

**Sigma Alimentos, S. A. de C. V. and
Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)**

Consolidated Financial Statements as of
and for the Years Ended December 31,
2018 and 2017, and Independent
Auditors' Report Dated January 31,
2019



**Sigma Alimentos, S. A. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)**

Independent Auditors' Report and Consolidated Financial Statements as of and for the years ended December 31, 2018 and 2017

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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 statements of financial position as of December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years 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, 2018 and 2017, and its consolidated financial performance and cash flows for the years 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.

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.

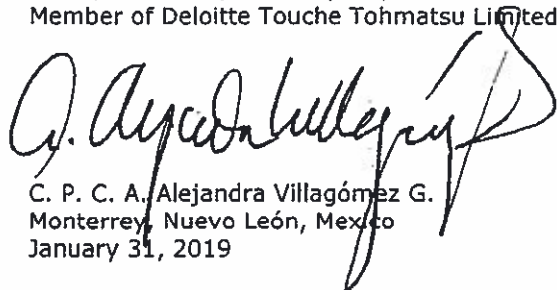
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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.

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, 2019



Sigma Alimentos, S. A. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

Consolidated Statements of Financial Position

As of December 31, 2018 and 2017
 In thousands of Mexican pesos

	Note	2018	2017
Assets			
Current assets:			
Cash and cash equivalents	6	\$ 12,213,324	\$ 12,807,070
Restricted cash	7	52,883	84,855
Trade and other accounts receivable, net	8	7,458,844	7,977,213
Recoverable income tax		514,381	819,476
Derivative financial instruments	4	301,000	-
Inventories	9	14,223,870	14,687,050
Other current assets		343,370	425,841
Total current assets		<u>35,107,672</u>	<u>36,801,505</u>
Non-current assets:			
Property, plant and equipment, net	10	33,952,525	35,268,405
Goodwill and intangible assets, net	11	28,069,825	30,456,843
Deferred income taxes	16	2,261,927	2,792,463
Derivative financial instruments	4	763,360	-
Investments in associates and other assets	12	229,206	219,634
Restricted cash	7	35,429	47,367
Total non-current assets		<u>65,312,272</u>	<u>68,784,712</u>
Total assets		<u>\$100,419,944</u>	<u>\$105,586,217</u>
Liabilities and Stockholders' Equity			
Current liabilities:			
Debt	15	\$ 5,502,812	\$ 2,379,616
Trade and other accounts payable	14	25,806,384	25,817,604
Income taxes payable	16	1,679,617	1,783,816
Provisions	17	137,486	323,566
Other current liabilities	18	408,447	303,246
Total current liabilities		<u>33,534,746</u>	<u>30,607,848</u>
Non-current liabilities:			
Debt	15	42,715,874	48,029,505
Provisions	17	96,966	110,133
Deferred income taxes	16	3,710,284	4,068,122
Income taxes payable	16	1,620,357	2,341,907
Employee benefits	19	1,395,158	1,339,070
Other non-current liabilities	18	284,449	800,236
Total non-current liabilities		<u>49,823,088</u>	<u>56,688,973</u>
Total liabilities		<u>83,357,834</u>	<u>87,296,821</u>
Stockholders' equity:			
Controlling interest:			
Capital stock		27,081	27,081
Share premium		666,988	666,988
Retained earnings		14,300,351	14,260,812
Other reserves		1,477,214	2,642,450
Controlling interest		<u>16,471,634</u>	<u>17,597,331</u>
Non-controlling interest	13	590,476	692,065
Total stockholders' equity		<u>17,062,110</u>	<u>18,289,396</u>
Total liabilities and stockholders' equity		<u>\$100,419,944</u>	<u>\$105,586,217</u>

See accompanying notes to consolidated financial statements.



Sigma Alimentos, S. A. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

Consolidated Statements of Income

For the years ended December 31, 2018 and 2017

In thousands of Mexican pesos, except for earnings per share amounts

	Note	2018	2017
Revenues	27	\$ 121,899,819	\$ 114,222,039
Cost of sales	22	(87,781,317)	(82,748,224)
Gross profit		34,118,502	31,473,815
Selling expenses	22	(19,988,760)	(18,266,369)
Administrative expenses	22	(5,392,609)	(4,780,769)
Other (expenses) income, net	23	(1,299,329)	164,064
Operating income		7,437,804	8,590,741
Financial income	24	291,971	296,887
Financial expenses	24	(2,740,645)	(3,046,854)
Gain (loss) due to exchange fluctuation, net	24	573,291	(1,638,942)
Financial cost, net		(1,875,383)	(4,388,909)
Equity in income of associates	12	15,196	15,976
Income before taxes		5,577,617	4,217,808
Income taxes	16	(2,718,948)	(2,143,965)
Net consolidated income		<u>\$ 2,858,669</u>	<u>\$ 2,073,843</u>
Income attributable to:			
Controlling interest		2,926,257	2,031,891
Non-controlling interest	13	(67,588)	41,952
		<u>\$ 2,858,669</u>	<u>\$ 2,073,843</u>
Earnings per basic and diluted share, in Mexican pesos		<u>\$ 2.27</u>	<u>\$ 1.57</u>
Weighted average outstanding shares	20	<u>1,290,654,555</u>	<u>1,290,654,555</u>

See accompanying notes to consolidated financial statements.



Sigma Alimentos, S. A. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

In thousands of Mexican pesos

	Note	2018	2017
Net consolidated income		<u>\$2,858,669</u>	<u>\$2,073,843</u>
Other comprehensive income for the year:			
<i>Items that will not be reclassified to the consolidated statement of income</i>			
Remeasurement of employee benefit obligations, net of taxes	16	11,247	(35,936)
<i>Items that will be reclassified to the consolidated statement of income</i>			
Effect of derivative financial instruments designated as cash flow hedges, net of taxes	16	(114,943)	-
Effect of translation of foreign entities	16	<u>(1,095,541)</u>	<u>2,509,904</u>
Total comprehensive income of the year		<u>(1,199,237)</u>	<u>2,473,968</u>
Consolidated comprehensive income		<u>\$1,659,432</u>	<u>\$4,547,811</u>
Attributable to:			
Controlling interest		\$1,761,021	\$4,461,024
Non-controlling interest		<u>(101,589)</u>	<u>86,787</u>
Comprehensive income for the year		<u>\$1,659,432</u>	<u>\$4,547,811</u>

See accompanying notes to consolidated financial statements.



Sigma Alimentos, S. A. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2018 and 2017
 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, 2017	\$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			-	2,429,133	2,429,133	44,835	2,473,968
Comprehensive income			2,031,891	2,429,133	4,461,024	86,787	4,547,811
Balances as of December 31, 2017	27,081	666,988	14,260,812	2,642,450	17,597,331	692,065	18,289,396
Transactions with stockholders:							
Dividends declared			(2,797,402)	-	(2,797,402)	-	(2,797,402)
Total transactions with stockholders			(2,797,402)	-	(2,797,402)	-	(2,797,402)
Initial adoption effect of IFRS 9 and 15			(89,316)	-	(89,316)	-	(\$89,316)
Net income			2,926,257	-	2,926,257	(67,588)	2,858,669
Total other comprehensive income			-	(1,165,236)	(1,165,236)	(34,001)	(1,199,237)
Comprehensive income			2,926,257	(1,165,236)	1,761,021	(101,589)	1,659,432
Balances as of December 31, 2018	\$27,081	\$666,988	\$14,300,351	\$1,477,214	\$16,471,634	\$590,476	\$17,062,110

See accompanying notes to consolidated financial statements.



Sigma Alimentos, S. A. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

In thousands of Mexican pesos

	2018	2017
Cash flows from operating activities		
Income before income taxes	\$ 5,577,617	\$ 4,217,808
Depreciation and amortization	3,990,116	3,775,832
Impairment of fixed assets and intangible assets	1,726,111	358,621
Costs associated with seniority premiums and pension plans	164,615	140,632
Income from sale of property, plant and equipment	(11,394)	(86,495)
Equity in income of associates	(15,196)	(15,976)
Gain on remeasurement of associate in acquisition of control	(224,049)	(410,448)
(Gain) loss due to exchange fluctuation, net	(573,291)	1,638,942
Financial cost, net	2,420,942	2,753,052
Other	(4,581)	(137,771)
Changes in working capital:		
Decrease in trade and other accounts receivable	249,076	1,158,831
Increase in inventories	(134,505)	(657,980)
Increase (decrease) in suppliers and other accounts payable	249,273	(2,177,956)
Income taxes paid	<u>(3,111,708)</u>	<u>(1,222,804)</u>
Net cash flows generated by operating activities	<u>10,303,026</u>	<u>9,334,288</u>
Cash flows from investing activities		
Cash flows from business acquisition, net of cash acquired	-	(1,557,426)
Interest received	183,719	190,040
Cash flows from acquisition of intangible assets	(187,763)	(93,878)
Cash flows from acquisition of property, plant and equipment	(3,311,338)	(3,447,826)
Restricted cash and other assets	<u>41,526</u>	<u>9,742</u>
Net cash flows used in investing activities	<u>(3,273,856)</u>	<u>(4,899,348)</u>
Cash flow from financing activities		
Proceeds from borrowings and debt	9,323,886	12,841,384
Payments of borrowings and debt	(10,836,223)	(10,944,472)
Derivative financial instruments	(294,408)	-
Interest paid	(2,606,809)	(2,751,573)
Dividends paid	<u>(2,811,465)</u>	<u>(2,978,031)</u>
Net cash flows used in financing activities	<u>(7,225,019)</u>	<u>(3,832,692)</u>
Net increase in cash and cash equivalents	(195,849)	602,248
Effects of changes in exchange rate	(397,897)	(632,792)
Cash and cash equivalents at the beginning of the year	<u>12,807,070</u>	<u>12,837,614</u>
Cash and cash equivalents at the end of the year	<u>\$12,213,324</u>	<u>\$12,807,070</u>

See accompanying notes to consolidated financial statements.



