

**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,
2022, 2021 and 2020, and Independent
Auditors' Report Dated January 31,
2023



**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, 2022, 2021 and 2020

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

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, 2022, 2021 and 2020, the consolidated statements of income, the consolidated statements of comprehensive income (loss), the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, and the 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 Sigma Alimentos, S. A. de C. V. and Subsidiaries, as of December 31, 2022, 2021 and 2020, and their consolidated financial performance and their consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Basis for Opinion

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

Other Matters

The accompanying consolidated financial statements have been translated from Spanish to English for the convenience of readers.

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 are responsible for overseeing the Company's consolidated financial reporting process.



Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

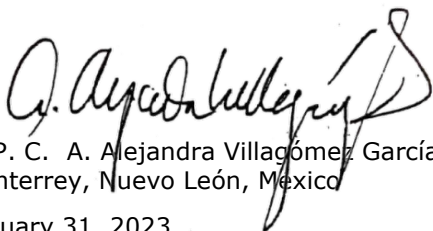
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement where it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the 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:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.
- Obtain 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate 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 fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities 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 consolidated financial statements of the Company. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

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



C. P. C. A. Alejandra Villagómez García
Monterrey, Nuevo León, Mexico

January 31, 2023



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, 2022, 2021 and 2020

In thousands of Mexican pesos

	Note	2022	2021	2020
Assets				
Current assets:				
Cash and cash equivalents	6	\$ 13,208,493	\$ 16,856,206	\$ 16,300,838
Restricted cash	7	6,500	-	23,938
Trade and other accounts receivable, net	8	9,077,460	7,756,484	6,895,108
Inventories	9	18,302,545	16,617,315	15,247,812
Recoverable income tax	18	740,884	914,229	741,417
Derivative financial instruments	4	254,227	48,511	1,715
Assets held for sale	10	2,584,638	2,976,486	-
Other current assets		357,572	361,526	521,042
Total current assets		<u>44,532,319</u>	<u>45,530,757</u>	<u>39,731,870</u>
Non-current assets:				
Property, plant and equipment, net	11	30,548,039	30,946,208	33,345,796
Right-of-use asset, net	12	1,743,697	2,038,907	2,366,003
Goodwill and intangible assets, net	13	25,490,862	28,675,128	29,451,265
Investments in associates and other assets	14	319,302	276,893	222,787
Deferred income taxes	18	1,894,687	2,159,585	4,125,223
Derivative financial instruments	4	517,167	954,721	596,115
Restricted cash	7	6,500	32,500	32,500
Total non-current assets		<u>60,520,254</u>	<u>65,083,942</u>	<u>70,139,689</u>
Total assets		<u>\$105,052,573</u>	<u>\$110,614,699</u>	<u>\$109,871,559</u>
Liabilities and Stockholders' Equity				
Current liabilities:				
Trade and other accounts payable	15	\$ 27,247,610	\$ 26,427,397	\$ 26,610,208
Debt	16	590,469	648,782	648,603
Lease liabilities	17	435,948	573,510	557,969
Income taxes payable	18	1,970,256	1,151,334	460,549
Derivative financial instruments	4	736,666	277,223	1,125,646
Liabilities held for sale	10	2,865,896	3,208,248	-
Provisions and other current liabilities	19	946,373	846,812	546,304
Total current liabilities		<u>34,793,218</u>	<u>33,133,306</u>	<u>29,949,279</u>
Non-current liabilities:				
Debt	16	44,754,653	48,166,445	47,746,027
Lease liabilities	17	1,415,743	1,643,623	1,947,198
Deferred income taxes	18	3,851,829	3,714,004	3,933,647
Income taxes payable	18	-	1,071,400	973,617
Provisions and other non-current liabilities	19	331,579	506,558	210,227
Employee benefits	20	1,695,652	1,446,396	1,807,379
Derivative financial instruments	4	287,750	-	-
Total non-current liabilities		<u>52,337,206</u>	<u>56,548,426</u>	<u>56,618,095</u>
Total liabilities		<u>87,130,424</u>	<u>89,681,732</u>	<u>86,567,374</u>
Stockholders' equity:				
Controlling interest:				
Capital stock		27,081	27,081	27,081
Additional paid-in capital		666,988	666,988	666,988
Retained earnings		17,555,250	18,603,066	20,501,732
Other reserves		(335,646)	1,635,832	2,108,384
Total controlling interest		<u>17,913,673</u>	<u>20,932,967</u>	<u>23,304,185</u>
Non-controlling interest		8,476	-	-
Total stockholders' equity		<u>17,922,149</u>	<u>20,932,967</u>	<u>23,304,185</u>
Total liabilities and stockholders' equity		<u>\$105,052,573</u>	<u>\$110,614,699</u>	<u>\$109,871,559</u>

The accompanying notes are an integral part of these 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, 2022, 2021 and 2020

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

	Note	2022	2021	2020
Revenues	3.u, 28	\$149,310,667	\$ 138,313,803	\$ 135,982,954
Cost of sales	23	(110,989,318)	(99,735,411)	(97,660,997)
Gross profit		38,321,349	38,578,392	38,321,957
Selling expenses	23	(23,052,027)	(22,023,398)	(21,900,693)
Administrative expenses	23	(6,341,574)	(6,323,944)	(6,404,842)
Other expenses, net	24	(287,631)	(1,159,203)	(749,804)
Operating income		8,640,117	9,071,847	9,266,618
Financial income	25	359,492	205,467	258,071
Financial expenses	25	(2,725,428)	(2,527,193)	(2,945,743)
Exchange fluctuation (loss) gain, net	25	(1,022,663)	(1,039,470)	222,339
Financial cost, net		(3,388,599)	(3,361,196)	(2,465,333)
Equity in income of associates	14	(584)	20,980	12,226
Income before taxes		5,250,934	5,731,631	6,813,511
Income taxes	18	(3,249,222)	(4,589,037)	(1,821,560)
Net consolidated income		<u>\$ 2,001,712</u>	<u>\$ 1,142,594</u>	<u>\$ 4,991,951</u>
Income attributable to:				
Controlling interest		\$ 2,001,924	\$ 1,142,594	\$ 4,991,951
Non-controlling interest		(212)	-	-
		<u>\$ 2,001,712</u>	<u>\$ 1,142,594</u>	<u>\$ 4,991,951</u>
Earnings per basic and diluted share, in Mexican pesos		<u>\$ 1.55</u>	<u>\$ 0.89</u>	<u>\$ 3.87</u>
Weighted average outstanding shares	21	<u>1,290,654,555</u>	<u>1,290,654,555</u>	<u>1,290,654,555</u>

The accompanying notes are an integral part of these 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, 2022, 2021 and 2020

In thousands of Mexican pesos

	Note	2022	2021	2020
Net consolidated income		<u>\$2,001,712</u>	<u>\$1,142,594</u>	<u>\$4,991,951</u>
Other comprehensive income (loss) 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	18	9,237	18,801	28,631
<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	18	(156,331)	673,774	(349,157)
Effect of translation of foreign entities	18	<u>(1,824,384)</u>	<u>(1,165,127)</u>	<u>1,432,249</u>
Total comprehensive income of the year		<u>(1,971,478)</u>	<u>(472,552)</u>	<u>1,111,723</u>
Consolidated comprehensive income		<u>\$ 30,234</u>	<u>\$ 670,042</u>	<u>\$6,103,674</u>
Attributable to:				
Controlling interest		\$ 30,446	\$ 670,042	\$6,103,674
Non-controlling interest		<u>(212)</u>	<u>-</u>	<u>-</u>
Comprehensive income for the year		<u>\$ 30,234</u>	<u>\$ 670,042</u>	<u>\$6,103,674</u>

The accompanying notes are an integral part of these consolidated financial statements.



