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

Consolidated Financial Statements as of and for the Years Ended December 31, 2017 and 2016, and Independent Auditors' Report Dated January 31, 2018

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

Independent Auditors' Report and Consolidated Financial Statements as of and for the years ended December 31, 2017 and 2016

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Independent Auditors' Report to the Board of Directors and Stockholders of Sigma Alimentos, S. A. de C. V.

Opinion

We have audited the consolidated financial statements of Sigma Alimentos, S. A. de C. V. and Subsidiaries (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and its consolidated financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Basis of the Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the Code of Ethics issued by the Mexican Institute of Public Accountants ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The Company's consolidated financial statements for the year ended December 31, 2016, have been audited by other independent auditors, who expressed an unqualified opinion on February 17, 2017.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit matters which should be communicated in our report:

Assessment of impairment of intangible assets

As described in Notes 3.j.i, 3.j.ii, 3.k and 11 to the consolidated financial statements, the Company performs impairment tests on its intangible assets with indefinite useful lives on an annual basis and for intangible assets with finite useful lives when an impairment indicator exists.

We have been focused on the review of intangible assets, due to the significance of their balance in the consolidated financial statements of the Company, which consists of goodwill of $14,742,248 thousand, trademarks of $13,234,428 thousand, development costs of $132,433 thousand, customers relationships of $1,299,709 thousand, software, licenses and other intangibles assets with finite useful lives of $952,512 thousand, and other intangibles assets with indefinite useful lives of$95,513 thousand. Impairment tests involve the application of significant judgments by the Company's management in determining the assumptions related to the estimation of the recoverable value of intangible assets allocated to its cash generating units ("CGUs").

As part of our audit, we focused on the following significant assumptions that the Company considered when estimating future projections to assess the recoverability of intangible assets: growth rate of the industry, new projects and significant customers, estimated revenues, discount rates, expected gross profit margin and projected cash flows. With support from our expert appraisers, our procedures, among others, included:

- Review the models applied to determine the recoverable value of the intangible assets and methods used for valuing assets with similar characteristics.

- Review the financial projections by comparing them to the business performance and historical trends, verifying the explanations of the variations with management. In addition, we assessed the internal processes used by management to make projections, including timely monitoring and analysis by the Board of Directors, and if the projections are consistent with the budgets approved by the Board.

- Analyze the assumptions used in the impairment model, specifically including the cash flow projections, EBITDA (earnings before interests, taxes, depreciation and amortization) multiple and long-term growth plans. The key assumptions used to estimate cash flows in impairment tests of the Company are those related to revenue growth and operating margin.

- Evaluate on an independent basis the discount rates used and the methodology used in the preparation of the model of the impairment test. In addition, we tested the integrity and accuracy of the impairment model.

- To determine the CGUs, we considered the Company's analysis of operating cash flows and indebtedness policies, analysis of the legal structure, allocation of resources and understanding of the performance of the department of sales.

- Discuss with management the sensitivity calculations for all the CGUs, calculating the degree to which the assumptions used will need to be changed, and the likeliness these changes may arise.

The results of our procedures were satisfactory, and we believe the assumptions used, including the discount rate, are reasonable.

Assessment of the recoverability of deferred income tax assets

The Company records deferred income tax assets derived from tax losses. Management performs an assessment of the probability of recovering tax losses carryforwards to support the deferred tax assets recognized in its consolidated financial statements.

Due to the significance of the deferred income tax asset balance as of December 31, 2017 amounting to $4,992,214 thousand, and the significant judgments and estimates to determine future projections of the Company's taxable income, we focused on this line item and performed the following procedures:

- We verified the reasonableness of the projections used to determine future taxable income.
- We challenged the projections used by comparing them to the business performance and historical trends, verifying the explanations of the variations with management.
- With the support of internal experts, we assessed the processes used to determine the projected taxable income, and the assumptions used by management in preparing tax projections.
- We discussed with management the sensitivity analysis and assessed the degree to which the changes in key assumptions used could impact the probability of recovery.

The results of our audit procedures were satisfactory. The Company's accounting policy for the recording of deferred taxes, as well as the detail of their disclosure, are included in Notes 3.l and 16, respectively, to the accompanying consolidated financial statements.

Information other than the financial statements and Auditor's Report thereon

Management of the Company is responsible for the other information presented. The other information includes two documents, the Annual Stock Exchange Filing and the information that will be incorporated in the Annual Report that the Company must prepare pursuant to the General Provisions Applicable to Issuers and other Participants in the Mexican Stock Exchange and file it with the National Banking and Securities Commission ("CNBV" for its acronym in Spanish). The Annual Stock Exchange Filing and the Annual Report are expected to be made available to us after the date of this audit report.

Our opinion of the consolidated financial statements does not cover the other information and we do not express any form of assurance over it.

In connection with our audit of the consolidated financial statements, our responsibility will be to read the other information, when available, and in doing so, consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or with our knowledge obtained in the audit, or otherwise appears to contain a material error. If based on the work we have performed, we conclude that there is a material misstatement therein, we are required to communicate the matter in a statement in the Annual Report required by the CNBV and those responsible of governance in the Company.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance of the Company are responsible for supervising the Company's consolidated financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

- Obtained sufficient appropriate audit evidence regarding the financial information of the subsidiaries or business activities within the Company and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the audit of the Company. We remain solely responsible for our audit opinion.

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

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

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

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited

C. P. C. A. Alejandra Villagómez G.

Monterrey, Nuevo León, Mexico
January 31, 2018

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

Consolidated Statements of Financial Position

As of December 31, 2017 and 2016
In thousands of Mexican pesos

	Note	2017	2016
Assets			
Current assets:			
Cash and cash equivalents	6	$ 12,807,070	$ 12,837,614
Restricted cash	7	84,855	123,973
Trade and other accounts receivable, net	8	7,977,213	9,039,428
Recoverable income tax		819,476	846,056
Inventories	9	14,687,050	13,751,274
Other current assets		425,841	343,884
Total current assets		36,801,505	36,942,229
Non-current assets:			
Property, plant and equipment, net	10	35,268,405	33,089,282
Goodwill and intangible assets, net	11	30,456,843	26,664,845
Deferred income taxes	16	2,792,463	2,995,464
Investments accounted for using the equity method and other non-current assets	12	219,634	1,068,949
Restricted cash	7	47,367	-
Total non-current assets		68,784,712	63,818,540
Total assets		$105,586,217	$100,760,769
Liabilities and Stockholders' Equity			
Current liabilities:			
Debt	15	$ 2,379,616	$ 442,237
Trade and other accounts payable	14	25,817,604	26,098,551
Income taxes payable	16	1,783,816	667,648
Provisions	17	323,566	211,005
Other current liabilities	18	303,246	299,624
Total current liabilities		$30,607,848	27,719,065
Non-current liabilities:			
Debt	15	48,029,505	47,400,372
Provisions	17	110,133	348,473
Deferred income taxes	16	4,068,122	3,846,026
Income taxes payable	16	2,341,907	2,460,047
Employee benefits	19	1,339,070	1,117,998
Other non-current liabilities	18	800,236	821,219
Total non-current liabilities		56,688,973	55,994,135
Total liabilities		87,296,821	83,713,200
Stockholders' equity:			
Controlling interest:			
Capital stock		27,081	27,081
Share premium		666,988	666,988
Retained earnings		14,224,876	15,522,200
Other reserves	20	2,678,386	213,317
Controlling interest		17,597,331	16,429,586
Non-controlling interest	13	692,065	617,983
Total stockholders' equity		18,289,396	17,047,569
Total liabilities and stockholders' equity		$105,586,217	$100,760,769

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Income

For the years ended December 31, 2017 and 2016
In thousands of Mexican pesos, except for earnings per share amounts

	Note	2017	2016
Revenues	27	$ 114,222,039	$ 106,340,864
Cost of sales		(82,748,224)	(75,369,775)
Gross profit		31,473,815	30,971,089
Selling expenses		(18,266,369)	(17,397,744)
Administrative expenses		(4,780,769)	(4,578,817)
Other income (expenses), net	23	164,064	(475,656)
Operating income		8,590,741	8,518,872
Financial income	24	296,887	132,769
Financial expenses	24	(3,046,854)	(2,393,479)
Gain due to exchange fluctuation	24	2,658,259	1,937,953
Loss due to exchange fluctuation	24	(4,297,201)	(2,434,212)
Financial cost, net		(4,388,909)	(2,756,969)
Equity in income of associates recognized using the equity method	12	15,976	50,236
Income before taxes		4,217,808	5,812,139
Income taxes	16	(2,143,965)	(859,554)
Net consolidated income		$ 2,073,843	$ 4,952,585
Income attributable to:			
Controlling interest		2,031,891	4,919,166
Non-controlling interest	13	41,952	33,419
		$ 2,073,843	4,952,585
Earnings per basic and diluted share, in Mexican pesos		$ 1.57	$ 3.81
Weighted average outstanding shares	20	1,290,654,555	1,290,654,555

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016
In thousands of Mexican pesos

	Note	2017	2016
Net consolidated income		$2,073,843	$4,952,585
Other comprehensive income for the year:			
Items that will not be reclassified to the consolidated statement of income			
Remeasurement of employee benefit obligations, net of taxes	16	(35,936)	37,095
Items that will be reclassified to the consolidated statement of income			
Effect of translation of foreign entities	16	2,509,904	605,766
Total comprehensive income of the year		2,473,968	642,861
Consolidated comprehensive income		$4,547,811	$5,595,446
Attributable to:			
Controlling interest		$4,461,024	$5,477,088
Non-controlling interest		86,787	118,358
Comprehensive income for the year		$4,547,811	$5,595,446

See accompanying notes to consolidated financial statements.

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

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2017 and 2016
In thousands of Mexican pesos

	Capital stock	Share premium	Retained earnings	Other reserves	Total controlling interest	Non-controlling interest	Total stockholders' equity
Balances as of January 1, 2016	$ 27,081	$ 666,988	$ 13,504,111	$ (344,605)	$13,853,575	$ 499,625	$ 14,353,200
Transactions with stockholders:							
Put option held by non-controlling interest			(1,187,996)	-	(1,187,996)	-	(1,187,996)
Dividends declared			(1,713,081)	-	(1,713,081)	-	(1,713,081)
Total transactions with stockholders			(2,901,077)	-	(2,901,077)	-	(2,901,077)
Net income			4,919,166	-	4,919,166	33,419	4,952,585
Total other comprehensive income			-	557,922	557,922	84,939	642,861
Comprehensive income			4,919,166	557,922	5,477,088	118,358	5,595,446
Balances as of December 31, 2016	27,081	666,988	15,522,200	213,317	16,429,586	617,983	17,047,569
Transactions with stockholders:							
Dividends declared			(3,024,284)	-	(3,024,284)	-	(3,024,284)
Others			(268,995)	-	(268,995)	(12,705)	(281,700)
Total transactions with stockholders			(3,293,279)	-	(3,293,279)	(12,705)	(3,305,984)
Net income			2,031,891	-	2,031,891	41,952	2,073,843
Total other comprehensive income			(35,936)	2,465,069	2,429,133	44,835	2,473,968
Comprehensive income			1,995,955	2,465,069	4,461,024	86,787	4,547,811
Balances as of December 31, 2017	$ 27,081	$ 666,988	$ 14,224,876	$2,678,386	$17,597,331	$ 692,065	$ 18,289,396

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016
In thousands of Mexican pesos

	2017	2016
Cash flows from operating activities		
Income before income taxes	$ 4,217,808	$ 5,812,139
Depreciation and amortization	3,775,832	3,494,252
Impairment of fixed assets and intangible assets	358,621	360,998
Costs associated with seniority premiums and pension plans	140,632	118,823
Equity in income of associates recognized using the equity method	(15,976)	(50,236)
Gain on remeasurement of business acquisition	(410,448)	-
Loss (gain) due to exchange fluctuation, net	1,638,942	496,259
Financial cost, net	2,753,052	2,228,969
Expenses not requiring cash	(224,266)	138,999
Changes in working capital:		
(Increase) decrease in trade and other accounts receivable	1,158,831	(237,402)
Increase in inventories	(657,980)	(363,402)
Increase (decrease) in suppliers and other accounts payable	(2,177,956)	2,812,060
Income taxes paid	(1,222,804)	(233,927)
Net cash flows generated by operating activities	9,334,288	14,577,532
Cash flows from investing activities		
Cash flows from business acquisition, net of cash acquired	(1,557,426)	(84,919)
Interest received	190,040	101,224
Cash flows from acquisition of intangible assets	(93,878)	(100,564)
Cash flows from acquisition of property, plant and equipment	(3,447,826)	(6,071,968)
Restricted cash and other assets	9,742	-
Net cash flows used in investing activities	(4,899,348)	(6,156,227)
Cash flow from financing activities		
Proceeds from borrowings and debt	12,841,384	17,693,462
Payments of borrowings and debt	(10,944,472)	(18,987,768)
Interest paid	(2,751,573)	(2,262,368)
Dividends paid	(2,978,031)	(1,713,081)
Net cash flows used in financing activities	(3,832,692)	(5,269,755)
Net increase in cash and cash equivalents	602,248	3,151,550
Effects of changes in exchange rate	(632,792)	1,237,970
Cash and cash equivalents at the beginning of the year	12,837,614	8,448,094
Cash and cash equivalents at the end of the year	$12,807,070	$12,837,614

See accompanying notes to consolidated financial statements.

