporativo, S. A. de C. V.		100	Mexican Peso
Sigma Alimentos Dominicana, S. A.	Dominican Republic	100	Dominican Peso
Sigma Alimentos Importaciones, S. A. de C. V.		100	Mexican Peso
Sigma Alimentos Lácteos, S. A. de C. V.		100	Mexican Peso
Sigma Alimentos Noreste, S. A. de C. V.		100	Mexican Peso
Sigma Alimentos Nicaragua, S. A.	Nicaragua	100	Cordoba
Sigma Alimentos Guatemala, S. A.	Guatemala	100	Quetzal
Sigma Alimentos International, Inc.	U. S. A.	100	U. S. Dollar
Sigma Alimentos Prom, S. A. de C. V.		100	Mexican Peso
Sigma Foods, Inc.	U. S. A.	100	U. S. Dollar
Sigma Processed Meats, Inc.	U. S. A.	100	U. S. Dollar

(i) Companies incorporated in Mexico, except as mentioned.

(ii) Subsidiaries acquired during fiscal 2012.

### ii. Absorption (dilution) of control in subsidiaries

The effect of absorption (dilution) of control in subsidiary companies, reflecting an increase or decrease in the percentage of control, is recorded in stockholders' equity, directly in the retained earnings account, 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 in shares based on the equity before the absorption (dilution) of control against the book value after the relevant event. In the event of a loss of control, the related effect is included in income.

### iii. Sale or disposal of subsidiaries

When the Company ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, and the change in its carrying amount is recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

### iv. Associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and recognized initially at cost. The Company's investment in associates includes goodwill identified on acquisition, net of any accrued impairment loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

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

## **Notes to the Consolidated Financial Statements**

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The Company's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The accrued movements after the acquisition will be adjusted against the carrying value of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Company assesses at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, 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 loss/profit of associates' in the income statement.

Unrealized gains on transactions between the Company and its associates are eliminated in function of the interest in them. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company. When the Company ceases to have significant influence over an associate, any difference between the fair value and the retained interest is recognized in the income statement, including any consideration received for the disposal of part of the interest and the carrying amount of the investment.

### **c. Foreign currency translation**

#### **i. Functional and presentation currency**

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated and combined financial statements are presented in Mexican Pesos, which is the Company's presentation currency.

#### **ii. Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at closing date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

#### **iii. Consolidation of foreign subsidiaries with a currency different from the transaction currency**

##### ***Inclusion of subsidiaries with a functional currency different from its transaction currency***

The financial statements of foreign subsidiaries with a transaction currency different than the functional currency were converted to the functional currency in accordance with the following procedures:

- a. The balances of monetary assets and liabilities expressed in the transaction currency were converted using the exchange rates at closing period.**



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

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- b. For non-monetary assets and liabilities and stockholders' equity which were already converted to the functional currency the changes during the period were added, the changes were converted using the historical exchange rate. In the case of changes in the non-monetary items recorded at their fair value, occurred during the period expressed at the transaction currency, these were converted using the actual exchange rates as of the date in which such fair values were determined.
- c. Revenues, costs and expenses expressed in the transaction currency were translated using historical exchange rates at the date the transactions occurred and were recorded in the statement of income, except if the amounts related to nonmonetary items, in which case the historical exchange rates related to the non-monetary items were used.
- d. The differences in changes originated from the conversion of the transaction currency to the functional currency were recorded as income or expense in the income statement in the period in which they were originated.

### *Inclusion of subsidiaries with a functional currency different from its presentation currency*

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

- a) The balances of monetary assets and liabilities denominated in the currency of record, became the closing exchange rates.
- b) The equity of each statement of financial position is presented translated at its historical rate.
- c) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).
- d) All resulting translation adjustments are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Translation adjustments arising are recognized in equity.

Following is a list of the main exchange rates used in the different conversion processes:

		<u>Local currency to Mexican pesos</u>				
<u>Country</u>	<u>Local currency</u>	<u>Average exchange rate at the end of December 31,</u>		<u>Exchange rate at January 1,</u>	<u>Average exchange rate at the end of December 31,</u>	
		<u>2012</u>	<u>2011</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
United States	Dollar	Ps 13.010	Ps 13.980	Ps 12.360	Ps 13.02	Ps 12.490
Peru	Peruvian sol	5.099	5.200	4.400	5.07	4.540
Spain	Euro	17.20	18.140	16.570	17.08	17.460
Costa Rica	Colon	0.025	0.025	0.024	0.026	0.028
El Salvador	U.S. dollar	13.010	13.980	12.360	13.02	12.490
Dominican Rep.	Dominican peso	0.322	0.361	0.331	0.335	0.328
Guatemala	Quetzal	1.646	1.789	1.546	1.679	1.599
Nicaragua	Cordoba	0.539	0.609	0.565	0.5586	0.556
Honduras	Lempira	0.653	0.736	0.655	0.681	0.660

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

## **Notes to the Consolidated Financial Statements**

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### **d. Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less and bank overdrafts, all of these are subject to a low significant risk in changes in value. Bank overdrafts are presented as other current liabilities.

### **e. Financial instruments**

#### ***Financial assets***

The Company classifies its financial assets in the following categories: at fair value through loans and receivables (See Note 3.f), and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Regular purchases and sales of financial assets are recognized on the settlement date.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership and the control of the financial asset.

#### **i. Loans and trade receivables**

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

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

#### **ii. Financial assets available for sale**

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures in a period less than 12 months or Management intends to dispose of it within the following 12 months after the date of the balance sheet.

Available for sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, these assets are measured at fair value (unless it cannot be measured by its price in an active market and the fair value cannot be measured reliably, in which case they are recognized at cost less impairment).

Changes in the fair value of monetary and non-monetary financial assets classified as available for sale are recognized in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement.

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

## **Notes to the Consolidated Financial Statements**

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### *Financial liabilities*

Financial liabilities that are not derivatives are initially recognized at fair value and are subsequently measured at amortized cost using 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.

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

### *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

### *Impairment of financial instruments*

#### a) Assets carried at amortized cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only 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 that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

- Significant financial difficulty of the issuer or debtor.
- Default 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 that would have not been considered in other circumstances.
- There is likelihood that the issuer or debtor is declared in bankruptcy or other type of financial reorganization.
- Disappearance of an active market for the financial asset due to financial difficulties.
- Verifiable information indicates that a measurable decrease exists in the estimated future cash flows related to a group of financial assets after initial recognition, although the decrease cannot yet be identified with the individual financial assets of the Company, including:

- (i) Adverse changes in the payment status of debtors of the group of assets.
- (ii) National or local conditions that correlate with defaults of the issuers or debtors of the asset group.

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

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Based on the aspects mentioned above, the Company assesses if objective evidence of impairment exists. For loans and receivables category, if impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Alternatively, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

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

### **b) Assets classified as available for sale**

In the case of debt financial instruments, the Company also uses the previously listed criteria to identify whether there is objective evidence of impairment.

Subsequently, in the case of financial assets available for sale, an impairment loss determined by the difference between the acquisition cost and the current fair value of the asset, less any impairment loss previously recognized is reclassified from the accounts of other comprehensive income and is registered in the income statement. Impairment losses recognized in the consolidated statement of income related to equity financial instruments are not reversed through the consolidated income statement.

### **f. Derivative financial instruments and hedging activities**

All derivative financial instruments entered into and identified are classified as fair value hedges or cash flow hedges, are included in the balance sheet as assets and/or liabilities at fair value and are measured subsequently at its fair value. The fair value is determined based on the prices in recognized markets; when no quoted market prices are available, it is determined based on valuation techniques accepted in the financial sector.

The derivative financial instruments were privately negotiated with various financial institutions whose strong financial condition was supported by high ratings assigned by securities and credit risk rating agencies. The documentation used to formalize the operations entered into was that commonly used; in general terms, it follows the "Master Agreement" generated by the "International Swaps & Derivatives Association" ("ISDA"), and is accompanied by the annexes commonly known as "Schedule", "Credit Support Annex" and "Confirmation".

The fair values of the financial derivative instruments reflected in the Company's financial statements represent a mathematical estimate of their fair values. The fair values are determined using models which belong to independent experts and involve the use of assumptions based on, past and current market conditions, and future expectations at the corresponding closing date.

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

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### g. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the average cost method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains or losses on qualifying cash flow hedges purchases of raw materials.

### h. Prepaid expenses

Prepaid expenses represent those expenditures made by the Company which have not been transferred the benefits and risks inherent in the assets to be acquired or the services to be received. Prepaid expenses are recorded at cost and are presented in the Consolidated Statement of Financial Position as current assets or non-current, depending on the category of the target item. Upon receipt of the goods and / or services relating to prepayments, these should be recognized as an asset or as an expense in the income statement for the period, respectively. At 31 December 2012, 2011 and January 1, 2011, the balance of prepaid expenses is represented mainly by advertising and prepaid insurance.

### i. Property, plant and equipment

Items of property, plant and equipment are recognized at cost less accumulated depreciation and any accumulated impairment losses in its value. The cost includes expenses directly attributable to the acquisition of the asset.

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 SIGMA and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Significant improvements are depreciated over the remaining useful life of the related asset.

Depreciation is determined using the straight line method, considering each of the components of the asset separately. The useful life of the classes of depreciable assets is as follows:

Building and constructions	30 years
Machinery and equipment	5 to 30 years
Railroad equipment	7 to 10 years
Furniture and laboratory and IT equipment	4 years
Tooling and parts	7 to 10 years
Leasehold improvements	20 years

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

Borrowing costs related to financing of property, plant and equipment whose acquisition or construction requires a substantial period, are capitalized as part of the acquisition cost of such qualifying assets, until they are ready for the use to which they are intended or for its sale.

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

In case that the carrying value is greater than the estimated recoverable amount, a decrease in the carrying amount of the asset is recognized immediately to its recoverable amount.

Gains and losses on disposal of assets are determined by comparing the value of the sale with the carrying amount and are recognized in other expense or income in the income statement.

### **j. Leases**

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

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

At December 31, 2012, 2011 and at January 1, 2011, the company did not have financial leases

### **k. Intangible assets**

Intangible assets are recognized when complying with the following characteristics: the asset is identifiable, will generate future economic benefits and the Company has control over such benefits.

Intangible assets are classified as follows:

- i) Indefinite useful life. - These intangible assets are not amortized and are subject to impairment tests annually. No circumstances that might affect their useful lives have been identified.
- ii) Finite useful life. - These intangible assets are recognized at cost less the accumulated amortization and the recognized impairment losses. These assets are amortized using the straight line method based on their estimated useful lives, determined in accordance with the expected generation of future economic benefits, and are also subject to impairment tests, if triggering events 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 and licenses	15 to 22 years

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### **(a) Goodwill**

Goodwill represents the excess of the acquisition cost of a subsidiary of the Company's participation in the fair value of the identifiable net assets acquired determined at the date of acquisition and 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.

For purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the units or group of cash-generating units that are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is distributed represents the lowest level within the Company at which the goodwill is monitored for internal purposes by management. Goodwill is monitored at the operating segment level.

When an intangible asset is acquired in a business combination it is recognized at fair value at the acquisition date. Subsequently, intangible assets acquired in a business combination are recognized at cost less accumulated amortization and the accumulated amount of impairment losses.

### **(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 intends to and has sufficient resources to complete the development and to use or sell the asset. Their amortization is recognized in income based on 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) 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 the acquisition date. Licenses that have a defined useful life are presented at cost less accumulated amortization. Amortization is recorded based on 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 are not amortized but are subject to annual impairment tests.

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

#### **Software acquired or purchased**

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 completed for use or sale;
- The ability to use or sell the intangible asset;

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- The way in which the intangible asset is to generate probable future economic benefits;
- The availability of the adequate technical, financial or other type of resources, to complete the development and to 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 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 whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### **m. Income taxes**

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

The deferred income taxes are determined in each subsidiary by the asset and liability method, applying the rate established by the enacted legislation or substantially enacted at the balance date where SIGMA and its subsidiaries operate and generate taxable income to the total temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and that are expected to apply when the deferred tax asset is realized or deferred tax liability is settled, considering in any case, the tax loss carry forwards to be recoverable. The effect of a change in income tax rates is recognized in income in the period in determining the exchange rate.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.



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Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by SIGMA and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right and when the taxes are levied by the same tax authority.

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

Costa Rica	30%
Dominican Republic	29%
El Salvador	25%
Honduras	25%
Guatemala	31%
Nicaragua	30%
Peru	30%
United States of America	35%

### **n. Employee Benefits**

#### **i. Pension plans**

Defined contribution plans:

A defined contribution plan is a pension plan under which the Company pays fixed contributions into 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 employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due.

Defined benefit plans:

A defined benefit plans is defined as an amount of pension benefit that 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 pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates according to the NIC 19 that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The discount rate reflects the value of money over time but not the actuarial or investment risk. Additionally, the discount rate does not reflect the credit risk of the entity, nor does it reflect the risk that future experience may differ from actuarial assumptions.

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Actuarial gains and losses arising from employee benefits are recognized directly in the other comprehensive income.

Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight line basis over the vesting period.

### **ii. Other post-employment obligations**

The Company provides help benefits to its retired employees, after the labor relationship is concluded. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used 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 whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted at their present value.

### **iv. Short term benefits**

The Company provides employee benefits in the short term, which may include wages, salaries, annual compensation and bonuses payable within 12 months. SIGMA recognizes undiscounted provisions when it is contractually obliged or where past practice has created an obligation.

### **v. Profit sharing and bonus plans**

The Company recognizes a liability and an expense for bonuses and employee profit sharing when it has a legal or assumed obligation to pay these 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 constructive obligation as a result of past events where an outflow of resources is probable to comply with the obligation 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 expenditure expected to be required to meet the obligation using a pre-tax rate that reflects current market considerations 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.

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When there are similar obligations, the likelihood that an outflow of economic resources for settlement is determined considering them as a whole. In these cases, the provision thus estimated is recognized even if the likelihood of the cash flows output concerning a specific item considered overall, is remote.

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 to present the economic resources outflow to settle the obligation and the amount can be reasonably estimated.

### **p. Shared based payments**

The Company has established a payment option plan based on shares of ALFA in favor of certain directors of the Company and its subsidiaries. The conditions for its granting to the eligible executives include, among other things, the achievement of certain financial performance metrics, such as the level of income achieved stay up to 5 years in the company, etc. The Board of Directors of ALFA has designated a Technical Committee for the plan's Management, which reviews the estimate of the payment of this compensation by the end of the year. The payment plan is always subject to the discretion of the senior management of ALFA. Adjustments to such estimate are charged or credited to the income statement.

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

### **q. Common 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 from the consideration received, net of tax.

### **r. Comprehensive income**

Comprehensive income is composed of net income plus other capital reserves, net of taxes, which are integrated by the effects of translation of foreign subsidiaries, and other items that for specific requirements are reflected in stockholders' equity and are not contributions, reductions and distribution of capital.

