

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATION

You should read this discussion in conjunction with the consolidated financial statements of Sigma Alimentos, S.A. de C.V. (the "Company"), as well as related notes and other financial information included in the audited financial statements. The financial statements are prepared in accordance with IFRS. The IFRS include all the effective International Accounting Standards ("IAS"), and the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), including those issued previously by the Standing Interpretations Committee ("SIC").

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

This section contains forward-looking statements that involve risks and uncertainties. The actual results may vary materially from those discussed in the forward-looking statements due to various factors.

Overview

Sigma is a leading multinational food company that produces, markets and distributes quality branded foods, including packaged meats, cheese, yogurt and other refrigerated and frozen foods. Sigma has a diversified portfolio of leading brands, including Campofrio®, Aoste®, Bar-S®, FUD®, San Rafael®, Braedt®, La Villita® and Yoplait®. Through brand development, quality products and continuous innovation, Sigma has established a leading market position operating 70 plants and 210 distribution centers in 18 countries across four key regions: the United States, Europe, Mexico and Latin America.

The brand portfolio has a number of unique products; focus on optimizing production processes, technology, and a robust distribution network which have allowed the Company to continue to grow net sales and cash flow. In 2018, the Company generated consolidated net sales of Ps. 121,900 million and Adjusted EBITDA of Ps. 13,154 million; and consolidated net sales of Ps. 124,498 million and Adjusted EBITDA of Ps. 13,543 million for 2019.

Economic Environment and other Macroeconomic Factors

Sigma's business is closely tied to general economic conditions in the countries where the Company operates. Therefore, the Company's economic performance and ability to implement its business strategies may be affected by changes in general economic conditions in those regions.

Macroeconomic conditions in the countries where the Company operates have historically affected its operating results and distribution of sales across the product mix. Customers may switch from branded to lower-cost unbranded products in periods of recession, when GDP declines, in any or all the countries in which the Company operates. In recent years, certain markets have experienced economic weakness with tighter credit conditions and slower or declining growth. In addition, exchange rate fluctuations may result from weaker macroeconomic conditions. Since a significant portion of costs and net sales are either denominated in or linked to the value of the U.S. Dollar, margins could be influenced by the fluctuation of the currencies from the different countries in which the Company conducts its business. Prices for raw materials may fluctuate due to changes in the price of commodities, such as corn and other grains, fuel and transportation, all of which may be affected by overall trends in GDP and demand.

Factors Affecting the Company's Results of Operation

Net Sales

Net sales consist of revenue generated from sales of packaged meats, dairy products and other products. Net sales are a result of sales volume, price (after reduction from rebates and invoice discounts) and product mix. The main drivers of sales volume include:

- Available production capacity, either by acquisition of new production facilities or the expansion of existing plant capacity (see “—Effect of Acquisitions, Capacity Expansion and Production Efficiencies” below)
- Capacity utilization rate and the existence or absence of operational disruptions
- Demand for packaged meats, dairy products and other refrigerated foods. Also, economic growth or contraction in the countries in which the Company operates and resilience to adverse economic scenarios
- Competition from substitute products, including those outside the categories in which the Company participates
- Ability to develop new products and product characteristics that meet consumers' changing needs and preferences

The main factors affecting the pricing of products include:

- Market conditions and the regional supply and demand for packaged meats, dairy products and other refrigerated food products
- Competitive pricing strategies
- Product mix, ranging from premium to economic brands
- Changes in raw material prices and in other costs
- Changes in the exchange rate of local currencies of the countries in which the Company operates

Cost of Sales

Cost of sales consists primarily of (i) raw materials, particularly poultry, pork and fluid and dry milk, (ii) energy, including natural gas, motor fuel and electricity, (iii) labor costs other than reorganization costs, (iv) transportation costs and (v) depreciation and amortization of plant and equipment. The main factors that affect cost of sales include:

- Raw material prices, particularly for pork and poultry, which are closely related to the cost of grains, such as corn, which is the major cost of raising such animals, as well as for fluid and dry milk
- Changes in the price of imported raw materials due to changes in the exchange rate against the local currencies
- Sales volume
- Product mix
- Ability to streamline or create efficiencies in production processes
- Energy costs

Gross Profit

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

Selling and Administrative Expenses

Selling and administrative expenses consist principally of selling expenses, including salaries and commissions paid to sales force, as well as distribution, marketing and administrative expenses.

