

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this discussion in conjunction with our consolidated financial statements, and related notes and the other financial information included in our audited financial statements. Our financial statements are prepared in accordance with MFRS, which differ in certain significant respects from U.S. GAAP. Our parent company, Alfa, will be required in or before 2012 to prepare its financial statements in accordance with IFRS. Accordingly, we expect to adopt IFRS during 2012.

MFRS B-10 "Inflation Effects" no longer requires us to recognize the effects of inflation unless the economic environment qualifies as "inflationary" as defined by MFRS (*i.e.*, inflation exceeds 26% in the three most recent years). Because of the relatively low level of Mexican inflation in recent years (3.8% in 2011, 4.4% in 2010 and 3.6% in 2009), the cumulative inflation rate in Mexico over the three-year period ended December 31, 2011 does not qualify the Mexican economic environment as inflationary. As of December 31, 2009, 2010 and 2011, only Costa Rica and Nicaragua qualified as "inflationary" for purposes of MFRS B-10.

This section contains forward-looking statements that involve risks and uncertainties. Our actual results may vary materially from those discussed in the forward-looking statements as a result of various factors.

Overview

We are a leading producer, marketer and distributor of quality branded foods, including processed meats, cheese, yogurt and prepared meals, throughout Mexico, our principal market, as well as in the United States and throughout Central America, the Dominican Republic and Peru. We estimate that in Mexico in 2011, based on annual tonnage, we had a 50% market share in the processed meats market, a 27% market share in the formal cheese market, both of which represent the leading market positions, and an 18% market share in the yogurt market. We also estimate that Bar-S is the leader in the value brand segment of the packaged meats market in the United States.

Our portfolio of brands, range of innovative products, focus on production and distribution processes, and extensive distribution network have allowed us to continue to grow net sales and cash flow. We generated consolidated net sales of Ps. 33,091 million and Adjusted EBITDA of Ps. 3,900 million for 2010; and consolidated net sales of Ps. 41,078 million and Adjusted EBITDA of Ps. 5,150 million for 2011.

Factors Affecting Our Results of Operations

Net Sales

Our net sales consist principally of revenue generated from sales of processed meats, dairy products and other refrigerated products and are a function of sales volumes, price (after reduction from rebates and invoice discounts) and product mix. The principal drivers of sales volumes of our products include:

- available production capacity, including through the acquisition of new production facilities or the expansion of existing plant capacity (see "—Effect of Acquisitions, Capacity Expansion and Production Efficiencies" below);
- our capacity utilization rate and the existence or absence of operational disruptions;
- demand in Mexico for processed meats, dairy products and other refrigerated foods, as well as economic growth or contraction in Mexico and resilience to adverse economic scenarios;
- demand in the United States, Central America and the Dominican Republic for processed meats and dairy products, as well as demand in Peru for processed meat products;

- competition from substitute products; and
- our ability to develop new products and product characteristics that meet consumers' changing needs and preferences.

The principal factors affecting the pricing of our products include:

- regional market conditions and the regional supply and demand for processed meats, dairy products and other refrigerated food products;
- the pricing strategies of our principal competitors;
- our product mix, ranging from premium to economic brands;
- changes in raw material prices and in other costs; and
- changes in the price of raw materials due to changes in the peso-U.S. dollar exchange rate.

Cost of Sales

Our cost of sales consists primarily of raw materials, particularly poultry, pork and fluid and dry milk, energy, including natural gas, motor fuel and electricity, labor costs other than reorganization costs, transportation costs and depreciation and amortization of our plant and equipment. The principal factors that affect our cost of sales include:

- raw material prices, particularly for pork and poultry, which are closely related to the cost of grains, such as corn, that comprise the majority of the cost of raising such animals, as well as for fluid and dry milk;
- changes in the price of raw materials, such as poultry, due to changes in the peso-U.S. dollar exchange rate;
- sales volumes;
- our product mix;
- our ability to streamline or create efficiencies in our production processes; and
- energy costs.

Gross Margin

Gross margin is defined as net sales less cost of sales. Gross margin as a percentage of net sales is not a meaningful measure of our financial performance.