### **s. Information by segments**

Segment information is presented in a manner consistent with the internal reporting provided to the chief executive officer, who is the highest authority in the operational decision making, resource allocation and performance assessment of the operating segments.

### **t. Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the normal course of operations. Revenues are presented net of discounts, returns, and value added taxes, and after eliminating the intercompany sales.

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

## **Notes to the Consolidated Financial Statements**

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The Company provides customers discounts and incentives which are recognized as a deduction from income or as expenses of sale, according to its nature. These programs include client 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 are 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
- When it is likely that future economic benefits will flow to the Company
- Company retains neither involvement associated with ownership nor effective control of the sold goods
- The costs incurred or to be incurred in respect of 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.

### u. Earnings per share

Earnings per share are computed by dividing the net income by the weighted average of common shares outstanding during the year. There are no effects arising from potentially dilutive shares.

### v. Changes in accounting policy and disclosures

New pronouncements and amendments issued but not yet effective for periods starting January 1, 2012 and have not been adopted by the company.

- IFRS 7, "Financial Instruments"

In October 2010 the IASB amended IFRS 7, "Financial instruments: Disclosures". The standard amends the required disclosures to enable users of the financial statements to evaluate risk exposure related to transfers of financial assets and the effect of these risks on the financial position of the entity. For the Company, this amendment is effective on January 1, 2013.

- IAS 1, "Presentation of Financial Statements"

In June 2011 the IASB amended IAS 1, "Presentation of financial statements". The main change resulting from this modification is the requirement to group items presented in other comprehensive income, on the basis of whether they are potentially reclassified to the income statement in later years. The amendments do not consider which items are presented in other comprehensive income. For the Company, this amendment is effective on January 1, 2013.

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

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- IFRS 9, "Financial Instruments"

IFRS 9, "Financial Instruments" was issued in November 2009 and contained requirements for classification and measurement of financial assets. Requirements for financial liabilities were included as part of IFRS 9 in October 2010. Most of the requirements for financial liabilities were taken from IAS 39 without making any changes. However, some amendments were made to the fair value option for financial liabilities to include own credit risk. In December 2011, the IASB made amendments to IFRS 9 to require its application for annual periods beginning on or after January 1, 2015.

- IFRS 10, "Consolidated Financial Statements"

In May 2011 the IASB issued IFRS 10, "Consolidated Financial Statements". This standard outlines the principles for the presentation of consolidated financial statements when an entity controls one or more entities. IFRS 10 defines the principle of control and establishes control as the basis for determining the entities to be consolidated in the financial statements. The standard also includes the accounting requirements for the preparation of the consolidated financial statements, as well as the requirements for application of the principle of control. IFRS 10 replaces IAS 27, "Consolidated and separate financial statements" and SIC 12 "Consolidation Special purpose entities" and for the Company this amendment is effective on January 1, 2013.

- IFRS 11, "Joint Arrangements"

In May 2011 the IASB issued IFRS 11 "Joint Arrangements". IFRS 11 classifies joint arrangements into two types: joint operations and joint ventures. The entity determines the type of joint arrangement in which it participates considering their rights and obligations. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. In a joint venture an investment is recognized and recorded using the equity method. It is not allowed to consolidate proportional joint ventures. For the Company, IFRS 11 is effective on January 1, 2013.

- IFRS 12, "Disclosure of Interest in Other Entities"

The IASB issued IFRS 12, "Disclosure of Interests in Other Entities" in May 2011. IFRS 12 requires an entity to disclose information to evaluate the nature and risks associated with its interests in other entities, including joint arrangements, associates and special purpose entities. For the Company, IFRS 12 is effective on January 1, 2013.

- IFRS 13, "Fair Value Measurement"

In May 2011 the IASB issued IFRS 13, "Fair Value Measurements". The objective of IFRS 13 is to provide a precise definition of fair value and be a single source for the measurement and disclosure requirements for fair value when it is required or permitted by other IFRSs. For the Company, IFRS 13 is effective on January 1, 2013.

- IAS 19, "Employee Benefits"

In June 2011 the IASB amended IAS 19, "Employee Benefits". The amendments eliminate the corridor method and show the calculation of interest expense on a net basis. For the Company this amendment is effective on January 1, 2013.

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

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- IAS 27, "Separate Financial Statements"

In May 2011 the IASB amended IAS 27 under a new title "Separate Financial Statements". This standard includes guidelines for separate financial statements that remained in place after the control provisions were included in IFRS 10. For the Company, this standard is effective on January 1, 2013.

- IAS 28, "Investments in Associates and Joint Ventures"

In May 2011 the IASB amended IAS 28 under a new heading "Investments in Associates and Joint Ventures". The new standard includes requirements for joint ventures and associates for recognition in accordance with the equity method. For the Company, this standard is effective on January 1, 2013.

At the date of the financial statements, the Company's management is in the process of quantifying the effects of the adoption of new standards and amendments noted above.

### **Note 4 - Financial risks management**

#### **4.1 Financial risk factors**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, price risk, interest rate risk on cash flows, and interest rate risk on fair values), credit risk and liquidity risk and inputs and products risk. The overall risk management program of the Company focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. The Company uses derivative financial instruments to hedge certain risk exposures.

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), constituted by the Committee's Chairman, the General Director, the Financial Director 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, among which is SIGMA, in which a worst case scenario analysis surpasses US\$1 million. This committee supports both the Chairman and the President 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, are required to be approved both by the subsidiary company, as well as by ALFA Company and the parent company according to the following schedule of authorizations:

	<u>Maximum Possible Loss US\$ millions</u>	
	<u>Individual Transaction</u>	<u>Annual Cumulative Transactions</u>
Chief Executive Officer of the Business Group	1	5
Risk Management Committee of ALFA	30	100
Finance Committee	100	300
Board of Directors of ALFA	>100	>300

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

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Proposed transactions must satisfy certain criteria, including that hedge should be lower than speculations, should be product of a fundamental analysis and should be properly documented. Sensitivity analysis and other risk analyses should be performed before the transaction is entered into.

(a) Market risk

(i) Exchange risk

The Company operates internationally and is exposed to foreign exchange risk, primarily with respect to Mexican Pesos and with currencies different from the functional currency used for the subsidiaries' transactions. The Company is exposed to foreign exchange risk arising from future commercial transactions in foreign currency assets and liabilities in foreign currencies.

The respective exchange rates of the Mexican Pesos and the U.S. dollar, are very important factors for SIGMA by the effect they have on their performance. Moreover, in its determination, SIGMA has no interference. On the other hand, SIGMA estimated that 33% of its revenues are denominated in foreign currency, 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, in times when the Mexican Peso has appreciated in real terms against other currencies such as the dollar, SIGMA profit margins have been increased. On the other hand, when the Mexican Peso has lost value, SIGMA profit margins have been reduced. However, although this factor correlation has appeared on several occasions in the close 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.

The cost of imported goods, denominated in US dollars, represent 53% of the production cost in Mexico. In this sense, a depreciation of the Mexican peso would increase the productions cost, affecting operation results of the Company. On the one hand, if the increase in production cost is absorbed, the operating margin would be reduced; on the other hand, if the consumer is transferred the increase in the production cost, 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. The exposure of the currency arising from net assets from the Company's foreign transactions is mainly managed through loans denominated in the corresponding foreign currency.

The Company participates in derivative financial instrument transactions over exchange rates in order to maintain the total comprehensive financing expense of its loans and volatility associated with exchange rates under control. Based on the exposure of the exchange rate in general at December 31, 2012 and 2011, a hypothetical variation of 5% in the exchange rate MXN/USD and maintaining all other variables constant, it would result in an impact on the statement of income amounting Ps6,677 and Ps7,161, respectively.

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

## **Notes to the Consolidated Financial Statements**

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### **(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 their prices would negatively affect operating margin and/or sales. On the one hand, if the increase is absorbed by the production cost, the operating margin would be reduced; on the other hand, if this increase exceeds the final price, sales would suffer a negative impact.

Prices of the most important inputs for the Company, such as the chicken, turkey and swine pasta, dairy and fuel, are subject to international prices. The price of the pasta depends on the price of cereals, since these are used as food for cattle. When the price of cereals increases, the price of meat increases; therefore, the Company's inputs do too.

At December 31, 2012, the Company had no input price hedging for their manufacturing process. Based on the exposure of inputs in general at December 31, 2012 and 2011, a hypothetical increase (decrease) of 10% in prices of inputs and all other variable constant, such as exchange rates, the increase (decrease) would affect the statements of income in the amount of Ps2,508,415 and Ps2,282,243, respectively.

### **(iii) Interest rate and cash flow risk**

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

With the objective of controlling the total comprehensive cost of its financing and the volatility of interest rates, the Company has hired interest rate swaps to convert certain variable rate loans to fixed rates.

At December 31, 2012 and 2011, if interest rates on variable rate loans were increased or decreased by 10%, in interest expense would change results in Ps6,010 and Ps9,500 respectively.

### **(b) Credit risk**

Credit risk is managed on a group basis, except for the credit risk related to accounts receivable balances. Each subsidiary 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, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure to customers, including receivables and committed transactions. If clients are independent qualified wholesaling, these scores are used. If there is no independent rating, risk control of SIGMA evaluates the creditworthiness of the customer, 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 using cash or credit cards.

During 2012 and 2011, the credit limits were not exceeded and Management does not expect impairment losses recognized in excess of the corresponding periods.



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

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The impairment provision for doubtful accounts represents estimated losses resulting from the inability of customers to make required payments. In determining the allowance for the impairment provision for doubtful accounts, significant estimates are required. 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 adequate time for recognition and the amount of reserves, including historical collection experience, customer base, current economic trends and the age of the accounts receivable portfolio.

### **(c) Liquidity risk**

The projected cash flows are performed at each operating entity of the Company and subsequently, the finance department consolidates this information. The finance department of the Company continuously monitors the cash flow projections and liquidity requirements of the Company ensuring maintaining sufficient cash and investment with immediate implementation to meet operational needs, as well as to maintain some flexibility through open credit lines committed and uncommitted unused. 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 treasury of the Company invests those funds in short-term bank deposits, whose maturities or liquidity allows flexibility to meet the cash needs of the Company. At December 31, 2012 and 2011 and January 1, 2011, the Company has short-term time deposits of Ps1,837,298, Ps494,586 and Ps437,980, respectively, estimated to allow manage liquidity risk.

The table analyzes the financial liabilities and the derivative financial instruments 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.

	<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>
<b>At December 31, 2012</b>				
Suppliers and other accounts payable	Ps 5,096,199	Ps -	Ps -	Ps -
Bank loans	303,293	1,175,362	3,913	-
Senior Notes	-	-	-	8,949,080
Stock certificates	-	1,635,000	-	1,605,386
Derivative financial instruments	24,086	-	-	-
Other liabilities (1)	36,968	41,407	16,719	53,372
	<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>
<b>At December 31, 2011</b>				
Suppliers and other accounts payable	Ps 4,577,547	Ps -	Ps -	Ps -
Bank loans	378,506	1,253,223	-	-
Senior Notes	-	-	-	9,680,801
Stock certificates	-	-	1,635,000	1,582,621
Derivative financial instruments	-	129,300	-	-
Other liabilities (1)	35,901	22,245	35,881	69,263

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

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	Less than 1 year	Between 1 and 2 years	Between 3 and 5 years	Over 5 years
<b>At January 1, 2011</b>				
Suppliers and other accounts payable	Ps 3,656,990	Ps -	Ps -	Ps -
Bank loans	650,807	7,381,914	6,966	254
Senior Notes	-	-	-	2,995,705
Stock certificates	-	-	1,635,000	1,562,128
Derivative financial instruments	-	-	212,156	-
Other liabilities (1)	64,365	-	-	38,072

(1) These amounts include employees' benefits balances based on shares, accounts payable to related parties and notes payable, see Note 16.

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

### 4.2 Capital Management

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

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

The total liabilities / total capital ratio (expressed in times multiple) amounts to 2.00, 2.48 and 2.56 as of December 31, 2012 and 2011 and January 1, 2011, respectively.

### 4.3 Estimation of Fair Value

Below is an analysis of financial instruments measured at fair value by the valuation method. Three different levels were used as presented below:

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and valuations through models where all significant inputs are observable in active markets.
- Level 3: Valuations made through techniques in which one or more of its significant data are not observable.

The following table presents the liabilities of SIGMA that are measured at fair value at December 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial liabilities at fair value with changes in income				
- Trading derivatives	Ps -	Ps 24,086	Ps -	Ps 24,086
Total liabilities	<u>Ps -</u>	<u>Ps 24,086</u>	<u>Ps -</u>	<u>Ps 24,086</u>

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## **Notes to the Consolidated Financial Statements**

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The following table shows SIGMA's liabilities that are measured at fair value at December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial liabilities at fair value with changes in income				
- Trading derivatives	Ps _____ -	Ps 129,300	Ps _____ -	Ps 129,300
Total liabilities	<u>Ps _____ -</u>	<u>Ps 129,300</u>	<u>Ps _____ -</u>	<u>Ps 129,300</u>

The following table shows SIGMA's liabilities that are measured at fair value at January 1, 2011:

Financial liabilities at fair value with changes in income				
- Trading derivatives	Ps _____ -	Ps 212,156	Ps _____ -	Ps 212,156
Total liabilities	<u>Ps _____ -</u>	<u>Ps 212,156</u>	<u>Ps _____ -</u>	<u>Ps 212,156</u>

### 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 an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent market transactions currently and regularly at arm's length. 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 at the balance sheet date, with the resulting value discounted to 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.

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

## **Notes to the Consolidated Financial Statements**

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### **5.1 Critical accounting estimates and judgments**

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 to the accounting policy stated (see Note 11). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

#### ***(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.

#### ***(c) Fair value of derivatives and other financial instruments***

The fair value of financial instruments that are not traded in an active market is determined by using fair value hierarchies. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Company has used discounted cash flows analysis for various available-for-sale financial assets that are traded in active markets.

#### ***(d) Pension benefits***

The present value of the pension obligations depends on the 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 according to IAS 19 "Employees' 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.

Where the discount rate used to differ by %1.18 from management's estimates, the carrying amount of labor obligations would be an estimated Ps117,880 higher.

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

## **Notes to the Consolidated Financial Statements**

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### **5.2 Critical judgments in the application of accounting policies of the entity**

#### **(a) Revenue recognition**

The Company has recognized revenues of \$45,476,295 from the sale of goods to third parties during 2012. The clients 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 this transactions with the corresponding provision against revenues from the estimate of returns. If the estimate changes by 10%, the revenues will be decreased/increased by \$45,476.