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

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2022, 2021 and 2020

In thousands of Mexican pesos

	Capital stock	Additional paid-in capital	Retained earnings	Other reserves	Total controlling interest	Non-controlling interest	Total stockholders' equity
Balances as of January 1, 2020	\$ 27,081	\$ 666,988	\$15,509,781	\$ 996,661	\$17,200,511	\$ -	\$17,200,511
Net income	-	-	4,991,951	-	4,991,951	-	4,991,951
Total other comprehensive income	-	-	-	1,111,723	1,111,723	-	1,111,723
Comprehensive income	-	-	4,991,951	1,111,723	6,103,674	-	6,103,674
Balances as of December 31, 2020	<u>27,081</u>	<u>666,988</u>	<u>20,501,732</u>	<u>2,108,384</u>	<u>23,304,185</u>	<u>-</u>	<u>23,304,185</u>
Shareholder transactions:							
Dividends declared	-	-	(3,041,260)	-	(3,041,260)	-	(3,041,260)
Total transactions with shareholders	-	-	(3,041,260)	-	(3,041,260)	-	(3,041,260)
Net income	-	-	1,142,594	-	1,142,594	-	1,142,594
Total other comprehensive income	-	-	-	(472,552)	(472,552)	-	(472,552)
Comprehensive income	-	-	1,142,594	(472,552)	670,042	-	670,042
Balances as of December 31, 2021	<u>27,081</u>	<u>666,988</u>	<u>18,603,066</u>	<u>1,635,832</u>	<u>20,932,967</u>	<u>-</u>	<u>20,932,967</u>
Shareholder transactions:							
Non-controlling interest	-	-	-	-	-	8,688	8,688
Dividends declared	-	-	(3,049,740)	-	(3,049,740)	-	(3,049,740)
Total transactions with shareholders	-	-	(3,049,740)	-	(3,049,740)	8,688	(3,041,052)
Net income	-	-	2,001,924	-	2,001,924	(212)	2,001,712
Total other comprehensive income	-	-	-	(1,971,478)	(1,971,478)	-	(1,971,478)
Comprehensive income	-	-	2,001,924	(1,971,478)	30,446	(212)	30,234
Balances as of December 31, 2022	<u>\$ 27,081</u>	<u>\$ 666,988</u>	<u>\$17,555,250</u>	<u>\$ (335,646)</u>	<u>\$17,913,673</u>	<u>\$ 8,476</u>	<u>\$17,922,149</u>

The accompanying notes are an integral part of these 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, 2022, 2021 and 2020

In thousands of Mexican pesos

	2022	2021	2020
Cash flows from operating activities			
Income before income taxes	\$ 5,250,934	\$ 5,731,631	\$ 6,813,511
Depreciation and amortization	4,072,494	4,511,260	4,609,549
Impairment of fixed assets and intangible assets	394,141	1,466,582	830,470
Costs associated with defined benefit plans	117,829	211,976	195,442
Gain on sale of property, plant and equipment	(72,156)	(108,282)	(19,549)
Equity in income of associates	584	(20,980)	(12,226)
Exchange (gain) loss, net	1,022,663	1,039,470	(222,338)
Financial cost, net	2,091,747	2,240,984	2,582,038
Other	287,970	(111,687)	(321,396)
Changes in working capital:			
(Increase) decrease in trade and other accounts receivable	(3,204,408)	(2,066,106)	3,299,214
(Increase) decrease in inventories	(2,895,303)	(2,358,638)	2,130,534
Increase (decrease) in suppliers and other accounts payable	4,345,314	3,386,639	(4,222,189)
Income taxes paid	(2,350,169)	(1,708,109)	(4,117,143)
Net cash flows generated by operating activities	<u>9,061,640</u>	<u>12,214,740</u>	<u>11,545,917</u>
Cash flows from investing activities			
Cash flows from associates and business acquisition, net of cash acquired	-	-	(2,402)
Interest received	191,158	114,465	148,105
Cash flows from acquisition of intangible assets	(394,149)	(447,681)	(295,224)
Cash flows from acquisition of property, plant and equipment	(4,768,520)	(4,609,274)	(2,404,770)
Cash flows in sale of property, plant and equipment	166,406	495,761	82,648
Restricted cash and other assets	2,794	(12,514)	13,649
Net cash flows used in investing activities	<u>(4,802,311)</u>	<u>(4,459,243)</u>	<u>(2,457,994)</u>
Cash flow from financing activities			
Proceeds from debt	-	-	13,074,129
Payments of debt	(8,698)	(61,038)	(12,786,634)
Lease payments	(732,361)	(746,637)	(708,953)
Derivative financial instruments	(1,050,280)	(1,191,590)	331,704
Interest paid	(2,220,814)	(2,146,663)	(2,441,088)
Dividends paid	(3,049,740)	(3,041,260)	-
Net cash flows used in financing activities	<u>(7,061,893)</u>	<u>(7,187,188)</u>	<u>(2,530,842)</u>
Net (decrease) increase in cash and cash equivalents	<u>(2,802,564)</u>	<u>568,309</u>	<u>6,557,081</u>
Effects of changes in exchange rate	(845,149)	(12,941)	13,544
Cash and cash equivalents at the beginning of the year	<u>16,856,206</u>	<u>16,300,838</u>	<u>9,730,213</u>
Cash and cash equivalents at the end of the year	<u>\$13,208,493</u>	<u>\$16,856,206</u>	<u>\$16,300,838</u>

The accompanying notes are an integral part of these 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, 2022, 2021 and 2020
In thousands of Mexican pesos, except where otherwise indicated

1. Activities

Sigma Alimentos, S. A. de C. V. and subsidiaries (jointly “SIGMA” or the “Company”), a subsidiary of Alfa, S. A. B. de C. V. (“ALFA”), its holding company, 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 670,000 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.^a

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 consolidated financial statements, references to pesos or "\$" mean thousands of Mexican pesos. References to "US\$" or dollars, mean thousands of dollars of the United States of America. References to “€”, mean thousands of Euros, except when indicated otherwise.

2. Significant events

2022

a. Sale agreement of operations in Belgium and the Netherlands

On October 7, 2021, the Company announced an agreement for the sale of its subsidiaries Imperial Meat Products, VOF and Campofrio Food Group Netherlands Holding B.V. The transaction includes six production plants, five in Belgium and one in the Netherlands, as well as the Marcassou, Imperial, Stegeman, Leielander and Bistro brands.

As of December 31, 2022, the transaction had not been completed, therefore the assets and liabilities to be sold are presented under the headings “Assets held for sale” and “Liabilities held for sale”, respectively, in the consolidated statement of financial position (Note 10). Derived from the presentation as held for sale, and the measurement requirements of IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, the Company recognized an additional impairment of \$283,255 (€13,648), from the total of impairment, \$312,232 (€15,045) are associated to the assets held for sale. The sale of the assets is in the process of approval by the competition authorities in Belgium and the Netherlands, with a resolution expected in the coming months.

2021

b. Effects of the COVID-19 pandemic.

On March 11, 2020, the World Health Organization declared the SARS-COV2 infectious disease (herein-after referred to as "COVID-19") a pandemic. COVID-19 had and continues to have a strong impact on health, economic and social systems worldwide.