Operating Expenses

Our operating expenses consist principally of selling expenses, including salaries and commissions paid to our sales force, as well as distribution, marketing and administrative expenses, including management fees paid to Alfa for corporate services provided by Alfa.

Comprehensive Financing Expense, Net

The components of comprehensive financing expense, net are comprised of:

- financial expense, including fixed and variable interest expense, which is primarily a function of the principal amount of debt outstanding and the interest rates in effect;
- financial income, which includes interest income earned on cash and cash equivalents;

- exchange loss (gain), net, which includes net gains or losses relating to foreign currency exchange rate movements, as further described below under “—Effects of Foreign Currency Exchange Rate Fluctuations”;
- valuation of derivative financial instruments, which reflects changes in the fair value of derivative financial instruments designated as held for trading because they do not satisfy the accounting requirements for hedge accounting, including instruments with respect to peso-U.S. dollar exchange rates, interest rates and natural gas prices and, if applicable, the ineffective portion of instruments qualified as hedge accounting; and
- gain on monetary position, which represents the effect of inflation, as measured by the NCPI, on our monthly net monetary assets or liabilities during such year.

Changes in the fair value of our derivative financial instruments are recognized in comprehensive financing expense, except when designated as hedge accounting. Their designation as hedge accounting is documented at the inception of the transaction, specifying the related objective, initial position, risk to be hedged, type of relationship, characteristics, accounting recognition and how their effectiveness will be assessed.

We use derivative financial instruments to manage the risk profile associated with interest rates and currency exposure, reduce financing costs and hedge some of our commodity and financial market risks. During 2010 and 2011, we recorded losses relating to the fair value of our derivative financial instruments of Ps. 80 million and Ps. 26 million, respectively, which were primarily related to mark-to-market losses associated with foreign currency exchange rate and interest rate derivative financial instruments. We have as policy not to enter into derivative financial instruments for speculative purposes; however, we may enter into derivative financial instruments as an economic hedge against certain business risks, even if these instruments do not qualify for hedge accounting under MFRS. In addition, we may be required to record fair value losses in the future that could be material. The fair value accounting for derivative financial instruments is reflected in our income statement and has resulted in volatility in our earnings.

Effect of Acquisitions, Capacity Expansion and Production Efficiencies

Our financial results for the periods presented below were materially affected by acquisitions, capacity expansion and efficiency improvements.

In July 2008, we acquired Braedt S.A., a delicatessen processed meat company in Peru, which expanded our production into South America. As a result of these acquisitions, our financial results for a given period may not be directly comparable to prior periods.

In May 2008, we began operations at our processed meats plant in Seminole, Oklahoma, which was our first processed meats plant in the United States.

In September 2010, we acquired Bar-S, a Delaware corporation based in Phoenix, Arizona, which operates three processed meats production plants in Oklahoma.

Effects of Foreign Currency Exchange Rate Fluctuations on Operating Margins

Because we operate in several countries, we are exposed to foreign exchange rate risk when we translate sales and expenses from foreign currencies, most notably the U.S. dollar. In order to report consolidated financial statements, we must effectively convert multiple currencies into a single reporting currency. As such, fluctuations in currency rates could affect our income statement, even if local currency results remain the same. In particular, changes in the relative value of the peso to the U.S. dollar have an effect on our results of operations. In general, real depreciation of the peso will likely result in a decrease in our operating margins and real appreciation of the peso will likely result in an increase in our operating margins, in each case, when measured in pesos. These effects occur because most of our sales are in Mexico and are denominated in pesos while most of the raw materials for our processed meats are imported from the United States and are denominated in U.S. dollars. We have historically been able to adjust the price of our products, at times with a lag, to generally reflect changes in the peso-U.S. dollar exchange rate.

Limited Seasonality

Our operating results are not materially affected by seasonality, although we generally experience higher sales of our products during the year-end holiday season and in the case of Bar-S, higher sales during the summer months.