Comprehensive Financing Expense, Net

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

- Financial expense, including fixed and variable interest expense. This is mainly a function of the principal amount of debt outstanding and the interest rates in effect
- Financial income, which includes interest income earned on cash and cash equivalents
- Exchange loss (gain), net, which includes net gains or losses relating to foreign currency exchange rate movements, as further described below under “—Effects of Foreign Currency Exchange Rate Fluctuations”
- Valuation of derivative financial instruments, which reflect changes in the fair value of derivative financial instruments designated as held for trading because they do not satisfy the accounting requirements for hedge accounting, including instruments with respect to exchange rates, interest rates and natural gas prices and, if applicable, the ineffective portion of instruments qualified as hedge accounting. The designation as hedge accounting is documented at the inception of the transaction, specifying the related objective, initial position, risk to be hedged, type of relationship, characteristics, accounting recognition and how their effectiveness will be assessed.

In the past, the Company has used derivative financial instruments to manage the risk profile associated with interest rates and currency exposure, reduce financing costs and hedge some of commodity and financial market risks. As of December 31, 2019, the Company had US\$ 220 million in cross currency swaps (CCS) and US\$ 410 million in exchange rate Forwards designated as hedges for accounting purposes at a consolidated level to reduce its exposure to the exchange rate risks associated with its business operations. Internal policy prohibits any derivative financial instruments for speculative purposes, however, they can be used as an economic hedge against certain business risks, even if these instruments do not qualify for hedge accounting under IFRS. In addition, the Company may be required to record fair value losses in the future that could be material. The mark-to-market accounting for derivative financial instruments is reflected in the income statement and has resulted in volatility in earnings. In addition, the Company may incur future losses in connection with derivative financial instruments transactions, which could have a material adverse effect on financial condition and results of operations.

Effect of Acquisitions, Capacity Expansion and Production Efficiencies

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

On August 31, 2019, the Company acquired the 100% of the shares of Praimit, S.A. de C.V. and Procesadora Laminin S.A. de C.V. (together “Vigar Group”) for \$252,956; whereby SIGMA became the sole owner. Vigar Group is a company dedicated to processing and selling fresh meat and is included in the Mexico segment.

Effects of Foreign Currency Exchange Rate Fluctuations

There is exposure to foreign exchange rate risks, since Sigma operates in several countries, most notably the U.S. Dollar and the Euro conversion to Pesos. In order to report consolidated financial statements, Sigma must effectively convert multiple currencies into a single reporting currency. Fluctuations in currency rates could affect the income statement, even if local currency results remain the same. Changes relative to the value of the Peso vis-à-vis the U.S. Dollar have an effect on operating results.

Change in Functional Currency

The financial statements of each of the subsidiaries should be measured using the currency of the primary economic environment in which each such entity operates (“the functional currency”). In the case of the Issuer, up to June 30, 2015 the functional currency was determined to be the Mexican Peso.

As of July 1, 2015, Sigma concluded that the most adequate functional currency for the Issuer is the U.S. Dollar. This was based on the economic environment where the entity generates and uses cash. Revenues from dividends and revenues from brand use are collected in U.S. Dollars. The previous functional currency was the Mexican Peso and in accordance with the International Accounting Standard 21 “Effects of changes in foreign exchange rates” (“IAS 21”), the changes are made prospectively. At the date of the change in the functional currency, all assets, liabilities, capital and income statement items were translated into U.S. Dollars at the exchange rate at that date.

Limited Seasonality

Operating results are not materially affected by seasonality, although its European operation experiences higher sales of packaged meats during the year-end holiday season and its US operation has higher sales of sausages, cooked ham and hot dogs during the summer months.