1. Activities

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

The Company conducts manufacturing operations in Mexico, the U.S.A., Costa Rica, El Salvador, the Dominican Republic, Peru, Ecuador, Honduras, Nicaragua, Guatemala, Spain, France, Italy, the Netherlands, Romania, Belgium and Portugal. The Company sells its products to more than 590,000 customers through different distribution channels in those countries as well as in Germany, Honduras, Nicaragua, Guatemala and 80 more countries through independent distributors. Distribution channels include the modern channel that consists of supermarkets, hypermarkets and convenience stores; the traditional channel that consists of small grocery stores, traditional butchers, delicatessens and wholesalers; and the foodservice channel that consists of hotels, restaurants, hospitals, among others. SIGMA has maintained a close relationship with some of its major customers in Mexico, the United States and Europe, which has allowed the Company to develop different businesses that provide added value to its operations. Its large brand portfolio has managed to cover different socioeconomic levels, allowing the Company to diversify its sales through a variety of markets.

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

In the following notes to the financial statements, references to pesos or "$" mean thousands of Mexican pesos. References to "US$" or dollars, mean thousands of dollars of the United States. References to "€", means thousands of Euros, except where indicated otherwise.

2. Significant events and business acquisitions

<u>**2017**</u>

a. Debt issuance

On February 2, 2017, Sigma Alimentos, S. A. de C. V. issued Senior Notes on the Irish Stock Exchange through a private offering under Rule 144A and Regulation S, in the amount of €600 million, gross from issuance costs of €5.4 million and discounts of €2.2 million. The Senior Notes mature in seven years at a coupon of 2.625%. The transaction resources were mainly used to pay debt (Note 15.a).

b. Prepayment of debt

On March 9, 2017, the Company prepaid the Senior Notes maturing on December 14, 2018, in the amount of US$450 million, incurring a cost for the prepayment of US$20 million recognized as a financial expense in the consolidated statement of income. The Notes were issued in 2011 under Rule 144A and Regulation S at an annual coupon of 5.625%. All transaction costs to be amortized previously presented net of debt were recognized in the consolidated statement of income for the year ended December 31, 2017 for US$1.9 million (Note 15.b).

c. Acquisition of Sociedad Suizo Peruana de Embutidos, S. A.

On July 1, 2017, SIGMA acquired 100% of the common shares of Sociedad Suizo Peruana de Embutidos, S.A. ("SUPEMSA") for US$38 million. The acquired entity is engaged in the production of processed meat and marketing of dairy products in Peru, and is included in the LATAM segment (Note 27). In 2016, SUPEMSA generated sales of $1,020.

At the issuance date of the consolidated financial statements, SIGMA is in the process of assigning the purchase price to the identifiable assets acquired and liabilities assumed within the twelve-month period following the acquisition date, as established by IFRS 3, *Business Combinations*.

d. Acquisition of Caroli Foods Group B. V.

On September 1, 2017, the Company acquired the remaining 51% of the shares of Caroli Foods Group B.V. ("Caroli") for $1,054 million, whereby SIGMA became the sole owner. Caroli is an entity engaged in the production and marketing of processed meat and prepared meals in Pitesti, Romania, where it has operated for over 23 years, and it is included in the Europe sector (Note 27). In 2016, Caroli generated sales of $1,812 million.

SIGMA already owned 49% of the shares and, with this transaction, it acquired the entire shares of Caroli; therefore, under IFRS 3, the transaction is deemed an acquisition in stages. According to this standard, the Company remeasured the previously held interest in 49% of the shares of Caroli at fair value at the acquisition date of the remaining 51% of the shares of this entity; therefore, it recognized a gain in the consolidated statement of income of $410 million (equivalent to €18.5 million).

At the issuance date of the consolidated financial statements, SIGMA is in the process of assigning the purchase price to the identifiable assets acquired and liabilities assumed within the twelve-month period following the acquisition date, as established by IFRS 3, *Business Combinations*.

<u>2016</u>

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

On January 8, 2016, SIGMA acquired the totality of the shares of RJ Trading, S. A. de C. V., a company of the food industry engaged in distributing dry goods for the Foodservice area in the Northern region. This transaction supplements SIGMA's strategy to expand its interest in the distribution of dry goods in the Northern region and broaden its knowledge of the Foodservice market of the Industrial and Tourism areas together with the acquisitions made in prior years. The business acquisition is included in the Mexico segment (Note 27).

The total consideration paid was $83,364 in cash, including a gain of $2,822.

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

Current assets	$74,562
Property, plant and equipment	6,285
Intangible assets	70,272
Current liabilities	(62,528)
Employee benefits	(70)
Deferred income taxes	(2,335)
Goodwill	(2,822)
Consideration paid	$83,364

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

Costs related to the acquisition amounted to $111 and were recorded in the consolidated statement of income under the other expenses caption.

The income contributed by the assets of RJ Trading, included in the consolidated statement of income from the date of signing the agreement through December 31, 2016 was $159,082 and a net loss of $4,471.

f. Debt Refinancing

In May 2016, SIGMA refinanced its debt through the issuance of bonds for US$1,000 million. The notes were sold in the U.S. to qualified institutional investors in accordance with Rule 144A and to certain investors outside the U.S. under Regulation S. The proceeds from this issuance were used to repay outstanding debt (Note 15.b).

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

	Conditions subsequent to refinancing	**Conditions prior to refinancing**
Debt level	US$997,970	US$1,041,469
Maturity dates	2026	2018
Interest rate	4.125%	1.77%
	Guarantee and guarantees	Guarantee and guarantees
General conditions	Guarantee and endorsements of some subsidiaries	Guarantee and endorsements of some subsidiaries

3. Summary of significant accounting policies

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

a. Basis for preparation

The consolidated financial statements of Sigma Alimentos S. A de C. V and Subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). IFRS include all International Accounting Standards ("IAS") in force and all related interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”), including those previously issued by the Standing Interpretations Committee (“SIC”).

The consolidated financial statements have been prepared on a historical cost basis. The historical cost is generally based on the fair value of the consideration granted in exchange for the related assets.

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

b. Consolidation

i. Subsidiaries

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

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

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable acquired assets and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree based on the share of the non-controlling interest in the net identifiable assets of the acquired entity.

The Company accounts for business combinations using the predecessor method in a jointly controlled entity. The predecessor method involves the incorporation of the carrying amounts of the acquired entity, which includes the goodwill recognized at the consolidated level with respect to the acquiree. Any difference between the carrying value of the net assets acquired at the level of the subsidiary and its carrying amount at the level of the Company are recognized in stockholders' equity.

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

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

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

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

As of December 31, 2017 and 2016, the principal subsidiaries of SIGMA were:

Subsidiary	Country [i]	Percentage of ownership	Functional currency
Aoste, SNC [a and c]	France	95.49	Euro
Campofrio Food Group Americas, Inc. [a and c]	U.S.A.	95.49	Euro
Campofrío Food Group, S.A.U. ("Campofrio") [a and c]	Spain	95.49	Euro
Caroli Food Group,B.V. [iii] [a and c]	Romania	95.49	Euro
Cesare Fiorucci, S.P.A. [a and c]	Italy	95.49	Euro
Imperial Meat Products, VOF [a and c]	Belgium	95.49	Euro
Nobre Alimentacao, S.A. [d]	Portugal	95.49	Euro
SEC, SNC [a and c]	France	95.49	Euro
Stegeman, CV [a and c]	The Netherlands	95.49	Euro
Bar-S Foods Co. [a and c]	U.S.A.	100	U.S. Dollar
Mexican Cheese Producers, Inc. [a]	U.S.A.	100	U.S. Dollar
Sigma Alimentos International, Inc. [c]	U.S.A.	100	U.S. Dollar
Sigma Foods, LLC. [c]	U.S.A.	100	U.S. Dollar
Sigma Processed Meats, LLC. [a]	U.S.A.	100	U.S. Dollar
Alimentos Finos de Occidente, S. A. de C. V. [a]		100	Mexican Peso
Bonanza Industrial, S. A. de C. V. [d]		100	Mexican Peso
Carnes Selectas Tangamanga, S. A. de C. V. [a]		100	Mexican Peso
Comercial Norteamericana, S. de R. L. de C. V. [d]		100	Mexican Peso
Comercializadora de Embutidos ICO, S. A. de C. V. [a and c]		100	Mexican Peso
Empacadora de Carnes Frías Hidalmex, S. A. de C. V. [a and c]		100	Mexican Peso
Empacadora de Carnes Premium, S. de R. L. de C. V. [a and c]		100	Mexican Peso
Empacadora de Embutidos del Centro, S. A. de C. V. [a and c]		100	Mexican Peso
Empacadora Supremo de Monterrey, S. A. de C. V. [a and c]		100	Mexican Peso
Sigma Food Service S. de R.L. de C. V. [b]		100	Mexican Peso
Freedman Logistic S. de R.L. de C. V. [b]		100	Mexican Peso
Grupo Chen, S. de R. L. de C. V. y Subsidiarias [b]		100	Mexican Peso
Industrias Alimentarias del Sureste, S. A. de C. V. [a y c]		100	Mexican Peso
Servilac, S. A. de C. V. [b]		100	Mexican Peso
Sigma Alimentos Centro, S. A. de C. V. [a]		100	Mexican Peso
Sigma Alimentos Comercial, S. A. de C. V. [c]		100	Mexican Peso
Sigma Alimentos Congelados, S. A. de C. V. [a]		100	Mexican Peso
Sigma Alimentos Corporativo, S. A. de C. V. [b]		100	Mexican Peso
Sigma Alimentos Lácteos, S. A. de C. V. [a]		100	Mexican Peso
Sigma Alimentos Noreste, S. A. de C. V. [a]		100	Mexican Peso
Sigma Alimentos Prom, S. A. de C. V. [b]		100	Mexican Peso
Braedt, S. A. [a and c]	Peru	100	Peruvian Nuevo Sol
Elaborados Cárnicos, S. A. [a and c]	Ecuador	100	U.S. Dollar
Fabrica Juris CIA, LTDA [a and c]	Ecuador	100	U.S. Dollar
Sociedad Suizo Peruana Embutidos, S. A. [ii] [a and c]	Peru	100	Peruvian Nuevo Sol

Productos Cárnicos, S. A. de C. V. [(a)]	El Salvador	100	U.S. Dollar
Productos de Importación, S. A. de C. V. [(c)]	Honduras	100	Lempira
Savi San José de Alajuela, S. A. [(a)]	Costa Rica	100	Colon
Sigma Alimentos Costa Rica, S. A. [(a)]	Costa Rica	100	Colon
Sigma Alimentos Dominicana, S. A. [(a and c)]	Dominican Rep.	100	Dominican Peso
Sigma Alimentos Guatemala, S. A. [(a)]	Guatemala	100	Quetzal
Sigma Alimentos Nicaragua, S. A. [(c)]	Nicaragua	100	Cordoba

i. Companies incorporated in Mexico, except as mentioned.
ii. Subsidiaries acquired during 2017, see Note 2.c.
iii. In 2017, the Company acquired 100% of the shares, see Note 2.d.
a) Refrigerated food production.
b) Administrative and human resources services.
c) Commercialization and distribution of refrigerated foods.
d) Processing and commercialization of several types of meat.