Key Drivers of Profitability

The key drivers of our profitability include:

- ***Our ability to respond to economic conditions in our markets.*** In periods of recession when the GDP declines in any or all of our markets, consumers may switch from high to lower cost products. In order to maintain our profitability, we must continue to offer our broad portfolio of brands across the diverse consumer base we serve. In periods of economic growth, consumers are more willing to purchase premium or higher-end branded products and our challenge in such periods is to encourage consumers, through marketing and other initiatives, to switch to those products.
- ***Our ability to generally pass through increases in raw material prices to our customers.*** Our market position and the prominent status of our brands within the Mexican food market has historically allowed us to increase the prices of our products, at times with a lag, when raw material prices pressure our profitability, although there can be no assurance that we will be able to do so in the future.
- ***Our ability to understand and attend to consumer needs through innovation.*** We believe that enlarging our sales volume is critical for our profitability. By focusing our R&D activities on tailoring our products to the preferences and needs of consumers, we believe that we will increase sales volumes and improve profitability.
- ***Our ability to achieve efficiencies and economies of scale.*** The ability to grow our sales volume while maintaining our current cost structure is essential in order to achieve profitable results. In order to increase our productivity, we need to efficiently use our production and distribution facilities and control variable costs and expenses. In addition, within fixed costs and expenses we need to achieve economies of scale as we intend to increase our sales volumes without using increasingly more resources.

Critical Accounting Policies

We have identified certain key accounting estimates on which our consolidated financial condition and results of operations are dependent. These key accounting estimates most often involve complex matters or are based on subjective judgments or decisions that require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience, where applicable and other assumptions that we believe are reasonable under the circumstances.

Actual results may differ from our estimates under different assumptions or conditions. In addition, estimates routinely require adjustments based on changing circumstances and the receipt of new or better information. In the opinion of our management, our most critical accounting estimates under MFRS are those that require management to make estimates and assumptions that affect the reported amounts related to the accounting for fair value for financial instruments, valuation of long-lived assets, goodwill and other indefinite-lived intangible assets, deferred taxes and allowance for doubtful accounts receivable. For a full description of all of our accounting policies, see our annual consolidated financial statements and the notes thereto included.

There are certain critical estimates that we believe require significant judgment in the preparation of our consolidated financial statements. We consider an accounting estimate to be critical if:

- it requires us to make assumptions because information was not available at the time or it included matters that were highly uncertain at the time we were making the estimate; and
- changes in the estimate or different estimates that we could have selected would have had a material impact on our financial condition or results of operations.

Financial Instruments Measured at Fair Value

The fair value of financial instruments is determined based upon liquid market prices evidenced by exchange traded prices, broker-dealer quotations or prices of other transactions with similarly rated counterparties. If available, quoted market prices provide the best indication of value. If quoted market prices are not available for fixed maturity securities and derivatives, we discount expected cash flows using market interest rates commensurate with the credit quality and maturity of the investment.

Derivative financial instruments used for hedging are designated either as cash-flow hedges or fair value hedges. The changes in the fair value of cash flow hedges are reported in other comprehensive income, while the changes in the fair value of fair value hedges (along with the change in the fair value of the hedged item) are recorded in earnings. Fair value amounts are based on either quoted market prices or estimated values derived by utilizing dealer quotes or internally generated modeling techniques.

As market conditions change, adjustments to the fair value of these derivatives are made to reflect those conditions. In addition, hedging effectiveness needs to be evaluated on a periodic basis and to the extent the hedge is not deemed effective, hedge accounting ceases to be applied. Actual settlements of these derivatives will reflect the market conditions at the time and may differ significantly from the estimated fair market value reflected on the balance sheet.

The degree of management's judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices. When observable market prices and parameters do not exist, management's judgment is necessary to estimate fair value, in terms of estimating the future cash flows, based on variable terms of the instruments and the credit risk and in defining the applicable interest rate to discount those cash flows.

Long-lived Assets

We review fixed, definite life intangible and other long-lived assets under NIF C-15, "Impairment of the Value of Long Lived Assets and their Disposal," when events or circumstances suggest that the carrying value may not be recoverable. Impairment reviews require a comparison of the discounted cash flows to the carrying value of the asset for MFRS reporting purposes.