The Company, through its subsidiaries, has taken actions to counteract the effects that COVID-19 has had on the economic markets in which it participates, focusing on strengthening operating and financial performance, through constant monitoring of its cost structure, key business processes, and a commitment to its employees, through a special focus on the redefinition and capitalization of experiences; related to the remote work scheme; maintain a solid liquidity structure, through detailed management of cash flows; and constant monitoring of its financial position, to ensure compliance with the stipulated covenants, and its key financial ratios.

During the year ended December 31, 2021, one of the impacts directly attributable to COVID-19, was the recovery of the foodservice and convenience channel due to the mobility and out-of-home consumption increase, which represented an increase of 26% of its income from the above-mentioned channel during the year ended December 31, 2021, compared to the year ended December 31, 2020. This channel represented 9% and 7% of Sigma Alimentos consolidated revenues in the year ended December 31, 2021 and 2020, respectively.

In the year ended December 31, 2022, there were no relevant effects related to COVID 19, however, as of the date of issuance of the consolidated financial statements, the Company continues to monitor the development of its business, complying with the government regulations of the different countries in which it operates and responding promptly to changes that arise.

c. *Sale agreement of operations in Belgium and the Netherlands*

On October 7, 2021, the Company announced an agreement for the sale of its subsidiaries Imperial Meat Products, VOF and Campofrio Food Group Netherlands Holding B.V. The transaction includes six production plants, five in Belgium and one in the Netherlands, as well as the Marcassou, Imperial, Stegeman, Leielander and Bistro brands. The business units related to the agreement contributed 4.7% and 5.4% to SIGMA's consolidated revenues in 2021 and 2020 respectively. As of December 31, 2021, the transaction had not been completed, so the assets and liabilities to be sold are presented under the headings "Assets held for sale" and "Liabilities held for sale", respectively, in the consolidated statement of financial position (Note 10). Derived from the presentation as held for sale, and the measurement requirements of IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, the Company recognized an impairment of \$1,325,239 (€56,106), of which \$1,239,073 (€52,458) are associated to the assets held for sale.

d. *Sale agreement of production plants in Europe*

On December 31, 2021, the Company completed the sale to Cooperl Arc Atlantique Group of two production plants located in France, through its subsidiary Aoste, SNC. The value of the transaction was \$132,259 (€5,650), the same amount corresponding to the carrying amount of the transferred assets. Based on their market value, the Company recognized an impairment on its fixed assets of \$108,220 (€4,543) in the consolidated statement of income within other (expenses) income, net.

2020

e. *Effects of the COVID-19 pandemic.*

As a result of the coronavirus (COVID-19) outbreak and its recent global expansion to a large number of countries, the World Health Organization classified the viral outbreak as a pandemic since March 11, 2020. In this sense, the authorities have taken health measures worldwide to limit the spread of this virus, which include, among others, social distancing and the closure of educational centers (schools and universities), commercial establishments and non-essential businesses. The following describes how the Company will assess and determine the impacts of the pandemic on its operations:

- **Financial performance.** Sigma's operations have not been interrupted in any of the regions in which it operates globally because of the COVID-19 pandemic, since its product lines are offered, for the most part, by commercial establishments that qualify as an essential activity. In addition, due to social distancing, consumer habits have changed in the countries in which the Company operates, increasing the demand for the different products offered by SIGMA, increasing the sales as a group level starting the second quarter of 2020.

On the other hand, due to the temporary closure of hotels and restaurants, the Company had a decrease in the demand for products in the foodservice channel, which represented a 30% decrease in the revenues of such channel for the year ended December 31, 2020. As of the third quarter of 2020, the foodservice channel began to have a gradual recovery, associated to different strategies promoted by the Company. This channel represented 7% of SIGMA's consolidated revenues for the years ended December 31, 2020.



- Liquidity. In order to deal with liquidity risk management and be able to have a greater cash reserve in the event of any unforeseen event during the pandemic, the Company negotiated committed credit lines during the second quarter of 2020, for an amount of US\$630,000, reaching committed credit lines of US\$801,000 as of December 31, 2020,

While these committed credit lines were negotiated, during the year ended December 31, 2020, short-term bank loans were obtained; which were paid in full during the same year (see Note 16.b), since the Company had the necessary liquidity to meet its obligations and avoid an excess in cash. The management continually assesses payment needs as part of its financial risk management strategy, and works together with the corresponding financial institutions to ensure that the best financing conditions are obtained and continue to meet its obligations.
- Financial position. Derived from social distancing, travel limitations and the closure of commercial establishments around the world, the foodservice channel increased the allowance of uncollectible accounts in the regions of México, LATAM and Europe, mainly due to the request of extension in the payment term by some of the Company's customers in this channel (see Note 8). On the other hand, the traditional and modern channels were not impacted by measures of social distancing, since the operations of the Company's costumers on these channels were considered essential activities in most of the regions where SIGMA operates, which allowed them to continue operating on a regular basis.
- Continuity as a going concern. Taking into account all the aforementioned factors, in addition to the actions to manage the operational and financial risks that are carried out, management considers that the conclusion on the application of the going concern principle as of December 31, 2020, continues to be valid; therefore, the consolidated financial statements are presented on such basis.

f. *Impairment in Elaborados Cárnicos, S. A. and Sigmaec, CIA, LTDA.*

As of December 31, 2020, there was an increase in the country's risk rate in Ecuador, associated with the renegotiation of its external debt with the International Bank, coupled with the economic instability generated by the COVID- 19 pandemic. As a result of these factors, the discount rate used for the calculation of the value in use in 2020 increased, and when determining the recoverable value of the two cash-generating units in Ecuador, the Company recognized an impairment expense of \$51,733 in the consolidated statement of income for the year ended December 31, 2020.

g. *Impairment in Industrias Alimentarias del Sureste, S. A. de C.V.*

During the year ended December 31, 2020, the cash-generating unit in Mexico did not reach the expected profitability levels. As a result of these factors, management recalculated its recoverable value, recognizing an impairment of \$32,944 during the year ended December 31, 2020. In response to this, management is implementing strategies to achieve the expected profitability.

h. *Impairment in Cesare Fiorucci, S.P.A*

In recent years, the economic situation in Italy has been affected by an economic slowdown that has led to lower growth and higher unemployment. As of December 31, 2020, there was a drop in sales compared to the previous year, associated with its political and economic instability. As a result of these factors, management recalculated the recoverable value of the cash-generating unit in Italy, recognizing an impairment expense on its fixed assets of \$433,777 in the consolidated statement of income during the year ended December 31, 2020.

i. *Strategic redefinition project Campofrío Food Group, S.A.U.*

In order to increase the efficiency in the operation and adapt the productive capacity to the current demand of the cash-generating units, as of December 31, 2020, ALFA's Corporate Management approved to carry out restructuring projects for production plants and distribution centers. Derived from these projects, the Company recorded an impairment expense in its fixed assets of \$159,234 and a provision associated with a reorganization expense of \$72,865 in the consolidated statement of income for the year ended December 31, 2020.



3. Summary of significant accounting policies

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

a. Basis of 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 Standard Interpretations Committee (“SIC”).

The consolidated financial statements have been prepared on a historical cost basis, except for the derivative financial instruments, certain investments that are recognized at fair value. 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 interest in subsidiaries is less than 100%, the interest attributed to external stockholders is recorded as non-controlling interest. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and up to the date it loses such control.

The accounting method used by the Company for business combinations is the acquisition method. The Company defines a business combination as a transaction through which it gains control of a business, and through which it is able to direct and manage the relevant activities of the set of assets and liabilities of such business with the purpose of providing a return in the form of dividends, smaller costs or other economic benefits directly to stockholders.