As of December 31, 2017 and 2016, there are no significant restrictions for investment in shares of the subsidiary companies mentioned above.

ii. Absorption (dilution) of control in subsidiaries

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

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

iii. Sale or disposal of subsidiaries

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

iv. Associates

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

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

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

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

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

v. Join ventures

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

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

c. Foreign currency translation

i. Functional and presentation currency

The amounts included in the financial statements of each of the Company's entities should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency", see Note 3.b.i). In the case of Sigma Alimentos, S. A. de C. V., the functional currency was determined to be the U.S. Dollar. The consolidated financial statements are presented in Mexican pesos, which is the Company's reporting currency.

When there is a change in the functional currency of one of the subsidiaries, in accordance with the International Accounting Standard 21, *Effects of changes in foreign exchange rates* ("IAS 21"), the change is made prospectively. At the date of the change in the functional currency, all assets, liabilities, capital and income statement items are translated into US$ at the exchange rate in effect at that date.

ii. Transactions and balances

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

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

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

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

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

a. The balances of monetary assets and liabilities denominated in the recording currency were translated at the closing exchange rates.

b. The historical balances of non-monetary assets and liabilities and stockholders' equity translated to the functional currency were added to the movements occurred in the period, which were translated at historical exchange rates. On the other hand, movements of non-monetary items recognized at fair value that occurred in the period, stated in the recording currency, were translated using the historical exchange rates in effect on the date when the fair value was determined.

c. The income, costs and expenses for the periods, expressed in the recording currency, were translated at the historical exchange rate of the date they were accrued and recognized in the consolidated statement of income, except when they arose from non-monetary items, in which case the historical exchange rate for non-monetary items was used.

d. The differences in exchange arising in translation from the recording currency to the functional currency were recognized in the consolidated statement of income for the period in which they arose.

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

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

a. Assets and liabilities for each consolidated statement of financial position presented are translated at the closing exchange rate in effect at the date of the consolidated statement of financial position.

b. The stockholders’ equity of each consolidated statement of financial position presented is translated at historical rates.

c. Income and expenses for each consolidated statement of income are translated at the average exchange rate (when the average exchange rate is not a reasonable approximation of the cumulative effect of exchange rates, the exchange rate at transaction date is used).

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

Below is a list of the main foreign exchange rates in the different translation processes:

		Local currency to Mexican pesos			
		Closing exchange rate as of December 31,		**Average exchange rate**	
Country	**Local currency**	**2017**	**2016**	**2017**	**2016**
Germany	Euro	$23.693	$21.800	$22.924	$20.586
Belgium	Euro	23.693	21.800	22.924	20.586
Costa Rica	Colon	0.035	0.037	0.034	0.034
Ecuador	U.S. Dollar	19.735	20.664	19.101	18.657
El Salvador	U.S. Dollar	19.735	20.664	19.101	18.657
Spain	Euro	23.693	21.800	22.924	20.586
The United States	U.S. Dollar	19.735	20.664	19.101	18.657
France	Euro	23.693	21.800	22.924	20.586
Guatemala	Quetzal	2.688	2.746	2.610	2.450
Honduras	Lempira	0.837	0.880	0.812	0.816
Italy	Euro	23.693	21.800	22.924	20.586
Nicaragua	Córdoba	0.641	0.704	0.624	0.651
Netherlands	Euro	23.693	21.800	22.924	20.586
Peru	Peruvian Nuevo Sol	6.090	6.160	5.918	5.519
Dominican Rep.	Dominican Peso	0.408	0.446	0.397	0.405
Romania	Euro	23.693	21.800	22.924	20.586

d. Cash and cash equivalents

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

e. *Restricted cash*

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

f. *Financial instruments*

Financial assets

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

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

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for sale in the short term. As of December 31, 2017 and 2016, the Company had no derivative financial instruments held for trading purposes or for hedging purposes.

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

ii. Loans and receivables

Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Accounts receivable are classified as current assets, except for those settled after 12 months of the date of the consolidated statement of financial position. These are classified as non-current assets.

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

Financial liabilities

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

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

Offsetting financial assets and liabilities

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

Impairment of financial instruments

a. Financial assets carried at amortized cost

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

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

-Significant financial difficulty of the issuer or debtor.

-Breach of contract, such as late payments of interest or principal

-Granting a concession to the issuer or debtor by the Company, as a result of financial difficulties of the issuer or debtor and that would not otherwise be considered.

-It is likely that the issuer or debtor will file for bankruptcy or conduct other financial reorganization.

-Disappearance of an active market for that financial asset due to financial difficulties.

-Verifiable information that indicates that there is a measurable decrease in the estimated future cash flows related to a group of financial assets after initial recognition, although the decrease cannot yet be related to the individual financial assets of the Company, including:

i. Adverse changes in the payment status of borrowers in the group of assets

ii. National or local conditions that correlate to breaches by the issuers of the group of assets.

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

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

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

b. Financial assets available for sale

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

As of December 31, 2017 and 2016, the Company only had loans and accounts receivable.

g. ***Inventories***

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

h. ***Property, plant and equipment***

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flows to the Company and the cost of the item can be reliably measured. The carrying amount of the replaced part is derecognized. Repairs and maintenance are recognized in the consolidated statement of income in the year they are incurred. Major improvements are depreciated over the remaining useful life of the related asset.

When the Company carries out major repairs or maintenance of its property, plant and equipment, the cost is recognized in the book value of the corresponding asset as a replacement, only when the recognition criteria are met. The remaining portion of any major repair or maintenance is derecognized. The Company subsequently depreciates the recognized cost in the useful life assigned to it, based on its best estimate of useful life.

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

Buildings and constructions	30 to 50 years
Machinery and equipment	5 to 30 years
Vehicles	7 to 10 years
Furniture and lab and IT equipment information	4 to 15 years
Tooling	7 to 10 years
Leasehold improvements	20 years

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

General and specific borrowing costs, related to the acquisition, construction or production of qualified assets, which require a substantial period (nine months), are capitalized as part of the cost of acquiring such qualifying assets, up to the moment when they are suitable for their intended use or sale.

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

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

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

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

i. Leases

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

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

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

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

j. Intangible assets

Intangible assets are recognized in the consolidated statement of financial position when they meet the following conditions: they are identifiable, provide future economic benefits and the Company has control over such benefits.

Intangible assets are classified as follows:

i. Indefinite useful life

These intangible assets are not amortized and are subject to annual impairment assessment. As of December 31, 2017 and 2016, no factors have been identified limiting the useful life of these intangible assets.

ii. Finite useful life

These assets are recognized at cost less accumulated amortization and recognized impairment losses. They are amortized on a straight line basis over their estimated useful life, determined based on the expectation of generating future economic benefits, and are subject to impairment tests when indicators of impairment are identified.

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

Development costs	10 to 22 years
Relationships with customers	14 years
Software and licenses	15 to 22 years
Other (market developments, non-compete and rights-of-use agreements)	7 to 10 years

a. Goodwill

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

b. Development costs

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

c. Trademarks

Trademarks acquired in a separate transaction are recorded at acquisition cost. Trademarks acquired in a business combination are recognized at fair value at the acquisition date. Trademarks are not amortized but are subject to annual impairment tests.

d. Licenses

Licenses acquired in a separate transaction are recorded at acquisition cost. Licenses acquired in a business combination are recognized at fair value at acquisition date.

Licenses that have a defined useful life are presented at cost less accumulated amortization. Amortization is recorded by the straight-line method over its estimated useful life.

The acquisition of software licenses is capitalized based on the costs incurred to acquire and use the specific software.

e. Software development

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

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

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

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

k. Impairment of non-financial assets

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

l. ***Income taxes***

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

The amount of income taxes included in the consolidated statement of income represents the current tax and the effects of deferred income tax assets determined in each subsidiary by the asset and liability method, applying the rate established by legislation enacted or substantially enacted at the statement of financial position date wherever SIGMA and its subsidiaries operate and generate taxable. The applicable rates are applied to the totality of the temporary differences resulting from comparing the accounting and tax values of assets and liabilities in accordance with the years in which the deferred asset tax is realized or the deferred liability tax is expected to be settled, considering, when applicable, any tax loss carry forwards expected to be recoverable. The effect of a change in tax rates is recognized in income for the period in which the rate change is enacted.

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

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

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

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

m. Employee benefits

i. Pension plans

Defined contribution plans:

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

Defined benefit plans:

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

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

Actuarial remeasurements from adjustments and changes in actuarial assumptions are recognized directly under other comprehensive income in the year they occur, and are not reclassified to the consolidated statement of income.

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

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

ii. Post-employment medical benefits

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

iii. Termination benefits

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

iv. Short term benefits

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

v. Employee share in profits and bonuses

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

n. Provisions

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

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

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

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

o. Stock based compensation

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

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

p. Capital stock

SIGMA common shares are classified as capital stock within stockholders' equity. Incremental costs directly attributable to the issue of new shares are included in equity as a deduction of the consideration received, net of tax.

q. Comprehensive income

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

r. Segment reporting

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

s. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the normal course of operations. Revenue is recognized net of estimated customer returns, rebates and similar discounts. The Company grants discounts and incentives to customers, which are recognized as a deduction from income or as selling expenses depending on their nature. These programs include customer discounts for sales of products based on: i) sales volume (usually recognized as a reduction of revenue) and ii) promotions in retail products (usually recognized as selling expenses) mainly.

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

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

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

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

t. Earnings per share

Earnings per share are calculated by dividing the income attributable to the owners of the controlling entity by the weighted average of outstanding common shares during the year. If the number of outstanding shares is increased as a result of a capitalization or share split, or is decreased as a result of a reserve stock split, the calculation of the basic and diluted earnings per share for all the periods presented is retrospectively adjusted. As of December 31, 2017 and 2016, there are no dilutive effects for instruments potentially convertible to shares.

u. Changes in accounting policies and disclosures

i. New standards and changes adopted by the Company

The Company adopted all new standards and interpretations in effect as of January 1, 2017, including the annual improvements to IFRS; which had no significant effects on the Company's consolidated financial statements.

ii. New standards and interpretations yet to be adopted by the Company

A series of new standards, amendments and interpretations have been issued, which are not yet effective for reporting periods ended in December 31, 2017, and have not been early adopted by the Company.

Below is a summary of these new standards and interpretations as well as the Company's assessment as to the potential impacts on the consolidated financial statements:

IFRS 9, Financial instruments

IFRS 9, *Financial instruments*, replaces IAS 39, *Financial instruments: recognition and measurement.* This standard is mandatorily effective for periods beginning on or after January 1, 2018 and introduces a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or fair value through other comprehensive income (FVTOCI), lease receivables, contract assets and certain written loan commitments and financial guarantee contracts.

In regards of the expected loss impairment model, the initial adoption requirement of IFRS 9 is retrospective and establishes as an option to adopt it without modifying the financial statements of previous years by recognizing the initial effect on retained earnings at the date of adoption. In case of hedge accounting, IFRS 9 allows application with a prospective approach.

The Company did not have a material impact associated with the new measurement category of FVTOCI as it does not currently hold any instruments that qualify for this treatment; however, potential impacts could arise should it change its investment strategy in the future.

Lastly, regarding the new expected loss impairment model, the Company's management decided to adopt the standard retrospectively recognizing the effects on retained earnings as of January 1, 2018 and has determined the impacts on its consolidated financial position are not material as of that date. The Company has estimated that the effects it will have on its results from operations are not significant.

IFRS 15, Revenue from contracts with customers

IFRS 15, *Revenues from contracts with customers*, was issued in May 2014 and is effective for periods beginning January 1, 2018, although early adoption is permitted. Under this standard, revenue recognition is based on the transfer of control, i.e. notion of control is used to determine when a good or service is transferred to the customer.

The standard also presents a single comprehensive model for the accounting for revenues from contracts with customers and replaces the most recent revenue recognition guidance, including the specific orientation of the industry. This comprehensive model introduces a five-step approach for revenue recognition: (1) identifying the contract; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when the Company satisfies a performance obligation. Furthermore, the amount of disclosures required in the financial statements, both annual and interim, is increased.

Management of the Company has evaluated the requirements of this new IFRS and has chosen to adopt it using the modified retrospective method applied to the contracts in force on the date of initial adoption of January 1, 2018. Based on its analysis, management of the Company does not anticipate impacts on the date of initial adoption of IFRS 15, nor significant changes in its revenue recognition policies, beyond the fact that the new IFRS requires a higher level of disclosures of contracts with customers.