If the total of the discounted cash flows is less than the carrying value under MFRS, an impairment charge is recorded for the difference between the estimated fair value and the carrying value of the asset. In making such evaluations, we estimate the fair value of the long-lived assets as well as the discounted cash flows. In determining our discounted cash flows, we make significant assumptions and estimates in this process regarding matters that are inherently uncertain, such as estimating the remaining useful life of an asset and the possible impact that inflation may have on our ability to generate cash flow, as well as customer growth and the appropriate discount rate. Although we believe that our estimates are reasonable, different assumptions regarding such remaining useful life or future cash flows could materially affect the valuation of our long-lived assets.

We also evaluate the useful life used to depreciate our long-lived assets, periodically considering their operating and use conditions. As of December 31, 2011, no indicators of impairment existed; therefore we did not undertake any study to determine the value in use of such assets.

Goodwill and Other Indefinite-Life Intangible Assets

We assess our goodwill and other indefinite-lived intangible assets for impairment on an annual basis, using fair value measurement techniques under MFRS, which requires a direct comparison of fair value to carrying value in a one-step assessment process.

The identification and measurement of impairment to goodwill and intangible assets with indefinite lives involves the estimation of fair values. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. We perform valuation analyses with the assistance of third parties and consider relevant internal data, as well as other market information, that is publicly available. Estimates of fair value are primarily determined using discounted cash flows and market

comparisons. These approaches use significant estimates and assumptions including projected future cash flows (including timing), discount rate reflecting the risk inherent in future cash flows, perpetual growth rate, determination of appropriate market comparables and the determination of whether a premium or discount should be applied to comparables. Inherent in these estimates and assumptions is a certain level of risk, which we believe we have considered in our valuations. Nevertheless, if future actual results differ from estimates, a possible impairment charge may be recognized in future periods related to the write-down of the carrying value of goodwill and other intangibles in addition to the amounts recognized previously.

Deferred Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as allowance for doubtful accounts, deferred assets, inventories, property, machinery and equipment, accrued expenses and tax loss carryforwards, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations.

Significant management judgment is required in determining our provision for income taxes, our deferred income tax assets and deferred income tax liabilities and any valuation allowance recorded against our net deferred income tax. The valuation allowance is based on management projections of future financial results. If actual results differ from these estimates or we adjust the projections in future periods, we may need to materially adjust the valuation allowance, which may materially impact our results of operations in future periods.

Allowance for Doubtful Accounts

The allowance for doubtful accounts represents our estimate of losses resulting from the failure or inability of our customers to make required payments. Determining our allowance for doubtful accounts receivable requires significant estimates. We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current creditworthiness, as determined by our review of their current credit information. In addition, we consider a number of factors in determining the proper size and timing for the recognition of and the amount of the allowance, including historical collection experience, customer base, current economic trends and the aging of the accounts receivable portfolio.

While we believe that our estimates are reasonable, changes in customer trends or any of the factors mentioned above could materially affect our allowance for doubtful accounts. As of December 31, 2011, our allowance for doubtful accounts was Ps. 74 million compared to Ps. 83 million as of December 31, 2010. We consider this allowance sufficient to cover the potential risk of uncollectible accounts; however, we cannot assure you that we will not be required to increase the amount of this allowance in the future.

Results of Operations

Results of Operations for 2010 and 2011

The following financial information has been derived from our audited consolidated financial statements:

	Year Ended December 31,				Percentage Change
	2010	Percent of Net Sales	2011	Percent of Net Sales	2011 vs. 2010
<i>(in thousands of pesos, except percentages)</i>					
Net sales.....	33,090,679	100.0%	41,077,731	100.0%	24.1%
Cost of sales.....	(21,588,424)	(65.2)	(27,929,999)	(68.0)	29.4
Gross margin.....	11,502,255	34.8	13,147,732	32.0	14.3
Operating expenses.....	(8,619,925)	(26.0)	(9,407,234)	(22.9)	9.1
Operating income.....	2,882,330	8.7	3,740,498	9.1	29.8
Comprehensive financing expense, net:					
Financial expense.....	(849,837)	(2.6)	(973,772)	(2.4)	14.6
Financial income.....	43,762	0.1	52,002	0.1	18.8
Exchange gain (loss), net.....	571,410	1.7	(993,604)	(2.4)	(273.9)
Effect of derivative financial instruments.....	(80,324)	(0.2)	(26,083)	(0.1)	(67.5)
Gain on monetary position.....	13,242	0.0	0	0.0	(100.0)
Total comprehensive financing expense, net.....	(301,747)	(0.9)	(1,941,457)	(4.7)	543.4
Other expenses, net.....	(278,792)	(0.8)	(310,399)	(0.8)	11.3
Provision for income tax.....	(815,821)	(2.5)	(657,515)	(1.6)	(19.4)
Consolidated net income (loss)	1,485,970	4.5	831,127	2.0	(44.1)
Adjusted EBITDA.....	3,899,746	11.8	5,149,698	12.5	32.1