#### **Note 6 - Cash and cash equivalents**

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

	At December 31, <u>2012</u>	At December 31, <u>2011</u>	At January 1, <u>2011</u>
Cash at bank and on hand	Ps 602,325	Ps 603,144	Ps 396,226
Short term bank deposits	<u>1,837,298</u>	<u>494,586</u>	<u>437,980</u>
Cash and cash equivalents (excluding bank overdrafts)	<u>Ps 2,439,623</u>	<u>Ps 1,097,730</u>	<u>Ps 834,206</u>

#### **Note 7 - Trade and other accounts receivable, net**

	At December 31, <u>2012</u>	At December 31, <u>2011</u>	At January 1, <u>2011</u>
Trade	Ps 2,840,170	Ps 2,821,830	Ps2,166,168
Accounts receivable from brokerage	122,915	165,625	170,251
Provision for impairment of trade receivables	<u>(93,013)</u>	<u>(73,608)</u>	<u>(83,394)</u>
Clients, net	2,870,072	2,913,847	2,253,025
Accounts receivable from related parties (Note 26)	-	-	193,447
Value-added tax recoverable	841,614	859,286	808,094
Interest receivable	474	508	540
Other debtors:			
Short-term notes receivable	5,436	27,786	31,168
Sundry debtors	<u>110,980</u>	<u>93,580</u>	<u>244,381</u>
	<u>Ps 3,828,576</u>	<u>Ps 3,895,007</u>	<u>Ps3,530,655</u>

Trade and other receivables include due balances unimpaired of Ps264,556, Ps465,935 and Ps312,988 at December 31, 2012 and 2011 and January 1, 2011, respectively.

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

## **Notes to the Consolidated Financial Statements**

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

	At December 31, <u>2012</u>	At December 31, <u>2011</u>	At January 1, <u>2011</u>
1 to 30 days	Ps 211,329	Ps 270,019	Ps 228,757
30 to 90 days	46,639	78,599	21,645
90 to 180 days	2,278	41,910	47,426
More than 180 days	<u>4,310</u>	<u>75,407</u>	<u>15,160</u>
	<u>Ps 264,556</u>	<u>Ps 465,935</u>	<u>Ps 312,988</u>

Movements in the provision for customer impairment and other receivables are analyzed as follows:

	<u>2012</u>	<u>2011</u>
Opening balance (January 1)	Ps 73,608	Ps 83,394
Provision for impairment of trade receivables	39,372	20,175
Trade receivables written-off during the year	<u>(19,967)</u>	<u>(29,961)</u>
Ending balance (December 31)	<u>Ps 93,013</u>	<u>Ps 73,608</u>

### **Note 8 - Inventories**

	At December 31, <u>2012</u>	At December 31, <u>2011</u>	At January 1, <u>2011</u>
Finished goods	Ps 1,099,689	Ps 694,879	Ps 711,914
Raw material and other consumable	2,153,521	1,663,407	1,553,797
Work in progress	<u>96,118</u>	<u>126,489</u>	<u>111,420</u>
	<u>Ps 3,349,328</u>	<u>Ps 2,484,775</u>	<u>Ps 2,377,131</u>

The cost of inventories recognized as an expense and included in "cost of sales" amounted to Ps25,084,157 and Ps22,822,433 for 2012 and 2011, respectively.

For the years ended December 31, 2012 and 2011, the damaged, slow-movement and obsolete inventory was recognized in cost of sales for Ps5,128 and Ps5,100, respectively.

At December 31, 2012, 2011, and January 1, 2011 there were no inventories pledged.

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

## Notes to the Consolidated Financial Statements

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### **Note 9 - Financial instruments**

#### ***a. Financial instruments by category***

	<u>At December 31, 2012</u>		
	Accounts receivable and liabilities at amortized cost	Financial assets and liabilities at fair value through profit and loss	Total
<b>Financial assets:</b>			
Cash and cash equivalents	Ps 2,439,623	Ps -	Ps 2,439,623
Trade and other receivable excluding pre-payments	2,986,962	-	2,986,962
Other non-current asset	<u>291,849</u>	-	<u>291,849</u>
	<u>Ps 5,718,434</u>	<u>Ps -</u>	<u>Ps 5,718,434</u>
<b>Financial liabilities:</b>			
Debt	Ps 13,672,034	Ps -	Ps 13,672,034
Suppliers and other accounts payable	5,096,199	-	5,096,199
Derivative financial instruments	-	24,086	24,086
Other non-current liability	<u>148,466</u>	-	<u>148,466</u>
	<u>Ps 18,916,699</u>	<u>Ps 24,086</u>	<u>Ps 18,940,785</u>
	<u>At December 31, 2011</u>		
	Accounts receivable and liabilities at amortized cost	Financial assets and liabilities at fair value through profit and loss	Total
<b>Financial assets:</b>			
Cash and cash equivalents	Ps 1,097,730	Ps -	Ps 1,097,730
Trade and other receivable excluding pre-payments	3,035,721	-	3,035,721
Other non-current asset	<u>291,849</u>	-	<u>291,849</u>
	<u>Ps 4,425,300</u>	<u>Ps -</u>	<u>Ps 4,425,300</u>
<b>Financial liabilities:</b>			
Debt	Ps 14,530,151	Ps -	Ps 14,530,151
Suppliers and other accounts payable	4,577,547	-	4,577,547
Derivative financial instruments	-	129,300	129,300
Other non-current liability	<u>163,290</u>	-	<u>163,290</u>
	<u>Ps 19,270,988</u>	<u>Ps 129,300</u>	<u>Ps 19,400,288</u>

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

## Notes to the Consolidated Financial Statements

As of December 31, 2012 and 2011 and January 1, 2011

	At January 1, 2011		
	Accounts receivable and liabilities at amortized cost	Financial assets and liabilities at fair value through profit and loss	Total
Financial assets:			
Cash and cash equivalents	Ps 834,206	Ps -	Ps 834,206
Trade and other receivable excluding pre-payments	2,722,561	-	2,722,561
Other non-current asset	<u>34,641</u>		<u>34,641</u>
	<u>Ps 3,591,408</u>	<u>Ps -</u>	<u>Ps 3,591,408</u>
Financial liabilities:			
Debt	Ps 14,232,774	Ps -	Ps 14,232,774
Suppliers and other accounts payable	3,656,990	-	3,656,990
Derivative financial instruments	-	212,156	212,156
Other non-current liability	<u>102,437</u>		<u>102,437</u>
	<u>Ps 17,992,201</u>	<u>Ps 212,156</u>	<u>Ps 18,204,357</u>

### ***b. Credit quality of financial assets***

The credit quality of financial assets that are not expired or impaired may be calculated based on external credit ratings (when available) or on historical information over non-compliance rates of the counterparty:

	December 31, 2012	December 31, 2011	January 1, 2011
Counterparties with external credit rating			
"A"	Ps 707,756	Ps 752,052	Ps 500,495
Other categories	<u>85,062</u>	<u>-</u>	<u>-</u>
	<u>Ps 792,818</u>	<u>Ps 752,052</u>	<u>Ps 500,495</u>
Counterparties without external credit rating			
"Clients type Y"	<u>Ps 2,194,144</u>	<u>Ps 2,283,669</u>	<u>Ps 2,222,066</u>
Total accounts receivable not impaired	<u>Ps 2,986,962</u>	<u>Ps 3,035,721</u>	<u>Ps 2,722,561</u>
"A"	Ps 27,034	Ps 6,342	Ps -
"A-"	13,486	17,432	4,552
"BBB"	42,928	21,536	11,056
Other categories	2,236,016	921,090	697,752
Not rated	<u>120,159</u>	<u>131,330</u>	<u>120,846</u>
	<u>Ps 2,439,623</u>	<u>Ps 1,097,730</u>	<u>Ps 834,206</u>

Group Y – clients/current related parties (more than 6 months) with no past lack of compliance.

Other categories – Mainly Grupo Financiero Banorte, S. A. B. de C. V. and local Banks of foreign entities.



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

## Notes to the Consolidated Financial Statements

As of December 31, 2012 and 2011 and January 1, 2011

### c. Fair value of financial assets and liabilities

The amount of cash and cash equivalents, trade and other receivables, other current assets, suppliers and other payables, outstanding debt, provisions and other current liabilities 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, 2012</u>		<u>At December 31, 2011</u>		<u>At January 1, 2011</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
<b>Financial assets:</b>						
Related parties and long-term notes receivable	Ps 259	Ps 291	Ps 272	Ps 284	Ps 32	Ps 32
<b>Financial liabilities:</b>						
Non-current debt	13,369	15,067	14,152	14,790	13,582	14,187

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 due the current portion approximates their fair value.

### d. Derivative financial instruments

Notional amounts related to derivative financial instruments reflect the hired reference volume; however, these do not reflect the amounts in risk concerning the future flows. The amounts in risk are generally limited to the profit or loss unrealized by market valuation of such instruments, which may vary according to changes in the market value of the underlying asset, its volatility and the credit quality of the counterparties.

The main obligations which the Company is subject depend on the hiring procedure and the conditions set up in each one of the derivative financial instruments effective at December 31, 2012 and 2011 and January 1, 2011.

Trading derivatives are classified as current assets or liabilities.

#### *(a) Forward exchange contracts*

Type of derivative, value or contract	Notional amount	Value of underlying asset		Fair value	Maturity per year			Collateral / warranty
		Units	Reference		2013	2014	2014+	
<u>At December 31, 2012</u>								
With negotiation purposes:								
USD/MXN (CCS <sup>1</sup> )	(Ps266,434)	Peso / Dollar	13.01	(Ps 5,586)	(Ps 5,586)	Ps	-	Ps -
<u>At December 31, 2011</u>								
With negotiation purposes:								
USD/MXN (CCS)	(Ps143,135)	Pesos / Dollar	13.98	(Ps 35,962)	Ps -	(Ps35,962)	Ps	-

**Sigma Alimentos, S. A. de C. V. and subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**As of December 31, 2012 and 2011 and January 1, 2011**

At January 1, 2011

Type of derivative, value or contract	National amount	Value of underlying asset		Fair value	Maturity per year			Collateral / warranty
		Units	Reference		2011	2012	2013+	
With negotiation purposes:								
USD/MXN (CCS)	(Ps 227,755)	Peso / Dollar	12.36	(Ps 32,646)	Ps -	Ps -	(Ps32,646)	

(a) Interest rate swaps

At December 31, 2012

Type of derivative, value or contract	Notional amount	Value of underlying asset		Fair value	Maturity per year			Collateral / warranty
		Units	Reference		2013	2014	2015+	
With negotiation purposes:								
Over Libor	Ps 1,301,010	% per year	0.39	(Ps 18,500)	(Ps18,500)	Ps -	Ps -	

At December 31, 2011

Type of derivative, value or contract	Notional amount	Value of underlying asset		Fair value	Maturity per year			Collateral / warranty
		Units	Reference		2012	2013	2014+	
With negotiation purposes:								
Over Libor	Ps 1,397,870	% per year	0.73	(Ps 93,338)	Ps -	(Ps93,338)	Ps -	Ps -

At January 1, 2011

Type of derivative, value or contract	National amount	Valor Value of underlying asset		Fair value	Maturity per year			Collateral / warranty
		Units	Reference		2011	2012	2013+	
With negotiation purposes:								
Over Libor	Ps 2,471,420	% per year	0.80	(Ps179,510)	Ps -	Ps -	(Ps179,510)	

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

## Notes to the Consolidated Financial Statements

As of December 31, 2012 and 2011 and January 1, 2011

### Note 10 - Property, plant and equipment, net

	Land	Buildings and constructions	Machinery and equipment	Transportation equipment	Furniture, Lab equipment and information technology	Tooling and spare parts	Construction in process	Leasehold improvements	Other fixed assets	Total
<b>At January 1, 2011</b>										
Deemed cost	Ps 1,007,477	Ps 3,611,067	Ps 8,411,433	Ps 1,984,270	Ps 995,680	Ps 62,848	Ps 350,305	Ps 394,359	Ps 8,705	Ps 16,826,144
Accumulated depreciation	-	(922,244)	(3,511,161)	(1,109,896)	(743,655)	-	-	(181,156)	(8)	(6,468,120)
Net balances at January 1, 2011	<u>Ps 1,007,477</u>	<u>Ps 2,688,823</u>	<u>Ps 4,900,272</u>	<u>Ps 874,374</u>	<u>Ps 252,025</u>	<u>Ps 62,848</u>	<u>Ps 350,305</u>	<u>Ps 213,203</u>	<u>Ps 8,697</u>	<u>Ps 10,358,024</u>
<b>For the year ended December 31, 2011</b>										
Opening net book value	Ps 1,007,477	Ps 2,688,823	Ps 4,900,272	Ps 874,374	Ps 252,025	Ps 62,848	Ps 350,305	Ps 213,203	Ps 8,697	Ps 10,358,024
Exchange differences	27,240	124,614	208,053	17,794	6,320	31	9,688	-	925	394,665
Additions	-	80,164	174,005	12,132	30,046	8,307	866,221	2,612	1,196	1,174,683
Disposals	-	(21,589)	(114,895)	(18,088)	(1,925)	(13,434)	(113,661)	(7,162)	(5,576)	(296,330)
Fixed asset write offs recorded in the year	-	-	(53,227)	-	-	(442)	(907,644)	7,588	-	(53,227)
Transfers	9,896	94,583	443,451	304,526	48,042	-	-	(20,207)	-	-
Depreciation charges of the year	-	(118,012)	(829,163)	(215,607)	(91,783)	-	-	-	2	(1,274,770)
Balances at December 31, 2011	<u>1,044,613</u>	<u>2,848,583</u>	<u>4,728,496</u>	<u>975,131</u>	<u>242,725</u>	<u>57,310</u>	<u>204,909</u>	<u>196,034</u>	<u>5,244</u>	<u>10,303,045</u>
<b>At December 31, 2011</b>										
Cost	1,044,613	4,002,972	8,728,197	2,252,209	1,042,831	57,310	204,909	397,643	5,254	17,735,938
Accumulated depreciation	-	(1,154,389)	(3,999,701)	(1,277,078)	(800,106)	-	-	(201,608)	(11)	(7,432,893)
Net balances at December 31, 2011	<u>Ps 1,044,613</u>	<u>Ps 2,848,583</u>	<u>Ps 4,728,496</u>	<u>Ps 975,131</u>	<u>Ps 242,725</u>	<u>Ps 57,310</u>	<u>Ps 204,909</u>	<u>Ps 196,034</u>	<u>Ps 5,244</u>	<u>Ps 10,303,045</u>
<b>For the year ended December 31, 2012</b>										
Opening net book value	Ps 1,044,613	Ps 2,848,583	Ps 4,728,496	Ps 975,131	Ps 242,725	Ps 57,310	Ps 204,909	Ps 196,034	Ps 5,244	Ps 10,303,045
Exchange differences	(20,074)	(82,221)	(89,726)	(15,162)	(2,222)	(959)	(1,855)	(81)	(371)	(212,671)
Additions	3,904	41,160	214,672	14,121	15,622	10,496	1,289,989	2,386	-	1,592,350
Additions from business combinations	1,641	7,436	9,925	2,832	1,113	-	91	-	-	23,038
Disposals	(18,574)	(1,648)	(53,783)	(19,740)	(34,750)	(8,102)	(66,580)	9,575	(3,757)	(197,359)
Write off of fixed assets recorded in the year	-	-	(10,742)	-	-	-	-	-	-	(10,742)
Transfers	12,093	28,039	649,035	284,469	87,951	12,068	(1,099,084)	25,429	-	-
Depreciation charges of the year	-	(145,674)	(803,305)	(233,037)	(96,153)	-	-	(20,915)	-	(1,299,084)
Balances at December 31, 2012	<u>1,023,603</u>	<u>2,695,675</u>	<u>4,644,572</u>	<u>1,008,614</u>	<u>214,286</u>	<u>70,813</u>	<u>327,470</u>	<u>212,428</u>	<u>1,116</u>	<u>10,198,577</u>
<b>At December 31, 2012</b>										
Cost	1,023,603	3,881,990	9,282,595	2,398,828	786,005	70,813	327,470	425,072	1,133	18,177,509
Accumulated depreciation	-	(1,166,315)	(4,638,023)	(1,390,214)	(571,719)	-	-	(212,614)	(17)	(7,978,932)
Net balances at December 31, 2012	<u>Ps 1,023,603</u>	<u>Ps 2,695,675</u>	<u>Ps 4,644,572</u>	<u>Ps 1,008,614</u>	<u>Ps 214,286</u>	<u>Ps 70,813</u>	<u>Ps 327,470</u>	<u>Ps 212,428</u>	<u>Ps 1,116</u>	<u>Ps 10,198,577</u>

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

## Notes to the Consolidated Financial Statements

As of December 31, 2012 and 2011 and January 1, 2011

From depreciation expense, Ps 1,299,084 and Ps 1,274,770, have been charged in cost of sales Ps 766,695 and Ps 770,334, in sales expense Ps 437,400 and Ps 418,712, and in administrative expenses Ps 94,989 and Ps 85,724, in 2012 and 2011, respectively.