IFRS 16, Leases

IFRS 16, *Leases*, supersedes IAS 17, *Leases*, and its related interpretations. This new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. IFRS 16 is effective for periods beginning on or after January 1, 2019.

Under IFRS 16, lessees will recognize the right of use of an asset and the corresponding lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. On the other hand, the financial liability will be measured at the initial recognition, in a similar way as required by IAS 17, and subsequently, it should be evaluated if a remeasurement is required, based on contractual modifications of the minimum lease payments.

Additionally, IFRS 16 establishes as exception to these requirements the leases with a term of 12 months or less and containing no purchase options, as well as for leases where the leased asset is low-valued, such as personal computers or small office furniture items.

Management has determined that IFRS 16 could have an impact on the accounting of its existing operating leases. As of December 31, 2017, the Company has non-cancellable operating lease commitments as follows:

	As of December 31, 2017
2018	$ 580,525
2019	166,144
2020	145,989
2021	118,806
2022 and after	280,019
	$ 1,291,483

However, it has not determined yet to what extent these commitments will result in the recognition of an asset or liability for future payments, and how this will affect the Company's capital structure, its results and cash flows. The Company will be applying a modified retrospective transition as of January 1, 2019, which implies that any transition impact will be recognized directly in stockholders' equity as of such date.

IFRIC 22, Interpretation on Foreign Currency Transactions and Advance Consideration

This new Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation is being issued to reduce diversity in practice related to the exchange rate used when an entity reports transactions that are denominated in a foreign currency in accordance with IAS 21 in circumstances in which consideration is received or paid before the related asset, expense, or income is recognized. Effective for annual reporting periods beginning after January 1, 2018 with earlier application permitted.

The Company translates advance considerations at the exchange rate on the date of the transaction, either received or paid, and recognizes them as non-monetary items; therefore, it does not visualize significant impacts in the adoption of this interpretation in its consolidated financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments

This new Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 Income taxes when there is uncertainty over income tax treatments. Uncertain tax treatments is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

An entity shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted and the fact must be disclosed. On initial application, the Interpretation must be applied retrospectively under the requirements of IAS 8 or retrospectively with the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings.

The Company is evaluating and determining the potential impacts of the adoption of these standards and related modifications in their consolidated financial statements.

4. Financial instruments and financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk on cash flows, and interest rate risk on fair values), credit risk and liquidity risk and input and product risk.

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. The Company constantly analyzes the impact of financial risk in order to determine the representative changes that can gradually be passed on to the sales prices of their products and thereby hedge the risks of exchange rates and interest rates, mainly. The objective is to protect the financial health of its business considering the volatility associated to exchange rates and interest rates.

ALFA has a Risk Management Committee (RMC), comprised of the Board's Chairman, the CEO, CFO and a Risk Management officer acting as technical secretary. The RMC reviews derivative transactions proposed by the subsidiaries of ALFA, including SIGMA, in which a potential loss analysis surpasses US$1 million. This Committee supports both the CEO and the President of Board of ALFA. All new derivative transactions which the Company proposes to enter into, as well as the renewal or cancellation of derivative arrangements, must be approved by both SIGMA's and ALFA's CEO according to the following schedule of authorizations:

	Maximum possible loss of US$ million	
	Individual transaction	**Annual cumulative transactions**
Chief Executive Officer of SIGMA	1	5
Risk Management Committee of ALFA	30	100
Finance Committee	100	300
ALFA Board of Directors	>100	>300

The proposed transactions must meet certain criteria, including that the hedges are lower than established risk parameters, and that they are the result of a detailed analysis and are properly documented. In addition, sensitivity analyses and other risk analyses should be performed before the operation is entered into. As of December 31, 2017 and 2016, the Company did not have derivative financial instruments.

The risk management policy of ALFA indicates that the hedging positions must always be less than the projected exposure to allow an acceptable margin of uncertainty; exposed transactions are expressly prohibited. The policy of ALFA indicates that the farther the exposure, the lower the coverage, based on the following table:

	Maximum coverage (as a percentage with respect to the projected exposure)
Exchange rate for operating transactions	80
Exchange rate for financial transactions	100
Interest rates	100

Capital management

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

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

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

The financial ratio of total liabilities/total equity was 4.77 and 4.91 as of December 31, 2017 and 2016, respectively, resulting in a leverage ratio that meets the Company's management and risk policies.

Financial instruments by category

As of December 31, 2017 and 2016, financial assets and liabilities consist of the following:

	As of December 31, 2017	2016
Financial assets measured at amortized cost:		
Cash and cash equivalents	$12,807,070	$12,837,614
Restricted cash	132,222	123,973
Trade and other accounts receivable	5,864,599	7,223,089
	$18,803,891	$20,184,676
Financial liabilities measured at amortized cost:		
Debt	$50,409,121	$47,842,609
Trade and other accounts payable	25,817,604	26,098,551
	$76,226,725	$73,941,160

Fair value of financial assets and liabilities measured at amortized cost

The amount of cash and cash equivalents, trade and other accounts receivable, suppliers and other accounts payable, approximate their fair value due to their short-term maturity. The net carrying amount of these accounts represents the expected cash flows to be received as of December 31, 2017 and 2016.

In addition, the estimated carrying amount and fair value of the financial assets and liabilities measured at amortized costs are as follows:

	As of December 31, 2017 (1) Carrying amount	Fair value	As of December 31, 2016 Carrying amount	Fair value
Financial liabilities				
Debt	$50,126,729	$52,127,644	$47,429,000	$48,203,000

(1) The carrying amount of debt, for purposes of the fair value calculation, is disclosed gross of interest payable and issuance costs.

The estimated fair values are based on quoted prices (unadjusted) on active markets for identical assets or liabilities; therefore, they have been classified within Level 1 of the fair value measurement hierarchy.

As of December 31, 2017 and 2016, there were no transfers between the fair value hierarchy levels.

Market risks

i. Exchange rate risk

The Company operates internationally and is exposed to exchange rate changes, mainly derived from transactions and balances conducted and held by subsidiaries, respectively. Foreign currency is defined as that which is other than the functional currency of an entity.

The behavior of the exchange rates among the Mexican peso, the U.S. dollar and the euro represents a significant factor for the Company for the effect that such currencies have on its results and because, in addition, SIGMA has no influence in its determination. Furthermore, SIGMA estimates that most of its revenues are denominated in a currency other than the Mexican peso, primarily in euros and U.S. dollars, either because they arise from goods exported from Mexico, or because they are goods manufactured and sold abroad.

For this reason, in the past, sometimes where the Mexican peso has appreciated in real terms against other currencies, such as the U.S. dollar, the Company's profit margins have increased. On the contrary, when the Mexican peso has lost value, SIGMA profit margins have decreased. However, although this correlation of factors has arisen in several occasions in the recent past, it is uncertain that it will be repeated in the event the exchange rate between the Mexican peso and any other currency fluctuates again, because it also depends on the monetary position in foreign currency of the Company's subsidiaries.

Therefore, occasionally, the Company participates in derivative financial instruments transactions on exchange rates in order to keep the comprehensive total cost of their funding and the volatility associated with exchange rates under control. In addition, as a significant portion of the Company's revenues are denominated in US dollars and euros, there is a natural hedge of the liabilities payable in U.S. dollars and euros.

Given the above, primarily, the Company maintains the following assets and liabilities denominated in foreign currencies in relation to the functional currency of the subsidiary entities, translated to thousands of Mexican pesos at the closing exchange rate of December 31, 2017:

	MXP	**USD**	**EUR**
Monetary assets	$ 250	$2,107,440	$ 1,500
Monetary liabilities	1,737,090	2,820,820	14,283,760
Foreign exchange monetary position	$(1,736,840)	$ (713,380)	$(14,282,260)

The exchange rates used to translate monetary positions in foreign currency to Mexican pesos are described in Note 3.c.iii.

Based on the monetary positions in foreign currency maintained by the Company, a hypothetical variation of 10% in the MXN/USD and MXN/EUR exchange rate and keeping all other variables constant, would result in an effect of $1,673,248 in the consolidated statement of income and stockholders' equity.

ii. Price risk

To carry out its activities, the Company depends on the supply of raw materials provided by its suppliers, both in Mexico and abroad, including cattle, swine and poultry meat products and dairy products, mainly. In the past few years, the price of some food supplies has been volatile, such as meat, cereals and milk. In order to set the selling prices of its products, the Company modifies prices based on fluctuations in the market of certain inputs.

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

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

iii. Interest risk rate

Exposure to interest rate depends on the variations that may arise in interest rates; however, as of December 31, 2017 and 2016, the Company was not significantly exposed to an interest rate risk, since its financial debt was at fixed interest rates (Note 15).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. 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, and for ongoing evaluations of its customers' credit, and adjusting credit limits based upon payment history and the customer's current creditworthiness.

Credit risk is generated from cash and cash equivalents and deposits in banks and financial institutions, as well as credit exposure to customers, including accounts receivable and committed transactions. If wholesale customers are rated independently, those are the ratings used. If there is no independent rating, the Company evaluates the creditworthiness of customers, taking into account their financial position, past experience and other factors. The maximum exposure to credit risk is given by the balances of these items, as presented in the consolidated statement of financial position.

During 2017 and 2016, credit limits were not exceeded and management does not expect losses greater than the impairment recognized in the corresponding periods.

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

SIGMA’s customers are commercial establishments classified as: supermarkets, convenience stores, institutions and small grocery stores. The credit risk on accounts receivable is diversified because the Company has an extensive portfolio of clients that is globally scattered.

Liquidity risk

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

The Company’s Treasury department invests those funds in term deposits whose maturities or liquidity allow flexibility to meet the Company’s cash needs. As of December 31, 2017 and 2016, the Company has term deposits of $6,676,117 and $5,962,442, respectively.

The following table details the Company’s financial liabilities grouped according to their maturity, from the reporting date to the contractual maturity date. The amounts disclosed are contractual undiscounted cash flows; therefore, they differ from the amounts included in the consolidated statements of financial position.

	Less than 1 year	**Between 1 and 5 years**	**Over 5 years**
As of December 31, 2017			
Trade and other accounts payable	$25,817,604	$ -	$ -
Senior Notes	-	14,386,953	33,869,488
Debt securities	1,737,020	-	
Finance leases	-	119,905	13,363
Non accrued future interest	1,922,288	6,213,004	3,951,547
As of December 31, 2016			
Trade and other accounts payable	$26,098,551	$ -	$ -
Senior Notes	-	14,382,024	31,207,169
Debt securities	-	1,690,862	-
Finance leases	-	72,061	48,256
Non accrued future interest	2,683,619	5,817,415	4,587,834

SIGMA expects to meet its obligations with cash flows generated by operations. Additionally, SIGMA has access to credit lines with various banks to meet possible requirements (Note 15).

Fair value estimation

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

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

Specific valuation techniques used to value financial instruments include:

-Market quotations or offers from retailers for similar instruments.

-The fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on observable yield curves.

-The fair value of forward exchange contracts is determined using the exchange rates for the statement of financial position date, with the resulting value discounted at present value.

-Other techniques, such as the analysis of discounted cash flows, which is used to determine fair value for the remaining financial instruments.

As of December 31, 2017 and 2016, SIGMA does not have assets nor liabilities measured at fair value.

5. Critical accounting estimates and judgements

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

5.1 Critical accounting and assumptions

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

a. Estimated impairment of goodwill and intangible assets with indefinite useful lives

The Company conducts annual tests to determine whether goodwill and intangibles assets with indefinite useful lives have suffered any impairment (Note 11). For impairment testing, goodwill and intangibles assets with indefinite lives is allocated with those cash generating units (CGUs) of which the Company has considered that economic and operational synergies of the business combinations are generated. The recoverable amounts of the groups of CGUs were determined based on the calculations of their value in use, which require the use of estimates, within which, the most significant are the following:

- Estimation of future gross and operating margins according to the historical performance and expectations of the industry for each CGU group.
- Discount rate based on the weighted cost of capital (WACC) of each CGU or CGU group.
- Long-term growth rates.

b. Recoverability of deferred tax assets

The Company has tax losses to be applied, derived mainly from significant foreign exchange losses, which may be used in the years following their maturity (Note 16). Based on the projections of income and fiscal profits that SIGMA will generate in the following years through a structured and robust business plan, management has considered that the current fiscal losses will be used before they expire and for this reason it has been considered appropriate to recognize a deferred tax asset for such losses.

c. Long-lived assets

The Company estimates the useful lives of long-lived assets in order to determine the depreciation and amortization expenses to be recorded during the reporting period. The useful life of an asset is calculated when the asset is acquired and is based on past experience with similar assets, considering anticipated technological changes or any other type of changes. Were technological changes to occur faster than estimated, or differently than anticipated, the useful lives assigned to these assets could have to be reduced. This would lead to the recognition of a greater depreciation and amortization expense in future periods. Alternatively, these types of technological changes could result in the recognition of a charge for impairment to reflect the reduction in the expected future economic benefits associated with the assets.