The following table provides a breakdown of net sales by product line for 2010 and 2011:

	Year Ended December 31,				Percentage Change
	2010	Percent of Net Sales	2011	Percent of Net Sales	2011 vs. 2010
<i>(in thousands of pesos, except percentages)</i>					
<u>Product lines:</u>					
Processed meats.....	20,789,323	62.8%	27,676,013	67.4%	33.1%
Dairy products.....	10,702,093	32.3	11,682,880	28.4	9.2
Other refrigerated products.....	1,599,263	4.8	1,718,838	4.2	7.5
Total.....	33,090,679	100.0	41,077,731	100.00	24.1

The following table provides a breakdown of net sales by geographic region for 2010 and 2011:

	Year Ended December 31,				Percentage Change
	2010	Percent of Net Sales	2011	Percent of Net Sales	2011 vs. 2010
<i>(in thousands of pesos, except percentages)</i>					
<u>Geographic region:</u>					
Mexico.....	25,076,460	75.8%	27,490,398	66.9%	9.6%
International.....	8,014,219	24.2	13,587,333	33.1	69.5
Total.....	33,090,679	100.0	41,077,731	100.0	24.1

2011 compared with 2010

Net Sales by Product Line

Net sales of processed meats for 2011 were Ps. 27,676 million, an increase of 33.1% from the Ps. 20,789 million reported for 2010. This increase was primarily due to a 35.9% increase in sales volume in 2011. Our net sales of processed meats benefited from the consolidation of the sales volume of Bar-S, which we acquired in September 2010. It is important to mention that average price fell because of Bar-S' lower priced product mix.

Net sales of dairy products for 2011 were Ps. 11,683 million, an increase of 9.2% from Ps. 10,702 million for 2010. This increase was primarily due to a 2.3% increase in sales volume and higher average prices.

Net sales of other refrigerated products for 2011 were Ps. 1,719 million, an increase of 7.5% from Ps. 1,599 million for 2010. This increase was primarily due to an 11.1% increase in sales volume in 2011 and higher average prices.

Net Sales by Geographic Region

Net sales in Mexico for 2011 were Ps. 27,490 million, an increase of 9.6% from Ps. 25,076 million for 2010. This increase was primarily due to increases in sales volume of our principal product lines and higher average prices.

Net sales outside of Mexico for 2011 were Ps. 13,587 million, an increase of 69.5% from Ps. 8,014 million for 2010. This increase was enhanced by the consolidation of Bar-S operations, in addition to higher sales volume in the United States, Central America, the Dominican Republic and Peru.

General

Net sales for 2011 were Ps. 41,078 million, an increase of 24.1% from Ps. 33,091 million for 2010. This increase was primarily due to strong sales performances of our processed meats, yogurt and cheese products, as well as the acquisition of Bar-S. Our 2011 sales volume was 23.2% higher than in 2010, reflecting both organic and acquisition-based growth. During 2011, international sales constituted 33.1% of total net sales, an increase of 36.6% over the 24.2% for our international sales in 2010.

Cost of sales for 2011 was Ps. 27,930 million, an increase of 29.4% from Ps. 21,588 million for 2010. This increase was primarily due to an increase in the volume of our sales and price increases of our primary raw materials.

Gross margin, defined as the difference between net sales and cost of sales, was Ps. 13,148 million for 2011, an increase of 14.3% from Ps. 11,502 million for 2010. This increase was primarily due to sales increases driven mostly by higher sales volumes and average prices.