Sigma Alimentos, S. A. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

Notes to Consolidated Financial Statements

As of and for the years ended December 31, 2018 and 2017

In thousands of Mexican pesos, except where otherwise indicated

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 operations in Mexico, the U.S.A., Costa Rica, El Salvador, the Dominican Republic, Peru, Ecuador, Honduras, Nicaragua, Guatemala, Spain, France, Italy, the Netherlands, Germany, Romania, Belgium and Portugal; and sells its products in more than 640,000 points of sale in those countries. 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

2018

a. Debt issuance

On March 22, 2018, Sigma Finance Netherlands B.V. issued Senior Notes in the Irish Stock Exchange to qualified institutional investors under Rule 144A, and other investors outside the United States of America under Regulation S in the amount of USD\$ 500 million, including issuance costs of USD\$7 million and discounts of USD\$3.3 million. The Senior Notes mature in ten years at a coupon of 4.875%. The transaction proceeds were mainly used to prepay 2022 Campofrío Senior Notes and for general corporate purposes (Note 15.a).

b. Settlement of Debt Securities

On July 12, 2018, the Company settled the entire balance of its Debt Securities registered in the National Securities Registry in Mexico with the ticker "SIGMA08" and "SIGMA08U," whose maturity was on this date, amounting to \$1,748 million. The Securities were issued in 2008 and had an interest rate of 10.25% and 5.32%, respectively. In addition, interest accrued as of that date was paid in the amount of \$72 million.

c. Impairment in Cesare Fiorucci S.P.A

In recent years, the economic situation in Italy has been affected by an economic slowdown which has led to lower growth and higher unemployment. As of December 31, 2018, sales fell with respect to the previous year, associated with its political and economic instability. As a result of these factors, management recalculated the recoverable value of the CGU (cash generating unit) in Italy, recognizing an impairment of \$1,364,702 for the year ended December 31, 2018.



d. 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).

The acquisition qualified as a business combination in accordance with the requirements of IFRS 3 *Business Combinations* ("IFRS 3"); therefore, the Company applied the purchase method to measure the assets acquired and liabilities assumed in the transaction. SIGMA recognized goodwill of \$319,651, which was recognized in 2018, when the allocation of fair values of the net assets acquired was concluded; however, 2017 amounts were not restated given the immaterial nature of the purchase price adjustments in 2018.

SUPEMSA's results have been included in the consolidated financial statements from the acquisition date; therefore, the consolidated statements of income for 2017 are not comparable with those of the current year. The 2017 consolidated statement of cash flows presents the incorporation of SUPEMSA's operations in a single line within the investment activity, net of acquired cash.

e. 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).

SIGMA already owned 49% of the shares and, with this transaction, it acquired all the shares of Caroli; therefore, under IFRS 3, the transaction is deemed an acquisition in stages. According to this standard, the Company revalued the previously held 49% interest 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 2017 of \$410 million (equivalent to €18.5 million).

The acquisition of 51% of the shares of Caroli was classified as a business combination in accordance with IFRS 3 requirements; therefore, the Company applied the purchase method to measure the assets acquired and liabilities assumed in the transaction. SIGMA recognized goodwill of \$2,150 million, which was recognized in 2018, when the Company completed the allocation of fair values of the net assets acquired; however, 2017 amounts were not restated given the immaterial nature of the identified acquisition adjustments.

Caroli's results have been included in the consolidated financial statements from the acquisition date; therefore, the consolidated statements of income for 2017 are not comparable with those of the current year. In addition, the 2017 consolidated statement of cash flows presents the incorporation of Caroli's operations in a single line within investing activities, net of acquired cash, whereas for 2018, the cash flows corresponding to this business are presented within each of the corresponding operating, investing and financing activities.

During 2018, the Company remeasured the interest of 49% of the shares of Caroli at fair value as of September 30, 2018, due to an adjustment in the estimate of the earn-out payable to the sellers and based on Caroli's improved performance than initially estimated; therefore, it recognized a gain in the consolidated statement of income of \$224 million (equivalent to €10 million).

2017

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 prepay Senior Sigma 2018 Notes and for general corporate purposes (Note 15.b).



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.c).

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, 2018 and 2017, the principal subsidiaries of SIGMA were:

<u>Subsidiary</u>	<u>Country ⁽ⁱ⁾</u>	<u>Percentage of ownership</u>	<u>Functional currency</u>
Aoste, SNC ^(a and c)	France	95.49	Euro
Campofrio Food Group Americas, Inc. ^(a and c)	U.S.A.	95.49	U.S. Dollar
Campofrio 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	Romanian Leu
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
Stegeman, CV ^(a and c)	The Netherlands	95.49	Euro
Bar-S Foods Co. ^{(iv) (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
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
Sigma Foodservice Comercial, 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 Hidalmix, 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 Foodservice S. de R.L. de C. V. ^(b)		100	Mexican Peso
Sigma Foodservice Operaciones 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
Sociedad Suizo Peruana Embutidos, S. A. ^{(ii) (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
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.d.
- iii. In 2017, the Company acquired 100% of the shares, see Note 2.e.
- iv. In 2018, the Company absorbed 100% of the shares of Sigma Foods, LLC and Sigma Processed Meats, LLC.
 - 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, 2018 and 2017, 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.

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:

Country	Local currency	Local currency to Mexican pesos			
		Closing exchange rate as of December 31,		Average exchange rate	
		2018	2017	2018	2017
Germany	Euro	\$22.51	\$23.69	\$22.91	\$22.92
Belgium	Euro	22.51	23.69	22.91	22.92
Costa Rica	Colon	0.03	0.04	0.03	0.03
Ecuador	U.S. Dollar	19.68	19.74	20.15	19.10
El Salvador	U.S. Dollar	19.68	19.74	20.15	19.10
Spain	Euro	22.51	23.69	22.91	22.92
The United States	U.S. Dollar	19.68	19.74	20.15	19.10
France	Euro	22.51	23.69	22.91	22.92
Guatemala	Quetzal	2.54	2.69	2.60	2.61
Honduras	Lempira	0.81	0.84	0.82	0.81
Italy	Euro	22.51	23.69	22.91	22.92
Nicaragua	Córdoba	0.61	0.64	0.62	0.62
Netherlands	Euro	22.51	23.69	22.91	22.92
Peru	Peruvian Nuevo Sol	5.84	6.09	5.94	5.92
Dominican Rep.	Dominican Peso	0.39	0.41	0.40	0.40
Romania	Romanian Leu	4.83	5.09	4.87	4.64

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

Through December 31, 2017, the Company classified financial assets into the following categories: at fair value through profit or loss, loans and receivables, investments held to maturity and available for sale. The classification depended on the purpose for which the financial assets were acquired.

Beginning January 1, 2018, in accordance to the adoption of IFRS 9 *Financial Instruments*, the Company subsequently classifies and measures its financial assets based on the Company's business model to manage financial assets, and on the characteristics of the contractual cash flows of such assets. This way financial assets can be classified at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss. Management determines the classification of its financial assets upon initial recognition. Purchases and sales of financial assets are recognized at settlement date.

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

Classes of financial assets under IAS 39, in effect through December 31, 2017.

i. Financial assets at FVTPL

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired mainly for the purpose of being sold in the short term. Derivative financial instruments are also classified as held for trading unless they are designated as hedges.

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

Beginning January 1, 2018, financial assets at fair value through profit or loss still maintain their classification according to the assessment of their business model, however, financial assets previously classified in this category as of December 31, 2017, did not suffer measurement impacts and were classified as described in Note vii of this section.

ii. Loans and receivables

Accounts receivable are non-derivative financial assets with fixed or specific payments that are not traded in an active market. They are included as current assets, except for maturities greater than 12 months after the date of the consolidated statement of financial position, which are classified as non-current assets.

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

Beginning January 1, 2018, loans and receivables are considered within the class of financial assets at amortized cost (see number v in this section).

iii. Investments held to maturity

If the Company has a demonstrable intention and capacity to hold debt instruments to maturity, they are classified as held to maturity. Assets in this category are classified as current assets if they are expected to be settled within the following 12 months, otherwise, they are classified as non-current assets. They are initially recognized at fair value plus any directly attributable transaction cost, subsequently, they are valued at amortized cost using the effective interest method. Investments held to maturity are recognized or written off on the day they are transferred to or through the Company. As of December 31, 2017, the Company did not have this type of investments.

iv. Investments available for sale



Investments available for sale are non-derivative financial assets designated to this category or that do not fall under any of the other categories. They are included as non-current assets, unless their maturity is less than 12 months or management intends to dispose of that investment within the following 12 months after the date of the consolidated statement of financial position.

Investments available for sale are initially recognized at fair value plus directly attributable transaction costs. Subsequently, these assets are recorded at fair value (unless they cannot be measured at their value in an active market, and the value is not reliable, in this case, they will be recognized at cost less impairment).

Gains or losses arising from changes in the fair value of monetary and non-monetary instruments are directly recognized in the consolidated statement of comprehensive income in the period in which they occur.

When investments classified as available for sale are sold or impaired, the fair value accumulated adjustments recognized in equity are reclassified to the consolidated statement of income.

As of December 31, 2017, the Company did not have this type of investments.

Classes of financial assets under IFRS 9, in effect beginning January 1, 2018.

v. Financial assets at amortized cost

Financial assets at amortized cost are those that i) are held within a business model whose objective is to hold said assets in order to collect contractual cash flows; and ii) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal.

vi. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are those whose business model is based on collecting contractual cash flows and selling financial assets, also that their contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal. As of December 31, 2018, the Company does not have financial assets to be measured at its fair value through other comprehensive income.

vii. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss, in addition to those described in point *i* in this section, are those that do not meet the characteristics to be measured at amortized cost or fair value through other comprehensive income, since i) they have a business model different to those that seek to collect contractual cash flows, or collect contractual cash flows and sell the financial assets, or otherwise ii) the generated cash flows are not solely payments of principal and interest on the amount of outstanding principal.

Despite the above classifications, the Company can make the following irrevocable choices in the initial recognition of a financial asset:

- a. Disclose the subsequent changes in the fair value of an equity instrument in other comprehensive income, only if such investment (in which no significant influence, joint control or control is maintained) is not held for trading purposes, that is, a contingent consideration recognized as a result of a business combination.
- b. Assign a debt instrument to be measured at fair value in profit or loss, if as a result it eliminates or significantly reduces an accounting mismatch that would arise from the measurement of assets or liabilities or the recognition of profits and losses on them in different bases.

As of December 31, 2018, the Company has not made any of the irrevocable designations described above.



Impairment of financial assets

Through December 31, 2017, the Company assessed whether there was objective evidence of impairment of each financial asset or group of financial assets. An impairment loss was recognized if there was 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) had an impact on the estimated future cash flows derived from the financial asset or group of financial assets that could be reliably estimated.

New impairment policy from the adoption of IFRS 9

Beginning January 1, 2018, the Company used a new impairment model based on expected credit losses rather than losses incurred, applicable to financial assets subject to such assessment (i.e. financial assets measured at amortized cost and at fair value through other comprehensive income), as well as lease receivables, contract assets, certain written loan commitments, and financial guarantee contracts. The expected credit losses on these financial assets are estimated from the initial recognition of the asset at each reporting date, using as a reference the past experience of the Company's credit losses, adjusted for factors that are specific to the debtors or groups of debtors, the general economic conditions and an assessment of both, the current management and the forecast of future conditions.

a. Trade receivables

The Company adopted the simplified expected loss calculation model, through which expected credit losses are recognized during the account receivable's lifetime.