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 transferred consideration and the carrying amount of the net assets acquired at the level of the subsidiary are recognized in equity.

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

Goodwill is initially measured as excess of the sum of the consideration transferred and the fair value of the non-controlling interest over the net identifiable assets and liabilities assumed. 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 achieved in stages, the book value at the acquisition date of the interest previously held by the Company in the acquired entity is remeasured at its fair value at the acquisition date. Any loss or gain resulting from such remeasurement is recorded in results of the year.



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

As of December 31, 2022, 2021 and 2020, the principal subsidiaries of SIGMA were:

<u>Subsidiary</u>	<u>Country</u>	<u>Percentage of ownership</u>			<u>Functional currency</u>
		<u>2022</u>	<u>2021</u>	<u>2020</u>	
Aoste, SNC ^{(a)(c)}	France	100	100	100	Euro
Campofrio Food Group France Holding SAS ^(e)	France	100	100	100	Euro
CH Biotec, S.L	Spain	51	-	-	Euro
Campofrio Food Group, S. A. U. (“Campofrio”) ^{(a)(c)}	Spain	100	100	100	Euro
Campofrio Food Group Holding SLU ^(e)	Spain	100	100	100	Euro
Carnes Selectas 2000 SAU ^(d)	Spain	100	100	100	Euro
Sigma Alimentos Exterior SL ^(b)	Spain	100	100	100	Euro
Caroli Foods Group SRL ^(e)	Romania	100	100	100	Rumanian Leu
Cesare Fiorucci, S.P.A. ^{(a)(c)}	Italy	100	100	100	Euro
Imperial Meat Products, VOF ^{(a)(c)}	Belgium	100	100	100	Euro
Nobre Alimentação LDA ^(d)	Portugal	100	100	100	Euro
Stegeman, CV ^{(a)(c)}	Netherlands	100	100	100	Euro
Campofrio Food Group Netherlands BV ^(e)	Netherlands	100	100	100	Euro
Campofrio Food Group Netherlands Holding BV ^(e)	Netherlands	100	100	100	Euro
Campofrio Food Group Deutschland GMBH ^(c)	Germany	100	100	100	Euro
Bar-S Foods Co. (a) (c)	U.S.A	100	100	100	U.S. Dollar
Mexican Cheese Producers, Inc. (a)	U.S.A	100	100	100	U.S. Dollar
Sigma Alimentos International, Inc. (c)	U.S.A	100	100	100	U.S. Dollar
Campofrio Food Group America, Inc. (a) (c)	U.S.A	100	100	100	U.S. Dollar
Alimentos San Patricio, S.A. De C.V. ^(c)	Mexico	100	100	100	Mexican Peso
Alimentos Finos de Occidente, S. A. de C. V. ^(a)	Mexico	100	100	100	Mexican Peso
Carnes Selectas Tangamanga, S. A. de C. V. ^(a)	Mexico	100	100	100	Mexican Peso
Comercializadora de Embutidos ICO, S. A. de C. V. ^{(a)(c)}	Mexico	100	100	100	Mexican Peso
Empacadora de Carnes Premium, S. de R. L. de C. V. ^{(a)(c)}	Mexico	100	100	100	Mexican Peso
Empacadora de Embutidos del Centro, S. A. de C. V. ^{(a)(c)}	Mexico	100	100	100	Mexican Peso
Empacadora Supremo de Monterrey, S. A. de C. V. ^{(a)(c)}	Mexico	100	100	100	Mexican Peso
Sigma Foodservice Comercial, S. de R. L. de C. V. ^(d)	Mexico	100	100	100	Mexican Peso
Sigma Foodservice Operaciones S. de R.L. de C. V. ^(b)	Mexico	100	100	100	Mexican Peso
Grupo Chen, S. de R. L. de C. V. and Subsidiaries ^(b)	Mexico	100	100	100	Mexican Peso
Industrias Alimentarias del Sureste, S. A. de C. V. ^{(a)(c)}	Mexico	100	100	100	Mexican Peso
Sigma Alimentos Congelados, S. A. de C. V. ^(a)	Mexico	100	100	100	Mexican Peso
Sigma Alimentos Lácteos, S. A. de C. V. ^(a)	Mexico	100	100	100	Mexican Peso
Sigma Alimentos Noreste, S. A. de C. V. ^(a)	Mexico	100	100	100	Mexican Peso
Sigma Administración de Valores SA de CV ^(b)	Mexico	100	100	100	Mexican Peso
Sigma Alimentos Centro SA de CV ^(a)	Mexico	100	100	100	Mexican Peso
Sigma Alimentos Comercial SA de CV ^(c)	Mexico	100	100	100	Mexican Peso
Sigma Alimentos Corporativo SA de CV ^{(b)(c)}	Mexico	100	100	100	Mexican Peso
Praimit, S.A. de C.V. ^{(c)(d)}	Mexico	100	100	100	Mexican Peso
Productos Cármicos de Occidente S. A. de C.V. ^{(a)(c)}	Mexico	100	100	100	Mexican peso
Alfa Subsidiarias Alimentos, S.A. de C.V.	Mexico	100	100	100	Mexican Peso
Sigma Alimentos Dominicana S.A. ^{(c)(a)}	Dominican Republic	100	100	100	Dominican Peso
Braedt, S. A. ^{(a)(c)}	Peru	100	100	100	Peruvian Nuevo Sol
Sociedad Suizo Peruana Embutidos, S. A. ^{(a)(c)}	Peru	100	100	100	Peruvian Nuevo Sol
Elaborados Cármicos, S.A. ^{(b)(a)(c)}	Ecuador	-	-	100	U.S. Dollar
Sigmaec CIA, LTDA ^{(b)(a)(c)}	Ecuador	100	100	100	U.S. Dollar
Productos Cármicos, S. A. de C. V. ^(a)	El Salvador	100	100	100	U.S. Dollar
Productos de Importación, S. A. de C. V. ^(c)	Honduras	100	100	100	Lempira
Sigma Alimentos Costa Rica SA ^{(b)(a)}	Costa Rica	100	100	100	Colón
Sigma Alimentos Guatemala SA ^(a)	Guatemala	100	100	100	Quetzal
Sigma Alimentos Nicaragua, S. A. ^(c)	Nicaragua	100	100	100	Cordoba

- i. Company merged during the year ended December 31, 2020, being Sigma alimentos Costa Rica the merging company and Savi San José de Alajuela the merged.
- ii. Companies merged during the year ended December 31, 2021, being Sigmaec CIA, LTDA the merging company and Elaborados Cármicos, S.A. the merged
 - a) Refrigerated food production.
 - b) Administrative services.
 - c) Commercialization and distribution of refrigerated foods.
 - d) Processing and commercialization of several types of meat.
 - e) Holding investments in companies.



As of December 31, 2022, 2021 and 2020, there are no 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, in example 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 cause such effects occur. The effect of absorption (dilution) of control is determined by comparing the book value of the investment in shares 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 remeasured at fair value, and the change in the carrying amount is recognized in the consolidated statement of income. The fair value is the initial carrying amount for the accounting purposes 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 if the Company had directly disposed of the related assets and liabilities. This results in the amounts previously recognized in comprehensive income being 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 using 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 the comprehensive income is reclassified to income for the year, where appropriate.

The Company's share of profits or losses of associates, post-acquisition, is recognized in the consolidated statement of income and its share in the other comprehensive income of associates 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 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 adopted by the Company, the accounting policies of associates have been modified. When the Company ceases to have significant influence over an associate, any difference between the fair value of the remaining 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. Joint ventures

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

Investments in joint arrangements are classified in accordance with the contractual rights and obligations of each investor such as: joint operations or joint ventures. When the Company holds the right over assets and obligations for related assets under a joint arrangement, this 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 using 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 is determined to be the U.S. dollar. The consolidated financial statements are presented in Mexican pesos, which is the Company's presentation currency.