Key Drivers of Profitability

The key drivers of profitability include:

- ***The Company’s ability to respond to economic conditions in its markets.*** In periods of recession when GDP declines in any or all of the Company’s markets, consumers may switch from high to lower-cost products. In order to maintain its profitability, the Company must continue to offer its broad portfolio of brands across the diverse consumer base the Company serves in. In periods of economic growth, consumers are more willing to purchase premium or higher-end branded products and the Company’s challenge in such periods is to encourage consumers, through marketing and other initiatives, to switch to those products.
- ***The Company’s ability to understand and attend to consumer needs through innovation.*** The Company believes that enlarging its sales volume is critical for its profitability and therefore the Company must continue to innovate through the introduction of new products. By focusing the Company’s research and development activities on tailoring its products to the preferences and needs of consumers, the Company believes that it will increase sales volumes and improve profitability.
- ***The Company’s ability to integrate acquisitions.*** The Company’s ability to carry out M&A and post-merger integration in different markets has enabled it to successfully execute and integrate a number of acquisitions. The Company’s due diligence and post-merger integration experience process help it identify and execute value generating strategies that result in significant synergies.
- ***The Company’s ability to achieve efficiencies and economies of scale.*** The ability to grow the Company’s sales volume while maintaining its current cost structure is essential to achieve profitable results. In order to increase the Company’s productivity, the Company needs to efficiently use its production and distribution facilities and control variable costs and expenses. In addition, within fixed costs and expenses the Company needs to achieve economies of scale as it intends to increase its sales volumes without using increasingly more resources.

Critical Accounting Policies

There are certain key accounting indicators and estimates that affect the Company’s financial condition and operating results. These indicators are based on subjective judgments or decisions that require management to estimate and make assumptions that affect the amounts reported in the Annual Audited Financial Statements and Interim Unaudited Financial Statements. Estimates are based on historical information and other assumptions that the Company believes are reasonable under the circumstances.

Actual results may differ from estimates under different assumptions or conditions. Estimates routinely require adjustments based on changing circumstances and new or more accurate information. In the opinion of management, the most critical accounting estimates under IFRS are those that require management to make estimates and assumptions that affect the reported amounts related to accounting for estimated impairment of goodwill, income taxes and pension benefits, long-lived assets, revenue recognition of deferred tax assets. For a full description of all accounting policies, see Note 3 of Annual Audited Financial Statements.

There are certain critical estimates that require significant judgment in the preparation of consolidated financial statements. Accounting estimates are considered as critical if:

- It requires the Company to make assumptions due to lack of information or if it included matter that were highly uncertain at the time the estimate was made
- Changes in the estimate or different estimates that would have had a material impact on the financial condition or operating results

Estimated Impairment of Goodwill

Goodwill is tested annually to determine if it suffers any impairment, in accordance with the established accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Income Taxes

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required to determine the worldwide provision for income taxes. There are many transactions and calculations, therefore the final tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of when additional taxes will be due. In the event the final tax outcome of these matters is different from the amounts that were initially recorded, the difference will impact the current and deferred income tax assets and liabilities for the period in which such determination is made.

Pension Benefits

The present value of the pension obligations depends on several factors that are determined on an actuarial basis using several assumptions. The assumptions used in determining the net cost (income) for pensions include a discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The discount rate is calculated at the end of each year. The discount rate is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest according to IAS 19 “Employees’ benefits” that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions.

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 determined when the asset is acquired based on past experience with similar assets and considering anticipated technological changes or any other type of changes. When technological changes occur faster or differently than estimated, the useful lives assigned to the assets could be reduced. This would lead to the recognition of a higher 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 value of the assets. The Company reviews assets on an annual basis for signs of impairment, or when certain events or circumstances indicate that the value in books may not be recovered during the remaining useful life of the assets.

To evaluate the impairment, the Company uses cash flows that consider the administrative estimates for future transactions, including estimates for revenues, costs, operating expenses, capital expenses and debt service. In accordance with IFRS, if an assessment is required, future discounted cash flows associated with an asset would be compared to the value in books of the asset to determine if an asset is impaired. In this case, the asset is reduced to its fair value. Based on analysis of cash flow, there was no impairment at December 31, 2019.