The Company performs an analysis of its portfolio of customer receivables, in order to determine if there are significant customers for whom it requires an individual assessment; meanwhile, customers with similar characteristics that share credit risks (participation in the portfolio of accounts receivable, type of market, sector, geographic area, etc.), are grouped to be evaluated collectively.

In its impairment assessment, the Company may include indications that the debtors or a group of debtors are experiencing significant financial difficulties, and also observable data indicating that there is a significant decrease in the estimated cash flows to be received, including arrears.

For purposes of its historical analysis, the Company considers that the following constitutes an event of default, since historical experience indicates that financial assets are not recoverable when they meet any of the following criteria:

- the debtor does not fulfill its financial agreements; or
- Information obtained internally or from external sources indicates that it is unlikely that the debtor will pay its creditors, including the Company, in its entirety (without considering any guarantee held by the Company).

b. Other financial instruments

The Company recognizes credit losses expected during the asset's lifetime of all financial instruments for which credit risk has significantly increased since its initial recognition (assessed on a collective or individual basis), considering all the reasonable and sustainable information, including the one referring to the future. If as of the date of presentation of the credit risk a financial instrument has not significantly increased since its initial recognition, the Company calculates the loss allowance for that financial instrument as the amount of expected credit losses in the following 12 months.

In both cases, the Company recognizes in profit or loss of the period the decrease or increase in the expected credit loss allowance at the end of the period.

Management assesses the impairment model and the inputs used therein at least once every 3 months, in order to ensure that they remain in effect based on the current situation of the portfolio.



Financial liabilities

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

Payables are obligations to pay for goods or services that have been purchased 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 recognized at amortized cost; any difference between the resources received (net of transaction costs) and the settlement value is recognized in the consolidated statement of income during the loan's term using the effective interest method.

Derecognition of financial liabilities

The Company derecognizes financial liabilities if, and only if, the obligations of the Company are fulfilled, cancelled or have expired. The difference between the carrying amount of the derecognized financial liability and the consideration paid and payable is recognized in profit or loss.

Additionally, when the Company carries out a refinancing transaction and the previous liability qualifies to be derecognized, the costs incurred in the refinancing are recognized immediately in profit or loss at the date of termination of the previous financial liability.

Offsetting of financial assets and liabilities

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

g. *Derivative financial instruments and hedging activities*

All derivative financial instruments contracted and identified, classified as fair value hedges or cash flow hedges, for trading or the hedging of market risks, are recognized in the consolidated statement of financial position as assets and/or liabilities at fair value and similarly measured subsequently at fair value. The fair value is determined based on recognized market prices and when they are not traded in a market, it is determined using valuation techniques accepted in the financial sector.

The fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months.

Derivative financial instruments classified as hedges are contracted for risk hedging purposes and meet all hedging requirements; their designation at the beginning of the hedging operation is documented, describing the objective, primary position, risks to be hedged and the effectiveness of the hedging relationship, characteristics, accounting recognition and how the effectiveness is to be measured, applicable to that operation.

Fair value hedges

Changes in the fair value of derivative financial instruments are recorded in the consolidated statement of (loss) profit. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the consolidated statement of (loss) profit in the same line item as the hedged position. As of December 31, 2018 and 2017, the Company has no derivative financial instruments classified as fair value hedges.

Cash flow hedges

The changes in the fair value of derivative instruments associated to cash flow hedges are recorded in stockholders' equity. The effective portion is temporarily recorded in comprehensive income, within stockholders' equity and is reclassified to profit or loss when the hedged position affects these, the ineffective portion is immediately recorded in profit or loss.



Net investment hedge in a foreign transaction

Beginning March 1, 2018, the Company applies the hedge accounting to currency risk arising from its investments in foreign transactions for variations in exchange rates arising between the functional currency of such transaction and the functional currency of the holding entity, regardless of whether the investment is maintained directly or through a sub-holding entity. Variation in exchange rates is recognized in the other items of comprehensive income as part of the translation effect, when the foreign transaction is consolidated.

To this end, the Company designates the debt denominated in a foreign currency as a hedging instrument; therefore, the exchange rate effects caused by the debt are recognized in other components of comprehensive income, on the translation effects line item, to the extent that the hedge is effective. When the hedge is not effective, exchange differences are recognized in profit or loss.

Suspension of hedge accounting

The Company suspends hedge accounting when the derivative financial instrument or the non-derivative financial instrument has expired, is cancelled or exercised, when the derivative or non-derivative financial instrument is not highly effective to offset the changes in the fair value or cash flows of the hedged item. The replacement or successive renewal of a hedging instrument for another one is not an expiration or resolution if such replacement or renewal is part of the Company's documented risk management objective and it is consistent with this.

On suspending hedge accounting, in the case of fair value hedges, the adjustment to the carrying amount of a hedged amount for which the effective interest rate method is used, is amortized to income over the period to maturity. In the case of cash flow hedges, the amounts accumulated in equity as a part of comprehensive income remain in equity until the time when the effects of the forecasted transaction affect income. In the event the forecasted transaction is not likely to occur, the income or loss accumulated in comprehensive income are immediately recognized in income. When the hedge of a forecasted transaction appears satisfactory and subsequently does not meet the effectiveness test, the cumulative effects in comprehensive income in stockholders' equity are transferred proportionally to income, to the extent the forecasted transaction impacts it.

The fair value of derivative financial instruments reflected in the consolidated financial statements of the Company, is a mathematical approximation of their fair value. It is computed using proprietary models of independent third parties using assumptions based on past and present market conditions and future expectations at the closing date.

h. 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.

i. Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. The carrying amount of the replaced part is derecognized. Repairs and maintenance are recognized in the 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.

j. Leases

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

Leases whereby a significant portion of the risks and rewards relating to the leased property are retained by the lessor are classified as operating leases. Payments made under operating leases (net of incentives received by the lessor) are recognized in the 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.

As of January 1, 2019, the Company has adopted IFRS 16 – *Leases*, as described in note 3.v.ii, therefore its accounting policy for the treatment of the leases acting as the lessee, changed as of this date.



k. 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, 2018 and 2017, 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 and 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.

l. Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not depreciable or amortizable and are subject to annual impairment tests. Assets that are subject to amortization are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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.

m. 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.



n. Employee benefits

i. Pension plans

Defined contribution plans:

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

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.



o. Provisions

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

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

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

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

p. Stock based compensation

The Company's compensation plans are based on the market value of shares of ALFA in favor of certain senior executives of SIGMA. The conditions for granting such compensation to the eligible executives include among other things, compliance with certain 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.

q. Capital stock

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

r. Comprehensive income

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

s. Segment reporting

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

t. Revenue recognition

Revenues comprise the fair value of the consideration received or to receive for the sale of goods in the ordinary course of the transactions, and are presented in the consolidated statement of income, net of the amount of variable considerations, which comprise the estimated amount of returns from customers, rebates and similar discounts and payments made to customers.



To recognize revenues from contracts with customers, the comprehensive model for revenue recognition is used, which is based on a five-step approach consisting of the following: (1) identify the contract; (2) identify performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when the Company satisfies a performance obligation.

Contracts with customers are formalized by commercial agreements complemented by purchase orders, whose costs comprise the promises to produce, distribute and deliver goods based on the contractual terms and conditions set forth, which do not imply a significant judgment to be determined. When there are payments related to obtaining contracts, they are capitalized and amortized over the term of the contract.

The performance obligations that the Company has, are not separately identifiable nor are partially satisfied, since the transactions derive from the sale of goods and are satisfied at a point in time, when the customer accepts the products. Moreover, the payment terms identified in the majority of the sources of revenue are in the short-term, with variable considerations primarily focused on discounts and rebates of goods given to customers, without financing components or guarantees. These discounts and incentives to customers are recognized as a reduction to income or as sale expenses, according to their nature. Therefore, the allocation of the price is directly on the performance obligations of production, distribution and delivery, including the effects of variable considerations.

The Company recognizes revenue at a point in time, when control of sold goods has been transferred to the customer, which is given upon delivery of the goods promised to the customer according to the negotiated incoterm. Therefore, an account receivable is recognized by the Company when the performance obligations have been met, recognizing the corresponding revenue; moreover, the considerations received before completing the performance obligations of production, distribution and delivery are recognized as customer advances.

The Company maintains obligations for the return of goods from its customers, and records a provision related to the right of customers to return or replace goods that cannot be sold or that expire, according to the distribution channel to which they belong. The creation of this provision is based on the historical behavior of customers, estimating the corresponding liability through the application of the expected value method. As of January 1, and as of December 31, 2018, the balance of this provision was \$80,561 and \$84,447, respectively, and is recognized in the "Other accounts and accrued expenses payable" line item.

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

The Company adopted IFRS 15 - *Revenue from contracts with customers* on January 1, 2018 using the modified retrospective method applied to the existing contracts at the date of adoption; therefore, the accounting policy that was applied as of that date is not comparable to the one used for the year ended December 31, 2017.

u. *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. As of December 31, 2018 and 2017, there are no dilutive effects for instruments potentially convertible to shares.

v. *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, 2018, including the annual improvements to IFRS, as described below:



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 had no impacts associated with the new measurement category of fair value through other comprehensive income, because it currently does not have any instrument that qualifies for this treatment; however, potential impacts could arise if its investment strategy was changed in the future. In addition, there were no impacts related to hedge accounting.

Additionally, in regards to the new model for impairment based on expected losses, Management of the Company decided to adopt the standard using the modified retrospective approach, recognizing the effects on retained earnings as of January 1, 2018. On this date, derived from the new requirements, the Company recognized an adjustment of \$8,754, net of deferred taxes, for increasing the allowance for impairment of accounts receivable. In addition, the Company applied the disclosure requirements in its consolidated financial statements.

IFRS 15, *Revenue from contracts with customers*

IFRS 15, *Revenues from contracts with customers*, is effective for periods beginning January 1, 2018. 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, which 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.

The Company's management adopted this standard using the modified retrospective approach applied to contracts in effect at the date of initial adoption on January 1, 2018. On this date, derived from the new requirements, the Company recognized a liability corresponding to the right granted to its customers for the return of goods; such impact was recognized against retained earnings in the amount of \$80,561, net of deferred taxes.

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.

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 did not have significant impacts in the adoption of this interpretation in its consolidated financial statements.

ii. New standards and interpretations, not in force in the reporting period

A series of new standards, amendments and interpretations have been issued, which are not yet effective for reporting periods ended in December 31, 2018, 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 16, Leases

IFRS 16, *Leases*, supersedes IAS 17, *Leases*, and the related interpretations. This new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and financial leases, while the model for lessees remains without significant changes. IFRS 16 is effective beginning January 1, 2019, and the Company decided to adopt it with the recognition of all the effects as of that date, without changing prior years.