When there is a change in the functional currency of one of the subsidiaries, according to the IAS 21 - Effects of changes in foreign exchange rates, this change is accounted for prospectively, translating at the date of the functional currency change, all assets, liabilities, equity, and income items at the exchange rate of 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 held 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 foreign subsidiaries, having a recording currency different from their functional currency were translated into 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 rate .
- b. To the historical balances of monetary assets and liabilities and stockholders' equity translated into the functional currency the movements that occurred during the period were added, which were translated at historical exchange rates. In the case of the movements of non-monetary items recognized at fair value, which occurred during the period stated in the recording currency, these were translated using the historical exchange rates in effect on the date when the fair value was determined.
- c. Revenues, costs and expenses of 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 of the non-monetary items was used.
- d. The exchange differences arising in the translation were recognized as income or expense in the consolidated statement of income in the period 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 statement of financial position are translated at the closing exchange rate at the date of the statement of financial position .
- b. Stockholders' equity of each statement of financial position presented is translated at historical exchange rate.
- c. Revenues and expenses for each statement of income are translated at average exchange rate (when the average exchange rate is not a reasonable approximation of the cumulative effect of the rates of the transaction, to the exchange rate at the date of the transaction is used); and
- d. The resulting exchange differences are recognized in the consolidated statement of comprehensive income as translation effect.

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

Country	Local currency	Local currency to Mexican pesos			Average exchange rate		
		Closing exchange rate as of December 31,			2022	2021	2020
		2022	2021	2020	2022	2021	2020
Germany	Euro	\$20.65	\$23.41	\$24.41	\$21.10	\$23.99	\$24.51
Belgium	Euro	20.65	23.41	24.41	21.10	23.99	24.51
Costa Rica	Colon	0.03	0.03	0.03	0.03	0.03	0.04
Ecuador	U.S. Dollar	19.36	20.58	19.95	20.06	20.38	21.49
El Salvador	U.S. Dollar	19.36	20.58	19.95	20.06	20.38	21.49
Spain	Euro	20.65	23.41	24.41	21.10	23.99	24.51
The United States	U.S. Dollar	19.36	20.58	19.95	20.06	20.38	21.49
France	Euro	20.65	23.41	24.41	21.10	23.99	24.51
Guatemala	Quetzal	2.47	2.66	2.55	2.58	2.62	2.79
Honduras	Lempira	0.78	0.84	0.83	0.82	0.85	0.87
Italy	Euro	20.65	23.41	24.41	21.10	23.99	24.51
Nicaragua	Córdoba	0.53	0.58	0.57	0.56	0.58	0.63
Netherlands	Euro	20.65	23.41	24.41	21.10	23.99	24.51
Peru	Peruvian Nuevo Sol	5.08	5.16	5.51	5.23	5.25	6.16
Dominican Rep.	Dominican Peso	0.35	0.36	0.34	0.37	0.36	0.38
Romania	Romanian Leu	4.18	4.73	5.01	4.28	4.89	5.09

d. Cash and cash equivalents

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

e. Restricted cash

Cash and cash equivalents whose restrictions cause them not to comply with the definition of cash and cash equivalents given 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 cash flows.

f. Financial instruments

Financial assets

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 control of the financial asset.

Classes of financial assets

i. Financial assets at amortized cost

Financial assets at amortized cost are financial assets 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.

ii. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are financial assets: i) held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; 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. As of December 31, 2022, 2021 and 2020, the Company does not have financial assets at fair value through other comprehensive income.

iii. 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 financial assets 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 aforementioned classifications, the Company can make the following irrevocable elections 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, 2022, 2021 and 2020, the Company has not made any of the irrevocable designations described above.

Impairment of financial assets

The Company uses an 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 the historical estimate, 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 at the presentation date 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 credit period granted.

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.

Trade 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 financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle 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 hedging of market risks, are recognized in the consolidated statement of financial position as assets and/or liabilities at fair value and subsequently measured 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 income. 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 income in the same line item as the hedged position. As of December 31, 2022, 2021 and 2020, the Company has no derivative financial instruments classified as fair value hedges.

Cash flow hedges

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 them, the ineffective portion is immediately recorded in profit or loss.

Net investment hedge in a foreign transaction

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 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 is immediately recognized in the consolidated statement of income.

When the hedge of a forecasted transaction is satisfactory and subsequently does not meet the effectiveness test, the cumulative effects in comprehensive income in stockholders' equity are proportionally transferred to the consolidated statement of 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 stated at the lower of cost or net realizable value. Cost is determined using the average cost method. The cost of finished goods and work-in-progress includes cost of product design, raw materials, direct labor, other direct costs and 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.

i. Assets and liabilities held for sale

Long-lived assets (and disposal groups) classified as held for sale are valued at the lower of book value and fair value less costs to sell.

Long-lived assets and disposal groups are classified as held for sale if their book value will be recovered through sale and not through continued use. This condition is considered fulfilled only when the sale is highly probable and the asset (or group of assets) is available for immediate sale in its current condition and management must be committed to the sale, it being recognized as a sale completed within a period one year from the date of classification.

When the Company is committed to a sale plan that involves the loss of control in a subsidiary, all assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

When the Company is committed to a sale plan that involves the disposal of an investment (or part of an investment) in an associate or joint venture, the investment or the portion of the investment that is subject to disposal is classified as held for sale, when the criteria described above are met, and the Company discontinues the use of the equity method with respect to the part that is classified as held for sale. Any retained interest in an investment in an associate or a joint venture that has not been classified as held for sale continues to be recognized through the equity method.

j. Property, plant and equipment

Items of property, plant and equipment are recorded at cost less the accumulated depreciation and any accrued impairment losses. Costs includes expenses directly attributable to the 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 during 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 assets, and the cost is recognized in the carrying amount of the corresponding asset as a replacement, provided that 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 using 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 the asset classes are indicated below:

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 25 years
Tooling	7 to 10 years
Leasehold improvements	3 to 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.

Borrowing costs attributable to the acquisition, construction or production of qualifying assets, which requires 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 sale value with the carrying amount and are recognized in other expenses, net, in the consolidated statement of income.

k. Leases

The Company as lessee

The Company evaluates whether a contract is or contains a lease agreement at inception of a contract. A lease is defined as an agreement or part of an agreement that conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. The Company recognizes a right-of-use asset and the corresponding lease liability, for all lease agreements in which it acts as lessee, except in the following cases: short-term leases (defined as leases with a lease term of less than 12 months); leases of low-value assets (defined as leases of assets with an individual market value of less than US\$5,000 (five thousand dollars); and, lease agreements whose payments are variable (without any contractually defined fixed payment). For these agreements, which exempt the recognition of a right-of-use asset and a lease liability, the Company recognizes the rent payments as an operating expense in a straight-line method over the lease period.

The right-of-use asset comprises all lease payments discounted at present value; the direct costs to obtain a lease; the advance lease payments; and the obligations of dismantling or removal of assets. The Company depreciates the right-of-use asset over the shorter of the lease term and the useful life of the underlying asset; in this sense, when the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Depreciation begins on the lease commencement date.