Property, plant and equipment in the amount of US\$1,658 thousand, (US\$1,131 thousand in 2011 and US\$5,906 thousand in January 1, 2011) has the liens and guarantees bank loans as described in Note 14.

At December 31, 2012, 2011 and January 1, 2011, the Company has no capitalization of costs from loans.

### Note 11 - Goodwill and intangible assets

	Finite life			Indefinite life		Total
	Development costs	Customer relationships	Other	Goodwill	Trademarks	
At January 1, 2011	Ps 439,586	Ps 1,143,032	Ps 76,724	Ps 4,777,498	Ps 2,636,519	Ps 9,073,359
Exchange differences	-	109,620	-	417,589	-	527,209
Additions	-	-	32,652	-	-	32,652
<b>At December 31, 2011</b>	<b>439,586</b>	<b>1,252,652</b>	<b>109,376</b>	<b>5,195,087</b>	<b>2,636,519</b>	<b>9,633,220</b>
Exchange differences	-	(49,218)	(27,186)	(222,370)	-	(298,774)
Additions due to business combinations	-	-	-	75,504	870	76,374
Additions	-	-	44,898	-	-	44,898
<b>At December 31, 2012</b>	<b>Ps 439,586</b>	<b>Ps 1,203,434</b>	<b>Ps 127,088</b>	<b>Ps 5,048,221</b>	<b>Ps 2,637,389</b>	<b>Ps 9,455,718</b>
Accumulated amortization and impairment						
At January 1, 2011	(275,459)	-	(10,367)	-	-	(285,826)
Amortization	(21,937)	(82,176)	(10,291)	-	-	(114,404)
Exchange differences	-	-	(2,270)	-	-	(2,270)
At December 31, 2011	(297,396)	(82,176)	(22,928)	-	-	(402,500)
Amortization	(36,381)	(87,251)	8,833	-	-	(114,799)
Exchange differences	-	(30,594)	(8,057)	-	-	(38,651)
<b>At December 31, 2012</b>	<b>(Ps 333,777)</b>	<b>(Ps 200,021)</b>	<b>(Ps 22,152)</b>	<b>Ps -</b>	<b>Ps -</b>	<b>(Ps 555,950)</b>
Net book value						
Cost	439,586	1,252,652	109,376	5,195,087	2,636,519	9,633,220
Accumulated amortization and impairment	(297,396)	(82,176)	(22,928)	-	-	(402,500)
<b>At December 31, 2011</b>	<b>Ps 142,190</b>	<b>Ps 1,170,476</b>	<b>Ps 86,448</b>	<b>Ps 5,195,087</b>	<b>Ps 2,636,519</b>	<b>Ps 9,230,720</b>
Cost	439,586	1,203,434	127,088	5,048,221	2,637,389	9,455,718
Accumulated amortization and impairment	(333,777)	(200,021)	(22,152)	-	-	(555,950)
<b>At December 31, 2012</b>	<b>Ps 105,809</b>	<b>Ps 1,003,413</b>	<b>Ps 104,936</b>	<b>Ps 5,048,221</b>	<b>Ps 2,637,389</b>	<b>Ps 8,899,768</b>

Other intangible assets consist of: Software, licenses and use rights.

From amortization expense, Ps114,799 and Ps114,404, have been charged in cost of sales Ps13,132 and Ps11,217, in sales expense Ps77,998 and Ps81,088, in administrative expenses Ps23,669 and Ps22,099, in 2012 and 2011, respectively.

Goodwill was increased in 2012 due business acquisitions (see Note 2 paragraphs a and b).

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

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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 acquiree entity are assigned to those units or groups of units, as follows:

	December 31, <u>2012</u>	December 31, <u>2011</u>	December 1, <u>2011</u>
México	Ps 912,995	Ps 837,492	Ps 837,492
USA	3,806,233	4,016,357	3,619,352
Other segments	<u>328,993</u>	<u>341,238</u>	<u>320,654</u>
	<u>Ps 5,048,221</u>	<u>Ps 5,195,087</u>	<u>Ps 4,777,498</u>

The amount of recovery 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 2012 and 2011 are as follows:

	<u>2012</u>		
	<u>México</u>	<u>USA</u>	<u>Other segments</u>
Estimated Gross margin	37.5%	22.8%	28.5%
Growth Rate	7.7%	4.3%	5.4%
Discount rate	9.0%	8.0%	11.0%

	<u>2011</u>		
	<u>México</u>	<u>USA</u>	<u>Other segments</u>
Estimated Gross margin	37.6%	22.7%	28.6%
Growth Rate	7.7%	4.0%	5.3%
Discount rate	9.0%	9.0%	10.9%

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.

### **Note 12 - Other non-current assets**

	December 31, <u>2012</u>	December 31, <u>2011</u>	January 1, <u>2011</u>
Long-term related parties (Note 26)	Ps 224,026	Ps 210,495	Ps -
Long-term notes receivable	34,646	61,625	32,358
Investment in shares of associates (1)	88,305	39,315	39,315
Other non-current asset	<u>33,177</u>	<u>29,037</u>	<u>2,283</u>
Total other non-current assets	<u>Ps 380,154</u>	<u>Ps 340,472</u>	<u>Ps 73,956</u>

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

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### (1) Investment in shares of associates

The change in investment in shares of associates is as follows:

	<u>2012</u>	<u>2011</u>
Balance at January 1,	Ps 39,315	Ps 39,315
Acquisitions (Nota 2.c)	<u>48,990</u>	<u>-</u>
Balance at December 31,	<u>Ps 88,305</u>	<u>Ps 39,315</u>

### Note 13 - Trade and other accounts payable

	At December 31, <u>2012</u>	At December 31, <u>2011</u>	At January 1, <u>2011</u>
Trade	Ps 3,800,272	Ps 3,463,472	Ps 2,770,222
Taxes and withholdings payable	435,899	388,552	378,604
Annual performance liabilities	131,502	73,070	59,902
Other accounts payable	<u>728,526</u>	<u>652,453</u>	<u>448,262</u>
	<u>Ps 5,096,199</u>	<u>Ps 4,577,547</u>	<u>Ps 3,656,990</u>

### Note 14 - Debt

	At December 31, <u>2012</u>	At December 31, <u>2011</u>	At January 1, <u>2011</u>
Current:			
Bank loans (1)	Ps 83,411	Ps 84,815	Ps 72,295
Current portion of non-current debt	<u>219,882</u>	<u>293,691</u>	<u>578,512</u>
Current debt	<u>Ps 303,293</u>	<u>Ps 378,506</u>	<u>Ps 650,807</u>
Non-current:			
In dollars:			
Senior Notes (a)	Ps 9,027,920	Ps 9,684,547	Ps 3,004,409
Unsecured bank loans (b)	1,171,880	1,259,203	6,684,787
In Mexican pesos:			
Unsecured bank loans (b)	67,548	200,110	1,188,228
Unsecured stock certificates (c)	3,308,308	3,283,348	3,262,043
In Peruvian Soles:			
Secured bank loans (d)	<u>12,967</u>	<u>18,128</u>	<u>21,012</u>
	13,588,623	14,445,336	14,160,479
Less: Current portion of non-current debt	<u>(219,882)</u>	<u>(293,691)</u>	<u>(578,512)</u>
Non-current debt (2)	<u>Ps 13,368,741</u>	<u>Ps 14,151,645</u>	<u>Ps 13,581,967</u>

(1) At December 31, 2012 and 2011 and January 1, 2011, bank loans and current notes payable caused interest at an average rate of 4.78%, 5.47% and 4.23%, respectively.

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

***Sigma Alimentos, S. A. de C. V. and subsidiaries***  
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(2) The carrying amounts, terms and conditions of non-current debt are as follows:

Description	Currency	Balance at December 31, 2012	Balance December 31, 2011	Balance at January 1, 2011	Maturity date DD/MM/YYYY	Interest rate
Market (a)	USD	Ps 5,846,072	Ps 6,272,842	Ps -	14/12/2018	5.625%
Market (a)	USD	<u>3,181,848</u>	<u>3,411,705</u>	<u>3,004,409</u>	16/12/2019	6.875%
<b>Total Senior Notes</b>		<u>9,027,920</u>	<u>9,684,547</u>	<u>3,004,409</u>		
Bank loans	Sol	-	221	1,323	01/02/2012	7.78%
Bank loans	Sol			112	06/01/2011	9.91%
Bank loans	Sol	<u>12,967</u>	<u>17,907</u>	<u>19,577</u>	01/03/2015	8.32%
<b>Total secured bank loans (d)</b>		<u>12,967</u>	<u>18,128</u>	<u>21,012</u>		
Syndicated loan (d)	MXN	67,014	200,112	1,000,564	26/04/2013	5.33%
Syndicated loan	MXN			187,664	28/02/2013	10.52%
Syndicated loan	USD	260,400	279,816	-	15/09/2014	1.69%
Syndicated loan	USD	455,700	489,680	-	08/09/2014	1.69%
Syndicated loan	USD	455,780	489,705	-	15/09/2014	1.71%
Syndicated loan	MX	534	-	-	25/05/2016	19.00%
Syndicated loan (b)	USD	-	-	<u>6,684,787</u>	30/08/2013	2.73%
<b>Total unsecured bank loans</b>		<u>1,239,428</u>	<u>1,459,313</u>	<u>7,873,015</u>		
SIGMA 07-02		638,242	637,778	637,555	08/12/2014	8.75%
SIGMA 08		1,046,979	1,046,410	1,046,125	12/07/2018	10.25%
SIGMA 07		1,002,940	1,002,505	1,002,778	08/12/2014	5.04%
SIGMA 08U		<u>620,147</u>	<u>596,655</u>	<u>575,585</u>	12/07/2018	5.32%
<b>Total unsecured stock certificates (c)</b>		<u>3,308,308</u>	<u>3,283,348</u>	<u>3,262,043</u>		
<b>TOTAL</b>		<u>Ps 13,588,623</u>	<u>Ps 14,445,336</u>	<u>Ps 14,160,479</u>		

At December 31, 2012, the annual maturities of non-current debt are as follows:

	2014	2015	2016	2017 onwards	Total
Bank loans	Ps 1,175,362	Ps 3,589	Ps 324	Ps -	Ps 1,179,275
Senior Notes	-	-	-	8,949,080	8,949,080
Stock certificates	<u>1,635,000</u>	-	-	<u>1,605,386</u>	<u>3,240,386</u>
	<u>Ps 2,810,362</u>	<u>Ps 3,589</u>	<u>Ps 324</u>	<u>Ps 10,554,466</u>	<u>Ps 13,368,741</u>

**Covenants:**

Most of the Company debt agreements contain restrictions, primarily for compliance with certain financial ratios, among which include:

- Interest coverage ratio: which is defined as EBITDA for the period of the last four quarters ending divided between net financial expenses, which shall not be more/less than 3.0 times.
- Leverage ratio: which is defined as net debt divided between EBITDA, which shall not be more/less than 3.5 times.

During 2012 and 2011, financial ratios were calculated according to the formulas set out in the loan agreements.

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

## **Notes to the Consolidated Financial Statements**

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Currently, the Company is in compliance with the obligations of do's and don'ts contained in credit agreements of our subsidiaries; such obligations, among other conditions and subject to certain exceptions, require or limit the ability of our subsidiaries to:

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

Additionally, there are other restrictions on incurring additional debt or taking loans that require mortgage assets, dividend payments and submission of financial information, which in case of not be fulfilled or remedied within a specific period to the satisfaction of creditors, may require immediate early maturity. At December 31, 2012, 2011 and January 1, 2011 and at the date of issuance of these financial statements, the Company and its subsidiaries complied with such covenants and restrictions.

Assets placed as collateral:

At December 31, 2012, 2011 and at January 1, 2011, there are liabilities for a total amount of Ps13,500, Ps18,128 and Ps21,011, respectively guaranteed with property, machinery and equipment for US\$1,658 (thousand) in 2012, US\$1,131 (thousand) in 2011 and US\$5,906 (thousand) at January 1, 2011.

Relevant debt transactions:

- (a) On April 14, 2011 Sigma completed the issuance of Senior Notes for a nominal amount of US\$450 million (US\$250 million in 2009) with a single maturity at December 14, 2018 (and at December 16, 2019 for the first issuance). Interests from the Senior Notes will be payable half-yearly at annual 5.625% (6.875% for the first issuance) starting October 14, 2011 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 equal to 99.163% (98.059% in 2009) of their nominal value to produce a yield to the investor of 5.73% (7.10% for 2009). At December 31, 2012, 2011 and January 1 2011, the balance of the Senior Notes amounts to US\$700 million and US\$250 million, respectively (Ps8,948,630, Ps 9,599,293 and Ps2,995,705 in 2012,2011 and January 1, 2011, respectively). The net resources received from the Senior Notes amounted to US\$446.2 million (US\$245.1 million in 2009) net of the unamortized discount in the amount of US\$3.8 million and (US\$4.9 million in 2009). Additionally, the issuance of Senior Notes originated issuance costs and expenses in the amount of approximately US\$3.6 million (US\$3.4 million in 2009). Issuance costs and expenses, including the discount from placement of Senior Notes, are shown net of debt and amortized together with the loan based on the effective rate method.