Under IFRS 16, lessees will recognize a right-of-use asset and the corresponding lease liability. The right of use will be depreciated based on the contractual term or, in some cases, on its economic useful life. On the other hand, the financial liability will be measured at initial recognition, discounting future minimum lease payments at present value according to a term, using the discount rate that represents the lease funding cost; subsequently, the liability will accrue interest through maturity.

The Company will apply the exemptions to not to recognize an asset and a liability as described above, for lease agreements with a term of less than 12 months (provided that they do not contain purchase or term renewal options) and for those agreements where the acquisition of an individual asset of the contract was less than USD\$5,000 (five thousand dollars). Therefore, payments for such leases will continue to be recognized as expenses within operating income.

The Company adopted IFRS 16 on January 1, 2019; therefore, as of the date of this report, it estimated a right-of-use asset and a lease liability of \$1,839,318, as its initial adoption effect.

In addition, the Company adopted and applied the following practical expedients provided by IFRS 16:

- Account for as leases the payments made in conjunction with the rent, and that represent services (for example, maintenance and insurance).
- Create portfolios of contracts that are similar in terms, economic environment and characteristics of assets, and use a funding rate by portfolio to measure leases.
- For leases classified as financial leases as of December 31, 2018, and without elements of minimum payment updating for inflation, maintain the balance of the right-of-use asset, and its corresponding lease liability on the date of adoption of IFRS 16.
- Not to revisit the previously reached conclusions for service agreements which were analyzed to December 31, 2018 under the IFRIC 4, *Determining Whether a contract Contains a Lease*, and where it had been concluded that there was no implicit lease.

The Company has taken the required steps to implement the changes that the standard represents in terms of internal control, tax and systems affairs, from the adoption date.

Lastly, as a result of these changes in accounting, some performance indicators of the Company, such as operating income and adjusted EBITDA, will be affected because what was previously recognized as an operating rental expense equivalent to rental payments, now a portion will be recognized by reducing the financial liability (which will not affect the statement of income), and the other portion will be recognized as a financial expense under the operating income indicator. On the other hand, the expense for depreciation of right-of-use assets will affect operating income linearly, but without representing a cash outflow, which will benefit the adjusted EBITDA.

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, Accounting Policies, Changes in Accounting Estimates and Errors, modifying comparative periods or retrospectively with the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings, without modifying comparative periods.

The Company determined that the impacts of the implementation of this Interpretation as of January 1, 2019 are not material considering the prevailing conditions of the tax positions that it has taken at the date of adoption and the faculties of the competent authorities to assess tax positions held by the Company at the same date.

4. Financial instruments and financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity 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, 2018, the Company has three Cross-Currency Swaps of hedge accounting as mentioned later in this note. As of December 31, 2017, 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 4.89 and 4.77 as of December 31, 2018 and 2017, respectively, resulting in a leverage ratio that meets the Company's management and risk policies.

Financial instruments by category

As of December 31, 2018 and 2017, financial assets and liabilities consist of the following:

	As of December 31,	
	2018	2017
Cash and cash equivalents	\$12,213,324	\$12,807,070
Restricted cash	88,312	132,222
Financial assets measured at amortized cost ⁽¹⁾ :		
Trade and other accounts receivable	5,199,603	5,864,599
Financial assets measured at fair value through profit or loss ⁽¹⁾ :		
Derivative financial instruments ⁽²⁾	1,064,360	-
	<u>\$18,565,599</u>	<u>\$18,803,891</u>
Financial liabilities measured at amortized cost ⁽¹⁾ :		
Debt	\$48,218,686	\$50,409,121
Trade and other accounts payable	23,279,778	23,043,149
	<u>\$71,498,464</u>	<u>\$73,452,270</u>

(1) As described in Note 3v, the Company had no impacts associated with the introduction of the new category of financial assets measured at fair value through other comprehensive income, derived from the adoption of IFRS 9. Therefore, all financial assets that were measured at fair value as of January 1, 2018 thereon, were classified as financial assets measured at fair value through profit or loss. Therefore, the comparative information is appropriate, since it reflects the consistency in the recognition and measurement principles for all reporting periods.

(2) The Company designated the derivative financial instruments that comprise this balance, as hedges for accounting purposes, in accordance with what is described later in this Note.

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, 2018 and 2017.

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, 2018		As of December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Debt	\$47,980,170	\$46,618,866	\$50,126,729	\$52,127,644

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, 2018 and 2017, 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.

Changes in the exchange rates between the Mexican peso, the U.S. dollar and the euro represents a significant factor for the Company due to the effect that such currencies have on its financial results. Furthermore, a significant amount of SIGMA's 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 enters into derivative financial instrument transactions to hedge its exchange rates in order to manage the comprehensive cost of funding and the volatility associated with foreign exchange rates. 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 financial 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, 2018:

	MXP	USD	EUR
Financial assets	\$1,520	\$ 756,692	\$ 3,053
Financial liabilities	-	3,204,173	13,465,150
Foreign exchange financial position	<u>\$1,520</u>	<u>\$(2,447,481)</u>	<u>\$(13,462,097)</u>

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

Based on the financial 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 \$1,590,806 in the consolidated statement of income and stockholders' equity.

Financial instruments to hedge net investments in foreign transactions

Beginning March 1, 2018 (designation date), the Company designated certain non-current debt instruments as hedges to net investments in foreign transactions in order to mitigate the variations in exchange rates arising between the functional currency for such transactions and the functional currency of the holding or sub-holding company that maintains these investments.

The Company formally designated and documented each hedging relationship establishing objectives, management's strategy to hedge the risk, the identification of the hedging instrument, the hedged item, the nature of the risk to be hedged, and the methodology to assess the effectiveness. Given that the exchange rate hedging relationship is clear, the method that the Company used to assess the effectiveness consisted of a qualitative effectiveness test by comparing the critical terms between the hedging instruments and the hedged items.



The hedge will be effective as long as the notional debt instrument designated as a hedging instrument is equal to or less than the value of the net assets of the hedged foreign transaction. When the value of the net assets of the foreign transaction is less than the notional value of the designated debt, the Company rebalances the hedging relationship and recognizes the ineffectiveness in the income statement.

As of December 31, 2018, SIGMA maintains the following hedging relationships:

a) Hedging relationships of Sigma Alimentos S.A. de C.V.:

Holding	Functional Currency	Hedging Instrument	Notional Value	Hedged Item	Change in Net Assets of Hedged Item
Sigma Alimentos, S.A. de C.V.	USD	Fixed rate 144A Bond	€600,000	Aoste SNC	€ 313,376
				Imperial Meat Products, VOF	48,800
				Stegeman C.V.	36,266
				Carnes Selectas 2000, S.A.U.	48,431
				Nobre Alimentação, S.A.	47,491
				Cesare Fiorucci, S.P.A.	17,350
				Luigi Ugolotti, S.R.L.	7,212
	<u>€ 518,926</u>				

The average hedging ratio of the Company amounted to 97.0% from the designation date until December 31, 2018. Therefore, the exchange fluctuation generated by the hedging instrument from the date of designation until December 31, 2018 amounted to a net gain of \$867,903, which was recognized in other comprehensive income, offsetting the translation effect generated by each foreign subsidiary. The hedging effectiveness results confirm that the hedging relationships are highly effective due to the economic relationship between the hedging instrument and the hedged items; however, the effects of ineffectiveness that caused the need to rebalance the hedging relationship during the period were recognized immediately in profit or loss.

Additionally, the Company designated from March 1 and until July 12, 2018, the date on which the debt securities described in Note 2.b. were paid, a hedging relationship described below:

Sub-holding	Functional Currency	Hedging Instrument	Notional Value	Hedged Item	Change in Net Assets of Hedged Item
Sigma Alimentos, S.A. de C.V.	USD	Debt securities	\$ 1,746,761	Sigma Alimentos Centro	\$ 2,140,201

The average hedging ratio amounted to 80.7% from the date of designation until July 12, 2018. Therefore, the exchange fluctuation generated by the hedging instrument during the year amounted to a net gain of \$43,104, which was recognized in other comprehensive income, offsetting the translation effect generated by the foreign subsidiary designated as the hedged item. The hedging effectiveness results confirm that the hedging relationship is highly effective due to the economic relationship between the hedging instrument and the hedged item; however, the effects of ineffectiveness that caused the need to rebalance the hedging relationship during the period were recognized immediately in profit or loss.

b) Hedging relationship of Campofrio Food Group, S.A.U.:

Sub-holding	Functional Currency	Hedging Instrument	Notional Value	Hedged Item	Change in Net Assets of Hedged Item
Campofrio Food Group, S.A.U.	EUR	Fixed rate 144A Bond	US\$86,026	Campofrio Food Group Americas, Inc.	<u>US\$86,026</u>

The average hedging ratio of Campofrio Food Group amounted to 100% from the date of designation, since the Company has a debt security of US\$495,430, of which it designated only US\$86,026 as a hedging instrument of the value of the net assets of its U.S. dollar functional currency foreign subsidiary. The exchange fluctuation generated by the hedging instrument from the date of designation until December 31, 2018 amounted to a net loss of \$119,880, which was recognized in other comprehensive income, offsetting the translation effect generated by the foreign subsidiary. The hedging effectiveness results confirm that the hedging relationship is highly effective due to the economic relationship between the hedging instrument and the hedged item.



c) Hedging relationships of Sigma Alimentos Exterior:

Sub-holding	Functional Currency	Hedging Instrument	Notional Value	Hedged Item	Change in Net Assets of Hedged Item
Sigma Alimentos Exterior, S.L.	EUR	Fixed rate 144A Bond	US\$368,061	Bar-S Foods Co.	US\$ 258,090
				Mexican Cheese Producers, Inc.	45,150
				Sigma Processed Meats, LLC	(9,934)
				Elaborados Cármicos, S.A.	17,076
				Fábrica Juris CIA, LTDA	22,945
				Productos Cármicos, S.A. de C.V.	7,868
				Sigma Alimentos International, Inc.	26,866
					<u>US\$ 368,061</u>

The average hedging ratio of Sigma Alimentos Exterior amounted to 100% from the date of designation, since the Company has a debt security of US\$409,404, of which it designated only US\$368,061 as a hedging instrument of the value of the net assets of its foreign investment with dollar as a functional currency. The exchange fluctuation generated by the hedging instrument from the date of designation until December 31, 2018 amounted to a net loss of \$571,056, which was recognized in other comprehensive income, offsetting the translation effect generated by each foreign subsidiary. The hedging effectiveness results confirm that the hedging relationships are highly effective due to the economic relationship between the hedging instruments and the hedged items.