The Company reviews depreciable and amortizable assets on an annual basis for signs of impairment, or when certain events or circumstances indicate that the book value may not be recovered during the remaining useful life of the assets. For intangible assets with an indefinite useful life, the Company performs impairment tests annually and at any time that there is an indication that the asset may be impaired.

To test for impairment, the Company uses projected cash flows, which consider the estimates of future transactions, including estimates of revenues, costs, operating expenses, capital expenditures and debt service. In accordance with IFRS, discounted future cash flows associated with an asset or CGU are compared to the book value of the asset or CGU being tested to determine if impairment exists whenever the aforementioned discounted future cash flows are less than its book value. In such case, the carrying amount of the asset or group of assets is reduced to its value in use, unless its fair value is higher.

6. Cash and cash equivalents

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

	As of December 31, 2017	2016
Cash at bank and on hand	$ 6,130,953	$ 6,875,172
Short-term bank deposits	6,676,117	5,962,442
Total cash and cash equivalents	$12,807,070	$12,837,614

7. Restricted cash

The restricted cash balance is composed as follows

	As of December 31, 2017	2016
Current	$ 84,855	$ 61,992
Non-current	47,367	61,981
Restricted cash	$132,222	$123,973

As of December 31, 2017 and 2016, restricted cash includes warranty deposits in favor of SIGMA, which are derived from the acquisitions of SUPEMSA (in 2017), JURIS and ECARNI. Restricted cash will be fully released in accordance with various contractual requirements within two to four years after the acquisition date of such entities.

8. Trade and other accounts receivable, net

	As of December 31, 2017	2016
Trade accounts receivable	$6,235,418	$7,144,013
Allowance for impairment of trade receivables	(459,059)	(481,484)
Trade accounts receivable, net	5,776,359	6,662,529
Due from related parties (Note 26)	6,632	33,554
Recoverable value added tax (“VAT”)	1,786,452	1,816,339
Interest receivable	844	2,032
Other debtors:		
Short-term notes receivable	80,764	153,684
Sundry debtors	326,162	371,290
	$7,977,213	$9,039,428

The aging analysis of balances due from trade accounts receivable not impaired is as follows:

	As of December 31, 2017	2016
1 to 30 days	$1,251,647	$ 930,675
30 to 90 days	143,271	261,958
90 to 180 days	48,937	106,574
Over 180 days	34,127	45,637
	$1,477,982	$1,344,844

As of December 31, 2017 and 2016, the allowance for impairment of trade accounts receivable amounted to $459,059 and $481,484, respectively. The balance of trade accounts receivable impaired corresponds mainly to subsidiaries going through difficult economic situations.

Movements in the allowance for impairment of trade accounts receivable are as follows:

	For the years ended December 31,	
	2017	**2016**
Opening balance (January 1)	$481,484	$419,214
Allowance for impairment of trade accounts receivable	119,754	105,376
Accounts receivable written off during the year	(142,179)	(43,106)
Ending balance (December 31)	$459,059	$481,484

Increases in the allowance for impairment of trade accounts receivable are recorded in the consolidated statement of income under sales expenses.

9. Inventories

	As of December 31,	
	2017	**2016**
Finished goods	$ 3,800,786	$ 3,803,678
Raw materials and other consumable goods	5,245,759	4,944,926
Production in progress	5,640,505	5,002,670
	$14,687,050	$13,751,274

The cost of inventories recognized in cost of sales amounted to $65,081,888 and $58,919,080 for 2017 and 2016, respectively.

In the years ended on December 31, 2017 and 2016, damaged, slow-moving and obsolete inventory was recognized in the amount of $16,740 and $15,810, respectively.

As of December 31, 2017 and 2016, there were no pledged inventories.

10. Property, plant and equipment, net

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Furniture and lab and IT equipment	Tooling	Constructions in progress	Leasehold improvements	Other fixed assets	Total
Opening balance as of January 1, 2016	$2,855,185	$8,167,401	$11,797,479	$1,320,320	$460,792	$ 63,143	$1,730,348	$202,977	$ 411	$26,598,056
Exchange differences	310,258	1,060,688	1,397,810	30,501	57,477	2,441	262,179	3,499	80	3,124,933
Additions	61,279	700,610	1,938,940	474,645	62,489	39,918	3,121,592	29,063	1,605	6,430,141
Additions from business acquisitions	-	-	2,551	3,320	414	-	-	-	-	6,285
Disposals	(2,436)	(26,745)	(132,340)	(31,915)	(3,466)	(12,450)	(84,309)	(1,421)	(8)	(295,090)
Transfers	(222)	213,118	1,230,295	54,431	42,090	-	(1,566,806)	27,093	1	-
Depreciation charges of the year	-	(468,037)	(1,797,674)	(337,188)	(153,802)	-	-	(18,320)	(22)	(2,775,043)
Ending balance as of December 31, 2016	$3,224,064	$9,647,035	$14,437,061	$1,514,114	$465,994	$93,052	$3,463,004	$242,891	$2,067	$33,089,282
Cost	3,224,064	14,423,676	31,663,619	3,643,633	2,003,602	93,052	3,463,004	412,987	2,591	58,930,228
Accumulated depreciation	-	(4,776,641)	(17,226,558)	(2,129,519)	(1,537,608)	-	-	(170,096)	(524)	(25,840,946)
Net carrying amount as of December 31, 2016	3,224,064	9,647,035	14,437,061	1,514,114	465,994	93,052	3,463,004	242,891	2,067	33,089,282
Exchange differences	124,151	459,752	793,158	8,925	20,014	(2,487)	(11,741)	(1,780)	(20)	1,389,972
Additions	188,773	617,781	1,513,840	397,111	239,814	11,808	1,837,329	34,183	-	4,840,639
Additions due to business acquisitions	(1,348)	17,714	24,182	2,014	380	-	-	-	-	42,942
Disposals	(151,883)	(100,595)	(252,665)	(24,869)	(3,982)	(76,140)	(417,095)	(6,051)	-	(1,033,280)
Transfers	62,983	421,621	2,162,976	88,997	37,497	3,124	(2,832,069)	54,871	-	-
Depreciation charges of the year	-	(509,348)	(1,997,796)	(370,554)	(159,027)	(2,917)	-	(21,111)	(397)	(3,061,150)
Ending balance as of December 31, 2017	$3,446,740	$10,553,960	$16,680,756	$1,615,738	$600,690	$26,440	$ 2,039,428	$ 303,003	$1,650	$35,268,405
Cost	3,446,740	16,052,832	36,803,729	3,917,743	2,336,655	29,506	2,039,428	490,860	1,622	65,119,115
Accumulated depreciation	-	(5,498,872)	(20,122,867)	(2,302,005)	(1,735,965)	(3,066)	-	(187,857)	(78)	(29,850,710)
Net carrying amount as of December 31, 2017	$3,446,740	$10,553,960	$16,680,862	$1,615,738	$600,690	$ 26,440	$ 2,039,428	$ 303,003	$1,544	$35,268,405

In the years ended December 31, 2017 and 2016, the Company recognized an impairment in the amount of $278,049 and $150,051, respectively.

Of the total depreciation expense in the amount of$3,061,150 and $2,775,043, $2,193,377 and $2,005,742 were recorded in cost of sales, $696,673 and $602,209 in selling expenses, and $171,100 and $167,092 in administrative expenses, in 2017 and 2016, respectively.

As of December 31, 2017 and 2016, there are no significant liabilities guaranteed with property, plant and equipment.

As of December 31, 2017 and 2016, the Company has no qualifying assets to capitalize borrowing costs.

As of December 31, 2017 and 2016, the Company has entered into non-cancellable finance lease agreements as lessee. The terms of the lease are between 2 and 3 years, and the Company has control over the assets during the lease term. During the years ended December 31, 2017 and 2016, acquisitions of property, plant and equipment associated with finance leases that did not represent the use of cash flows were $8,991 and $9,271.

As of December 31, 2017 and 2016, assets under finance leases comprise the following amounts in which the Company is the lessee:

	As of December 31,	
	2017	**2016**
Cost – capitalized finance leases	$241,443	$204,419
Accumulated depreciation	(105,699)	(84,102)
	$135,744	$120,317

11. Goodwill and intangible assets, net

	Finite life			**Indefinite life**			
	Development cost	**Customer relationships**	**Software, licenses and other**	**Goodwill**	**Trademarks**	**Other [(2)]**	**Total**
Cost							
As of January 1, 2016	$479,255	$1,825,461	$1,954,067	$9,538,822	$11,004,860	$82,681	$24,885,146
Exchange differences	3,137	320,819	445,270	1,622,688	1,887,183	-	4,279,097
Additions due to business acquisitions	-	70,678	10,117	-	1,130	-	81,925
Additions	3,374	-	94,570	-	-	-	97,944
Disposals	-	-	-	-	(25,787)	-	(25,787)
Impairment	-	-	-	-	(183,831)	-	(183,831)
Reclassification PACSA and ECARNI [(1)]	-	494,139	(18,933)	(249,667)	6,473	-	232,012
As of December 31, 2016	485,766	2,711,097	2,485,091	10,911,843	12,690,028	82,681	29,366,506
Exchange changes	5,184	(85,896)	280,299	645,543	621,564	-	1,466,694
Additions due to business acquisitions	8,878	-	19,287	3,184,862	-	12,832	3,225,859
Additions	2,021	-	102,671	-	-	-	104,692
Disposals	(23)	-	34	-	-	-	11
Impairment	-	-	(3,408)	-	(77,164)	-	(80,572)
As of December 31, 2017	$501,826	$2,625,201	$2,883,974	$14,742,248	$13,234,428	$ 95,513	$34,083,190

	Finite life			Indefinite life			
	Development cost	Customer relationships	Software, licenses and other	Goodwill	Trademarks	Other [2]	Total
Accumulated amortization							
As of January 1, 2016	$(354,461)	$ (674,021)	$(613,342)	$ -	$ -	$ -	$(1,641,824)
Amortizations	(3,200)	(293,751)	(409,557)	-	-	-	(706,508)
Exchange differences	(3,119)	(83,485)	(266,725)	-	-	-	(353,329)
As of December 31, 2016	(360,780)	(1,051,257)	(1,289,624)	-	-	-	(2,701,661)
Amortizations	(4,494)	(287,053)	(423,135)	-	-	-	(714,682)
Exchange differences	(4,119)	12,818	(218,703)	-	-	-	(210,004)
As of December 31, 2017	$(369,393)	$(1,325,492)	$(1,931,462)	$ -	$ -	$ -	$(3,626,347)
Net carrying amount							
Cost	$485,766	$2,711,097	$2,485,091	$10,911,843	$12,690,028	$82,681	$29,366,506
Accumulated amortization and impairment	(360,780)	(1,051,257)	(1,289,624)	-	-	-	(2,701,661)
As of December 31, 2016	$124,986	$1,659,840	$1,195,467	$10,911,843	$12,690,028	$82,681	$26,664,845
Cost	501,826	2,625,201	2,883,974	14,742,248	13,234,428	95,513	34,083,190
Accumulated amortization and impairment	(369,393)	(1,325,492)	(1,931,462)	-	-	-	(3,626,347)
As o December 31, 2017	$132,433	$1,299,709	$952,512	$14,742,248	$13,234,428	$95,513	$30,456,843

[1] Certain balances from 2015 related to the distribution of the purchase price, were changed in 2016 to recognize the final fair values of the assets acquired and liabilities assumed. As of December 31, 2016, the Company reclassified certain items of the consolidated statement of financial position which had previously been presented as part of the goodwill. The reclassified amounts were adjusted increasing the value of finite life intangibles by $481,679, increasing the balance of deferred income tax by $97,839, decreasing the value of goodwill by $249,667, and decreasing the balance of property, plant and equipment by $104,856. This reclassification had no significant impacts on the amounts of the consolidated statements of income, of stockholders' equity, and cash flows.