Revenue Recognition

The Company recognized revenues of Ps 124,498 million from the sale of goods to third parties during 2019. Customers have the right to return the products if not satisfied. Based on previous experience in similar sales, the dissatisfaction rate and maturity will not exceed 1%. Consequently, the Company has recognized revenues from these transactions with the corresponding provision against revenues from the estimate of returns. If the estimate were to change by 10%, revenues would decrease/increase by Ps 124.5 million.

Recognition 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. Based on the projections of income and fiscal profits that the Company will generate in the following years through a structured and robust business plan, management has considered that the current fiscal losses will be used before they expire and for this reason it has been considered appropriate to recognize a deferred tax asset for such losses.

Results of Operations

	For the Year Ended December 31,				Percentage
	2018	Percent of Net Sales	2019	Percent of Net Sales	2019 vs. 2018
(in millions of Pesos, except percentages)					
Net sales	121,900	100.0%	124,498	100.0%	2.1%
Cost of sales	(87,781)	(72.0)	(89,670)	(72.0)	2.2
Gross profit	34,119	28.0	34,828	28.0	2.1
Selling and administrative.....	(25,381)	(20.8)	(25,809)	(20.7)	1.7
Other expenses, net	(1,299)	(1.1)	128	0.1	(109.9)
Operating profit	7,438	6.1	9,148	7.3	23.0
Financial income	292	0.2	326	0.3	11.6
Financial expenses	(2,741)	(2.2)	(2,527)	(2.0)	(7.8)
Gain (loss) due to exchange fluctuation, net	573	0.5	(428)	(0.3)	(174.7)
Comprehensive financing expense	(1,875)	(1.5)	(2,629)	(2.1)	40.2
Share of losses of investments accounted for using the equity method.....	15	0.0	10	0.0	(33.3)
Profit before income tax	5,578	4.6	6,529	5.2	17.0
Income tax	(2,719)	(2.2)	(2,977)	(2.4)	9.5
Net profit	2,859	2.3	3,552	2.9	24.2
Adjusted EBITDA	13,154	10.8%	13,543	10.9%	3.0%

The following table provides a breakdown of net sales by product line for 2018 and 2019:

	For the Year Ended December 31,				Percentage
	2018	Percent of Net Sales	2019	Percent of Net Sales	2019 vs. 2018
(in millions of Pesos, except percentages)					
<u>Product lines:</u>					
Packaged meats.....	94,437	77.5%	94,465	75.9%	0.0%
Dairy products.....	21,823	17.9	23,731	19.0	8.7
Other products	5,639	4.6	6,302	5.1	11.8
Total.....	121,900	100.0%	124,498	100.0%	2.1%

The following table provides a breakdown of net sales by geographic region for 2018 and 2019:

	For the Year Ended December 31,				Percentage
	2018	Percent of Net Sales	2019	Percent of Net Sales	Change 2019 vs. 2018
	(in millions of Pesos, except percentages)				
<u>Geographic region:</u>					
Europe	43,887	36.0%	43,454	34.9%	(1.0)%
United States	18,788	15.4	19,380	15.6	3.2
Mexico	50,131	41.1	52,481	42.1	4.7
Latin America	9,094	7.5	9,183	7.4	1.0
Total.....	121,900	100.0%	124,498	100.0%	2.1%

2019 compared with 2018

Net Sales by Product Line

Net sales of packaged meats for the year ended December 31, 2019 were Ps. 94,465 million, remaining flat from the Ps. 94,437 million reported in 2018. This result was primarily due to the depreciation of the Euro against the Mexican peso.

Net sales of dairy products for the year ended December 31, 2019 were Ps. 23,731 million, an increase of 8.7% from the Ps. 21,823 million reported in 2018. This increase was primarily due to higher sales volume and higher average prices from its Mexico, Latin America and United States operations.