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The Senior Notes can be paid in advance at the Company's option, total or partially at any time, at a price of amortization 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 0.40%, (0.50% in 2009) plus the accrued interest unpaid 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 degree, 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 in advance the short and long-term bank loans.

Costs and expenses, including the premium, prizes and discounts from the placement of this new issuance, which at December 31, 2012, 2011 and January 1 2012 amounted to Ps71,948, Ps81,508 and Ps37,948, respectively, with the loan based on the effective rate method.

- (b) On September 1, 2010, SIGMA obtained a syndicated credit agreement (Credit Agreement) from Bank of America N.A. as an administrative agent and with a bank union ("the Syndicated Loan") for a total of US\$575 millions maturing on August 30, 2013. (US\$35 million were paid at 2010 year end). The syndicated credit requires monthly interest payments at Libor plus 2.375% of surcharge. On April 14, 2011 a partial payment was made for US\$450 million with the issuance of a Bonus as mentioned in paragraph (a) and at September 14, 2011 the amount of US\$90 million was settled through a refinancing.

Total proceedings from the syndicated credit agreement were utilized by the Company to complete the acquisition of Bar-S.

The Credit Agreement was unsecured but there was a joint obligation and endorsement by certain subsidiaries.

- (c) On December 17, 2007, SIGMA issued debt certificates of Ps1,000,000 and Ps635,000 with maturity in 2014 at a monthly Interbank Equilibrium Interest Rate ("TIIE") plus 20 basis points and fixed biannual rate of 8.75% respectively, primarily to liquidate the short-term debt. The UDI's are instruments stated in Mexican pesos that automatically adjust the principal value of an obligation with the inflation rate published officially by the Bank of Mexico.

On July 24, 2008, SIGMA issued debt certificates of Ps1,000,000 and 500,000 UDIs (Investment Units) with a maturity in 2018, at a fixed interest rates of 10.25% and 5.32%, respectively.

- (d) On April 26, the Company held a syndicated loan amounting Ps1,700 million. This loan accrues monthly interest based on the TIIE plus annual .025% with maturity on April 26, 2013. At year end the balance amounts to Ps66,666.

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

## Notes to the Consolidated Financial Statements

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### **Note 15 - Deferred taxes**

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

	At December, 31, 2012	At December 31, 2011	At January 1, 2011
Deferred tax asset:			
- To be recovered after more than 12 months	Ps 8,039	Ps 327,938	Ps 265,153
- To be recovered within 12 months	<u>999,120</u>	<u>624,800</u>	<u>540,410</u>
	<u>1,007,159</u>	<u>952,738</u>	<u>805,563</u>
Deferred tax liabilities:			
- To be recovered after more than 12 months	(Ps 82,348)	(Ps 70,789)	Ps -
- To be recovered within 12 months	<u>(826,169)</u>	<u>(774,989)</u>	<u>(778,732)</u>
	<u>(908,517)</u>	<u>(845,778)</u>	<u>(778,732)</u>
Deferred tax, net	<u>Ps 98,642</u>	<u>Ps 106,960</u>	<u>Ps 26,831</u>

The gross movement on account of deferred income tax is as follows:

	2012	2011
At January 1	Ps 106,960	Ps 26,831
(Charge) credit to the income statement	(88,742)	73,396
Tax creditable/(payable) related to component of other comprehensive income (Note 25)	<u>80,424</u>	<u>6,733</u>
At December 31	<u>Ps 98,642</u>	<u>Ps 106,960</u>

Temporary differences requiring recognition of deferred income tax assets and liabilities are as follows:

	(Assets)		
	At December, 31, 2012	At December 31, 2011	At January 1, 2011
Inventories	Ps 42,104	Ps 133,992	Ps 94,900
Customers	14,494	-	11,689
Advanced payments	(13,240)	(4,220)	(12,191)
Intangible asset	(4,599)	(222,532)	(172,671)
Derivative financial instruments	-	36,204	59,404
Property, plant and equipment	(44,523)	(37,628)	(52,070)
Advance payments from clients	694,631	683,827	461,290
Liabilities from retirement benefits	27,296	17,450	44,486
Employees' profit sharing and accrued expenses payable	73,686	32,328	28,279
Tax losses from foreign entities	133,173	-	-
Tax loss carryforwards	48,676	258,585	343,348
Other temporary differences, net	<u>35,461</u>	<u>54,732</u>	<u>(901)</u>
Deferred tax asset	<u>1,007,159</u>	<u>952,738</u>	<u>805,563</u>

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

## Notes to the Consolidated Financial Statements

As of December 31, 2012 and 2011 and January 1, 2011

	Liabilities		
	At December, 31, 2012	At December 31, 2011	At January 1, 2011
Inventories	Ps 1,127	Ps 1,049	Ps 1,948
Customers	5,403	6,375	5,839
Advanced payments	(8,368)	(6,591)	(7,215)
Intangible asset	(321,954)	(16,567)	(10,758)
Derivative financial instruments	6,744	-	-
Property, plant and equipment	(759,106)	(779,883)	(807,658)
Liabilities from retirement benefits	84,236	32,444	18,393
Amortization of tax losses abroad	-	(98,330)	-
Tax loss carryforwards	6,854	26,275	2,017
Other temporary differences, net	<u>76,547</u>	<u>(10,550)</u>	<u>18,702</u>
Deferred tax liability	<u>(908,517)</u>	<u>(845,778)</u>	<u>(778,732)</u>
Deferred tax liability, net	<u>Ps 98,642</u>	<u>Ps 106,960</u>	<u>Ps 26,831</u>

Net movements in timing differences for the years were as follows:

	Balances at December 31, 2011	(Charged) credited to statement of income	(Charged) credited to other comprehensive income	Balances at December 31, 2012
Inventories	Ps 133,992	(Ps 91,888)	-	Ps 42,104
Customers	-	14,494	-	14,494
Advanced payments	(4,220)	(9,020)	-	(13,240)
Intangible asset	(222,532)	217,933	-	(4,599)
Derivative financial instruments	36,204	(36,204)	-	-
Property, plant and equipment	(37,628)	(6,895)	-	(44,523)
Advance payments from clients	683,827	10,804	-	694,631
Net liability employee retirement	17,450	2,340	7,506	27,296
Employees' profit sharing and accrued expenses payable	32,328	41,358	-	73,686
Foreign entities tax losses	-	133,173	-	133,173
Tax loss carryforwards	258,585	(209,909)	-	48,676
Other temporary differences, net	<u>54,732</u>	<u>(19,271)</u>	<u>-</u>	<u>35,461</u>
Deferred tax asset	<u>952,738</u>	<u>46,915</u>	<u>7,506</u>	<u>1,007,159</u>
Inventories	1,049	78	-	1,127
Customers	6,375	(972)	-	5,403
Advanced payments	(6,591)	(1,777)	-	(8,368)
Intangible asset	(16,567)	(305,387)	-	(321,954)
Derivative financial instruments	-	6,744	-	6,744
Property, plant and equipment	(779,883)	20,777	-	(759,106)
Net liability employee retirement	32,444	(650)	52,442	84,236
Amortization of foreign tax losses.	(98,330)	98,330	-	-
Tax loss carryforwards	26,275	(19,421)	-	6,854
Other temporary differences, net	<u>(10,550)</u>	<u>87,097</u>	<u>-</u>	<u>76,547</u>
Deferred tax liability	<u>(845,778)</u>	<u>(115,181)</u>	<u>52,442</u>	<u>(908,517)</u>
Deferred tax liability, net	<u>Ps 106,960</u>	<u>(Ps 68,266)</u>	<u>Ps 59,948</u>	<u>Ps 98,642</u>

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

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As of December 31, 2012 and 2011 and January 1, 2011

	Balances at January 1, 2011	(Charged) credited to statement of income	(Charged) credited to other comprehensive income	Balances at December 31, 2011
Inventories	Ps 94,900	Ps 39,092	-	Ps 133,992
Customers	11,689	(11,689)	-	-
Advanced payments	(12,191)	7,971	-	(4,220)
Intangible asset	(172,671)	(49,861)	-	(222,532)
Derivative financial instruments	59,404	(23,200)	-	36,204
Property, plant and equipment	(52,070)	14,442	-	(37,628)
Advance payments from clients	461,290	222,537	-	683,827
Net liability employee retirement	44,486	(25,999)	(1,037)	17,450
Employees' profit sharing and accrued expenses payable	28,279	4,049	-	32,328
Tax loss carryforwards	343,348	(84,763)	-	258,585
Other temporary differences, net	<u>(901)</u>	<u>55,633</u>	<u>-</u>	<u>54,732</u>
Deferred tax asset	<u>805,563</u>	<u>148,212</u>	<u>(1,037)</u>	<u>952,738</u>
Inventories	Ps 1,948	(Ps 899)	-	1,049
Customers	5,839	536	-	6,375
Advanced payments	(7,215)	624	-	(6,591)
Intangible asset	(10,758)	(5,809)	-	(16,567)
Property, plant and equipment	(807,658)	27,775	-	(779,883)
Net liability employee retirement	18,393	25,328	(11,277)	32,444
Amortization of foreign tax losses	-	(98,330)	-	(98,330)
Tax loss carryforwards	2,017	24,258	-	26,275
Other temporary differences, net	<u>18,702</u>	<u>(29,252)</u>	<u>-</u>	<u>(10,550)</u>
Deferred tax liability	<u>(778,732)</u>	<u>(55,769)</u>	<u>(11,277)</u>	<u>(845,778)</u>
Deferred tax liability, net	<u>Ps 26,831</u>	<u>Ps 92,443</u>	<u>(Ps 12,314)</u>	<u>Ps 106,960</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 Ps1,270,141 in 2012, Ps1,017,359 in 2011 and Ps1,233,446 at January 2011.

Tax losses at December 31, 2012, 2011 and January 1, 2011 expire in the following years:

Year loss incurred	2012	2011	2011	Year of expiration
2007 and earlier	Ps 185,453	Ps 4,139	Ps 4,168	2017
2008	138,966	918,580	1,226,175	2018
2009	152,179	-	-	2019
2010	315,922	2,943	3,103	2020
2011	261,888	91,697	-	2021
2012	<u>215,733</u>	<u>-</u>	<u>-</u>	2022
	<u>Ps1,270,141</u>	<u>Ps 1,017,359</u>	<u>Ps 1,233,446</u>	

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

## **Notes to the Consolidated Financial Statements**

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### **Note 16 - Other liabilities**

	At December 31, 2012	At December 31, 2011	At January 1, 2011
Current portion			
Income taxes payable	Ps 93,117	Ps 107,027	Ps 403,604
Employees' profit sharing payable	75,180	51,229	68,801
Bank overdrafts	-	-	3,558
Employees' benefits based on shares (Note 20)	18,297	11,478	8,932
Accounts payable to affiliated company	<u>18,671</u>	<u>24,423</u>	<u>55,433</u>
Total other current liabilities	<u>Ps 205,265</u>	<u>Ps 194,157</u>	<u>Ps 540,328</u>
Non-current portion			
Notes payable and others	Ps 46,240	Ps 62,131	Ps 38,072
Employees' benefits based on shares (Note 20)	<u>65,258</u>	<u>65,258</u>	<u>-</u>
Total other non-current liabilities	<u>111,498</u>	<u>127,389</u>	<u>38,072</u>
Total other liabilities	<u>Ps 316,763</u>	<u>Ps 321,546</u>	<u>Ps 578,400</u>

### **Note 17 - Employee Benefits**

The valuation of employee benefits for retirement plans, formal (covering approximately 80% of workers in 2012 and 2011) and informal, covers all employees and is based primarily on years of service, their current age and estimated salary at retirement date.

Certain companies of the Company have defined contribution schemes. In conformity with the restructuring of these plans, the reduction in labor liabilities is reflected progressively.

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

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

Country	At December 31, 2012	At December 31, 2011	At January 1, 2011
México	Ps 398,045	Ps 164,618	Ps 216,614
Honduras and Nicaragua	<u>279</u>	<u>13,576</u>	<u>11,030</u>
Total	<u>Ps 398,324</u>	<u>Ps 178,194</u>	<u>Ps 227,644</u>

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

## **Notes to the Consolidated Financial Statements**

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The following summarizes key financial data of such benefits to employees:

	At December 31, 2012	At December 31, 2011	At January 1, 2011
Obligation in the balance sheet:			
Pension benefits	Ps 393,910	Ps 176,733	Ps 225,863
Post-employment medical benefits	<u>4,414</u>	<u>1,461</u>	<u>1,781</u>
Liability in balance sheet	<u>398,324</u>	<u>Ps 178,194</u>	<u>227,644</u>
Charge in the income statement:			
Pension benefits	(Ps 50,586)	(Ps 20,002)	
Post-employment medical benefits	<u>(329)</u>	<u>(391)</u>	
	<u>(Ps 50,915)</u>	<u>(Ps 20,393)</u>	
Actuarial gain (loss) recognized in the statement of other comprehensive income for the period	<u>(Ps 214,099)</u>	<u>Ps 43,980</u>	
Cumulative actuarial gain (loss) recognized in other comprehensive income	<u>(Ps 214,099)</u>	<u>Ps 43,980</u>	

### *Pension benefits*

The Company operates pension plans defined benefits based on employee 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 practice in each country, as is the nature of the relationship between the Company and the trustees (or equivalent) in its composition.

Amounts recognized in the balance sheet are determined as follows:

	At December 31, 2012	At December 31, 2011	At January 1, 2011
Present value of funded obligations	Ps 1,109,856	Ps 773,061	Ps 777,503
Fair value of plan assets	<u>(676,291)</u>	<u>(553,380)</u>	<u>(505,401)</u>
Present value of unfunded obligations	433,565	219,681	272,102
Unrecognized past service costs	<u>(39,655)</u>	<u>(42,948)</u>	<u>(46,239)</u>
Liability in the balance sheet	<u>Ps 393,910</u>	<u>Ps 176,733</u>	<u>Ps 225,863</u>

At December 31, 2012 and 2011 and at January 1, 2011, the integration of plan assets calculated at fair value, is as follows:

	At December 31, 2012	At December 31, 2011	At January 1, 2011
Fixed rent short and long term securities	Ps 394,342	Ps 312,396	Ps 248,252
Shares	<u>281,949</u>	<u>240,984</u>	<u>257,149</u>
Fair value of plan assets	<u>Ps 676,291</u>	<u>Ps 553,380</u>	<u>Ps 505,401</u>

The expected return of plan assets is estimated by the Company considering its investment in a range of 40% in capital investments and 60% in fixed return securities at short and long term.