The lease liability is initially measured at the present value of the future minimum lease payments that are not paid at that date, using a discount rate that reflects the cost of obtaining funds for an amount similar to the value of the lease payments, for the acquisition of the underlying asset, in the same currency and for a similar period to the corresponding contract (incremental borrowing rate). When lease payments contain non-lease components (services), the Company has chosen, for some class of assets, not to separate them and measure all payments as a single lease component; however, for the rest of the class of assets, the Company measures the lease liability only considering lease payments, while all of the services implicit in the payments, are recognized directly in the consolidated statement of income as operating expenses.

To determine the lease term, the Company considers the non-cancellable period, including the probability to exercise any right to extend and/or terminate the lease term.

Subsequently, the lease liability is measured increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and reducing the carrying amount to reflect the lease payments made.



When there is a modification in future lease payments resulting from changes in an index or a rate used to determine those payments, the Company remeasures the lease liability when the adjustment to the lease payments takes effect, without reassessing the discount rate. However, if the modifications are related to the lease term or exercising a purchase option, the Company reassesses the discount rate during the liability's remeasurement. Any increase or decrease in the value of the lease liability subsequent to this remeasurement is recognized as an adjustment to the right-of-use asset to the same extent.

Finally, the lease liability is derecognized when the Company fulfills all lease payments. When the Company determines that it is probable that it will exercise an early termination of the contract that leads to a cash disbursement, such disbursement is accounted as part of the liability's remeasurement mentioned in the previous paragraph; however, in cases in which the early termination does not involve a cash disbursement, the Company cancels the lease liability and the corresponding right-of-use asset, recognizing the difference immediately in the consolidated statement of income.

The Company does not maintain leasing contracts where it acts as the lessor figure.

1. Intangible assets

Intangible assets are recognized in the consolidated statement of financial position when they meet the following conditions: they are identifiable, they 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, 2022, 2021 and 2020, no factors have been identified limiting the life of these intangible assets.

ii. Finite useful life

These assets are recognized at cost less accumulated amortization and accrued 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 triggering events of impairment are identified.

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

Development costs	5 to 22 years
Relationships with customers	14 years
Software and licenses	4 to 22 years
Other (market developments, non-compete and rights-of-use agreements)	3 to 20 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 related 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 intends also has sufficient resources to complete the development and to use or sell the asset. Their amortization is recognized in income using the straight-line method over the estimated useful life of the asset. Costs in development 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.

m. 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 for 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 there are separately identifiable cash flows (cash generating units or "CGUs"). Non-financial long-term assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

n. Income taxes

The amount 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 of the year and the effects of deferred income tax assets determined in each subsidiary by the assets and liabilities method, applying the rate established by the legislation enacted or substantially enacted at the consolidated statement of financial position date, wherever the Company operates and generates taxable income. The applicable rates are applied to the total temporary differences resulting from comparing the accounting and tax bases of assets and liabilities, and that are expected to be applied when the deferred tax asset is realized or the deferred tax liability is expected to be settled, considering, when applicable, any tax-loss carryforwards, prior to the recovery analysis. The effect of the change in current tax rates is recognized in current income of the period in which the rate change is determined.



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 foreseeable future.

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

o. 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. Contributions are recognized as employee benefit expenses on the date the contribution is required.

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 consolidated 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 third parties using 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 in conformity with IAS 19, Employee Benefits, that are denominated in the currency in which the benefits will be paid, and have maturities that approximate the terms of the pension liability.

Actuarial remeasurements arising from adjustments and changes in actuarial assumptions are recognized directly in stockholders' equity in other items of the comprehensive income in the year they occur and will not be reclassified to profit or loss of the period.

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. Eligibility for these benefits usually depends on the employee having worked up to the retirement age and having completed 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.

Termination benefits

Termination benefits are payable when the Company terminates the employment contract before the normal retirement date or when the employee accepts voluntary severance in exchange for these benefits. The Company recognizes termination benefits in 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 the 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. Benefits that will be paid in the long term are discounted at their present value.



Short term benefits

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

iii. Statutory employee profit sharing (PTU in Spanish) and bonuses

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

p. 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 is a number of similar obligations, the likelihood that an outflow will be required for settlement is determined by considering the class of 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 may be remote.

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

q. Share-based payment

The Company has compensation plans that are based on the market value of shares of ALFA granted to certain senior executives of SIGMA. The conditions for granting such compensation to the eligible executives include among other, compliance with certain financial metrics such as the level of profit achieved and remaining in the Company for up to 5 years, among other requirements. The ALFA Board of Directors has appointed a Technical Committee to manage the plan, and it reviews the estimated cash settlement of this 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.

Fair value of the amount payable to employees in respect of share-based payments, which are settled in cash, is recognized as an expense in the consolidated statement of income under administrative expenses, with a corresponding increase in liabilities, over the period of service required. The liability is included within 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.

r. Capital stock

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

s. Comprehensive income

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

t. Segment reporting

Segment information is presented consistently with the internal reporting provided to the Chief Executive Officer who is the highest authority in operational decision-making, resource allocation and assessment of operating segment performance.



u. 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 December 31, 2022, 2021 and 2020, the balance of this provision was \$138,110, \$58,207 and \$60,729, respectively, and is recognized in the "Other accounts and accrued expenses payable" line item.

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

v. Changes in accounting policies and disclosures

i. New standards and changes adopted

In the current year, the Company has applied a number of amendments to IFRS issued by the IASB that are mandatorily effective for an accounting period that begins on or after January 1, 2022. The conclusions related to their adoption are described as follows:

Amendments to IFRS 3, Business Combination – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 *Conceptual Framework* instead of the 1989 *Framework*. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21, Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.



The Company evaluated the amendments to IFRS 3, and determined that the implementation of these amendments had no effect on its financial information, since there were no business combinations during 2022.

Amendments to IAS 16 - Property, plant and equipment - Proceeds before intended use

The amendments prohibit deducting from the cost of an item of property, plant, and equipment any proceeds from selling items produced before that asset is available for use, for example, proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss for the period. The Company measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

The Company evaluated the amendments to IAS 16 and determined that the implementation of these amendments had no effects on its financial information, because the sales of its products before that property, plant and equipment is available for its intended use are not recorded as a deduction to the cost of such asset and are recognized directly in the consolidated statement of profit or loss.

Amendments to IAS 37, Provisions, contingent liabilities and contingent assets – Onerous Contracts - Cost of fulfilling a Contract

The amendments specify that the “cost of fulfilling” a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The Company evaluated the amendments to IAS 37 and determined that the implementation of these amendments had no effect on its financial information, since it does not have onerous contracts.

Annual Improvements to IFRS Accounting Standards 2018–2021 Cycle

The Company has adopted the amendments included in the Annual Improvements to IFRS Accounting Standards 2018-2021 Cycle for the first time in the current year. The Annual Improvements include amendments to four standards, which did not have an impact on the financial information, as they were not of significant applicability:

- Amendments to IFRS 1, *First time adoption of International Financial Reporting Standards*
- Amendments to IFRS 9, *Financial instruments*
- Amendments to IFRS 16, *Leases*
- Amendments to IAS 41, *Agriculture*

ii. New, revised and issued IFRS, but not yet effective

As of December 31, 2022, the Company has not applied the following new and revised IFRS, that have been issued but not yet effective.

Amendments to IAS 12 Income taxes - Deferred tax related to assets and liabilities arising from a single transaction

The amendments introduced a further exception from the initial recognition. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Following the amendments to IAS 12, an entity is required to recognize the related deferred tax assets and liabilities, with the recognition of any deferred tax assets being subject to the recoverability criteria in IAS 12.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognizes:



- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all the deductible and taxable temporary differences associated with:
 - Right-of-use assets and lease liabilities
 - Decommissioning, restoration and similar liabilities provisions and the corresponding amounts recognized as part of the cost of the related asset.