Net sales of other products for the year ended December 31, 2019 were Ps. 6,302 million, an increase of 11.8% from the Ps. 5,639 million reported in 2018. This increase was primarily due to the expansion of the foodservice business in Mexico, which offers a broad portfolio of products.

Net Sales by Geographic Region

Net sales in Europe for the year ended December 31, 2019 were Ps. 43,454 million, a decrease of 1.0% from the Ps. 43,887 million reported in 2018. This decrease was primarily due to a 5% depreciation of the Euro against the Mexican Peso.

Net sales in the United States for the year ended December 31, 2019 were Ps. 19,380 million, an increase of 3.2% from the Ps. 18,788 million reported in 2018. This increase was primarily due to higher average prices across all categories.

Net sales in Mexico for the year ended December 31, 2019 were Ps. 52,481 million, an increase of 4.7% from the Ps. 50,131 million reported in 2018. This increase was primarily due to higher average prices across all categories.

Net sales in Latin America for the year ended December 31, 2019 were Ps. 9,183 million, an increase of 1.0% from the Ps. 9,094 million reported in 2018. This increase was primarily due to higher average prices across all categories.

General

Net sales for the year ended December 31, 2019 were Ps. 124,498 million, an increase of 2.1% from the Ps. 121,900 million reported in 2018. This increase was primarily due to higher average prices across all regions as part of the strategy to mitigate higher costs related to the African Swine Fever. Additionally, net sales growth was partially offset by the depreciation of the Euro against the Mexican peso. As a percentage of total sales, sales in Europe accounted for 34.9%, sales in the United States accounted for 15.6%, sales in Mexico accounted for 42.1% and sales in Latin America accounted for 7.4%.

Cost of sales for the year ended December 31, 2019 was Ps. 89,670 million, an increase of 2.2% from the Ps. 87,781 million reported in 2018. This increase was primarily driven by higher raw material costs due to African Swine Fever. Additionally, the cost of sales increase was partially offset by a 5% depreciation of the Euro against the Mexican peso.

Gross profit, defined as the difference between revenues and cost of sales, for the year ended December 31, 2019 was Ps. 34,828 million, an increase of 2.1% from the Ps. 34,119 million reported in 2018. This increase was primarily due to the factors discussed above.

Selling and administrative expenses for the year ended December 31, 2019 were Ps. 25,809 million, an increase of 1.7% from the Ps. 25,381 million reported in 2018. This increase was below average annual inflation.

Other income (expenses), net for the year ended December 31, 2019 was an income of Ps. 128 million, compared to an expense of Ps. 1,299 million in 2018. 2018 expense was primarily due to the reevaluation of some assets, resulting in a non-cash impairment of Ps. 1,726 million, that impacted operating income and not EBITDA. These impairments resulted mainly from the revaluation of Sigma's assets in Italy and the closure of one of Sigma's manufacturing facilities in Europe.

Operating profit for the year ended December 31, 2019 was Ps. 9,148 million, an increase of 23.0% from the Ps. 7,438 million reported in 2018. This increase was primarily due to the factors discussed above.

Comprehensive financing expense, net for the year ended December 31, 2019 was an expense of Ps. 2,629 million, an increase of 40.2% from the expense of Ps. 1,875 million reported in 2018. This increase was primarily due to the increase of payments of the derivative financial instruments and the variations of the mark-to-market caused by the appreciation of the Mexican peso against the US. Dollar.

Income tax for the year ended December 31, 2019 was a tax expense of Ps. 2,977 million, an increase of 9.5% from the tax expense of Ps. 2,719 million reported in 2018. This increase was primarily due to higher profits directly impacting the tax base in 2019. The effective tax rate for the years ended December 31, 2019 and 2018 was 46% and 49%, respectively.

Net profit for the year ended December 31, 2019 was Ps. 3,552 million, compared to the net consolidated income of Ps. 2,859 million reported for the same period in 2018. This change was primarily due to the factors discussed above.