Operating expenses for 2011 were Ps. 9,407 million, an increase of 9.1% from Ps. 8,620 million for 2010. This increase was primarily due to higher distribution and sales expenses, which resulted from the higher sales volumes, and marketing investments.

Operating income for 2011 was Ps. 3,740 million, an increase of 29.8% from Ps. 2,882 million for 2010. This was due to the factors discussed above.

Comprehensive financing expense, net for 2011 was Ps. 1,941 million, an increase of 543.4% compared with Ps. 302 million for 2010. This was primarily due to exchange rate differences.

Other expenses, net for 2011 were Ps. 310 million, an increase of 11.3% from Ps. 279 million for 2010. This increase was primarily due to expenses related to the acquisition of Bar-S and reorganization expenses.

Income tax for 2011 was a tax expense of Ps. 658 million, a decrease of 19.4% from a tax expense of Ps. 816 million for 2010. This decrease was primarily due to decreases in taxable income.

Consolidated net income for 2011 was Ps. 831 million, a decrease of 44.1% from Ps. 1,486 million for 2010, due to the factors discussed above.

New Accounting Policies

The following MFRS, which were issued in 2009 and 2010, became effective on January 1, 2011. Management does not believe that these MFRS will substantially affect the financial information presented by the Company.

MFRS B-5, “Financial Information by Segments” establishes the general rules for disclosing financial information by segments; additionally it allows the user of such information to analyze the entity from the same approach as the management as well allows presenting information by segments more consistent with its financial statements. This standard leaves Bulletin B-5 “Financial Information by Segments” effective up to December 31, 2010, without effect.

MFRS C-4, “Inventory”, establishes the inventory valuation, presentation and disclosure rules, the main charges are, among other, the disposal of the formulae of cost allocation of last in first out, leaving as valid formulae: identified costs, average costs and first in last out; as well as the disposal of direct cost as a valuation system. This standard leaves bulletin C-4 “Inventory” effective up to December 31, 2010, without effect.

MFRS C-5, “Advanced payments”, it establishes the presentation and disclosure rules for advanced payments where its presentation in an item separate from current or non-current assets of the amounts disbursed under this concept is required.

MFRS C-6, “Property, plant and equipment”, It establishes the valuation, presentation and disclosure rules for property, plant and equipment, when considered within the scope of this MFRS are such used developing or maintaining biological assets and of the extractive industry and the componentization of property, plant and equipment for depreciation effects, which will become effective from January 1, 2012 onwards. This standard leaves Bulletin C-6 “Property, plant and equipment” effective up to December 31, 2010, without effect.

MFRS C-18, “Liabilities associated to assets retirement and environmental restoration”, It establishes the particular rules for initial and subsequent recognition of provisions related to obligations associated to property, plant and equipment components withdrawal.

Liquidity and Capital Resources

Overview

Historically, we have generated and expect to continue to generate positive cash flow from operations. Cash flow from operations primarily represents inflows from net earnings (adjusted for depreciation and other non-cash items) and outflows from increases in working capital needed to grow our business. Cash flow used in investing activities represents our investment in property and capital equipment required for our growth, as well as our acquisition activity. Cash flow from financing activities is primarily related to changes in indebtedness borrowed to grow the business or indebtedness repaid with cash from operations or refinancing transactions as well as dividends paid.

Our principal capital needs are for working capital, capital expenditures related to maintenance, expansion and acquisitions and debt service. Our ability to fund our capital needs depends on our ongoing ability to generate cash from operations, overall capacity and terms of financing arrangements and our access to the capital markets. We believe that our future cash from operations together with our access to funds available under such financing arrangements and the capital markets will provide adequate resources to fund both short-term and long-term operating requirements, capital expenditures, acquisitions and new business development activities.

Liquidity

We are a holding company and, as such, have no operations of our own. Our ability to meet our obligations is primarily dependent on the earnings and cash flows of our subsidiaries and the ability of those subsidiaries to pay us

interest or principal payments on intercompany loans, dividends or other amounts or to make intercompany loans to us.