The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

The amendments are effective for annual reporting periods beginning on January 1, 2023, with earlier application permitted.

The Company evaluated the amendments to IAS 12 and determined that the implementation of these amendments had no effect on its financial information.

Additionally, the Company has not applied the following new and revised IFRS that have been issued, but are not yet effective, from which the Company does not expect to have a material impact on its consolidated financial statements in future periods, considering that they are not of significant applicability:

- Amendments to IFRS 17 - Insurance contracts ⁽¹⁾
- Amendments to IAS 1 and Practice Statement 2 - Disclosure of accounting policies ⁽¹⁾
- Amendments to IAS 8 - Definition of accounting estimates ⁽¹⁾
- Amendment to IFRS 16 - Lease liability in a sale and leaseback ⁽²⁾
- Amendments to IAS 1 – Classification of liabilities as current and non-current ⁽¹⁾
- Amendments to IAS 1 – Classification of debt with covenants ⁽²⁾
- Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture ⁽²⁾

(1)Effective for annual reporting periods beginning on January 1, 2023

(2)Effective for annual reporting periods beginning on January 1, 2024

(3)Effective date of the amendments has yet to be set by the IASB

4. Financial instruments and financial risk management

The Company's activities expose it to various financial risks: market risk (including exchange rate risk, price risk and interest rate risk), credit risk and liquidity risk.

The Company's overall risk management program focused on the unpredictability of financial markets and seeks to minimize the potential adverse effects on its 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 Chief Executive Officer ("CEO"), Chief Financial Officer ("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 Chief Executive Officer and ALFA's Board President. All new derivative transactions which the Company proposes to enter, 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 properly documented. Sensitivity analyses and other risk analyses should be performed before the operation is conducted. As of December 31 2022, the company had two Cross-Currency-Swaps (“CCS”) and sixty-nine USD/MXN Forwards. As of December 31, 2021, the Company had two CCS and fifty-one USD/MXN Forwards; as of December 31, 2020, the Company had two CCS and sixty-nine USD/MXN Forwards, all of hedge accounting.

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

	<i>Maximum coverage (as a of the projected exposure)</i>
	Current year
Exchange rate for operating transactions	80
Exchange rate for financial transactions	100
Interest rates	100

Capital management

The objectives of capital management are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders, as well as maintaining an optimal capital structure to reduce the cost of capital and maximize those returns.

To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to stockholders, return equity to stockholders, 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 4.86, 4.28 and 3.71 as of December 31, 2022, 2021 and 2020, respectively, resulting in a leverage ratio that meets the Company’s management and risk policies.

Financial instruments by category

As of December 31, 2022, 2021 and 2020, financial assets and liabilities consist of the following:

	As of December 31,		
	2022	2021	2020
Cash and cash equivalents	\$ 13,208,493	\$ 16,856,206	\$16,300,838
Restricted cash	\$13,000	32,500	56,438
Financial assets measured at amortized cost:			
Trade and other accounts receivable	6,248,902	5,175,799	3,933,445
Financial assets measured at fair value through profit or loss:			
Derivative financial instruments ⁽¹⁾	771,394	1,003,232	597,830
	<u>\$ 20,241,789</u>	<u>\$ 23,067,737</u>	<u>\$20,888,551</u>
Financial liabilities measured at amortized cost:			
Debt	\$ 45,345,122	\$ 48,815,227	\$48,394,630
Lease liabilities	1,851,691	2,217,133	2,505,167
Trade and other accounts payable	24,633,069	24,402,767	22,757,768
Financial liabilities measured at fair value through profit and loss:			
Derivative financial instruments ⁽¹⁾	1,024,416	277,223	1,125,646
	<u>\$ 72,854,298</u>	<u>\$ 75,712,350</u>	<u>\$74,783,211</u>

- (1) 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 valued at amortized cost

The amount of cash and cash equivalents, trade and other accounts receivable, suppliers and other accounts payable, approximate their fair value because of their short-term maturity. The net carrying amount of these accounts represents the expected cash flows to be received as of December 31, 2022, 2021 and 2020.

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

	As of December 31, 2022		As of December 31, 2021		As of December 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities						
Debt	\$44,909,751	\$43,337,430	\$48,382,509	\$51,415,201	\$ 48,016,184	\$52,770,532

The carrying amount of the debt, for purposes of calculating its fair value, is presented gross of interest payable and issuance costs.

The estimated fair values as of December 31, 2022, 2021 and 2020 of the Senior Notes 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. On the other hand, the estimated fair value of the bank loan as of December 31, 2022, 2021 and 2020 were determined based on the discounted cash flows, using the equilibrium interbank interest rate (“TIIE”), which reflects a similar credit risk in Mexican pesos. The fair value measurement of the bank loan is deemed within the Level 2 of the fair value hierarchy.

As of December 31, 2022, 2021 and 2020, there were no transfers between the fair value hierarchy levels.

Market risks

i. Exchange rate risk

The Company operates internationally and is exposed to foreign exchange risk, primarily derived from the transactions and balances that the subsidiaries conduct and have in foreign currency, respectively. A foreign currency is that which is different from the functional currency of an entity.

The behavior of the exchange rates fluctuations between the Mexican peso, the U.S. dollar and the euro represents a very important 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 on 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, 2022:

	MXP	USD	EUR
Financial assets	\$ 380	\$ 4,095,010	\$ 10,810
Financial liabilities	3,500,470	4,549,230	12,620,420
Foreign exchange financial position	<u>\$(3,500,090)</u>	<u>\$(454,220)</u>	<u>\$(12,609,610)</u>



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

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 \$1,656,392 in the consolidated statements of income and stockholders' equity.

Financial instruments to hedge net investments in foreign transactions

The Company designated certain non-current debt instruments as hedging instruments 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, 2022, 2021 and 2020, SIGMA maintains the following hedging relationships:

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

2022

Holding	Functional Currency	Hedging Instrument	Notional Value	Hedged Item	Change in Net Assets of Hedged Item
Sigma Alimentos, S.A. de C.V.	USD	Bank loan, TIIE+1.0%	\$3,500,000	Sigma Alimentos Centro S.A. de C.V.	\$ 1,738,689
				Sigma Alimentos Lácteos S.A. de C.V.	839,950
				Sigma Alimentos Noreste S.A. de C.V.	1,348,368
				Alimentos Finos de Occidente S.A. de C.V.	664,239
					<u>\$4,591,246</u>

2021

Holding	Functional Currency	Hedging Instrument	Notional Value	Hedged Item	Change in Net Assets of Hedged Item
Sigma Alimentos, S.A. de C.V.	USD	Bank loan, TIIE+1.0%	\$3,500,000	Sigma Alimentos Centro S.A. de C.V.	\$ 1,878,632
				Sigma Alimentos Lácteos S.A. de C.V.	812,270
				Sigma Alimentos Noreste S.A. de C.V.	1,305,803
				Alimentos Finos de Occidente S.A. de C.V.	634,410
					<u>\$ 4,631,115</u>

2020

Holding	Functional Currency	Hedging Instrument	Notional Value	Hedged Item	Change in Net Assets of Hedged Item
Sigma Alimentos, S.A. de C.V.	USD	Bank loan, TIIE+1.0%	\$3,500,000	Sigma Alimentos Centro S.A. de C.V.	\$1,869,815
				Sigma Alimentos Lácteos S.A. de C.V.	1,180,856
				Sigma Alimentos Noreste S.A. de C.V.	1,239,922
				Alimentos Finos de Occidente S.A. de C.V.	383,559
					<u>\$4,674,152</u>



The average hedging ratio of Sigma Alimentos S.A. de C.V. amounted to 74.04%, 73.85% and 74.46% for the years ended December 31, 2022, 2021 and 2020 respectively. Therefore, the exchange fluctuation generated by the hedging instrument for the years ended December 31, 2022 and 2021 amounted to a net (loss)/gain of \$(214,923), \$107,153 and \$217,734, respectively, which were 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.

