

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 IFRS. The IFRS include all the effective International Accounting Standards ("IAS"), and the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), including those issued previously by the Standing Interpretations Committee ("SIC").

The Company changed its accounting policies from Mexican Financial Reporting Standards ("MFRS") to comply with IFRS as of January 1, 2012. The transition from MFRS to IFRS has been registered in accordance with IFRS 1, setting January 1, 2011 as the transition date.

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 2012, based on annual tonnage, we had a 50% market share in the processed meats market, a 26% market share in the formal cheese market, both of which represent the leading market positions, and a 19% 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 technology, and extensive distribution network have allowed us to continue to grow net sales and cash flow. We generated consolidated net sales of Ps. 41,078 million and Adjusted EBITDA of Ps. 4,846 million for 2011; and consolidated net sales of Ps. 45,476 million and Adjusted EBITDA of Ps. 6,214 million for 2012.

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 U.S. dollar exchange rate against the local currencies of the countries in which Sigma operates.

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, 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 some corporate services paid to Alfa's affiliates.

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

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 2011 we recorded a loss relating to the fair value of our derivative financial instruments of Ps. 26 million and a gain of Ps. 3 million in 2012, which were primarily related to mark-to-market gains/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 IFRS. 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, and efficiency improvements.

In September 2010, we acquired Bar-S, a Delaware corporation based in Phoenix, Arizona, which operates three processed meats production plants in Oklahoma. Some synergy benefits have been achieved since the acquisition including some in 2012.

In the last quarter of 2012, we acquired Empacadora de Carnes Frías Hidalmex, S.A. de C.V., a processed meat company, which imports, exports, produces and sells its products primarily in Valle de Mexico.

In July 2012, we acquired Empacadora Supremo de Monterrey, S.A. de C.V., a processed meat and dairy products company located primarily in the north of Mexico.

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 IFRS 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, goodwill and other indefinite-lived intangible assets and deferred taxes. 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

Financial Assets

The Company classifies its financial assets in the following categories: at fair value through loans and receivables and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Regular purchases and sales of financial assets are recognized on the settlement date. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership and the control of the financial asset.

Financial liabilities

Financial liabilities that are not derivatives are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method. Liabilities in this category are classified as current liabilities if expected to be settled within the next 12 months; otherwise, they are classified as non-current. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Loans are initially recognized at fair value, net of transaction costs incurred. Loans are subsequently recognized at amortized cost, any difference between the amounts received (net of transaction costs) and the settlement value is recognized in the income statement over the term of the loan using the effective interest method.

Impairment of financial instruments

Assets carried at amortized cost:

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

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

Alternatively, the Company may measure impairment on the basis of an instrument's fair value using an observable market price. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

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 IFRS, 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.

Results of Operations

Results of Operations for 2011 and 2012

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

	Year Ended December 31,				Percentage
	2011	Percent of Net Sales	2012	Percent of Net Sales	2012 vs. 2011
<i>(in thousands of pesos, except percentages)</i>					
Net sales.....	41,077,731	100.0%	45,476,295	100.0%	10.7%
Cost of sales.....	<u>(27,937,276)</u>	(68.0)	<u>(30,209,704)</u>	(66.4)	8.1
Gross margin.....	13,140,455	32.0	15,266,591	33.6	16.2
Selling expenses.....	(7,859,740)	(19.1)	(8,611,234)	(18.9)	9.6
Administrative expenses	(1,605,364)	(3.9)	(1,836,113)	(4.0)	14.4
Other income (expenses), net.	<u>(280,246)</u>	(0.7)	<u>(37,579)</u>	(0.1)	(86.6)
Operating income.....	3,395,105	8.3	4,781,665	10.5	40.8
Comprehensive financing expense, net:					
Financial income.....	103,805	0.3	1,070,569	2.4	931.3
Financial expenses.....	<u>(2,041,412)</u>	(5.0)	<u>(1,016,800)</u>	(2.2)	(50.2)
Total comprehensive financing expense, net	(1,937,607)	(4.7)	53,769	0.1	(102.8)
Profit before income tax.....	1,457,498	3.5	4,835,434	10.6	231.8
Provision for income tax	(646,357)	(1.6)	(1,164,115)	(2.6)	80.1
Consolidated net income (loss)	<u>811,141</u>	2.0	<u>3,671,319</u>	8.1	352.6
Adjusted EBITDA.....	<u>4,845,763</u>	11.8	<u>6,214,504</u>	13.7	28.2