Derivative financial instruments

As of December 31, 2018, the Company has three cross currency swaps (CCS) designated as hedges for accounting purposes at a consolidated level to reduce its exposure to the exchange rate risks associated with its business operations. The CCS were entered into by the Company whose functional currency is the US dollar; however, the Company carries out its operations in Mexico through Mexican entities with Mexican peso as their functional currency. These entities have liabilities denominated in U.S. dollars that generate exchange rate fluctuations due to the variability of the MXN/USD exchange rate, which prevails at the holding company level. Therefore, the Company has designated a cash flow hedge relationship, considering as a hedged item a highly probable forecasted transaction related to a revolving liability denominated in dollars.

The characteristics of the CCS designated as accounting hedges of the exchange rate risk are the following:

Features	CCS ING	CCS JPM	CCS Citibanamex
Currency	USD	USD	USD
Notional amount	250,000,000	125,000,000	125,000,000
Coupon	6.875%	4.125%	4.125%
Currency	MXN	MXN	MXN
Notional amount	4,652,500,000	2,280,000,000	2,280,000,000
Coupon	12.289%	8.88%	8.9%
Maturity	December 16-2019	May-2-2026	May-2-2026
Carrying amount of CCS	301,000	390,855	372,505
Change in the fair value of CCS to measure ineffectiveness	296,721	369,754	359,126
Reclassification from OCI to profit and loss	17,654	8,827	8,827
Recognized in OCI net of reclassifications	(222,716)	22,335	36,176
Ineffectiveness recognized in profit and loss	-	-	-
Change in the fair value of the hedged item to measure ineffectiveness	(351,830)	(757,758)	



With the interest and notional amounts of these derivative financial instruments, the Company offsets the exchange fluctuation that it has at a consolidated level, originated by the liabilities denominated in dollars of the subsidiaries with Mexican pesos as a functional currency.

As of December 31, 2018, the hedging effectiveness results confirm that the hedge relationship is highly effective, as the changes in the fair value and cash flows of the hedged item are offset in the range of effectiveness established by the Company. The prospective effectiveness test was 98%, confirming that there is an economic relationship between the hedging instruments and the hedged instrument. The method used by the Company is the offset of cash flows using a hypothetical derivative, which consists in comparing the changes in the fair value of the hedging instrument with the changes in the fair value of the hypothetical derivative that would result in an identical hedge.

According to the amounts described and regarding the way in which the CCS flows are exchanged, for this hedging strategy, the average hedge ratio is 25%. If needed, a rebalance will be made to keep this relationship for the strategy. According to the timing of the cash flows of the hedging instruments and of the hedged item, there is a slight time lag since the hedged item is settled on a monthly basis while the derivatives have an interest exchange on a semiannual basis and an exchange from notional to maturity. Under this structure, the average hedging ratio of the relationship is obtained and any possible overhedge is not considered.

In this hedging relationship, the source of ineffectiveness may be caused by three main reasons: the difference in the settlement date of the derivative and the hedged item, the credit risk and that the expected amount becomes a lower amount than the hedging instruments. For the year ended December 31, 2018, no ineffectiveness was recognized in profit or loss.

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, 2018 and 2017, 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 generated from cash and cash equivalents, derivative financial instruments and deposits in banks and financial institutions, as well as credit exposure to customers, including accounts receivable and committed transactions

The Company evaluates and aggregates groups of customers that share a credit risk profile, in accordance with the distribution channel in which they operate, in agreement with business management and internal risk. Each subsidiary is responsible for managing and analyzing credit risk for each of its new customers before setting the terms and conditions of payment. 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 the years ended on December 31, 2018 and 2017, credit limits were not exceeded.

Additionally, the Company performs a qualitative assessment of economic forecasts, in order to determine the possible impact on probabilities of default and the recovery rate assigned to its customers.

During the year ended December 31, 2018, there have been no material changes in estimation techniques or assumptions.

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, 2018 and 2017, the Company has short term deposits of \$5,073,761 and \$6,676,117, 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, 2018			
Trade and other accounts payable	\$ 23,279,778	\$ -	\$ -
Senior Notes	4,908,271	-	42,958,403
Finance leases and non-accrued future interests	1,975,053	6,726,117	4,652,303
As of December 31, 2017			
Trade and other accounts payable	\$23,043,149	\$ -	\$ -
Senior Notes	-	14,386,953	33,869,488
Debt securities	1,737,020	-	-
Finance leases and non-accrued future interests	1,928,697	6,326,500	3,964,910

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, 2018, SIGMA maintains derivative financial instruments measured at fair value, whereas as of December 31, 2017, it 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 taxable income that SIGMA will generate in the subsequent years through a structured and robust business plan, management has determined that the current tax losses will be used before they expire and, therefore, it was considered probable that the deferred tax assets for such losses will be recovered.

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 anticipated 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.

d. Default probability and recovery rate to apply the expected credit losses model in the impairment measurement of financial assets

The Company assigns to customers with whom it has an account receivable at each reporting date, either individually or as a group, an allowance for the probability of default in the account receivable and the estimated recovery rate, in order to reflect the cash flows expected to be received from the outstanding balances as of that date.

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,	
	2018	2017
Cash at bank and on hand	\$ 7,139,563	\$ 6,130,953
Short-term bank deposits	5,073,761	6,676,117
Total cash and cash equivalents	<u>\$12,213,324</u>	<u>\$12,807,070</u>

7. Restricted cash

The restricted cash balance is composed as follows:

	As of December 31,	
	2018	2017
Current	\$52,883	\$ 84,855
Non-current	<u>35,429</u>	<u>47,367</u>
Restricted cash	<u>\$88,312</u>	<u>\$132,222</u>

As of December 31, 2018, restricted cash includes warranty deposits in favor of SIGMA, which are derived from the acquisitions of SUPEMSA 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,	
	2018	2017
Trade accounts receivable	\$ 5,542,710	\$6,235,418
Allowance for impairment of trade receivables	<u>(439,860)</u>	<u>(459,059)</u>
Trade accounts receivable, net	5,102,850	5,776,359
Due from related parties (Note 26)	5,881	6,632
Recoverable value added tax ("VAT")	2,012,737	1,786,452
Interest receivable	1,010	844
Other debtors:		
Short-term notes receivable	89,862	80,764
Sundry debtors	<u>246,504</u>	<u>326,162</u>
	<u>\$ 7,458,844</u>	<u>\$7,977,213</u>



As of December 31, 2018 and 2017, the allowance for impairment of trade accounts receivable amounted to \$439,860 and \$459,059, respectively.

Movements in the allowance for impairment of trade and other accounts receivable in 2017 with the impairment model used by the Company, was as follows:

	December 31, 2017
Opening balance (January 1)	\$ 481,484
Allowance for impairment of trade accounts receivable	119,754
Accounts receivable written off during the year	<u>(142,179)</u>
Ending balance (December 31)	<u>\$ 459,059</u>
Initial adjustment for adoption of IFRS 9	<u>12,506</u>
Balance as of January 1, 2018	<u>\$ 471,565</u>

Movements in the allowance for impairment of trade and other accounts receivable in 2018 are presented below, with the new expected loss model used by the Company:

Customers or customers on an individual basis	Gross carrying amount	Probability of default in range	Loss given default range	Opening balance - Allowance for impairment of trade accounts receivable	Increases in the allowance	Cancellations in the allowance	Ending balance - Allowance for impairment of trade accounts receivable
Auto services	\$ 1,288,772	0.14%	100%	\$ 22,029	\$ 5,655	\$ (12,006)	\$ 15,678
Special markets	380,862	0.23%	100%	55,036	12,190	(5,253)	61,973
Detail	1,679,850	1.60%	100%	112,573	26,287	(5,353)	133,507
Other	709,625	4.31%	100%	206,670	16,993	(61,453)	162,210
Foodservice	<u>1,483,601</u>	10.64%	100%	<u>75,257</u>	<u>33,600</u>	<u>(42,365)</u>	<u>66,492</u>
Total	<u>\$ 5,542,710</u>			<u>\$ 471,565</u>	<u>\$ 94,725</u>	<u>\$ (126,430)</u>	<u>\$ 439,860</u>

The net variation in the impairment allowance for accounts receivable of \$31,705 for the year ended December 31, 2018, was mainly due to the increase in the credit quality of the Company's customers, reflecting a decrease in the probability of default assigned to the different business segments, besides improving the estimated recovery rate with respect to the beginning of the year.

The Company does not have any guarantee or collateral that covers the exposure to credit risk of financial assets.

The Company canceled an amount of accounts receivable and its corresponding impairment allowance of \$28,579 due mainly to financial or operational difficulties that some customers presented.

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,	
	2018	2017
Finished goods	\$ 4,072,069	\$ 3,800,786
Raw materials and other consumable goods	5,272,068	5,245,759
Production in progress	<u>4,879,733</u>	<u>5,640,505</u>
	<u>\$14,223,870</u>	<u>\$14,687,050</u>

The cost of inventories recognized in cost of sales amounted to \$68,353,152 and \$65,081,888 for 2018 and 2017, respectively.

In the years ended on December 31, 2018 and 2017, damaged, slow-moving and obsolete inventory was recognized in the amount of \$28,773 and \$16,740, respectively.

As of December 31, 2018 and 2017, 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, 2017	\$ 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
Exchange differences	(107,768)	(361,583)	(571,169)	8,093	(12,566)	(708)	(3,867)	(1,780)	(2)	(1,051,350)
Additions	20,270	216,953	939,899	256,485	171,454	4,074	2,225,498	124,032	-	3,958,665
Additions due to business acquisitions	-	9,602	53,262	19,801	969	-	-	-	-	83,634
Disposals	(54,000)	(243,017)	(209,396)	(42,058)	(9,943)	(1,314)	(496,616)	(110)	(877)	(1,057,331)
Transfers	54,055	222,863	3,207,764	194,783	76,025	(2,103)	(3,762,683)	9,296	-	-
Depreciation charges of the year	-	(522,512)	(2,114,633)	(400,889)	(181,511)	(1,076)	-	(28,604)	(273)	(3,249,498)
Ending balance as of December 31, 2018	3,359,297	9,876,266	17,986,589	1,651,953	645,118	25,313	1,760	405,837	392	33,952,525
Cost	3,359,297	16,844,351	40,647,793	4,083,035	2,428,551	31,624	1,760	621,945	120	68,018,476
Accumulated depreciation	-	(6,968,085)	(22,661,204)	(2,431,082)	(1,783,433)	(6,311)	-	(216,108)	272	(34,065,951)
Net carrying amount as of December 31, 2018	\$ 3,359,297	\$ 9,876,266	\$ 17,986,589	\$ 1,651,953	\$ 645,118	\$ 25,313	\$ 1,760	\$ 405,837	\$ 392	\$ 33,952,525



In the years ended December 31, 2018 and 2017, the Company recognized an impairment in the amount of \$436,627 and \$278,049, respectively, which are disclosed in the Disposals item.