[2] Other intangible assets consist of: use rights, market development and non-compete agreements.

From the total amortization expense of $714,682 and $718,889, $12,649 and $7,726 have been recorded in cost of sales, $385,164 and $395,710 in selling expenses, and $316,869 and $315,453 in administrative expenses, in 2017 and 2016, respectively.

For the year ended December 31, 2017, the Company recognized an impairment in the amount of $80,572 related to intangible assets generated by trade permits in Latin America.

In 2016, the Italian Stock Exchange fell 4.1% as a result of the economic situation of the country and the measures imposed by the World Health Organization, which are significantly more severe on this market in comparison to the other markets where the Company operates. As a result of these factors, management recalculated the recoverable value of the cash generating unit in Italy, recognizing an impairment of $183,831 for the year ended December 31, 2016. The recoverable amount of the CGU was determined based on the calculations of the value in use. The following table shows the key assumptions of the CGU when the impairment calculations were prepared as of December 31, 2016:

Sales growth (annual growth rate %)	4.51%
EBITDA/sales budget	7.54%
Long-term growth rate	1.00%
Discount rate	7.18%

Goodwill impairment tests

As disclosed in Note 5.a, goodwill is allocated to groups of cash generating units that are associated with the operating segments, which are expected to benefit from the synergies of the business combination, regardless of whether other assets or liabilities of the acquired entity are assigned to those units or groups of units, as follows:

	As of December 31,	
	2017	**2016**
Mexico	$ 1,942,249	$ 2,032,465
USA	5,289,432	4,866,872
Europe	5,235,268	2,576,242
LATAM	2,275,299	1,436,264
	$14,742,248	$10,911,843

The recoverable value of each group of CGU has been determined based on the calculations of the values in use, which consist of projections of cash flows after taxes based on financial budgets approved by management covering a period of 5 years.

The gross and operating margins included in the estimates of value in use have been estimated based on the historical performance and the growth expectations of the market in which each CGU group operates. The long-term growth rate used in estimating value in use is consistent with the projections included in industry reports. The present value of the cash flows was discounted using a specific discount rate after taxes for each CGU group and reflects the specific risks associated with each of them.

The key assumptions used in calculating the value in use in 2017 and 2016 are as follows:

	2017			
	Mexico	**USA**	**Europe**	**LATAM**
Long-term growth rate	3.2%	2.0%	1.0%	2.3%
Discount rate	9.4%	6.2%	7.26%	10.2%

	2016			
	Mexico	**USA**	**Europe**	**LATAM**
Long-term growth rate	8.8%	11.8%	0.7%	6.6%
Discount rate	8.8%	6.3%	6.9%	10.0%

The Company carried out a sensitivity analysis considering an increase in the discount rate of 100 basis points, and a similar decrease in the long-term growth rate, which did not resulted in an impairment loss of goodwill.

12. Investments accounted for using the equity method and other non-current assets

	As of December 31,	
	2017	**2016**
Long-term notes receivable	$ 83,777	$ 82,578
Investment in shares of associates	1,135	945,968
Other non-current assets	134,722	40,403
Total other non-current assets	$219,634	$1,068,949

The change in investment in associates for the years ended on December 31, 2017 and 2016 is as follows:

	For the years ended December 31,	
	2017	**2016**
Opening balance (January 1)	$ 945,968	$ 808,650
Equity method	15,976	50,236
Acquisition of control over associate	(1,309,089)	-
Exchange differences and dividends received, net	348,280	87,082
Ending balance (December 31)	$ 1,135	$ 945,968

The summarized financial information of the Company's associates is as follows:

	For the years ended December 31,	
	2017	**2016**
Net income (loss)	$(584)	$ 77,893
Comprehensive income (loss)	(584)	77,893

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

13. Subsidiaries with significant non-controlling interest

The non-controlling interest for the year ended December 31, 2017 and 2016 is comprised as follows:

	Non-controlling ownership percentage	**Non-controlling interest income for the period**		**Non-controlling interest as of December 31,**	
		2017	**2016**	**2017**	**2016**
Campofrio	4.51%	$41,952	$33,419	$692,065	$617,983

The summarized consolidated financial information as of December 31, 2017 and 2016 and for the year then ended, corresponding to Campofrio, a subsidiary with a significant non-controlling interest, is shown below:

	As of December 31,	
	2017	**2016**
Current assets	$15,369,607	$17,503,794
Non-current assets	33,900,222	29,850,604
Current liabilities	18,585,441	19,039,663
Non-current liabilities	15,339,269	14,612,222
Stockholders' equity	15,345,118	13,702,514

	For the years ended December 31,	
	2017	**2016**
Income	$ 42,844,033	$ 40,071,486
Net income	930,192	741,002
Comprehensive income of the year	718,851	490,729
Net cash generated from operating activities	900,590	4,456,363
Net cash used in investing activities	(2,790,331)	(3,564,567)
Net cash used in financing activities	(780,625)	(121,812)
Net increase (decrease) in cash and cash equivalents	$(2,670,366)	$ 105,503

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

14. Trade and other accounts payable

	As of December 31,	
	2017	**2016**
Trade accounts payable	$20,866,955	$21,376,345
Taxes and withholdings payable	1,350,750	1,211,227
Annual performance bonus	86,300	94,720
Short-term employee benefits	1,337,405	1,361,195
Other accounts and accrued expenses payable	2,176,194	2,055,064
	$25,817,604	$26,098,551

15. Debt

The carrying amounts of debt are as follows:

	As of December 31, 2017	As of December 31, 2016
Current:		
Unsecured debt securities	$ 1,737,020	$ -
Interest payable	642,596	442,237
Current debt	$ 2,379,616	$ 442,237
Non-current:		
In U.S. dollars:		
Senior Notes	$ 24,588,856	$ 35,085,761
In euros:		
Senior Notes	23,882,665	10,879,911
Finance leases	133,268	120,316
In Mexican pesos:		
Unsecured debt securities	-	1,756,621
	48,604,789	47,842,609
Less: current portion of non-current debt	(575,284)	(442,237)
Non-current debt	$ 48,029,505	$ 47,400,372

The carrying amounts, terms and conditions of debt are as follows:

Description	Contractual currency	Balance in Mexican pesos	Debt issuance costs	Interest payable	As of December 31, 2017	As of December 31, 2016 [1]	Maturity date MM/DD/YYYY	Interest rate at maturity
Senior Notes 144A fixed rate [b]	USD	$ -	$ -	$ -	$ -	$ 9,381,593	04/14/2018	5.625%
Senior Notes 144A fixed rate [b]	USD	4,909,633	10,543	14,133	4,913,223	5,128,558	12/16/2019	6.875%
Senior Notes 144A fixed rate [b]	USD	19,700,610	153,874	128,897	19,675,633	20,575,610	05/02/2026	4.125%
Senior Notes 144A fixed rate [c]	EUR	9,477,320	92,204	93,292	9,478,408	10,879,911	03/13/2022	3.375%
Senior Notes 144A fixed rate [a]	EUR	14,168,878	103,583	338,962	14,404,257	-	02/07/2024	2.625%
Total Senior Notes		48,256,441	360,204	575,284	48,471,521	45,965,672		
SIGMA 08 fixed rate [d]	MXN	1,000,000	-	48,688	1,048,688	1,048,403	07/12/2018	10.25%
SIGMA 08U fixed rate [d]	MXN	737,020	-	18,624	755,644	708,218	07/12/2018	5.32%
Total unsecured debt securities		1,737,020	-	67,312	1,804,332	1,756,621		
Finance leases	EUR	133,268	-	-	133,268	120,316		
Total		$50,126,729	$360,204	$642,596	$50,409,121	$ 47,842,609		

[1] As of December 31, 2016, debt is disclosed net of debt issuance costs of $344,682. Interest payable amounted to $442,237.

As of December 31, 2017 and 2016, the Company has unused contractual credit lines for a total of $6,126,756 (US$200,000 y €92,000) and $2,066,400 (US$100,000), respectively.

The relevant debt transactions are described as follows:

a. On February 2, 2017, Sigma Alimentos, S. A. de C. V. completed an issuance of debt securities ("Senior Notes") in the Irish Stock Exchange in the amount of €600 million, maturing on February 7, 2024. The issuance costs amounted to €5.4 million, and the issuance discounts to €2.2 million. Interest on Senior Notes is payable on an annual basis beginning February 2018 at an annual interest rate of 2.625%. The proceeds were used primarily to pay the outstanding debt.

   The Senior Notes were issued through a private offering under Rule 144A and Regulation S to qualified institutional investors.

b. On May 2, 2016, Sigma Alimentos, S. A. de C. V. completed an issuance of Senior Notes denominated in U.S. dollars through a private offering under Rule 144A and Regulation S to qualified institutional investors in the nominal amount of US$1,000 million, and a maturity date of May 2, 2026. Interest on the Senior Notes is paid semi-annually at an annual interest rate of 4.125% beginning November 2, 2016. The proceeds were entirely used to prepay short and long-term bank loans. The Senior Notes are unconditionally secured.

   The Senior Notes were initially issued at a price equivalent to 99.797% of their nominal value to produce a yield to the investor of 4.15%. The net resources received from the Senior Notes amounted to US$998 million net of the unamortized discount of US$2 million. Additionally, the issuance of the Senior Notes originated issuance costs and expenses of approximately US$10.3 million. The costs and expenses of the issue, including the discount in the placement of the Senior Notes, are presented net of debt and amortized along with the loan based on the method of effective interest rate.

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

   The characteristics of the first and second issuance are as follows:

	First issuance	**Second issuance**
Issuance year	2009	2011
Nominal amount	US$250 million	US$450 million
Maturity	December 16, 2019	December 14, 2018
Annual interest rate	6.875%	5.625%
Interest payment	Semi-annually	Semi-annually

   Costs and expenses, including the discounts from the placement of the Company's Senior Notes are amortized over the contractual maturity of the loan by the effective interest method.

   Notwithstanding, the second issuance was prepaid by the Company on March 9, 2017, whose issuance costs to be amortized were recognized in the consolidated statement of income for the year ended on December 31, 2017 (Note 2.b).

c. On March 3, 2015, Campofrio issued debt in the amount of €500,000 through a private offering under Rule 144A and Regulation S to qualified institutional investors. The bond has a 7 year maturity with an annual interest rate of 3.375%. The debt was used to refinance the bond issued in 2009. Interest is paid semi-annually in March and September. Costs and expenses of this issuance are amortized over the contractual maturity of the loan based on the effective interest rate method.

d. On July 24, 2008, SIGMA issued debt securities of $1,000,000 (SIGMA 08) and 500,000 UDIs ("Investment Units") (SIGMA 08U) maturing in 2018, at the fixed interest rates of 10.25% and 5.32%, respectively.

The Company's contractual credit lines are conditioned to the compliance of certain financial ratios, which include the following:

a) Interest coverage ratio: which is defined as adjusted EBITDA (Note 27) for the period of the last four complete quarters, divided by financial expenses, net or gross as appropriate, for the last four quarters, which shall not be less than 3.0 times.

b) Leverage ratio: which is defined as consolidated debt as of that date, being this net debt divided by adjusted EBITDA for the period of the last four complete quarters, which shall not be more than 3.5 times.

The covenant restrictions contained in the loan agreements of the subsidiaries establish certain obligations, conditions and exceptions. Such obligations require the Company to:

- Provide certain financial information;
- Maintain books and records;
- Maintain assets in appropriate conditions;
- Comply with applicable laws, rules and regulations;

In the case of default, such obligations limit the capacity of the Company to:

- Incur additional indebtedness;
- Pay dividends;
- Grant liens on assets;
- Enter into transactions with affiliates;
- Perform a consolidation, merger or sale of assets, and
- Carry out sale and lease-back operations

If the foregoing are not met or remedied within a specific term in satisfaction of the creditors, such liabilities may be required to be paid immediately.

As of December 31, 2017 and 2016 and at the date of issuance of these financial statements, the Company and its subsidiaries complied satisfactorily with such covenants and restrictions.