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

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The movement in the defined benefit obligation during the year is as follows:

	<u>2012</u>	<u>2011</u>
At January 1	Ps 773,061	Ps 777,503
Current service costs (Nota 24)	54,640	57,463
Interest cost	52,779	47,697
Actuarial (gain) losses	266,684	(46,891)
Exchange differences	46	1,361
Benefits paid	(44,058)	(30,718)
Liabilities acquired in business combination	9,583	-
Reducing losses	<u>(2,879)</u>	<u>(33,354)</u>
At December 31	<u>Ps 1,109,856</u>	<u>Ps 773,061</u>

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

	<u>2012</u>	<u>2011</u>
At January 1	(Ps 553,380)	(Ps 505,401)
Expected return from plan assets	(53,954)	(51,804)
Actuarial (gain) losses	<u>(68,957)</u>	<u>3,825</u>
At December 31	<u>(Ps 676,291)</u>	<u>(Ps 553,380)</u>

The amounts recognized in the income statement are as follows:

	<u>2012</u>	<u>2011</u>
Current service cost	(Ps 54,640)	(Ps 57,463)
Interest cost	(52,779)	(47,697)
Expected return on plan assets	53,954	51,804
Reducing losses	<u>2,879</u>	<u>33,354</u>
Total included in staff costs	<u>(Ps 50,586)</u>	<u>(Ps 20,002)</u>

Total recognized in other comprehensive income items described below:

	<u>2012</u>	<u>2011</u>
Cumulative balance at beginning of year	Ps 43,980	Ps -
Actuarial losses occurring during the year	<u>(214,099)</u>	<u>43,980</u>
Accumulated Balance at end of year	<u>(Ps 170,119)</u>	<u>Ps 43,980</u>

The main actuarial assumptions were as follows:

	<u>At December 31, 2012</u>	<u>At December 31, 2011</u>	<u>At January 1, 2011</u>
Discount rate	5.50	8.25	7.50
Inflation rate	4.25	4.25	4.25
Growth rate of wages	5.25	5.25	5.25
Expected return on plan assets	9.75	9.75	10.25
Future salary increase	5.25	5.25	5.25
Future pension increase	4.68	5.90	5.18

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

## Notes to the Consolidated Financial Statements

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### *Post-employment medical benefits*

The Company operates schemes for post-employment medical benefits 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 balance sheet are determined as follows:

	At December 31, <u>2012</u>	At December 31, <u>2011</u>	At January 1, <u>2011</u>
Present value of funded obligations	Ps 5,648	Ps 2,890	Ps 3,406
Past service cost not recognized	<u>(1,234)</u>	<u>(1,429)</u>	<u>(1,625)</u>
Liabilities in the balance sheet	<u>Ps 4,414</u>	<u>Ps 1,461</u>	<u>Ps 1,781</u>

Movements in defined benefit obligations are as follows:

	<u>2012</u>	<u>2011</u>
At January 1	Ps 2,890	Ps 3,406
Current service cost	91	136
Cost of interest	238	255
Actuarial losses/(gains)	<u>2,429</u>	<u>(907)</u>
At December 31	<u>Ps 5,648</u>	<u>Ps 2,890</u>

The amounts recognized in the income statement are as follows:

	<u>2012</u>	<u>2011</u>
Current service costs	(Ps 91)	(Ps 136)
Interest cost	<u>(238)</u>	<u>(255)</u>
Total included in staff costs	<u>(Ps 329)</u>	<u>(Ps 391)</u>

The expected return on plan assets is determined by considering the expected returns available on the assets under the current investment policy. Expected yields on fixed interest investments are based on gross redemption rates at the end of the reporting period. The expected returns on capital investments and properties reflect long-term real rates of return experienced in the respective markets.

### **Note 18 - Stockholders' equity**

At December 31, 2012, the capital stock is variable, with a fixed minimum to withdraw Ps27,081 represented by 1,290,654,555 shares Series "B", without 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 the fifth part of the capital stock. At December 31, 2012, the amount of the legal reserve amounted to Ps 5,416, which is included in other capital reserves.



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

## Notes to the Consolidated Financial Statements

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Dividends paid are not subject to income tax if paid from the Net Tax Profit Account (CUFIN). Any dividends paid in excess of this account will cause a tax equivalent to 30% if they are paid on 2013. The current tax is payable by the Company and may be credited against its income tax in the same year or the following two years or in its case against the Flat tax of the period. Dividends paid coming from profits previously taxed by income tax are not subject to tax withholding or additional tax payment.

In the event of a capital reduction, the provisions of the Income Tax Law arrange any excess of Stockholders' equity over capital contributions, is accounted with the same tax treatment as dividends.

Movements in other reserves for 2012 and 2011 are presented below:

	Effect of foreign currency translation	Legal reserve	Total
<b>At January 1, 2011</b>	Ps -	Ps 5,416	Ps 5,416
Losses on foreign currency translation	<u>617,684</u>	<u>-</u>	<u>617,684</u>
<b>At December 31, 2011</b>	617,684	5,416	623,100
Losses on foreign currency translation	<u>(725,122)</u>	<u>-</u>	<u>(725,122)</u>
<b>At December 31, 2012</b>	<u>(Ps 107,438)</u>	<u>Ps 5,416</u>	<u>(Ps 102,022)</u>
<i>Foreign currency translation</i>			

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

### **Note 19 - Foreign currency position**

At February 25, 2013, the issuance date of these financial statements, the exchange rate was 12.75 nominal pesos per dollar.

The figures below are expressed in millions of dollars, being the prevailing foreign currency for business use.

At 31 December 2012, 2011 and January 1, 2011, the Company has the following assets and liabilities in foreign currencies:

	At December 31, 2012				Thousands of Mexican pesos total
	Dollars (USD)		Other currencies		
	Thousands of USD	Thousands of Mexican pesos	Thousands of USD	Thousands of Mexican pesos	
Monetary assets	Ps 73,596	Ps 957,490	Ps 56,643	Ps 736,935	Ps 1,694,425
Liabilities					
Current	(222,167)	(2,890,413)	(22,979)	(298,956)	(3,189,369)
Non-current	<u>(781,370)</u>	<u>(10,165,697)</u>	<u>(642)</u>	<u>(8,361)</u>	<u>(10,174,058)</u>
Currency monetary position	<u>(Ps 929,941)</u>	<u>(Ps 12,098,620)</u>	<u>Ps 33,022</u>	<u>Ps 429,618</u>	<u>(Ps 11,669,002)</u>
Non-monetary assets	<u>Ps 454,458</u>	<u>Ps 5,912,542</u>	<u>Ps 131,543</u>	<u>Ps 1,711,391</u>	<u>Ps 7,623,933</u>

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

## Notes to the Consolidated Financial Statements

As of December 31, 2012 and 2011 and January 1, 2011

	At December 31, 2011				
	Dollars (USD)		Other currencies		Thousands of Mexican pesos total
	Thousands of USD	Thousands of Mexican pesos	Thousands of USD	Thousands of Mexican pesos	
Monetary assets	Ps 69,431	Ps 970,552	Ps 56,677	Ps 792,277	Ps 1,762,829
Liabilities					
Current	(187,849)	(2,625,888)	(25,200)	(352,266)	(2,978,154)
Non-current	<u>(786,753)</u>	<u>(10,997,785)</u>	<u>(945)</u>	<u>(13,212)</u>	<u>(11,010,997)</u>
Currency monetary position	<u>(Ps 905,171)</u>	<u>(Ps 12,653,121)</u>	<u>Ps 30,532</u>	<u>Ps 426,799</u>	<u>(Ps 12,226,322)</u>
Nonmonetary assets	<u>Ps 571,237</u>	<u>Ps 7,985,148</u>	<u>Ps 130,084</u>	<u>Ps 1,818,404</u>	<u>Ps 9,803,552</u>
	At January 1, 2011				
	Dollars (USD)		Other currencies		Thousands of Mexican pesos total
	Thousands of USD	Thousands of Mexican pesos	Thousands of USD	Thousands of Mexican pesos	
Monetary assets	Ps 70,611	Ps 872,553	Ps 44,554	Ps 550,555	Ps 1,423,108
Liabilities					
Current	(166,242)	(2,054,272)	(22,137)	(273,544)	(2,327,816)
Non-current	<u>(788,318)</u>	<u>(9,741,330)</u>	<u>(1,243)</u>	<u>(15,362)</u>	<u>(9,756,692)</u>
Currency monetary position	<u>(Ps 883,949)</u>	<u>(Ps 10,923,049)</u>	<u>Ps 21,174</u>	<u>Ps 261,649</u>	<u>(Ps 10,661,400)</u>
Nonmonetary assets	<u>Ps 573,540</u>	<u>Ps 7,087,288</u>	<u>Ps 141,752</u>	<u>Ps 1,751,645</u>	<u>Ps 8,838,933</u>

Nonmonetary assets of Mexican subsidiaries are those the manufacturing of which are made outside of Mexico and are expressed on the bases described in Note 3.

### **Note 20 - Shared-based payments**

SIGMA has a compensation scheme referenced to the value of its own share for Directors. According to the terms of the plan, eligible executives will 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

The program is to determine 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 will be paid at the average price of the share at the end of each year. The average price per share in 2012, 2011 and 2010 is Ps278, Ps157 and Ps156, respectively.

At December 31, 2012 and 2011 and January 1, 2011 the liability for share-based payments amounted to Ps83,555, P76,736 and Ps8,932 respectively.

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

## **Notes to the Consolidated Financial Statements**

**As of December 31, 2012 and 2011 and January 1, 2011**

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

	December, 31, <u>2012</u>	December, 31, <u>2011</u>	December, 1, <u>2011</u>
Short term	Ps 18,297	Ps 11,478	Ps 8,932
Long term	<u>65,258</u>	<u>65,258</u>	<u>-</u>
Total carrying value	<u>Ps 83,555</u>	<u>Ps 76,736</u>	<u>Ps 8,932</u>

### **Note 21 - Expenses by nature**

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

	<u>2012</u>	<u>2011</u>
Changes in inventory of finished goods and in progress	(Ps 25,084,157)	(Ps22,822,433)
Human resources expense (Note 24)	(7,072,483)	(6,471,063)
Maintenance	(1,173,360)	(1,048,506)
Depreciation and amortization	(1,422,858)	(1,397,431)
Freight expenses	(395,931)	(353,106)
Advertising expenses	(1,156,436)	(968,787)
Energy and fuel consumption	(618,014)	(578,175)
Traveling expenses	(284,607)	(258,960)
Operating lease expenses	(203,418)	(189,731)
Technical assistance, professional fees and administrative services	(722,529)	(693,424)
Other	<u>(2,523,258)</u>	<u>(2,620,764)</u>
Total	<u>(Ps 40,657,051)</u>	<u>(Ps37,402,380)</u>

### **Note 22 - Other expenses, net**

	<u>2012</u>	<u>2011</u>
Expenses related to acquisitions	(Ps 240)	(Ps 14,811)
Advisory services for potential acquisition projects	-	(24,861)
Loss from sales of containers and platforms	(32,037)	(34,024)
Reorganization expenses (*)	(8,500)	(39,404)
Write off from removal of fixed and intangible assets	(23,388)	(53,227)
Gain from business acquisition	13,407	-
Gain (loss) on sale of assets	28,514	(58,506)
Other	<u>(15,335)</u>	<u>(55,413)</u>
Total other expenses	<u>(Ps 37,579)</u>	<u>(Ps 280,246)</u>

(\*) Expenses refer to an organizational structure during 2011 within which part of the staff was laid off.

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

## Notes to the Consolidated Financial Statements

As of December 31, 2012 and 2011 and January 1, 2011

### **Note 23 - Comprehensive financial expense, net**

	<u>2012</u>	<u>2011</u>
Financial income:		
- Interest income on short-term bank deposits	Ps 39,444	Ps 31,286
- Expected return on plan assets	53,955	51,803
- Other financial income	4,341	5,076
- Interest rate swaps	2,704	-
- Interest on accounts receivable	<u>14,207</u>	<u>15,640</u>
Financial income, excluding foreign exchange gain	114,651	103,805
Gain on foreign exchange	<u>955,918</u>	<u>-</u>
Total financial income	<u>Ps 1,070,569</u>	<u>Ps 103,805</u>
Financial expenses:		
- Interest expense on bank loans	(Ps 53,748)	(Ps 165,350)
- Interest expense, stock certificates and Senior Notes	(864,978)	(775,380)
- Financial expense from sale of portfolio	(29,165)	(25,425)
- Financial expense from employees' benefits	(53,017)	(47,952)
- Interest rate swaps	-	(26,083)
- Other financial expenses	<u>(15,892)</u>	<u>(7,618)</u>
Interest expense, excluding foreign exchange loss	(1,016,800)	(1,047,808)
Foreign exchange loss	<u>-</u>	<u>(993,604)</u>
Total financial expenses	<u>(Ps 1,016,800)</u>	<u>(Ps 2,041,412)</u>
Financial income (loss), net	<u>Ps 53,769</u>	<u>(Ps 1,937,607)</u>

### **Note 24 - Employee benefit expenses**

	<u>2012</u>	<u>2011</u>
Salaries, wages and benefits	Ps 5,384,489	Ps 4,924,586
Contributions to social security	732,708	679,558
Employees' benefits (Note 17)	54,640	57,463
Other contributions	<u>900,646</u>	<u>809,456</u>
Total	<u>Ps 7,072,483</u>	<u>Ps 6,471,063</u>

### **Note 25 - Income tax of the year**

	<u>2012</u>	<u>2011</u>
Current:		
Current income tax	(Ps 1,077,023)	(Ps 804,102)
Adjustment to prior years provision	<u>1,650</u>	<u>84,349</u>
Total current income tax	<u>(1,075,373)</u>	<u>(719,753)</u>
Deferred:		
Origination and reversal of temporary differences	<u>(88,742)</u>	<u>73,396</u>
Total deferred income tax	<u>(88,742)</u>	<u>73,396</u>
Income tax expense	<u>(Ps 1,164,115)</u>	<u>(Ps 646,357)</u>

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

## **Notes to the Consolidated Financial Statements**

**As of December 31, 2012 and 2011 and January 1, 2011**

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The reconciliation between the statutory and effective income tax rates for the years ended on December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Income before income tax	Ps 4,835,434	Ps 1,457,498
Statutory tax rate	<u>30%</u>	<u>30%</u>
Income tax at statutory rate	(1,450,630)	(437,249)
Tax rate difference effect	10,161	(6,133)
(Add) deduct tax effect of:		
Income from dividends	44	61
Inflationary tax adjustment	(133,300)	(120,916)
Non-deductible expenses	(11,819)	(42,490)
Derivative financial instruments	30,969	29,838
Reserves	(23,783)	(261,905)
Differences in accounting/tax depreciation and amortization	82,187	68,112
Sale, write-off and capitalization of fixed assets and deferred charges	15,339	(15,609)
Tax losses valuation allowance	287,204	70,960
Restatement of receivable tax balances	6,299	(8,573)
Amortization in excess of cost over book value	4,022	-
Other permanent differences, net	<u>17,542</u>	<u>(6,802)</u>
Provision relating to the operations of the year	(1,165,765)	(730,706)
Tax return prior years and other	<u>1,650</u>	<u>84,349</u>
Total provision for income taxes charged to income	<u>(Ps 1,164,115)</u>	<u>(Ps 646,357)</u>
Effective rate	<u>24%</u>	<u>44%</u>

SIGMA and its Mexican subsidiaries file consolidated income tax returns together with ALFA. The income tax included in the consolidated statement of income, represents the income tax currently payable for the year as well as the effect of the deferred income tax, determined in each subsidiary by the comprehensive asset-and-liability method, applying the income tax rate in effect to total temporary differences resulting from comparing the book and tax amounts of all assets and liabilities, and if applicable, considering tax loss carryforwards expected to be recoverable. The effect of a change in current income tax rates is recognized in income of the year in which the rate change is enacted.