Of the total depreciation expense in the amount of \$3,249,498 and \$3,061,150, \$2,286,794 and \$2,193,377 were recorded in cost of sales, \$780,493 and \$696,673 in selling expenses, and \$182,211 and \$171,100 in administrative expenses, in 2018 and 2017, respectively.

As of December 31, 2018 and 2017, there are no significant obligations guaranteed by property, plant and equipment.

As of December 31, 2018 and 2017, the Company has no significant qualifying assets to capitalize borrowing costs.

As of December 31, 2018 and 2017, 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, 2018 and 2017, acquisitions of property, plant and equipment associated with finance leases that did not represent the use of cash flows were \$26,369 and \$8,991.

As of December 31, 2018 and 2017, assets under finance leases comprise the following amounts in which the Company is the lessee:

	As of December 31,	
	2018	2017
Cost – Finance leases	\$453,969	\$241,443
Accumulated depreciation	<u>(258,188)</u>	<u>(105,699)</u>
	<u>\$195,781</u>	<u>\$135,744</u>

11. Goodwill and intangible assets, net

	Finite life			Indefinite life			Total
	Development cost	Customer relationships	Software, licenses and other	Goodwill	Trademarks	Other ^(a)	
Cost							
As of January 1, 2017	\$ 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	<u>501,826</u>	<u>2,625,201</u>	<u>2,883,974</u>	<u>14,742,248</u>	<u>13,234,428</u>	<u>95,513</u>	<u>34,083,190</u>
Exchange changes	(2,773)	(4,855)	11,629	(513,885)	(430,873)	-	(940,757)
Adjustments from applying acquisition method (Note 2.d. and 2.e.)	-	338,344	36,951	(661,187)	655,455	-	369,563
Additions	1,907	-	151,328	-	-	-	153,235
Disposals	-	-	(35,913)	-	-	-	(35,913)
Impairment	-	-	-	-	(1,289,484)	-	(1,289,484)
As of December 31, 2018	<u>\$ 500,960</u>	<u>\$2,958,690</u>	<u>\$3,047,969</u>	<u>\$ 13,567,176</u>	<u>\$ 12,169,526</u>	<u>\$95,513</u>	<u>\$32,339,834</u>



	Finite life			Indefinite life			Total
	Development cost	Customer relationships	Software, licenses and other	Goodwill	Trademarks	Other	
Accumulated amortization							
As of January 1, 2017	\$ (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	<u>(369,393)</u>	<u>(1,325,492)</u>	<u>(1,931,462)</u>	-	-	-	<u>(3,626,347)</u>
Amortizations	(6,020)	(321,435)	(413,163)	-	-	-	(740,618)
Exchange differences	2,359	(6,434)	101,031	-	-	-	96,956
As of December 31, 2018	<u>\$ (373,054)</u>	<u>\$ (1,653,361)</u>	<u>\$ (2,243,594)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,270,009)</u>
Net carrying amount							
Cost	\$ 501,826	\$ 2,625,201	\$ 2,883,974	\$14,742,248	\$13,234,428	\$95,513	\$34,083,190
Accumulated amortization and impairment	<u>(369,393)</u>	<u>(1,325,492)</u>	<u>(1,931,462)</u>	-	-	-	<u>(3,626,347)</u>
As of December 31, 2017	<u>\$ 132,433</u>	<u>\$ 1,299,709</u>	<u>\$ 952,512</u>	<u>\$14,742,248</u>	<u>\$13,234,428</u>	<u>\$95,513</u>	<u>\$30,456,843</u>
Cost	500,960	2,958,690	3,047,969	13,567,176	12,169,526	95,513	32,339,834
Accumulated amortization and impairment	<u>(373,054)</u>	<u>(1,653,361)</u>	<u>(2,243,594)</u>	-	-	-	<u>(4,270,009)</u>
As of December 31, 2018	<u>\$ 127,906</u>	<u>\$ 1,305,329</u>	<u>\$ 804,375</u>	<u>\$13,567,176</u>	<u>\$12,169,526</u>	<u>\$95,513</u>	<u>\$28,069,825</u>

⁽¹⁾ Other intangible assets consist of: use rights, market development and non-compete agreements.

From the total amortization expense of \$740,618 and \$714,682, \$13,043 and \$12,649 have been recorded in cost of sales, \$408,320 and \$385,164 in selling expenses, and \$319,255 and \$316,869 in administrative expenses, in 2018 and 2017, respectively.

For the year ended December 31, 2018, the Company recognized an impairment in the amount of \$1,289,484 related to intangible assets as a result of the factors mentioned in note 2c.

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

Goodwill impairment tests

As disclosed in Note 5.a, goodwill is allocated to groups of cash generating units that are associated with 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,	
	2018	2017
Mexico	\$ 1,936,214	\$ 1,942,249
USA	5,024,238	5,289,432
Europe	4,809,268	5,235,268
LATAM	1,797,456	2,275,299
	<u>\$13,567,176</u>	<u>\$14,742,248</u>

The recoverable value of each group of CGUs 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 2018 and 2017 are as follows:

	2018			
	Mexico	USA	Europe	LATAM
Long-term growth rate	4.3%	2.0%	1.0%	3.5%
Discount rate	8.5%	7.2%	6.5%	9.7%

	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%

The Company performed a sensitivity analysis considering an increase in the discount rate of 100 basis points, and a similar decrease in the long-term growth rate. As a result of this analysis, the Company concluded that there are no significant variations with the impairment calculations prepared as of December 31, 2018.

12. Investments in associates and other assets

	As of December 31,	
	2018	2017
Long-term notes receivable	\$ 82,099	\$ 83,777
Investment in shares of associates	58,433	47,578
Other assets	88,674	88,279
Total investments in associates and other assets	<u>\$229,206</u>	<u>\$219,634</u>

The change in investment in associates for the years ended on December 31, 2018 and 2017 is as follows:

	For the years ended December 31,	
	2018	2017
Opening balance (January 1)	\$47,578	\$ 945,968
Equity method	15,196	15,976
Acquisition of control over associate	-	(1,309,089)
Exchange differences and dividends received, net	(4,341)	394,723
Ending balance (December 31)	<u>\$58,433</u>	<u>\$ 47,578</u>

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

	For the years ended December 31,	
	2018	2017
Net income (loss)	\$34,455	\$(584)
Comprehensive income (loss)	34,455	(584)

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, 2018 and 2017 is comprised as follows:

	Non-controlling ownership percentage	Non-controlling interest income for the period		Non-controlling interest as of December 31,	
		2018	2017	2018	2017
Campofrio	4.51%	\$(67,588)	\$41,952	\$590,476	\$692,065

The summarized consolidated financial information as of December 31, 2018 and 2017 and for the year then ended, corresponding to Campofrio, a subsidiary with a significant non-controlling interest, is shown below:

	As of December 31,	
	2018	2017
Current assets	\$15,279,169	\$15,369,607
Non-current assets	30,578,861	33,900,222
Current liabilities	17,362,526	18,585,441
Non-current liabilities	15,402,915	15,339,269
Stockholders' equity	13,092,589	15,345,118

	For the years ended December 31,	
	2018	2017
Income	\$ 46,502,093	\$42,844,033
Net (loss) income	(1,498,616)	930,192
Comprehensive (loss) income of the year	(2,159,176)	718,851
Net cash generated from operating activities	3,542,240	900,590
Net cash used in investing activities	(1,581,320)	(2,790,331)
Net cash used in financing activities	(728,825)	(780,625)
Net increase (decrease) in cash and cash equivalents	<u>\$ 1,232,095</u>	<u>\$ (2,670,366)</u>

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

14. Trade and other accounts payable

	As of December 31,	
	2018	2016
Trade accounts payable	\$20,254,689	\$20,866,955
Taxes and withholdings payable	1,244,757	1,350,750
Annual performance bonus	75,694	86,300
Short-term employee benefits	1,206,155	1,337,405
Other accounts and accrued expenses payable	3,025,089	2,176,194
	<u>\$25,806,384</u>	<u>\$25,817,604</u>



15. Debt

The carrying amounts of debt are as follows:

	As of December 31,	
	2018	2017
Current:		
Current portion of non-current debt	\$ 4,908,271	\$ 1,737,020
Interest payable	594,541	642,596
Current debt	<u>\$ 5,502,812</u>	<u>\$ 2,379,616</u>
Non-current:		
In U.S. dollars:		
Senior Notes	\$34,405,189	\$24,588,856
In euros:		
Senior Notes	13,700,001	23,882,665
Finance leases	113,496	133,268
In Mexican pesos:		
Unsecured debt securities	-	1,804,332
	<u>48,218,686</u>	<u>50,409,121</u>
Less: current portion of non-current debt	<u>(5,502,812)</u>	<u>(2,379,616)</u>
Non-current debt	<u>\$42,715,874</u>	<u>\$48,029,505</u>

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, 2018	As of December 31, 2017 ⁽¹⁾	Maturity date	Interest rate at maturity
Senior Notes 144A fixed rate ^(a)	USD	\$ 4,908,271	\$ 5,434	\$ 14,096	\$ 4,916,933	\$ 4,913,223	12/16/2019	6.875%
Senior Notes 144A fixed rate ^(a)	USD	19,651,708	136,559	133,065	19,648,214	19,675,633	05/02/2026	4.125%
Senior Notes 144A fixed rate ^(a)	USD	9,841,450	126,820	125,412	9,840,042	-	03/27/2028	4.875%
Senior Notes 144A fixed rate ^(d)	EUR	-	-	-	-	9,478,408	03/13/2022	3.375%
Senior Notes 144A fixed rate ^(b)	EUR	13,465,245	87,212	321,968	13,700,001	14,404,257	02/07/2024	2.625%
Total Senior Notes		<u>47,866,674</u>	<u>356,025</u>	<u>594,541</u>	<u>48,105,190</u>	<u>48,471,521</u>		
SIGMA 08 fixed rate ^(c)	MXN	-	-	-	-	1,048,688	07/12/2018	10.25%
SIGMA 08U fixed rate ^(c)	MXN	-	-	-	-	755,644	07/12/2018	5.32%
Total unsecured debt securities		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,804,332</u>		
Finance leases	EUR	113,496	-	-	113,496	133,268		
Total		<u>\$47,980,170</u>	<u>\$356,025</u>	<u>\$594,541</u>	<u>\$48,218,686</u>	<u>\$50,409,121</u>		

⁽¹⁾ As of December 31, 2017, debt is disclosed net of debt issuance costs of \$360,204. Interest payable amounted to \$642,596.

As of December 31, 2018 and 2017, the Company has unused contractual credit lines for a total of \$5,872,030 (US\$200,000 y €86,000) and \$6,126,756 (US\$200,000 y €92,000), respectively.