The following table provides a breakdown of net sales by product line for 2011 and 2012:

	Year Ended December 31,				Percentage Change
	2011	Percent of Net Sales	2012	Percent of Net Sales	2012 vs. 2011
<i>(in thousands of pesos, except percentages)</i>					
<u>Product lines:</u>					
Processed meats	27,676,013	67.4	30,306,672	66.6	9.5%
Dairy products.....	11,682,880	28.4	13,213,402	29.1	13.1
Other refrigerated products.....	1,718,838	4.2	1,956,221	4.3	13.8
Total	41,077,731	100.0	45,476,295	100.0	10.7

The following table provides a breakdown of net sales by geographic region for 2011 and 2012:

	Year Ended December 31,				Percentage Change
	2011	Percent of Net Sales	2012	Percent of Net Sales	2012 vs. 2011
<i>(in thousands of pesos, except percentages)</i>					
<u>Geographic region:</u>					
Mexico	27,491,323	66.9	30,577,900	67.2	11.2%
International.....	13,586,408	33.1	14,898,395	32.8	9.7
Total	41,078,731	100.0	45,476,295	100.0	10.7

2012 compared with 2011

Net Sales by Product Line

Net sales of processed meats for 2012 were Ps. 30,307 million, an increase of 9.5% from the Ps. 27,676 million reported for 2011. This increase was primarily due to a 1.7% increase in sales volume and higher average prices.

Net sales of dairy products for 2012 were Ps. 13,213 million, an increase of 13.1% from Ps. 11,683 million for 2011. This increase was primarily due to a 7.4% increase in sales volume and higher average prices.

Net sales of other refrigerated products for 2012 were Ps. 1,956 million, an increase of 13.8% from Ps. 1,719 million for 2011. This increase was primarily due to a 2.8% increase in sales volume and higher average prices.

Net Sales by Geographic Region

Net sales in Mexico for 2012 were Ps. 30,578 million, an increase of 11.2% from Ps. 27,491 million for 2011. 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 2012 were Ps. 14,898 million, an increase of 9.7% from Ps. 13,587 million for 2011. This increase was primarily due to higher prices due to the peso appreciation in comparison to the rest of the currencies and better product mix.

General

Net sales for 2012 were Ps. 45,476 million, an increase of 10.7% from Ps. 41,078 million for 2011. This increase was primarily due to strong sales performances of our processed meats, yogurt and cheese products. Our 2012 sales volume was 3.4% higher than in 2011, reflecting both organic and acquisition-based growth. During 2012, international sales constituted 32.8% of total net sales, an increase of 3.1% over the 33.1% for our international sales in 2011.

Cost of sales for 2012 was Ps. 30,210 million, an increase of 8.1% from Ps. 27,937 million for 2011. This increase was primarily due to an increase in the sales volume and price increases of our primary raw materials.

Gross margin, defined as the difference between net sales and cost of sales, was Ps. 15,267 million for 2012, an increase of 16.2% from Ps. 13,141 million for 2011. This increase was primarily due to sales increases driven mostly by higher sales volumes and average prices.

Operating expenses for 2012 were Ps. 10,485 million, an increase of 7.6% from Ps. 9,745 million for 2011. This increase was primarily due to a higher marketing investment and distribution and sales expenses, which resulted from higher sales volumes.

Other expenses, net for 2012 were Ps. (38) million, a decrease from Ps. (280) million for 2011. This change was primarily due to the sales of fixed assets.

Operating income for 2012 was Ps. 4,782 million, an increase of 40.8% from Ps. 3,395 million for 2011. This was due to operational efficiencies in Mexico and synergies resulting from the Bar-S acquisition.

Comprehensive financing expense, net for 2012 was Ps. 54 million, a decrease compared with Ps. (1,938) million for 2011. This was primarily due to exchange rate differences.

Income tax for 2012 was a tax expense of Ps. (1,164) million, an increase from a tax expense of Ps. (646) million for 2011. This increase was primarily due to an increase in taxable income.

Consolidated net income for 2012 was Ps. 3,672 million, an increase from Ps. 811 million for 2011, due to the factors discussed above.

New Accounting Policies

New pronouncements and amendments issued but not yet effective for periods starting January 1, 2012 and have not been adopted by the company. Management does not believe that these IFRS will substantially affect the financial information presented by the Company.