New Accounting Policies

A new number of standards, amendments and interpretations to the accounting policies have been published, which are not effective for reporting periods at December 31, 2017, and have not been applied in advance by the Company. The Company's assessment of the effects of those new standards and interpretations are detailed below:

IFRS 9 - "Financial instruments", addresses the classification, measurement and recognition of financial assets and liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made additional changes to the classification and measurement rules and also introduced a new impairment model. These last changes now comprise the entire new financial instruments standard. Following the approved changes, the Company no longer expects any impact from the new rules of classification, measurement and disposal of its financial assets or liabilities. There will be no impact on the Company's accounting from financial liabilities, since the new requirements only affect financial liabilities at fair value through income and the Company has no such liabilities. The new rule also introduces requirements regarding extense disclosure and presentation changes, which are still under evaluation by the Company. The new impairment model is a model of expected credit losses; therefore, it would result in advance recognition of credit losses. The Company continues assessing how its hedge agreements and impairment provisions are affected by the new rules. The standard is effective for the periods beginning on or after January 1, 2018. Early adoption is allowed.

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

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

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

IFRS 16 - “Leases”. In January 2016, the IASB issued a new standard for lease accounting. This standard will replace current standard IAS 17, which classifies leases into financial and operating. IAS 17 identifies leases as financial in nature when the risks and benefits of an asset are transferred and identifies the rest as operating leases. IFRS 16 eliminates the classification between financial and operating leases and requires the recognition of a liability showing future payments and assets for “right of use” in most leases. The IASB has included some exceptions in short-term leases and in low-value assets. The aforementioned amendments are applicable to the lease accounting of the lessee, while the lessor maintains similar conditions to those currently available. The most significant effect of the new requirements is an increase in leasing assets and liabilities, also affecting the statement of income in depreciation expenses and financing of recorded assets and liabilities, respectively, and decreasing expenses for leases previously recognized as operating leases. The Company adopted IFRS 16 on January 1, 2019; therefore, the right-of-use asset and a lease liability as of December 31, 2019 was Ps. 2,187 million.

There are no other additional standards, amendments, or interpretations issued but not effective that might have a significant impact on the Company.

Liquidity and Capital Resources

Overview

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

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

Liquidity

Sigma is a holding company and has no operations of its own. The ability to meet debt and other obligations is primarily dependent on the earnings and cash flows of subsidiaries and the ability of those subsidiaries to pay interest or principal payments on intercompany loans, dividends or other amounts or to make intercompany loans to the Company.

The following table summarizes the cash flows from operating, investing and financing activities for the years ended December 31, 2018 and 2019:

	For the Year Ended December 31,	
	2018	2019
	(in millions of Pesos)	
Net resources generated from operating activities	10,303	8,599
Net resources (used in) provided by investing activities	(3,274)	(3,377)
Net resources provided by (used in) financing activities.....	(7,225)	(7,182)
Cash and cash equivalents at period end	12,213	9,730

Operating Activities

In 2019, net resources generated from operating activities were Ps. 8,599 million, primarily attributable to income before income taxes and an investment in working capital related to higher inventories and higher raw material prices due to African Swine Fever.

In 2018, net resources generated from operating activities were Ps. 10,303 million, primarily attributable to income before income taxes and improvements in working capital for the period.

Investing Activities

In 2019, net resources used in investing activities were Ps. 3,377 million, primarily attributable to investments used for expansion and maintenance projects across the Company.

In 2018, net resources used in investing activities were Ps. 3,274 million, primarily attributable to investments used for expansion and maintenance projects across the Company.

Financing Activities

In 2019, net resources used in financing activities were Ps. 7,182 million, primarily attributable to the payment of loans and other debt and interest paid.

In 2018, net resources used in financing activities were Ps. 7,225 million, primarily attributable to the payment of loans and other debt and interest paid.

In the years ended 2018 and 2019 the Company paid dividends of Ps. 2,811 million and Ps. 2,342 million, respectively.