The relevant debt transactions are described as follows:

- a. On March 22, 2018, Sigma Finance Netherlands BV completed an issuance of debt securities ("Senior Notes") in the Irish Stock Exchange in the amount of US\$500 million, maturing on March 22, 2028. The issuance costs amounted to US\$7 million, and the issuance discounts to US\$3.3 million. Interest on Senior Notes is payable on an annual basis beginning March 2018 at an annual interest rate of 4.875%. The proceeds were used primarily to pay 2022 Campofrío Senior Notes and for general corporate purposes.

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



- b. 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.

- c. 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.g).

- d. 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.
- e. 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 debt securities were paid on July 12, 2018.



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, 2018 and 2017 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:

	2018	2017
Costa Rica	30.0%	30.0%
Germany	32.3%	32.3%
Belgium	29.6%	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%	29.5%
The United States	21.0%	35.0%
Spain	25.0%	25.0%
Netherlands	25.0%	25.0%
Italy	24.0%	24.0%
France	34.4%	33.3%
Portugal	22.3%	22.3%
Ecuador	25.0%	22.0%
Romania	16.0%	16.0%



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 2018 and 2017, respectively.

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

	2018	2017
Current income tax	\$(2,795,226)	\$(2,347,049)
Deferred income tax	76,278	203,084
Income tax expensed	<u>\$(2,718,948)</u>	<u>\$(2,143,965)</u>

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

	For the years ended December 31,	
	2018	2017
Income before income tax	<u>\$5,577,617</u>	<u>\$ 4,217,808</u>
Statutory rate	30%	30%
Income tax at statutory rate	(1,673,285)	(1,265,342)
Effect of changes and due to differences in tax rates with other countries ⁽¹⁾	(49,490)	(87,181)
Plus (less) income tax effect on:		
Inflationary adjustment	(572,807)	(719,925)
Non-deductible expenses	(237,058)	(362,815)
Exchange rate differences and other items	(163,623)	282,615
Provision related to transactions of the year	<u>(2,696,263)</u>	<u>(2,152,648)</u>
True-up with respect to prior years	(22,685)	8,683
Total provision for income taxes expensed	<u>\$(2,718,948)</u>	<u>\$(2,143,965)</u>
Effective rate	<u>49%</u>	<u>51%</u>

⁽¹⁾ For the year ended December 31, 2018, the effect of changes in tax rates corresponds to new statutory income tax rates enacted in the following countries: Belgium, The United States, France and Ecuador. For the year ended December 31, 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) Movements in the deferred income tax asset and liability are as follows:

	Asset (liability) As of December 31,	
	2018	2017
Inventories	\$ 2,021	\$ 41,663
Property, plant and equipment	(65,523)	(33,514)
Intangible assets	(877,410)	(908,376)
Provisions, liabilities and accrued expenses payable	550,504	318,207
Tax loss carryforwards	2,489,464	3,258,103
Other temporary differences, net	162,871	116,380
Deferred tax asset	<u>\$ 2,261,927</u>	<u>\$ 2,792,463</u>
Intangible assets	\$(3,166,632)	\$(3,582,077)
Property, plant and equipment	(2,365,160)	(2,512,533)
Provisions, liabilities and accrued expenses payable	333,550	429,109
Tax loss carryforwards	965,722	1,734,111
Other temporary differences, net	522,236	(136,732)
Deferred tax liability	<u>\$(3,710,284)</u>	<u>\$(4,068,122)</u>



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 \$14,034,897 in 2018, and \$16,777,822 in 2017.

Tax losses as of December 31, 2018 expire in the following years:

Tax loss arising year	Expiration year	2018
2009	2019	\$ 50,180
2010	2020	41,310
2011	2021	17,023
2012	2022	7,424
2013	2023	74,451
2014	2024	1,742,633
2015	2025	5,723,867
2016	2026	371,258
2017	2027	782,117
2014	No expiration (*)	<u>5,224,634</u>
		<u>\$14,034,897</u>

(*) 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,					
	2018			2017		
	Before tax	Tax payable/ (receivable)	After tax	Before tax	Tax payable/ (receivable)	After tax
Remeasurement of employee benefit liabilities	\$ 16,335	\$ (5,088)	\$ 11,247	\$ (52,315)	\$ 16,379	\$ (35,936)
Valuation of derivative financial instruments	(164,204)	49,261	(114,943)	-	-	-
Effect of translation of foreign entities	<u>(1,095,541)</u>	<u>-</u>	<u>(1,095,541)</u>	<u>2,509,904</u>	<u>-</u>	<u>2,509,904</u>
Other comprehensive income items	<u>\$(1,243,410)</u>	<u>\$ 44,173</u>	<u>\$(1,199,237)</u>	<u>\$2,457,589</u>	<u>\$ 16,379</u>	<u>\$2,473,968</u>



e) Income tax payable consists of the following:

	As of December 31,	
	2018	2017
Current income tax	\$1,679,617	\$1,783,816
Income tax on optional regime for group of entities in Mexico	<u>1,620,357</u>	<u>2,341,907</u>
Total income tax payable	<u>\$3,299,974</u>	<u>\$4,125,723</u>
Current portion	\$1,679,617	\$1,783,816
Non-current portion	<u>1,620,357</u>	<u>2,341,907</u>
Total income tax payable	<u>\$3,299,974</u>	<u>\$4,125,723</u>

17. Provisions

	Disputes	Restructuring ⁽¹⁾	Severance payments and other employee benefits	Total
As of January 1, 2017	\$ 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	<u>(3,760)</u>	<u>(207,338)</u>	<u>(126,803)</u>	<u>(337,901)</u>
As of December 31, 2017	106,458	100,508	226,733	433,699
Additions	17,645	79,224	7,266	104,135
Translation effect	(5,392)	(8,678)	(6,649)	(20,719)
Payments	<u>(57,693)</u>	<u>(72,855)</u>	<u>(152,115)</u>	<u>(282,663)</u>
As of December 31, 2018	<u>\$ 61,018</u>	<u>\$ 98,199</u>	<u>\$ 75,235</u>	<u>\$234,452</u>

⁽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.

18. Other liabilities

	As of December 31,	
	2018	2017
Current portion:		
PTU (statutory employee profit sharing)	\$170,033	\$ 160,808
Bank overdrafts	26,979	18,748
Share-based payments (Note 21)	17,355	14,400
Notes payable	96,563	71,392
Accounts payable to affiliates (Note 26)	<u>97,517</u>	<u>37,898</u>
Total other current liabilities	<u>\$408,447</u>	<u>\$ 303,246</u>
Non-current portion:		
Notes payable and others	\$243,498	\$ 763,531
Share-based payments (Note 21)	<u>40,951</u>	<u>36,705</u>
Total other non-current liabilities	<u>\$284,449</u>	<u>800,236</u>
Total other liabilities	<u>\$692,896</u>	<u>\$1,103,482</u>



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,	
		2018	2017
Mexico		\$ 758,204	\$ 655,031
Europe		495,495	558,152
LATAM		141,459	125,887
Total		<u>\$1,395,158</u>	<u>\$1,339,070</u>

The following summarizes key financial data of such employee benefits:

	As of December 31,	
	2018	2017
Pension benefits	\$1,389,348	\$1,331,727
Post-employment medical benefits	5,810	7,343
Liability in the consolidated statement of financial position	<u>\$1,395,158</u>	<u>\$1,339,070</u>

	For the years ended December 31,	
	2018	2017
Expense in the consolidated statement of income:		
Pension benefits	\$(164,014)	\$(140,141)
Post-employment medical benefits	(601)	(491)
	<u>\$(164,615)</u>	<u>\$(140,632)</u>
Remeasurements due to employee benefit obligations recognized in other comprehensive income for the period	\$ 16,335	\$ (52,315)
Remeasurements due to accrued employee benefit obligations recognized in other comprehensive income	<u>\$ 154,138</u>	<u>\$ 137,803</u>

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,	
	2018	2017
Present value of funded obligations	\$3,553,424	\$3,687,126
Fair value of plan assets	(2,158,266)	(2,348,056)
Net liability in the consolidated statement of financial position	<u>\$1,395,158</u>	<u>\$1,339,070</u>



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

	For the years ended December 31,	
	2018	2017
Opening balance (January 1)	\$3,687,126	\$3,348,986
Current service cost	132,188	115,049
Interest cost	113,629	107,681
Contributions to the plan	60,313	52,232
Remeasurements for changes in financial assumptions	(98,180)	23,378
Past service costs	(3,088)	(2,929)
Exchange differences	(129,446)	158,538
Benefits paid	(209,374)	(113,527)
Liabilities acquired in business combinations	2,175	(431)
Settlement costs	(1,919)	(1,851)
Ending balance (December 31)	<u>\$3,553,424</u>	<u>\$3,687,126</u>

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

	For the years ended December 31,	
	2018	2017
Opening balance (January 1)	\$ (2,348,056)	\$ (2,230,988)
Return on plan assets	(79,283)	(80,247)
Employee contributions	(7,566)	(3,938)
Benefits paid	44,875	62,057
Exchange differences	149,915	(123,878)
Actuarial remeasurements	81,849	28,938
Ending balance (December 31)	<u>\$ (2,158,266)</u>	<u>\$ (2,348,056)</u>

The main actuarial assumptions were as follows:

	As of December 31,	
	2018	2017
Discount rate (Mexico)	9.50%	7.25%
Discount rate (Europe)	1.25%	1.25%
Inflation rate (Mexico)	3.50%	3.50%
Wage increase rate (Mexico)	4.50%	4.50%
Wage increase rate (Europe)	1% to 3%	1% to 3%
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	\$(353,830)	\$385,919
	Medical inflation rate	
	Increase of 1%	Decrease of 1%
Impact on defined benefit obligations	\$(1,059)	\$1,333



Assets of the pension benefits

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

	As of December 31,	
	2018	2017
Short and long-term fixed income securities	\$1,697,505	\$1,844,178
Shares	460,761	503,878
Fair value of plan assets	<u>\$2,158,266</u>	<u>\$2,348,056</u>

20. Stockholders' equity

As of December 31, 2018 and 2017, the capital stock is variable, with a fixed minimum without withdrawal rights of \$27,081, represented by 1,290,654,555 nominal, 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, 2018 and 2017, the legal reserve amounted to \$5,416, which is included in other capital reserves.

At the General Ordinary Stockholders' Meeting on October 1, 2018, the stockholders agreed to declare dividends in cash in the aggregate amount of US\$75 million, which was paid during the fourth quarter of 2018 in the aggregate amount of \$1,398,982 (\$1.05 dividends per share in Mexican pesos), fully applied to the Net Taxable Income Account ("CUFIN by its Spanish initials").