The Income Law in force for 2013, issued on December 9, 2012 and published in the Federal Official Gazette on December 17, 2012, states that the income tax rate in Mexico (ISR) effective in 2013 will be 30%. It also states that the income tax rate will be 29% in 2014 and from 2015 it will be 28%.

In late 2012, the Senate of the United States of America approved and passed to the House of Representatives, changes to the law of that country's income, which were signed by the President in early January 2013 and are considered substantially approved. At December 31, 2012, this has no impact on tax incurred or on deferred taxes determined by the Company.

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

## Notes to the Consolidated Financial Statements

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

	2012			2011		
	Before tax	Tax charged (credited)	After tax	Before tax	Tax charged (credited)	After tax
Actuarial losses /gains	(Ps 214,099)	Ps 59,948	(Ps 154,151)	Ps 43,980	(Ps 12,314)	Ps 31,666
Exchange effect of foreign entities	<u>(745,598)</u>	<u>20,476</u>	<u>(725,122)</u>	<u>598,637</u>	<u>19,047</u>	<u>617,684</u>
Other items of comprehensive income	<u>(Ps 959,697)</u>	<u>Ps 80,424</u>	<u>(Ps 879,273)</u>	<u>Ps 642,617</u>	<u>Ps 6,733</u>	<u>Ps 649,350</u>

### **Note 26 - Related party transactions**

Transactions with related parties for the years ended December 31, 2012 and 2011, which were held as if conditions were equal to similar transactions with independent parties, were as follows:

	December 31, 2012	December 31, 2011
Income (Affiliates)		
Leases	Ps 5,004	Ps 4,605
Interest	12,346	13,083
Expenses (Affiliates)		
Administrative services	Ps 144,572	Ps 137,069
Leases and other	99,082	92,614
Dividends paid to ALFA	865,083	852,328

For the year ended December 31, 2012, wages and benefits received by top officials of the Company were Ps237,987 (Ps202,204 in 2011), an amount comprising base salary, law benefits and benefits law and supplemented mainly by a variable compensation program governed primarily based on the results of the Company and the market value of its stock .

At December 31, 2012, 2011 and January 1, 2011, the balances with related parties are as follows:

	Nature of the transaction	December 31, 2012	December 31, 2011	January 1, 2011
Receivable:				
Affiliates	Loan	Ps 224,026	Ps 210,495	Ps193,447
Payable:				
Affiliates	Services	Ps 18,671	Ps 24,423	Ps 55,433

On November 25, 2011, the Company and ALFA Subsidiarias, S.A. de C.V. agreed to change the maturity of the open credit line agreement dated November 28, 2010. Such changes allow the Company to extend the credit agreement until November 28, 2014.

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

## **Notes to the Consolidated Financial Statements**

**As of December 31, 2012 and 2011 and January 1, 2011**

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

### **Note 27 - Segment Reporting**

Segment information is presented consistently with the internal reports provided to the chief executive officer (Chief Operating Decision Maker "CODM") who is the highest authority in the 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 are 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. Geographically the CODM considers the performance in Mexico, United States and Other countries.

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

The operations between operating segments are performed 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 impairment of assets and excess/deficit in the investment value ("EBITDA"), whereas 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 as 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 adjusted EBITDA as the calculation of adding the operating profit, depreciation and amortization and asset impairment.

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

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

For the year ended December 31, 2012 (amounts in millions of Mexican pesos)

	<u>Mexico</u>	<u>EEUU</u>	<u>Other countries</u>	<u>Total</u>
Total income by segment	Ps 31,205	14,544	3,817	Ps 49,566
Intersegment income	<u>(627)</u>	<u>(3,361)</u>	<u>(101)</u>	<u>(4,089)</u>
Income with external clients	<u>30,578</u>	<u>11,183</u>	<u>3,716</u>	<u>45,477</u>
<b>Adjusted EBITDA</b>	<b>5,027</b>	<b>889</b>	<b>298</b>	<b>6,214</b>
Depreciation and amortization	784	544	94	1,422
Comprehensive financing expense, net	<u>61</u>	<u>-</u>	<u>(7)</u>	<u>54</u>
Gain before tax	<u>3,875</u>	<u>649</u>	<u>311</u>	<u>4,835</u>
<b>Capital expenditures (Capex):</b>				
Property, plant and equipment	Ps <u>1,020</u>	Ps <u>247</u>	Ps <u>151</u>	Ps <u>1,418</u>
<b>Non-current assets:</b>				
Property, plant and equipment	Ps 7,399	Ps 1,717	Ps 1,083	Ps 10,199
Intangible asset	2,584	1,003	264	3,851
Goodwill	<u>1,017</u>	<u>-</u>	<u>4,032</u>	<u>5,049</u>
Total non-current assets	<u>Ps 11,000</u>	<u>Ps 2,720</u>	<u>Ps 5,379</u>	<u>Ps 19,099</u>
Total liability	<u>Ps 18,829</u>	<u>Ps 1,065</u>	<u>Ps 522</u>	<u>Ps 20,416</u>

For the year ended on December 31, 2011 (amounts in millions of Mexican pesos)

	<u>Mexico</u>	<u>EEUU</u>	<u>Other countries</u>	<u>Total</u>
Income by segment	Ps 27,804	13,333	3,490	Ps 44,627
Intersegment income	<u>(313)</u>	<u>(3,152)</u>	<u>(84)</u>	<u>(3,549)</u>
Income with external clients	<u>27,491</u>	<u>10,181</u>	<u>3,406</u>	<u>41,078</u>
<b>Adjusted EBITDA</b>	<b>4,043</b>	<b>601</b>	<b>202</b>	<b>4,846</b>
Depreciation and amortization	763	532	102	1,397
Comprehensive financing expense, net	<u>(1,933)</u>	<u>-</u>	<u>(5)</u>	<u>(1,938)</u>
Gain or loss before tax	<u>1,070</u>	<u>226</u>	<u>162</u>	<u>1,458</u>
<b>Capital expenditures (Capex):</b>				
Property, plant and equipment	Ps <u>631</u>	Ps <u>259</u>	Ps <u>134</u>	Ps <u>1,024</u>
<b>Non-current assets:</b>				
Property, plant and equipment	Ps 7,003	Ps 2,131	Ps 1,169	Ps 10,303
Intangible asset	2,589	1,170	277	4,036
Goodwill	<u>941</u>	<u>-</u>	<u>4,254</u>	<u>5,195</u>
Total non-current assets	<u>Ps 10,533</u>	<u>Ps 3,301</u>	<u>Ps 5,700</u>	<u>Ps 19,534</u>
Total liability	<u>Ps 18,881</u>	<u>Ps 1,096</u>	<u>Ps 606</u>	<u>Ps 20,583</u>



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

## **Notes to the Consolidated Financial Statements**

**As of December 31, 2012 and 2011 and January 1, 2011**

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

	<u>2012</u>	<u>2011</u>
<b>Adjusted EBITDA</b>	Ps 6,214	Ps 4,846
Depreciation and amortization (Note 24)	(1,422)	(1,397)
Gain from business acquisition (Note 22)	13	-
Write-off from removal of fixed and intangible assets (Note 22)	<u>(24)</u>	<u>(53)</u>
Operating profit	4,781	3,396
Financial income (loss) (Note 23)	<u>54</u>	<u>(1,938)</u>
Profit before taxes	<u>Ps 4,835</u>	<u>Ps 1,458</u>

The information presented to the CODM.

These assets are assigned based on operations in segments and physical location of the assets.

<b><u>Revenue from external Customers by products:</u></b>	<u>2012</u>	<u>2011</u>
Processed meat (1)	Ps 30,307	Ps 27,676
Dairy products (2)	13,213	11,683
Other refrigerated products (3)	<u>1,957</u>	<u>1,719</u>
Total	<u>Ps 45,477</u>	<u>Ps 41,078</u>

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

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

(3) Others include prepared meals, refrigerated products, desserts and beverages.

SIGMA's customers are commercial establishments classified into supermarkets, convenience stores, institutions and small grocery stores. In 2012 and 2011, sales of its major customer represented 12% and 10%, respectively, of total sales.

### **Note 28 - Contingencies and commitments**

At December 31, 2012, the Company had the following contingencies:

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

At December 31, 2012, the Company and its subsidiaries had the following commitments:

- a. Various subsidiaries contracts with suppliers and customers, for the acquisition of raw materials used in the manufacture of products. The contracts are effective for less than a year, and do not stipulate significant restrictions or guarantees for the parties.

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

## **Notes to the Consolidated Financial Statements**

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- b. Regarding operational expansion projects, a subsidiary held various agreements related to the acquisition of engineering licenses and own design of production lines. These contracts provide various confidentiality restrictions on the engineering used and monthly royalty payments determined under certain monthly production level.

### **Note 29 - First-time adoption of international financial reporting standards**

Until 2011, the Company issued its consolidated financial statements in accordance with Mexican Financial Reporting Standards (MFRS). Since 2012, SIGMA issued its consolidated financial statements in accordance with IFRS issued by the International Accounting Standards Board (IASB).

According to IFRS 1 "First-time Adoption of IFRS" the Company considered January 1, 2011 as its transition date and January 1, 2012 as its date of adoption. The amounts included in the consolidated financial statements for 2011 have been reconciled to be presented under the same standards and criteria in 2012.

For the transition, the Company identified and quantified the differences between MFRS and IFRS for purposes of its opening balance sheet at January 1, 2011 and its conversion to IFRS on its financial information systems.

In preparing its opening balance sheet, based on the IFRS 1, the Company has adjusted amounts reported previously in financial statements prepared under MFRS. An explanation of how the transition from MFRS to IFRS has affected the Company's financial position, its financial performance and cash flows shown in the following tables and notes:

#### **1. Decisions on Adoption**

##### **1.1. IFRS optional exemptions**

###### **1.1.1. Exemption of fair value as assigned cost**

IFRS 1 provides the option to measure the property, plant and equipment at fair value as well as certain intangible assets at the date of transition to IFRS and to use that fair value as its assigned cost at that date or to use an updated carrying amount determined under the previous GAAP (Generally Accepted Accounting Principles), if such updated carrying amount is comparable to: a) fair value or b) cost or depreciated cost in accordance with IFRS, adjusted to recognize changes in an inflation rate.

The Company chose, at its transition date, to reevaluate their land and property, plant and equipment at fair value. For smaller equipment, the Company chose to use their values recognized under MFRS as assigned cost under IFRS. The net effect on valuation is recognized against the opening balance of retained earnings under IFRS at the transition date. Thereafter, the Company uses the cost method for property, plant and equipment in accordance with IFRS.

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

## **Notes to the Consolidated Financial Statements**

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### **1.1.2. Exemption for business combinations**

IFRS 1 allows applying IFRS 3, "Business Combinations" ("IFRS 3"), prospectively as of the transition date or a specific date before the transition date. An entity that chooses to restore their purchases from a specific date before the transition date must include all acquisitions occurring in that period. This option allows avoiding retrospective application that would reset all business combinations that occurred before the transition date. The Company chose to prospectively apply IFRS 3 to business combinations occurring on or after the transition date. The business combinations before the transition date were not modified.

### **1.1.3. Exemption to remove a cumulative foreign currency translation**

IFRS 1 allows canceling cumulative gains and losses in the foreign currency translation at the transition date. This exemption allows not calculating the cumulative translation effect in accordance with IAS 21, "The effects of changes in foreign exchange rates" ("IAS 21"), as of the date on which the subsidiary or investment accounted through the equity method was established or acquired. The Company chose to zero all cumulative gains and losses from translation against retained earnings under IFRS at the transition date.

### **1.1.4. Exemption for labor obligations**

IFRS 1 allows not applying IAS 19, "Employee Benefits" ("IAS 19") retrospectively, for the recognition of actuarial gains or losses. In line with this exemption, the Company chose to recognize all cumulative actuarial gains and losses that existed at the transition date against retained earnings under IFRS.

### **1.1.5. Exemption to capitalize borrowing costs**

IFRS 1 allows entities to apply the transitional guidelines included in the revised IAS 23, "Capitalization of borrowing costs" ("IAS 23"), which interpret that the effective date of the rule is January 1, 2009 or the transition date to IFRS, whichever comes later.

For any cost by unfunded loan at the transition date, the Company chose to apply this exemption and begin to capitalize borrowing costs from the transition date prospectively.

## **1.2. Mandatory exceptions of IFRS**

### **1.2.1. Exception of hedging accounting**

Hedging accounting can only be applied prospectively from the transition date to transactions that meet the criteria of IAS 39 "Financial Instruments: Recognition and Measurement", at that time. Hedging accounting can only be applied prospectively from the transition date and is not allowed to create retrospectively documentation supporting a hedging relationship. All hedging transactions contracted by the Company met the criteria for hedging accounting as of January 1, 2011 and, accordingly, are reflected as hedging in the statements of financial position of the Company under IFRS.

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

## **Notes to the Consolidated Financial Statements**

**As of December 31, 2012 and 2011 and January 1, 2011**

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### **1.2.2. Exception for accounting estimates**

Estimates under IFRS at the transition date are consistent with those made under MFRS around the same time.

Additionally, the Company prospectively applied the following mandatory exceptions from January 1, 2011: derecognition (disposal) of financial assets and financial liabilities and non-controlling interest, without significant impact.

### **2. Reconciliations from MFRS to IFRS**

IFRS 1 require a reconciliation of equity, comprehensive income statement and cash flows for the prior periods. The first time adoption of the Company had no impact in the total operating, investing and financing operation. The following tables represent the reconciliations of MFRS to IFRS for the respective periods in equity, statement of comprehensive income and consolidated.

- A) Reconciliation of consolidated balance sheet at January 1, 2011
- B) Reconciliation of consolidated balance sheet at December 31, 2011
- C) Reconciliation of consolidated income statement for the year ended on December 31, 2011
- D) Reconciliation of consolidated statement of comprehensive income for the year ended on December 31, 2011
- E) Explanation of the effects of the transition to IFRS
- F) Explanation of significant effects of transition to IFRS in the consolidated statement of cash flows for the year ended on December.