The following table provides the generation and use of cash in 2010 and 2011:

	Year Ended December 31,	
	2010	2011
	<i>(in thousands of pesos)</i>	
Net cash flows from operating activities	2,523,720	4,057,985
Net cash flows from investing activities.....	(8,363,191)	(1,020,525)
Net cash flows from financing activities	5,545,979	(2,868,115)
Certain specific uses:		
Payment of debt and bank loans	(297,822)	(3,202,207)
Incurrence of debt.....	7,143,873	2,146,425
Dividends paid	(465,300)	(852,328)
Other ⁽¹⁾	(839,495)	(927,299)

(1) Other includes changes in minority stockholder's equity and increases in capital.

Net cash flows from operating activities were Ps. 4,058 million in 2011 compared to Ps. 2,524 million in 2010. In 2010, our net cash flows from operating activities were primarily affected by raw material price increases affecting our working capital needs.

As of December 31, 2011, cash and cash equivalents totaled Ps. 1,098 million on a consolidated basis. On December 31, 2010, cash and cash equivalents totaled Ps. 834 million on a consolidated basis.

In 2011, we paid dividends to Alfa of Ps. 852 million. We paid dividends to Alfa of Ps. 465 million in 2010.

In 2011, net cash flows from investing activities were Ps. (1,021) million, used primarily for the maintenance and replacement of productive assets. In 2010, net cash flows from investing activities totaled Ps. (8,363) million, used primarily for the acquisition of Bar-S.

In 2011, net cash flows from financing activities of Ps. (2,868) million represented a reduction of our debt levels and an increase of dividends to the parent company. In 2010, net cash flows from financing activities of Ps. 5,546 million were borrowings used mainly to finance the acquisition of Bar-S.

As a holding company, we finance the operations of our subsidiaries through our normal internal cash management and treasury functions. To the extent our subsidiaries are not able to satisfy their financing needs through internal cash generations, we provide centralized financing through intercompany loans.

Capital Resources

Existing Indebtedness

At December 31, 2011, we had total indebtedness of Ps. 14,518 million (US\$1,039 million), of which Ps. 3,418 million (US\$245 million) was denominated in pesos (including UDIs), Ps. 10,998 million (US\$787 million) was denominated in U.S. dollars and Ps. 103 million (US\$7 million) was denominated in Peruvian soles. Of this total amount, Ps. 85 million (US\$6 million) constituted short-term debt and Ps. 14,434 million (US\$1,033 million) constituted long-term debt. The primary use of our debt has been to fund acquisitions and capital expenditures. As of December 31, 2011, we had committed credit facilities available for an amount of Ps. 1,398 million (US\$100 million) for working capital and other requirements. UDIs (Unidades de Inversión) are instruments denominated in pesos that automatically adjust the principal amount of an obligation to the inflation rate officially recognized by Banco de México.

Capital Expenditures

In 2010 and 2011, we made capital expenditures (other than in connection with acquisitions) of Ps. 813 million and Ps. 1,062 million, respectively. These capital expenditures were primarily used for maintenance and replacement of productive assets, such as maintenance of production facilities and replacement of delivery vehicles.

Tabular Disclosure of Contractual Obligations

The following is a summary of our contractual obligations (other than operating leases) as of December 31, 2011:

	Payments Due By Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	<i>(in thousands of pesos)</i>				
Contractual Obligations					
Short-term debt obligations.....	84,815	84,815	—	—	—
Long-term debt obligations.....	14,415,406	192,234	2,959,750	—	11,263,422
Capital lease obligations	18,128	4,916	9,385	3,827	—
Total	<u>14,518,349</u>	<u>281,965</u>	<u>2,969,135</u>	<u>3,827</u>	<u>11,263,422</u>

Quantitative and Qualitative Disclosures about Market Risk

Derivative Financial Instruments

Because we obtain financing in pesos, we have entered into foreign exchange rate and interest rate derivatives for purposes of reducing the overall cost of such financing and the volatility associated with interest rates. In addition, due to our consumption of energy, we have entered into hedging contracts covering natural gas.