At the General Ordinary Stockholders' Meeting on February 21, 2018, the stockholders agreed to declare dividends in cash in the aggregate amount of US\$75 million, which was paid during the first quarter of 2018 in the aggregate amount of \$1,398,420 (\$1.05 dividends per share in Mexican pesos), fully applied to the Net Taxable Income Account.

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), fully applied to the Net Taxable Income Account.

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 Net Taxable Income Account.

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, 2018 and 2017, the tax value of the CUFIN of Sigma Alimentos, S. A. de C. V. was \$9,847,490 and \$11,098,808, 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.

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 2018 and 2017 is \$22.11 and \$21.12, respectively.

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

	As of December 31,	
	2018	2017
Current	\$17,355	\$14,400
Non-current	<u>40,951</u>	<u>36,705</u>
Total carrying amount	<u>\$58,306</u>	<u>\$51,105</u>

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,	
	2018	2017
Changes in inventory of finished goods and in progress	\$ (68,353,152)	\$ (65,081,888)
Employee benefit expenses (Note 25)	(18,387,472)	(16,698,913)
Maintenance	(3,194,820)	(2,856,905)
Depreciation and amortization	(3,990,116)	(3,775,832)
Freight expenses	(2,587,691)	(2,200,360)
Advertising expenses	(2,547,256)	(2,264,759)
Energy and fuel consumption	(1,843,786)	(1,575,859)
Travel expenses	(632,820)	(565,705)
Operating lease expenses	(745,942)	(680,973)
Technical assistance, professional fees and administrative services	(1,841,472)	(1,808,213)
Other	<u>(9,038,159)</u>	<u>(8,285,955)</u>
Total	<u>\$ (113,162,686)</u>	<u>\$ (105,795,362)</u>



23. Other (expenses) income, net

	For the years ended December 31,	
	2018	2017
Claim reimbursements	\$ 89,294	\$ 38,586
Gain on sale of property, plant and equipment	11,394	86,495
Gain on remeasurement of business acquisition	224,049	410,448
Other	125,227	264,710
Other income	<u>449,964</u>	<u>800,239</u>
Project consulting	(6,403)	(117,332)
Impairment of property, plant and equipment and intangible assets	(1,726,110)	(358,621)
Other	(16,780)	(160,222)
Other expenses	<u>(1,749,293)</u>	<u>(636,175)</u>
Total other (expenses) income, net	<u><u>\$(1,299,329)</u></u>	<u><u>\$164,064</u></u>

24. Financial cost, net

	For the years ended December 31,	
	2018	2017
Financial income:		
- Interest income on short-term bank deposits	\$ 157,859	\$ 166,128
- Other financial income	100,932	102,432
- Interest on accounts receivable	33,180	28,327
Total financial income	<u>291,971</u>	<u>296,887</u>
Financial expenses:		
- Interest expense on bank loans	(723,377)	(423,705)
- Interest expense on debt securities and Senior Notes	(1,820,800)	(2,364,393)
- Financial expense for portfolio sale	(34,542)	(35,329)
- Financial expense for employee benefits	(101,273)	(68,741)
- Other financial expenses	(60,653)	(154,686)
Total financial expenses	<u>(2,740,645)</u>	<u>(3,046,854)</u>
Exchange fluctuation:		
- Exchange fluctuation gain	3,147,514	2,658,259
- Exchange fluctuation loss	(2,574,223)	(4,297,201)
Exchange gain (loss), net	<u>573,291</u>	<u>(1,638,942)</u>
Financial cost, net	<u><u>\$(1,875,383)</u></u>	<u><u>\$(4,388,909)</u></u>

25. Employee benefit expenses

	For the years ended December 31,	
	2018	2017
Salaries, wages and benefits	\$15,197,981	\$13,777,359
Social security fees	1,247,395	1,155,784
Employee benefits	130,268	113,197
Other fees	1,811,828	1,652,573
Total	<u><u>\$18,387,472</u></u>	<u><u>\$16,698,913</u></u>



26. Related party transactions

Transactions with related parties for the years ended December 31, 2018 and 2017, which were held under equal conditions for similar transactions with independent parties, were as follows:

	For the years ended December 31,	
	2018	2017
Income (affiliates):		
Leases	\$ 5,623	\$ 8,333
Interest	-	-
Expenses (affiliates):		
Administrative services	\$ 168,488	\$ 160,479
Leases and other items	229,077	188,628
Dividends paid to ALFA (holding)	2,811,465	2,978,031

For the years ended December 31, 2018 and 2017, the considerations and benefits received by the principal officers of the Company amounted to \$492,746 and \$423,527, 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, 2018 and 2017, balances with related parties are as follows:

	Nature of the transaction	As of December 31,	
		2018	2017
Receivable:			
Affiliates	Services	\$ 5,881	\$ 6,632
Payable:			
Affiliates	Services	96,041	36,487
Affiliates	Interest	1,476	1,411

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, 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 CEO considers the business from a geographic perspective. The geographies monitored by the CEO are defined as the Company's operating segments, which are classified 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, 2018 and 2017, 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, 2018:

	Mexico	USA	Europe	LATAM	Total
Total income by segment	\$51,303,276	21,105,864	43,886,627	9,367,350	125,663,117
Intersegment income	<u>(1,172,094)</u>	<u>(2,318,317)</u>	<u>-</u>	<u>(272,887)</u>	<u>(3,763,298)</u>
Income from external customers	<u>50,131,182</u>	<u>18,787,547</u>	<u>43,886,627</u>	<u>9,094,463</u>	<u>121,899,819</u>
Adjusted EBITDA	6,766,003	2,279,674	3,281,643	826,711	13,154,031
Depreciation and amortization	(1,257,574)	(589,349)	(1,856,328)	(286,865)	(3,990,116)
Impairment of fixed assets	(86,237)	331	(350,711)	(10)	(436,627)
Impairment of intangible assets	<u>(40,342)</u>	<u>-</u>	<u>(1,249,142)</u>	<u>-</u>	<u>(1,289,484)</u>
Operating income	<u>5,381,850</u>	<u>1,690,656</u>	<u>(174,538)</u>	<u>539,836</u>	<u>7,437,804</u>
Financial cost, net	<u>(293,043)</u>	<u>(119,322)</u>	<u>(1,444,399)</u>	<u>(18,619)</u>	<u>(1,875,383)</u>
Equity in income of associates	<u>(2,186)</u>	<u>-</u>	<u>17,079</u>	<u>303</u>	<u>15,196</u>
Income before taxes	<u>5,086,621</u>	<u>1,571,334</u>	<u>(1,601,858)</u>	<u>521,520</u>	<u>5,577,617</u>
Capital investment (Capex)	<u>\$ 1,611,984</u>	<u>\$ 461,683</u>	<u>\$1,220,870</u>	<u>\$ 204,563</u>	<u>\$ 3,499,100</u>

As of December 31, 2018:

	Mexico	USA	Europe	LATAM	Total
Non-current assets:					
Property, plant and equipment ^(*)	\$10,653,320	\$ 2,189,186	\$19,307,713	\$1,802,306	\$33,952,525
Intangible assets	3,620,939	735,270	9,263,630	882,809	14,502,648
Goodwill	1,936,215	5,024,238	4,809,268	1,797,456	13,567,177
	<u>\$16,210,474</u>	<u>\$ 7,948,694</u>	<u>\$33,380,611</u>	<u>\$4,482,571</u>	<u>\$62,022,350</u>
Other:					
Deferred income tax assets					2,261,927
Derivative financial instruments					763,360
Other non-current assets					264,635
Total non-current assets					<u>\$65,312,272</u>
Total liabilities	<u>\$58,614,368</u>	<u>\$ 2,367,491</u>	<u>\$21,077,337</u>	<u>\$1,298,638</u>	<u>\$83,357,834</u>

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

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	<u>(1,125,225)</u>	<u>(3,453,939)</u>	<u>-</u>	<u>(240,931)</u>	<u>(4,820,095)</u>
Income from external customers	<u>47,079,245</u>	<u>18,257,240</u>	<u>40,456,450</u>	<u>8,429,104</u>	<u>114,222,039</u>
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	<u>(80,572)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(80,572)</u>
Operating income	<u>4,724,242</u>	<u>2,019,866</u>	<u>1,434,749</u>	<u>411,884</u>	<u>8,590,741</u>
Financial cost, net	<u>(3,975,238)</u>	<u>83,951</u>	<u>(524,128)</u>	<u>26,506</u>	<u>(4,388,909)</u>
Equity in income of associates	<u>(194)</u>	<u>-</u>	<u>16,170</u>	<u>-</u>	<u>15,976</u>
Income before taxes	<u>748,810</u>	<u>2,103,817</u>	<u>926,791</u>	<u>438,390</u>	<u>4,217,808</u>
Capital investment (Capex):	<u>\$ 1,628,157</u>	<u>\$ 279,562</u>	<u>\$ 1,454,668</u>	<u>\$ 179,317</u>	<u>\$ 3,541,704</u>



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
	<u>\$15,816,724</u>	<u>\$ 8,299,052</u>	<u>\$36,872,844</u>	<u>\$4,736,628</u>	<u>\$65,725,248</u>
Other:					
Deferred income tax assets					2,792,463
Other non-current assets					267,001
Total non-current assets					<u>\$68,784,712</u>
Total liabilities	<u>\$51,096,834</u>	<u>\$ 2,575,122</u>	<u>\$32,516,936</u>	<u>\$1,107,929</u>	<u>\$87,296,821</u>

^(*) 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,	
	2018	2017
Processed meat ⁽¹⁾	\$ 94,437,379	\$ 88,018,147
Dairy ⁽²⁾	21,822,984	20,964,928
Other ⁽³⁾	5,639,456	5,238,964
Total	<u>\$ 121,899,819</u>	<u>\$ 114,222,039</u>

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

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

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

SIGMA's customers are commercial establishments classified into supermarkets, convenience stores, institutions and small grocery stores. For the years ended December 31, 2018, and 2017, sales to its largest customer represented 9.7% and 10.0%, 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, 2018, 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, 2018 and 2017, the Company has the following commitments:

- 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.
- 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, 2018 and through January 31, 2019 (date of issuance of the consolidated financial statements) and has identified the following:



- i. During January 2019, the Company entered into derivative financial instruments to hedge the exchange rate risk through forward contracts for a total of US\$330 million.
- ii. On January 25, 2019, the Company announced the decision of Mr. Mario H. Páez González, Chief Executive Officer, to retire as of July 31, 2019, after a 45-year career. Therefore, as of August 1, 2019, Mr. Rodrigo Fernández Martínez, who is currently the Chief Operating Officer, will transition to Chief Executive Officer of the Company.

None of these events and transactions represented adjustments to the figures reported as of December 31, 2018.

30. Authorization to issue the consolidated financial statements

The issuance of the accompanying consolidated financial statements and its notes was authorized on January 31, 2019, 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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