IFRS 71 "Financial Instruments"

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

IAS 1, "Presentation of Financial Statements"

In June 2011 the IASB amended IAS 1, "Presentation of financial statements". The main change resulting from this modification is the requirement to group items presented in other comprehensive income, on the basis of whether they are potentially reclassified to the income statement in later years. The amendments do not consider which items are presented in other comprehensive income. For the Company, this amendment is effective on January 11 2013.

IFRS 9, "Financial Instruments"

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

IFRS 10, "Consolidated Financial Statements"

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

IFRS 11, "Joint Arrangements"

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

IFRS 12, "Disclosure of Interest in Other Entities"

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

IFRS 13, "Fair Value Measurement"

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

IAS 19, "Employee Benefits"

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

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 2011 and 2012:

	Year Ended December 31,	
	2011	2012
	<i>(in thousands of pesos)</i>	
Net cash flows from operating activities	4,113,995	4,907,168
Net cash flows from investing activities.....	(912,422)	(1,556,030)
Net cash flows from financing activities	(3,032,228)	(1,941,786)
Certain specific uses:		
Payment of debt and bank loans	(8,541,541)	(2,168,651)
Incurrence of debt.....	7,489,558	2,147,178
Dividends paid	(852,328)	(865,083)
Other ⁽¹⁾	(1,127,917)	(1,055,230)

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

Net cash flows from operating activities were Ps. 4,907 million in 2012 compared to Ps. 4,114 million in 2011. In 2011, our net cash flows from operating activities increased primarily due to an increase in operating profit.

As of December 31, 2012, cash and cash equivalents totaled Ps. 2,440 million on a consolidated basis. On December 31, 2011, cash and cash equivalents totaled Ps. 1,098 million on a consolidated basis.

In 2012, net cash flows from investing activities of Ps. (1,556) million, were primarily affected by the acquisition of "Empacadora Supremo de Monterrey S.A. de C.V." and "Empacadora de Carnes Frías Hidalmax, S.A. de C.V.". In 2011 net cash flows from investing activities totaled Ps. (912) million, used primarily for the maintenance and replacement of productive assets.

In 2012, net cash flows from financing activities were Ps. (1,942) million, a decrease from Ps. (3,302) million in 2011. This change represented a reduction of our debt in 2012. In 2012, we paid dividends to Alfa of Ps. 865 million. We paid dividends to Alfa of Ps. 852 million in 2011.

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, 2012, we had total indebtedness of Ps. 13,596 million (US\$1,045 million), of which Ps. 3,309 million (US\$254 million) was denominated in pesos (including UDIs), Ps. 10,278 million (US\$783 million) was denominated in U.S. dollars and Ps. 95 million (US\$7 million) was denominated in Peruvian soles. Of this total amount, Ps. 83 million (US\$6 million) constituted short-term debt and Ps. 13,513 million (US\$1,039 million) constituted long-term debt. The primary use of our debt has been to fund acquisitions and capital expenditures. As of December 31, 2012, 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 2011 and 2012, we made capital expenditures (other than in connection with acquisitions) of Ps. 1,062 million and Ps. 1,416 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, 2012:

	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.....	82,685	82,685	—	—	—
Long-term debt obligations.....	13,498,989	66,666	2,805,909	7,422,027	3,204,386
Capital lease obligations.....	14,335	5,435	4,987	3,589	324
Total	13,596,009	154,786	2,810,896	7,425,616	3,204,386

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 IFRS 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, 2012, the notional amount outstanding of our interest derivative transactions was Ps. 1,301 million and we recorded a net liability with respect to derivative financial instruments of Ps. 24 million.

During 2011 we recorded a loss relating to the fair value of our derivative financial instruments of Ps. 26 million and a gain of Ps. 3 million in 2012, which were primarily related to mark-to-market gains/losses associated with foreign currency exchange rate and interest rate derivative financial instruments which are 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, 2012, 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		2013	2014	2015+	

Type of derivative, value or contract	Notional amount	Underlying Asset		Fair value	Maturity			Collateral
		Unit	Reference		2013	2014	2015+	
With negotiation purposes Over LIBOR	Ps. 1,301	% per year	0.39	Ps. (19)	Ps. (19)	Ps. —	—	—

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, 2012, 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		2013	2014	2015+	
USD/MXN (CCS ⁽¹⁾)	Ps. (266)	Pesos/U.S. dollars	13.01	Ps. (6)	Ps. (6)	—	—	—

(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, 2012 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, 2012, 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\$1 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.