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

## Notes to the Consolidated Financial Statements

As of December 31, 2012 and 2011 and January 1, 2011

### **A) RECONCILIATION OF CONSOLIDATED BALANCE SHEET AT JANUARY 1, 2011**

	<u>Note</u>	<u>Mexican FRS</u>	<u>Effects of transition to IFRS</u>	<u>IFRS</u>
<b><u>Asset</u></b>				
<b>CURRENT ASSET:</b>				
Cash and cash equivalents		Ps 834,206	Ps -	Ps 834,206
Clients and other accounts receivable, net		3,530,655	-	3,530,655
Income tax recoverable		474,038	-	474,038
Inventory	29e.	2,455,649	(78,518)	2,377,131
Other current asset		110,619	-	110,619
<b>Total current asset</b>		<u>7,405,167</u>	<u>(78,518)</u>	<u>7,326,649</u>
<b>NON-CURRENT ASSET:</b>				
Property, plant and equipment, net	29b.	9,490,635	867,389	10,358,024
Goodwill and other intangible assets, net	29c.	8,903,955	(116,422)	8,787,533
Deferred income tax	29d.	801,677	3,886	805,563
Other non-current asset		73,956	-	73,956
<b>Total non-current asset</b>		<u>19,270,223</u>	<u>754,853</u>	<u>20,025,076</u>
<b>Total asset</b>		<u>Ps 26,675,390</u>	<u>Ps 676,335</u>	<u>Ps 27,351,725</u>
<b><u>Liability and Stockholders' equity</u></b>				
<b><u>Liability</u></b>				
<b>CURRENT LIABILITY:</b>				
Current debt		Ps 650,807	Ps -	Ps 650,807
Suppliers and other accounts payable		3,656,990	-	3,656,990
Other current liability		540,328	-	540,328
<b>Total short-term liability:</b>		<u>4,848,125</u>	<u>-</u>	<u>4,848,125</u>
<b>NON-CURRENT LIABILITY:</b>				
Non-current debt	29g.	13,619,917	(37,950)	13,581,967
Non-current portion of derivative financial instruments		212,156	-	212,156
Deferred income tax	29d.	631,691	147,041	778,732
Employees' benefits	29h.	166,424	61,220	227,644
Other non-current liability		38,072	-	38,072
<b>Total non-current liability</b>		<u>14,668,260</u>	<u>170,311</u>	<u>14,838,571</u>
<b>Total liability</b>		<u>19,516,385</u>	<u>170,311</u>	<u>19,686,696</u>
<b><u>Stockholders' equity</u></b>				
Capital stock	29a.	183,664	(156,583)	27,081
Share Premium	29a.	1,303,657	(636,669)	666,988
Retained earnings	29f.	5,666,268	1,299,276	6,965,544
Other reserves		5,416	-	5,416
<b>Total stockholders' equity</b>		<u>7,159,005</u>	<u>506,024</u>	<u>7,665,029</u>
<b>Total liability and stockholders' equity</b>		<u>Ps 26,675,390</u>	<u>Ps 676,335</u>	<u>Ps 27,351,725</u>

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

## Notes to the Consolidated Financial Statements

As of December 31, 2012 and 2011 and January 1, 2011

### **B) RECONCILIATION OF CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2011**

<b>Asset</b>	<b>Note</b>	<b>Mexican FRS</b>	<b>Effects of transition to IFRS</b>	<b>IFRS</b>
<b>CURRENT ASSET:</b>				
Cash and cash equivalents		Ps 1,097,730	Ps -	Ps 1,097,730
Clients and other accounts receivable, net		3,895,007	-	3,895,007
Income tax recoverable		470,197	-	470,197
Inventory	29e.	2,482,889	1,886	2,484,775
Advance payments		<u>81,024</u>	<u>-</u>	<u>81,024</u>
<b>Total current asset</b>		<u>8,026,847</u>	<u>1,886</u>	<u>8,028,733</u>
<b>NON-CURRENT ASSET:</b>				
Property, plant and equipment, net	29b.	9,516,959	786,086	10,303,045
Goodwill and intangible assets, net	29c.	9,390,956	(160,236)	9,230,720
Deferred income tax	29d.	944,692	8,046	952,738
Other non-current asset		<u>340,472</u>	<u>-</u>	<u>340,472</u>
<b>Total non-current asset</b>		<u>20,193,079</u>	<u>633,896</u>	<u>20,826,975</u>
<b>Total asset</b>		<u>Ps 28,219,926</u>	<u>Ps 635,782</u>	<u>Ps 28,855,708</u>
<b>Liability and Stockholders' equity</b>				
<b>Liability</b>				
<b>CURRENT LIABILITY:</b>				
Current debt		Ps 378,506	Ps -	Ps 378,506
Suppliers and other accounts payable		4,577,547	-	4,577,547
Other current liability		<u>194,157</u>	<u>-</u>	<u>194,157</u>
<b>Total short-term liability</b>		<u>5,150,210</u>	<u>-</u>	<u>5,150,210</u>
<b>NON-CURRENT LIABILITY:</b>				
Non-current debt	29g.	14,232,224	(80,579)	14,151,645
Non-current portion of derivative financial instruments		129,300	-	129,300
Deferred income tax	29d.	696,712	149,066	845,778
Employees' benefits	29h.	205,939	(27,745)	178,194
Other non-current liability	29i.	<u>62,131</u>	<u>65,258</u>	<u>127,389</u>
<b>Total non-current liability</b>		<u>15,326,306</u>	<u>106,000</u>	<u>15,432,306</u>
<b>Total liability</b>		<u>20,476,516</u>	<u>106,000</u>	<u>20,582,516</u>
<b>Stockholders' equity</b>				
Capital stock	29a.	183,664	(156,583)	27,081
Share Premium	29a.	1,303,657	(636,669)	666,988
Retained earnings	29f.	6,250,673	705,350	6,956,023
Other reserves		<u>5,416</u>	<u>617,684</u>	<u>623,100</u>
<b>Total stockholders' equity</b>		<u>7,743,410</u>	<u>529,782</u>	<u>8,273,192</u>
<b>Total liability and stockholders' equity</b>		<u>Ps 28,219,926</u>	<u>Ps 635,782</u>	<u>Ps 28,855,708</u>

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

## Notes to the Consolidated Financial Statements

As of December 31, 2012 and 2011 and January 1, 2011

### **C) RECONCILIATION OF CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Note</u>	<u>Mexican FRS</u>	<u>Effects of transition to IFRS</u>	<u>IFRS</u>
Net sales		Ps 41,077,731	Ps -	Ps 41,077,731
Cost of sales	29b. and h.	<u>(27,929,999)</u>	<u>(7,277)</u>	<u>(27,937,276)</u>
Gross profit		13,147,732	(7,277)	13,140,455
Sale expenses	29b. and h.	(7,855,977)	(3,763)	(7,859,740)
Administrative expenses	29b. and h.	(1,551,257)	(54,107)	(1,605,364)
Other income (expenses), net	29j.	<u>(310,399)</u>	<u>30,153</u>	<u>(280,246)</u>
Operating profit		<u>3,430,099</u>	<u>(34,994)</u>	<u>3,395,105</u>
Financial income	29h.	52,002	51,803	103,805
Financial expenses	29h.	(999,855)	(47,953)	(1,047,808)
Foreign exchange	29h.	<u>(993,604)</u>	<u>-</u>	<u>(993,604)</u>
Comprehensive financing expense, net		<u>(1,941,457)</u>	<u>3,850</u>	<u>(1,937,607)</u>
Profit before income tax		1,488,642	(31,144)	1,457,498
Income tax	29d.	<u>(657,515)</u>	<u>11,158</u>	<u>(646,357)</u>
Net consolidated profit		<u>Ps 831,127</u>	<u>(Ps 19,986)</u>	<u>Ps 811,141</u>
Earnings per basic and diluted share, in pesos		<u>0.64</u>		<u>0.63</u>
Weighted average of outstanding shares		<u>1,290,654,555</u>		<u>1,290,654,555</u>

### **D) RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Note</u>	<u>Mexican FRS</u>	<u>Effects of transition to IFRS</u>	<u>IFRS</u>
Net consolidated profit		Ps 831,127	(Ps 19,986)	Ps 811,141
Actuarial gain of labor obligations	29h.	-	31,666	31,666
Translation effect of foreign entities	29k.	<u>606,028</u>	<u>11,656</u>	<u>617,684</u>
Total items of comprehensive income for the year, net of tax		<u>606,028</u>	<u>43,322</u>	<u>649,350</u>
Total comprehensive income for the year		<u>Ps 1,437,155</u>	<u>Ps 23,336</u>	<u>Ps 1,460,491</u>

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

## Notes to the Consolidated Financial Statements

As of December 31, 2012 and 2011 and January 1, 2011

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### **E) EXPLANATION OF THE EFFECTS OF THE TRANSITION TO IFRS**

#### **a. Recognition of inflation effects**

IAS 29 "Financial reporting in hyper-inflationary economies" requires the recognition of the effects of inflation on financial information when an entity operates in a hyper-inflationary economic environment, one of the characteristics of which is that the cumulative inflation rate over a period of three years approaches or exceeds 100%. The last three years in which Mexico ceased to be a hyper-inflationary economy was the period from 1995 to 1997, so the company eliminated the effects of inflation in the rest of its non-monetary assets and liabilities, as well as in capital stock and legal reserve, which was recognized under MFRS from January 1, 1998 to December 31, 2007, except for certain "Property, Plant and Equipment" for which we used the exception of IFRS 1 and for "Goodwill" in which we applied the business combination exemption.

#### **b. Property, plant and equipment, net**

The transition to IFRS adjustment made to property, plant and equipment has been the most important to the Company. At the transition date, the Company chose to revalue the most important items of property, plant and equipment (land, building and machinery) at fair value by an independent appraiser, and use the revalued amount as deemed cost at the transition date according to the options identified under IFRS 1, "First-time Adoption of IFRS"; for the rest of the assets that are part of the property, plant and equipment, the Company considered the values recorded in books as deemed cost at the transition date.

The previous carrying amounts and fair values of the assets revalued at the transition date are as follows:

	<u>MFRS</u>	<u>Adjustment</u>	<u>IFRS</u>
Land	Ps 832,847	Ps 174,630	Ps 1,007,477
Buildings	2,664,642	24,181	2,688,823
Machinery	<u>4,298,602</u>	<u>601,670</u>	<u>4,900,272</u>
Total	<u>Ps 7,796,091</u>	<u>Ps 800,481</u>	<u>Ps 8,596,572</u>

At January 1, 2011, some components of machinery and equipment were classified as inventories under MFRS. These components met the definition of property, plant and equipment in accordance with IAS 16 under IFRS, so that in its opening balance sheet, the Company reclassified them inventory under MFRS to property, plant and equipment under IFRS of Ps 54,693 to his historical cost.

#### **c. Intangible asset, net**

At the transition date, the cumulative update of intangible assets (including goodwill) that was generated after December 31, 1997 for companies in Mexico was eliminated. The debt issuance costs that meet the capitalization criteria must be submitted as part of net debt balance. The amortization and recognition of debt issuance costs will be based on the effective interest method. At the transition date, the Company reclassified the debt issuance costs recorded as intangible assets to non-current debt in the calculation of amortized cost.



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

## **Notes to the Consolidated Financial Statements**

**As of December 31, 2012 and 2011 and January 1, 2011**

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d. Deferred income tax

Derived from the exemptions applied as well as the differences described here, the accounting value of certain assets and liabilities were modified, so deferred taxes were recalculated using the guidelines of IAS 12 "Income Taxes".

e. Inventories

At the transition date, a reclassification of inventories of spare parts or more than a year to other assets was performed as described in the adjustments made to the property, plant and equipment; this is because these parts do not meet with features under IFRS to remain considered in the inventory item.

f. Retained earnings

At the transition date the adjustments made to assets and liabilities were carried against retained earnings, so this item is impacted by most of the detail notes of the transition adjustments described in this section, which are not included because they correspond to reclassification that have no impact on the Company's equity.

g. Non-current debt

According to IAS 39 "Financial Instruments: Recognition and Measurement", financial liabilities are initially recognized at fair value and subsequently at amortized cost, using the effective interest method which refers to the rate that exactly discounts the payable cash flows estimated over the expected life of the debt. At the transition date, the Company adjusted the value of its bank debt at amortized cost. Additionally, debt issuance costs directly related recognized as intangible assets under MFRS and is amortized on a straight line, is recognized as a net in the same debt in accordance with IAS 39.

h. Employees' benefits

The MFRS D-3 "Employee's Benefits" all termination benefits, including those that are paid in the event of involuntary termination, are considered in the actuarial calculation to estimate the liability for labor obligations. For IAS 19 "Employees' Benefits", an entity recognizes termination benefits as a liability as long as the entity is required to:

- (a) terminate the contract of an employee before the retirement date; or
- (b) establish termination benefits as a result of offers made to encourage voluntary waiver. Therefore, the Company canceled the provision recorded at the transition date.

Under MFRS, the Company had a liability of transition, which is amortized over a maximum period of 5 years. Under IFRS, these liabilities had been recognized since the creation of plans and consequently there would be no transition liability and their respective amortization.

In accordance with IFRS 1, the Company recognized actuarial gains and losses accumulated in retained earnings at the transition date.

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

## **Notes to the Consolidated Financial Statements**

**As of December 31, 2012 and 2011 and January 1, 2011**

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Additionally, in accordance with IAS 19 "Employee Benefits", the employees' statutory profit sharing (ESPS) is considered as a benefit given to employees who paid based on the service provided by the employee. No deferred ESPS is recognized based on the asset and liability method given that this method only applies to taxes on profits, so SIGMA, as of the transition date, eliminated the deferred ESPS balance from the financial statements.

**i. Sale and leaseback**

Under MFRS, the gain from the sale of this type of lease is amortized over the life of the operating lease. Arising from the adoption of IFRS, the gain from the sale is immediately recognized in income.

**j. Other expenses/income**

Under IFRS, "other expenses/income" should be presented as part of operating income previously presented under MFRS after operating income, because they are considered unusual or infrequent items. SIGMA reclassified the other expenses/income to be part of operating income.

**k. Cumulative translation adjustment**

According to IFRS 1 "First-time Adoption of International Financial Reporting Standards", SIGMA adopted the exemption applying the cumulative translation effect to retained earnings on the transition date and restart the calculation.

**l. IFRS reclassification**


Arising from the adoption of IFRS, the Company made certain reclassification to adjust the figures to the new presentation rules.


### **F) EXPLANATION OF SIGNIFICANT EFFECTS OF TRANSITION TO IFRS IN THE CONSOLIDATED STATEMENT CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER, 2011**

The Company uses the indirect method to present the cash flow statement, both under Mexican FRS and IFRS, which do not differ significantly in their presentation.

#### **Note 30 - Subsequent events**

Preparing the financial statements the Company has evaluated events and transactions for recognition or disclosure subsequent to December 31, 2012 and until February 25, 2013 (date of issuance of the financial statements), and concluded that there are no subsequent events that affected them.

  
Mario H. Páez González  
Chief Executive Officer

  
Ricardo J. Doehner Cobián  
Chief Financial Officer