16. Income taxes

The Company is subject to income tax, which rate is 30% in Mexico. The statutory income tax rates applicable to the main foreign subsidiaries were as follows:

	2017	**2016**
Costa Rica	30.0%	30.0%
Germany	32.3%	30.0%
Belgium	33.9%	33.9%
Dominican Republic	27.0%	27.0%
El Salvador	30.0%	30.0%
Honduras	25.0%	25.0%
Guatemala	25.0%	25.0%
Nicaragua	30.0%	30.0%
Peru	29.5%	28.0%
The United States (1)	35.0%	35.0%
Spain	25.0%	25.0%
Netherlands	25.0%	25.0%
Italy	24.0%	27.5%
France (1)	33.3%	33.3%
Portugal	22.3%	21.0%
Ecuador	22.0%	22.0%
Romania	16.0%	16.0%

(1) Starting January 1, 2018, the statutory outstanding tax rate corresponds to 21.0% in the United Stated and 34.4% in France.

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

Due to the elimination of the tax consolidation regime in Mexico, the Company chose to adopt the new optional regime for groups of companies beginning in 2014. That regime consists of grouping companies with specific characteristics, and allows for the deferral of part of the income tax payable in three years in March 2018, 2019 and 2020; the deferral percentage is calculated using a factor determined in accordance with the amount of tax profit and losses of 2017 and 2016, respectively.

a) Income tax recognized in the consolidated statement of income:

	2017	2016
Current tax:		
Current tax on income of the year	$(2,355,732)	$(2,034,855)
Adjustment with respect to prior years	8,683	(41,044)
Total current tax	(2,347,049)	(2,075,899)
Deferred tax:		
Origin and reversal of temporary differences	203,084	1,216,345
Total deferred tax	203,084	1,216,345
Income tax expensed	$(2,143,965)	$ (859,554)

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

	For the years ended December 31,	
	2017	2016
Income before income tax	$ 4,217,808	$ 5,812,139
Statutory rate	30%	30%
Income tax at statutory rate	(1,265,342)	(1,743,641)
Effect of changes and due to differences in tax rates with other countries [(1)]	(87,181)	(96,368)
Plus (less) income tax effect on:		
Inflationary adjustment	(719,925)	(324,631)
Non-deductible expenses	(362,815)	(343,137)
Exchange rate differences and other items	282,615	1,689,267
Provision related to transactions of the year	(2,152,648)	(818,510)
True-up with respect to prior years	$ 8,683	$ (41,044)
Total provision for income taxes expensed	$ (2,143,965)	$ (859,554)
Effective rate	51%	15%

(1) In 2017, the effect of changes in tax rates corresponds to new statutory income tax rates enacted in the following countries: Germany, Peru, The United States, Italy, France and Portugal.

c) The detail of the deferred income tax asset and liability is as follows:

	Asset (liability) As of December 31,	
	2017	2016
Inventories	$ 41,663	$ 48,910
Property, plant and equipment	(33,514)	-
Intangible assets	(908,376)	-
Trade accounts receivable	-	32,727
Advances from customers	-	182,241
Post-retirement benefit liabilities	-	335,399
Provisions, liabilities and accrued expenses payable	318,207	375,683
Tax loss carryforwards	3,258,103	5,021,793
Other temporary differences, net	116,380	11,102
Deferred tax asset	$ 2,792,463	$ 6,007,855

	Asset (liability) As of December 31, 2017	2016
Advanced payments	$ -	$ (29,835)
Intangible assets	(3,582,077)	(4,122,447)
Property, plant and equipment	(2,512,533)	(2,578,007)
Provisions, liabilities and accrued expenses payable	429,109	-
Tax loss carryforwards	1,734,111	-
Other temporary differences, net	(136,732)	(128,128)
Deferred tax liability	$ (4,068,122)	$ (6,858,417)

To calculate deferred taxes, an average of the tax rates of the different jurisdictions in which the Company has items that generate deferred taxes was used.

Deferred income tax asset is recognized on the tax-loss carryforwards to the extent the realization of the tax benefit related through future tax income is likely. Tax losses are in the amount of $16,777,822 in 2017, and $17,480,638 in 2016.

Tax losses as of December 31, 2017 expire in the following years:

Year of the loss	2017	Expiration year
2008	$ 19,381	2018
2009	62,565	2019
2010	28,825	2020
2011	41,310	2021
2012	17,023	2022
2013	84,996	2023
2014	769	2024
2015	4,682,057	2025
2016	5,924,041	2026
2017	322,601	2027
2014	5,594,254	No expiration (*)
	$16,777,822	

(*) Tax losses arise from the acquisition of Campofrio performed in prior years, and do not expire according to the tax regulations in effect in the countries where they were generated.

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

	For the years ended December 31, 2017 Before tax	2017 Tax payable/ (receivable)	2017 After tax	2016 Before tax	2016 Tax payable/ (receivable)	2016 After tax
Remeasurement of employee benefit liabilities	$ (52,315)	$ 16,379	$ (35,936)	$ 53,256	$(16,161)	$ 37,095
Effect of translation of foreign entities	2,509,904	-	2,509,904	605,766	-	605,766
Other comprehensive income items	$2,457,589	$ 16,379	$2,473,968	$659,022	$(16,161)	$642,861

e) Income tax payable consists of the following:

	As of December 31, 2017	2016
Current income tax	$ 1,783,816	$667,648
Income tax on optional regime for group of entities in Mexico	2,341,907	2,460,047
Total income tax payable	$ 4,125,723	$3,127,695
Current portion	$ 1,783,816	$ 667,648
Non-current portion	2,341,907	2,460,047
Total income tax payable	$ 4,125,723	$3,127,695

17. Provisions

	Disputes	Restructuring [1]	Severance payments and other employee benefits	Total
As of January 1, 2016	$ 41,119	$ 488,924	$ 253,966	$ 784,009
Additions	29,191	49,095	35,812	114,098
Translation effect	6,471	83,946	39,404	129,821
Payments	(13,669)	(322,844)	(131,937)	(468,450)
As of December 31, 2016	63,112	299,121	197,245	559,478
Additions	37,856	-	137,558	175,414
Translation effect	9,250	8,725	18,733	36,708
Payments	(3,760)	(207,338)	(126,803)	(337,901)
As of December 31, 2017	$106,458	$ 100,508	$ 226,733	$ 433,699

[1] This provision relates to Campofrio's strategic redefinition process to obtain, among others, efficiencies and a higher level of specialization in the production and logistics centers, as well as to strengthen existing synergies. As of December 31, 2017 and 2016, the processes are open and are expected to conclude in 2018.

18. Other liabilities

	As of December 31, 2017	2016
Current portion:		
PTU (Mexican statutory employee profit sharing)	$ 160,808	$ 147,555
Bank overdrafts	18,748	22,807
Share-based payments (Note 21)	14,400	19,792
Notes payable	71,392	57,415
Accounts payable to affiliates (Note 26)	37,898	52,055
Total other current liabilities	$ 303,246	$ 299,624
Non-current portion:		
Notes payable and others	$ 763,531	$ 784,514
Share-based payments (Note 21)	36,705	36,705
Total other non-current liabilities	800,236	821,219
Total other labilities	$1,103,482	$1,120,843

19. Employee benefits

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

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

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

Region	As of December 31, 2017	2016
Mexico	$ 655,031	$ 496,290
Europe	558,152	509,465
LATAM	125,887	112,243
Total	$1,339,070	$1,117,998

The following summarizes key financial data of such employee benefits:

	As of December 31, 2017	As of December 31, 2016
Pension benefits	$1,331,727	$ 1,112,436
Post-employment medical benefits	7,343	5,562
Liability in the consolidated statement of financial position	$1,339,070	$ 1,117,998

	For the years ended December 31, 2017	For the years ended December 31, 2016
Expense in the consolidated statement of income:		
Pension benefits	$ (140,141)	$ (118,247)
Post-employment medical benefits	(491)	(576)
	$ (140,632)	$ (118,823)
Remeasurements due to employee benefit obligations recognized in other comprehensive income for the period	$ (52,315)	$ 53,256
Remeasurements due to accrued employee benefit obligations recognized in other comprehensive income	$ 137,803	$ 190,118

Pension benefits and post-employment medical benefits

The Company operates defined benefit pension plans based on employees' pensionable remuneration and length of service. Most plans are externally funded. Plan assets are held in trusts, foundations or similar entities, governed by local regulations and practices in each country, as is the nature of the relationship between the Company and the respective trustees (or equivalent). The Company operates post-employment medical benefits plans 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 plans. Most of these plans are not being funded.

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

	As of December 31, 2017	As of December 31, 2016
Present value of funded obligations	$3,687,126	$3,348,986
Fair value of plan assets	(2,348,056)	(2,230,988)
Net liability in the consolidated statement of financial position	$1,339,070	$1,117,998

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

	For the years ended December 31, 2017	For the years ended December 31, 2016
Opening balance (January 1)	$3,348,986	$2,842,063
Current service cost	115,049	101,996
Interest cost	107,681	108,443
Contributions to the plan	52,232	110,113
Remeasurements for changes in financial assumptions	23,378	43,339
Past service costs	(2,929)	-
Exchange differences	158,538	269,536
Benefits paid	(113,527)	(114,673)
Liabilities acquired in business combinations	(431)	70
Settlement costs	(1,851)	(11,901)
Ending balance (December 31)	$3,687,126	$3,348,986

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

	For the years ended December 31,	
	2017	**2016**
Opening balance (January 1)	$(2,230,988)	$(1,890,887)
Return on plan assets	(80,247)	(79,715)
Employee contributions	(3,938)	(28,664)
Benefits paid	62,057	49,878
Exchange differences	(123,878)	(185,005)
Actuarial remeasurements	28,938	(96,595)
Ending balance (December 31)	$(2,348,056)	$(2,230,988)

The main actuarial assumptions were as follows:

	As of December 31,	
	2017	**2016**
Discount rate (Mexico)	7.25%	7.75%
Discount rate (Europe)	1.25%	2.00%
Inflation rate (Mexico)	3.50%	3.50%
Wage increase rate (Mexico)	4.50%	4.50%
Wage increase rate (Europe)	1% a 3%	1% to 5%
Future wage increase (Mexico)	3.50%	3.50%
Medical inflation rate (Mexico)	6.50%	6.50%

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

	Discount rate	
	Increase of 1%	**Decrease of 1%**
Impact on defined benefit obligations	$(391,425)	$382,730

	Medical inflation rate	
	Increase of 1%	**Decrease of 1%**
Impact on defined benefit obligations	$(1,059)	$1,133

Assets of the pension benefits

The composition of the plan assets at fair value is as follows:

	As of December 31,	
	2017	**2016**
Short and long-term fixed income securities	$1,844,178	$1,805,123
Shares	503,878	425,865
Fair value of plan assets	$2,348,056	$2,230,988

20. Stockholders' equity

As of December 31, 2017 and 2016, the capital stock is variable, with a fixed minimum without withdrawal rights of $27,081, represented by 1,290,654,555 nominative, Series "A" shares, with no par value, fully subscribed and paid.

The profit for the period is subject to the legal provision requiring at least 5% of the profit for each period to be set aside to increase the legal reserve until it reaches an amount equivalent to one fifth of the capital stock. As of December 31, 2017 and 2016, the legal reserve amounted to $5,416, which is included in other capital reserves.

At the General Ordinary Stockholders' Meeting on October 11, 2017, the stockholders agreed to declare dividends in cash in the aggregate amount of US$80 million, which was paid in October 12, 2017 in the aggregate amount of $1,490,616 ($1.15 dividends per share in Mexican pesos) which was paid in October 12, 2017, fully applied to the Net Taxable Income Account ("CUFIN by its Spanish initials").

At the General Ordinary Stockholders' Meeting on February 23, 2017, the stockholders agreed to declare dividends in cash in the aggregate amount of US$75 million, which was paid in the first quarter of 2017 in the amount of $1,487,415 ($1.15 dividends per share in Mexican pesos), fully applied to the CUFIN.

At the General Ordinary Stockholders' Meeting on June 15, 2016, the stockholders' agreed to declare dividends in cash in the aggregate amount of $383,436 ($1.05 dividends per share in Mexican pesos), which was paid in 2016, fully applied to the CUFIN.