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

Capital Resources

Existing Indebtedness

At December 31, 2019, the Company's total indebtedness was Ps. 44,659 million, of which Ps. 28,266 million was denominated in U.S. dollars, Ps. 12,895 million was denominated in Euros and Ps. 3,498 million was denominated in Mexican pesos. Of this total amount, Ps. 576 million constituted short-term debt and Ps. 44,083 constituted long-term debt. The primary use of debt has been to fund acquisitions and capital expenditures. As of December 31, 2019, the Company had committed credit facilities available for an amount of Ps. 5,483 million for working capital and other requirements.

Capital Expenditures

In 2018 and 2019, the capital expenditures were Ps. 3,499 million and Ps. 3,351 million, respectively. These capital expenditures were used for maintenance and replacement of productive assets, such as maintenance of production facilities, replacement of delivery vehicles and strategic capital expenditures for organic growth.

Tabular Disclosure of Contractual Obligations

The following is a summary of contractual obligations (other than operating leases) as of December 31, 2019:

	Payments Due By Period				
	Total	Less than 1 Year	1-2 Years	3-5 Years	More than 5 Years
Contractual Obligations					
Short-term debt obligations	26,187	26,187	-	-	-
Long-term debt obligations	44,083	-	-	12,592	31,491
Capital lease obligations.....	2,187	440	711	572	463
Total	72,457	26,627	711	13,164	31,954

Quantitative and Qualitative Disclosures about Market Risk

Derivative Financial Instruments

Because Sigma operates in several countries and enters into credit agreements in U.S. Dollars, Euros and in Pesos, Sigma has entered into foreign exchange rate and interest rate derivatives when considered necessary to reduce the overall cost of financing and the volatility associated with interest rates.

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

Sigma has internal control system for derivative financial instruments. The negotiation, authorization, contracting, operating, monitoring and recording of derivative financial instruments are subject to IAS 39 "Financial Instruments: Recognition and measurement" by the IASB and to internal control procedures variously overseen by treasury, legal, accounting and auditing departments.

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

As of December 31, 2019, the Company maintains two Currency Swaps (CCS) of accounting hedge and twenty-seven USD/MXN exchange rate Forwards at the consolidated level in order to mitigate the risk of the overall exposure to the exchange rate arising from the operations of the business. The characteristics of the CCS and Forwards designated as accounting hedges of the exchange rate risk are the following:

Characteristics	CCS J. P. Morgan	CCS Citibanamex	Forwards
Currency	USD	USD	USD/MXN
Notional	US\$125,000	US\$95,000	US\$410,000
Coupon receives	4.125%	4.125%	-
Currency	MXN	MXN	-
Notional	\$2,280,000	\$1,732,800	-
Coupon pays	8.88%	8.9%	-
Maturity	May 2, 2026	May 2, 2026	June 11, 2020
Strike (average)	-	-	\$19.6589
Carrying amount (1)	\$ 50,253	\$ 97,917	\$(220,474)
Change in fair value to measure ineffectiveness	47,320	16,371	(235,208)
Reclassification of OCI to earnings	(175,151)	(95,259)	(64,793)
Recognized in OCI net of reclassifications	(49,175)	(123,428)	(155,681)
Change in fair value of the hedged item to measure ineffectiveness	(123,429)	235,351	(123,429)
Change in DFI fair value vs. 2018	(292,938)	(322,252)	-

(1) The carrying amount of USD/MXN CCS as of December 31, 2019 is composed of an asset portion of \$326,380 and a liability portion of \$178,210.

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

Risk Management Committee

Alfa has a Risk Management Committee, which supervises hedging and derivative transactions proposed to be entered by its subsidiaries with a risk exposure more than US\$ 1 million. This committee reports directly to both Alfa's Chairman of the Board of Directors and its President. All new hedging and derivative transactions which the Company proposes to enter into, as well as the renewal or cancellation of existing hedging and derivative arrangements, are required to be approved by senior management of both Sigma and Alfa, including both Alfa's Chairman of the Board of Directors and its President. Proposed transactions must satisfy certain criteria, including entered for non-speculative purposes in the ordinary course of business, based on fundamental analysis and that a sensitivity analysis and other risk analyses have been performed before the transaction is entered.