In accordance with our policy, the derivatives that we enter into are for non-speculative purposes in the ordinary course of business. From an economic point of view, these derivatives entered into for hedging purposes; however, for accounting purposes, some of our derivative financial instruments may not be designated as hedges if they do not meet all the accounting requirements established by MFRS and, therefore, may be classified as trading instruments. Derivative financial instruments employed by us are contracted in the over-the-counter market with international financial institutions. The main characteristics of the transactions refer to the obligation to buy or sell a certain underlying asset given certain criteria.

As of December 31, 2011, the notional amount outstanding of our interest derivative transactions was Ps. 1,398 million and we recorded a net liability with respect to derivative financial instruments of Ps. 129 million.

During 2010 and 2011, we recorded losses relating to the fair value of our derivative financial instruments under MFRS of Ps. 80 million and Ps. 26 million, respectively, primarily related to mark-to-market losses associated with foreign currency exchange rate and interest rate derivative financial instruments which is reflected in “Comprehensive financing expense, net”.

Interest Rate Risk

We entered into interest rate swap agreements with the objective of limiting our exposure to increases in interest rates. At December 31, 2011, the position of our interest rate swaps was summarized as follows (millions of pesos):

Type of derivative, value or contract	Notional amount	Underlying Asset		Fair value	Maturity			Collateral
		Unit	Reference		2012	2013	2014+	
Non-hedge accounting: Over LIBOR	Ps. 1,398	% per year	0.73	<u>Ps. (93)</u>	<u>Ps. (75)</u>	<u>Ps. (18)</u>	<u>—</u>	<u>—</u>

Foreign Currency Exchange Rate Risk

We entered into foreign exchange rate derivatives with the objective of limiting our exposure to fluctuations in the peso to U.S. dollar foreign currency exchange rate. At December 31, 2011, the position of our exchange rate derivatives was as follows (millions of pesos):

Type of derivative, value or contract	Notional amount	Underlying Asset		Fair value	Maturity			Collateral
		Unit	Reference		2012	2013	2014+	
USD/MXN (CCS ⁽¹⁾)	Ps. (143)	Pesos/U.S. dollars	13.98	Ps. (36)	Ps. (28)	Ps. (8)	—	—

(1) Cross currency swaps.

Natural Gas

We have from time to time entered into derivative agreements with counterparties to protect ourselves against increases in the prices of natural gas. As of December 31, 2011 we did not have natural gas derivatives.

Credit Lines, Margins and Collateral Policies

In order to manage the obligation to post collateral in connection with margin calls under derivative financial instruments, we have agreed to a credit line with each counterparty that has a derivative transaction. In cases where the agreed threshold under a particular transaction is less than the absolute mark-to-market value of such transaction, we have the obligation, from time to time, to post the corresponding collateral to the counterparty. We typically satisfy this obligation by drawing on our cash reserves, cash flow generation or available credit lines. Additionally, if we fail to post such collateral, the counterparty has the right, but not the obligation, to declare such obligation as prematurely expired and to demand the corresponding reasonable value in accordance with the agreed terms. At December 31, 2011, we had no cash or other collateral posted for margin calls related to derivative financial instruments.

Internal Control Procedures to Manage Liquidity and Market Risk Exposure

All of our derivative financial transactions are subject to guidelines set forth by Alfa's Board of Directors in collaboration with Alfa's Planning, Finance and Audit Committees, and must be authorized by Alfa's Risk Management Committee.

We maintain a system of internal control over derivative financial instruments. The negotiation, authorization, contracting, operating, monitoring and recording of derivative financial instruments are subject to internal control procedures variously overseen by our treasury, legal, accounting and auditing departments.

Risk Committee

Alfa's management has a Risk Management Committee, which supervises each hedging and derivative transaction proposed to be entered into by Alfa's subsidiaries, with a notional amount or maximum risk exposure in excess of US\$5 million. This committee reports directly to Alfa's Chairman and Chief Executive Officer. All new hedging and derivative transactions into which we propose to enter into, as well as the renewal or cancellation of existing hedging and derivative arrangements, are required to be approved by both Sigma's and Alfa's senior management, including Alfa's Chairman and President. Proposed transactions must satisfy certain criteria, including that they be entered into for non-speculative purposes in the ordinary course of business, that they be based on fundamental analysis and that a sensitivity analysis and other risk analysis have been performed before the transaction is entered into.