At the General Ordinary Stockholders' Meeting on February 23, 2016, the stockholders' agreed to declare dividends in cash in the aggregate amount of $1,329,645 ($1.05 dividends per share in Mexican pesos), which was paid in 2016, fully applied to the CUFIN.

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

Dividends paid are not subject to income tax if paid from CUFIN. Dividends in excess of the CUFIN will cause an income tax at the applicable rate for the period in which they are paid. The tax is payable by the Company and may be credited against its income tax in the same year or the following two years. Dividends paid from profits on which income tax has previously been paid are not subject to tax withholding or to any additional tax payment. As of December 31, 2017 and 2016, the tax value of the CUFIN of Sigma Alimentos, S. A. de C. V. was $11,098,808 and $11,798,596 respectively.

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

Movements in other reserves for 2017 and 2016 are presented below:

	Effect of foreign currency translation	**Legal reserve**	**Total**
As of January 1, 2016	$ (350,021)	$ 5,416	$ (344,605)
Movement of the year	557,922	-	557,922
As of December 31, 2016	207,901	5,416	213,317
Movement of the year	2,465,069	-	2,465,069
As of December 31, 2017	$ 2,672,970	$ 5,416	$ 2,678,386

In relation with the subsidiary Campofrio, there were several signed agreements that could result in the obligation to acquire a non-nontroling interest, as well as other claims thereof. Based on the legal assessments, both internal and external, performed in prior years, the validity and scope of the aforementioned agreements and claims were deemed to possibly become void; therefore, management of the Company considered there was no obligation given the inability to anticipate the date or impact of future negotiations or litigations that, in any case, had not been declared. During 2016, due to the ongoing negotiations with respect to those issues, a written put option over non-controlling interests in Campofrio was recognized as a financial liability (Note 18), net of certain related accounts receivable. Those agreements resulted in recording those obligations in 2016, as well as in the extinction of the associated contingencies. Consequently, as of June 15, 2016, the Company recorded a decrease in retained earnings as shown in the statement of changes in stockholders' equity for the year ended December 31, 2016. The option exercise price is determined according to a predefined formula based on the financial performance of the subsidiary and the option is exercisable on a fixed date.

21. Share-based payments

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

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

The program consists of determining a number of shares the Directors shall be entitled to, which will be paid in cash in the next five years, i.e. 20% each year, and which will be paid at the average price per share at the end of each year. The average price per share in 2017 and 2016 is $21.12 and $26.73, respectively.

The current and non-current liability is comprised as follows:

	As of December 31,	
	2017	2016
Current	$14,400	$19,792
Non-current	36,705	36,705
Total carrying amount	$51,105	$56,497

22. Expenses classified by their nature

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

	For the years ended December 31,	
	2017	2016
Changes in inventory of finished goods and in progress	$ (65,081,888)	$(58,919,080)
Employee benefit expenses (Note 25)	(16,698,913)	(14,717,108)
Maintenance	(2,856,905)	(2,694,044)
Depreciation and amortization	(3,775,832)	(3,494,252)
Freight expenses	(2,200,360)	(2,006,918)
Advertising expenses	(2,264,759)	(2,594,470)
Energy and fuel consumption	(1,575,859)	(1,451,958)
Travel expenses	(565,705)	(542,867)
Operating lease expenses	(680,973)	(636,748)
Technical assistance, professional fees and administrative services	(1,808,213)	(2,035,546)
Other	(8,285,955)	(8,253,344)
Total	$(105,795,362)	$(97,346,335)

23. Other income (expenses), net

	For the years ended December 31,	
	2017	2016
Claim reimbursements	$ 38,586	$ 30,044
Gain on sale of property, plant and equipment	86,495	16,891
Gain on remeasurement of business acquisition	410,448	-
Other	264,710	48,726
Other income	800,239	95,661
Expenses related to acquisitions	-	(702)
Project consulting	(117,332)	(48,080)
Impairment of property, plant and equipment and intangible assets	(358,621)	(142,711)
Impairment of intangible assets for Campofrio Italy	-	(183,831)
Other	(160,222)	(195,993)
Other expenses	(636,175)	(571,317)
Total other income (expenses), net	$ 164,064	$(475,656)

24. Financial cost, net

	For the years ended December 31,	
	2017	**2016**
Financial income:		
- Interest income on short-term bank deposits	$ 166,128	$ 70,202
- Other financial income	102,432	36,158
- Interest on accounts receivable	28,327	26,409
Total financial income	296,887	132,769
Financial expenses:		
- Interest expense on bank loans	(423,705)	(481,788)
- Interest expense on debt securities and Senior Notes	(2,364,393)	(1,620,496)
- Financial expense for portfolio sale	(35,329)	(36,544)
- Financial expense for employee benefits	(68,741)	(21,606)
- Other financial expenses	(154,686)	(233,045)
Total financial expenses	(3,046,854)	(2,393,479)
Exchange fluctuation:		
- Exchange fluctuation gain	2,658,259	1,937,953
- Exchange fluctuation loss	(4,297,201)	(2,434,212)
Exchange gain (loss), net	(1,638,942)	(496,259)
Financial cost, net	$(4,388,909)	$(2,756,969)

25. Employee benefit expenses

	For the years ended December 31,	
	2017	**2016**
Salaries, wages and benefits	$13,777,359	$12,636,794
Social security fees	1,155,784	1,024,981
Employee benefits	113,197	90,095
Other fees	1,652,573	965,238
Total	$16,698,913	$14,717,108

26. Related party transactions

Transactions with related parties for the years ended December 31, 2017 and 2016, which were held under equal conditions for similar transactions with independent parties, were as follows:

	For the years ended December 31,	
	2017	**2016**
Income (affiliates):		
Leases	$ 8,333	$ 7,828
Interest	-	4,571
Expenses (affiliates):		
Administrative services	$ 160,479	$ 159,154
Leases and other items	188,628	262,408
Dividends paid to ALFA (holding)	2,978,031	1,713,081

For the years ended December 31, 2017 and 2016, the considerations and benefits received by the main officers of the Company amounted to $423,527 and $419,494, respectively, which consist of base salary and benefits provided by law, and complemented by a variable consideration program based on the Company's results and the market value of ALFA's shares (Note 21).

As of December 31, 2017 and 2016, balances with related parties are as follows:

		As of December 31,	
	Nature of the transaction	**2017**	**2016**
Receivable:			
Affiliates	Services	$ 6,632	$ 33,554
Payable:			
Affiliates	Services	36,487	$50,640
Affiliates	Interest	1,411	1,415

The Company and its subsidiaries declare that they had no significant transactions with related people or conflicts of interest to disclose.

27. Financial information by segments

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

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

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

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

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

For the year ended December 31, 2017 and 2016, the Company has defined adjusted EBITDA as the calculation from adding or subtracting back, as applicable, to operating income, depreciation, amortization and impairment of fixed and intangible assets.

Following is the condensed financial information of these operating segments:

For the year ended December 31, 2017:

	Mexico	USA	Europe	LATAM	Total
Total income by segment	$48,204,470	$21,711,179	$40,456,450	$8,670,035	$119,042,134
Intersegment income	(1,125,225)	(3,453,939)	-	(240,931)	(4,820,095)
Income from external customers	47,079,245	18,257,240	40,456,450	8,429,104	114,222,039
Adjusted EBITDA	6,055,605	2,638,120	3,318,046	713,423	12,725,194
Depreciation and amortization	(1,173,204)	(584,849)	(1,747,605)	(270,174)	(3,775,832)
Impairment of fixed assets	(77,587)	(33,405)	(135,692)	(31,365)	(278,049)
Impairment of intangible assets	(80,572)	-	-	-	(80,572)
Operating income	4,724,242	2,019,866	1,434,749	411,884	8,590,741
Financial cost, net	(3,975,238)	83,951	(524,128)	26,506	(4,388,909)
Equity in income of associates	(194)	-	16,170	-	15,976
Income before taxes	748,810	2,103,817	926,791	438,390	4,217,808
Capital investment (Capex)	$ 1,628,157	$ 279,562	$ 1,454,668	$ 179,317	$ 3,541,704

As of December 31, 2017:

	Mexico	USA	Europe	LATAM	Total
Non-current assets:					
Property, plant and equipment (*)	$10,147,870	$ 2,141,994	$21,121,445	$1,857,096	$35,268,405
Intangible assets	3,726,604	867,626	10,516,131	604,234	15,714,595
Goodwill	1,942,250	5,289,432	5,235,268	2,275,298	14,742,248
	$15,816,724	$ 8,299,052	$36,872,844	$4,736,628	$65,725,248
Other:					
Deferred income tax assets					2,792,463
Other non-current assets					267,001
Total non-current assets					$68,784,712
Total liabilities	$51,096,834	$ 2,575,122	$32,516,936	$1,107,929	$87,296,821

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

For the year ended December 31, 2016:

	Mexico	USA	Europe	LATAM	Total
Total income by segment	$44,453,875	$17,997,515	$40,002,464	$7,825,384	$110,279,238
Intersegment income	(1,020,663)	(2,690,300)	-	(227,411)	(3,938,374)
Income from external customers	43,433,212	15,307,215	40,002,464	7,597,974	106,340,864
Adjusted EBITDA	5,905,015	2,491,912	3,096,326	880,869	12,374,122
Depreciation and amortization	(1,112,892)	(524,281)	(1,583,617)	(273,462)	(3,494,252)
Impairment of fixed assets	(121,125)	-	(27,242)	(1,684)	(150,051)
Impairment of intangible assets	-	-	(183,831)	-	(183,831)
Deferred charge write-off	(1,329)	-	(25,787)	-	(27,116)
Operating income	4,669,669	1,967,631	1,275,849	605,723	8,518,872
Financial cost, net	(2,237,068)	(1,534)	(528,077)	9,710	(2,756,969)
Equity in income of associates	(4,116)	-	54,352	-	50,236
Income before taxes	2,428,485	1,966,097	802,124	615,433	5,812,139
Capital investment (Capex):					
Property, plant and equipment	$ 1,703,210	$ 478,489	$ 4,018,514	$ 98,189	$ 6,298,402

As of December 31, 2016:

	Mexico	USA	Europe	LATAM	Total
Non-current assets:					
Property, plant and equipment [*]	$ 9,531,283	$ 2,284,503	$ 19,281,696	$ 1,991,800	$33,089,282
Intangible assets	4,028,650	1,044,980	9,950,681	728,690	15,753,001
Goodwill	2,032,465	4,866,872	2,576,242	1,436,264	10,911,843
	$ 15,592,398	$ 8,196,355	$ 31,808,620	$ 4,156,754	$59,754,126
Other:					
Deferred income tax assets					$ 2,995,464
Other non-current assets					1,068,949
Total non-current assets					63,818,540
Total liabilities	$ 45,693,788	$ 2,380,448	$ 34,599,506	$ 1,039,458	$83,713,200

[*] These assets are assigned based on operations in segments physical location of the asset.

Income from external customers by products:

	For the years ended December 31,	
	2017	2016
Processed meat [1]	$ 88,018,147	$ 82,109,546
Dairy [2]	20,964,928	19,234,528
Other [3]	5,238,964	4,996,790
Total	$114,222,039	$106,340,864

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

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

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

SIGMA's customers are commercial establishments classified into supermarkets, convenience stores, institutions and small grocery stores. For the years ended December 31, 2017, and 2016, sales to its largest customer represented 10.0% and 10.4%, respectively, of total sales.

28. Contingencies and commitments

In the normal course of its business, the Company is involved in controversies and litigation. While the results of the disputes cannot be predicted as of December 31, 2017, the Company does not believe that there are actions pending application or threats, claims or legal proceedings against or affecting the Company which, if determined adversely to its interests, would significantly damage the individual or overall results of its operations or financial position.

As of December 31, 2017 and 2016, the Company has the following commitments:

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

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

29. Subsequent events

In preparing the financial statements, the Company has evaluated events and transactions to be recognized or disclosed after December 31, 2017 and through January 31, 2018 (date of issuance of the consolidated financial statements) and has not identified subsequent events.

30. Authorization to issue the consolidated financial statements

The issuance of the accompanying consolidated financial statements and its notes was authorized on January 31, 2018, by Mario H. Páez González, Chief Executive Officer, and Eugenio Caballero Sada, Chief Financial and Marketing Officer

These consolidated financial statements are subject to the approval of the Company’s ordinary shareholders’ meeting.

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