Likewise, Sigma Alimentos S.A. de C.V. designated from April 1, 2020 and until August 31, 2020, the date on which the bank loan described in Note 16.b was settled, a hedging relationship described below:

2020

Holding	Functional Currency	Hedging Instrument	Notional Value	Hedged Item	Change in Net Assets of Hedged Item
Sigma Alimentos, S.A. de C.V.	USD	Bank loan, TIE+ 3.25%	\$2,350,000	Sigma Alimentos Comercial, S. A. de C. V.	\$4,132,189

The average hedging ratio of Sigma Alimentos S.A. de C.V. amounted to 63.75% since designation date until August 31, 2020. Therefore, the exchange fluctuation generated by the hedging instrument for the year ended December 31, 2020 amounted to a net loss of \$221,648, 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.

Finally, Sigma Alimentos S.A. de C.V. designated during the years ended December 31, 2022, 2021 and 2020, the hedging relationship described below:

2022

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 Imperial Meat Products, VOF Stegeman C.V. Carnes Selectas 2000, S.A.U. Nobre Alimentação, S.A. Cesare Fiorucci, S.p.A. Luigi Ugolotti, S.R.L.	€ 349,984 (9,870) 8,752 49,644 33,074 30,462 2,676 <u>€ 464,722</u>

2021

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 Imperial Meat Products, VOF Stegeman C.V. Carnes Selectas 2000, S.A.U. Nobre Alimentação, S.A. Cesare Fiorucci, S.p.A. Luigi Ugolotti, S.R.L.	€ 349,179 52,614 9,799 49,567 29,408 53,506 3,863 <u>€ 547,936</u>



2020

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	€ 343,023
				Imperial Meat Products, VOF	55,159
				Stegeman C.V.	14,328
				Carnes Selectas 2000, S.A.U.	50,005
				Nobre Alimentação, S.A.	26,303
				Cesare Fiorucci, S.p.A.	22,055
				Luigi Ugolotti, S.r.l.	(537)
					<u>€ 510,336</u>

The average hedging ratio of Sigma Alimentos S.A. de C.V. amounted to 122.91%, 102.4% and 104.1% for the years ended December 31, 2022, 2021 and 2020, respectively. Therefore, the exchange fluctuation generated by the hedging instrument for the years ended December 31, 2022, 2021 and 2020 amounted to a net gain/(loss) of \$758,672, \$926,674 and \$(1,314,951), respectively, 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 a net gain/(loss) of \$128,619, \$131,836 and \$(47,192) in 2022, 2021 and 2020, respectively.

b) Hedging relationships of Sigma Alimentos Exterior:

2022

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\$495,430	Bar-S Foods Co.	US\$464,671
				Mexican Cheese Producers, Inc.	69,184
				Sigma Processed Meats, LLC	(14,984)
				Elaborados Cármicos, S.A.	-
				Fábrica Juris CIA, LTDA	35,778
				Productos Cármicos, S.A. de C.V.	12,789
				Campofrío Food Group Americas, Inc	119,087
				Sigma Alimentos International, Inc.	-
					<u>US\$686,525</u>

2021

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\$495,430	Bar-S Foods Co.	US\$ 418,133
				Mexican Cheese Producers, Inc.	59,472
				Sigma Processed Meats, LLC	(10,133)
				Elaborados Cármicos, S.A.	-
				Fábrica Juris CIA, LTDA	32,212
				Productos Cármicos, S.A. de C.V.	10,044
				Campofrío Food Group Americas, Inc	114,891
				Sigma Alimentos International, Inc.	-
					<u>US\$ 624,619</u>

2020

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\$389,734	Bar-S Foods Co.	US\$ 385,233
				Mexican Cheese Producers, Inc.	53,645
				Sigma Processed Meats, LLC	(10,237)
				Elaborados Cármicos, S.A.	10,744
				Fábrica Juris CIA, LTDA	25,409
				Productos Cármicos, S.A. de C.V.	11,274
				Sigma Alimentos International, Inc.	30,781
					<u>US\$ 506,849</u>



The average hedging ratio of Sigma Alimentos Exterior amounted to 75.45%, 81.3% and 84.2% during the years ended December 31, 2022, 2021 and 2020, respectively, since the Company has a debt security of US\$495,430, as of December 31, 2022, 2021 and 2020, of which it designated US\$495,430, US\$495,430 and US\$389,734, respectively, 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 for the years ended December 31, 2022, 2021 and 2020 amounted to a net gain of \$658,341, \$726,738 and \$756,066, respectively, 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.

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

2020

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\$105,696	Campofrio Food Group Americas, Inc.	US\$ 105,696

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 as of December 31, 2020, of which it designated only US\$105,696, 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 for the years ended December 31 2020 amounted to a net gain of \$199,066, respectively, 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.

Derivative financial instruments to hedge foreign currency exposure

As of December 31, 2022, the Company holds a bond denominated in euros and two CCS Forward Starting Swaps (effective from 2024) and with floors of 0% as hedge instruments, classified as a foreign net investment in its hedge accounting.

2022

Characteristics	CCS Bank of America	CCS Rabobank
Currency	USD	USD
Notional	US\$125,000	US\$22,790
Coupon receives	SOFR+Spread	SOFR+Spread
Currency	EUR	EUR
Notional	\$126,942	\$23,060
Cupon pays	Euribor+Spread	Euribor+Spread
Maturity	September 30, 2027	September 30, 2027
Cap/Floor	Long Floor 0%	Largo Floor 0%
Currency	USD	USD
Cap/Floor	Floor Short 0%	Floor Short 0%
Currency	EUR	EUR
Book value strategy	\$(36,360)	\$(126)
Change in fair value to measure ineffectiveness	\$(36,360)	\$(126)
Reclassification of OCI to earnings	-	-
Balance recognized in OCI net of reclassifications	\$(36,360)	\$(126)
Change in fair value of the hedged item to measure ineffectiveness	\$36,360	\$126

(1) The book value of the CCS of USD/EUR as of December 31, 2022, is made up of an asset position for \$251,263 and a liability position for \$287,750.



As of December 31, 2022, the Company maintains two CCS of accounting hedge and sixty-nine 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. CCSs and Forwards were contracted in the holding entity whose functional currency is the US dollar; however, the Company conducts its transactions through Mexican entities with the Mexican peso as functional currency. These entities have dollar-denominated liabilities that generate a foreign exchange fluctuation for the variability of the MXN/USD exchange rate, which prevails at the consolidated level. Therefore, the Company has documented a cash flow accounting hedge ratio, considering a highly likely predicted transaction related to a dollar-denominated revolving liability as a hedged item. As of December 31, 2021, the Company maintained two CCS of accounting hedge and sixty-nine USD/MXN exchange rate Forwards for the same strategy described above; While as of December 31, 2020, the Company had two CCS of accounting hedge and twenty-seven USD/MXN exchange rate Forwards of cash flow accounting hedge at the consolidated level.

The characteristics of CCSs and Forwards designated as exchange rate risk accounting hedge are as follows:

2022

Characteristics	CCS	CCS	Forwards
	J. P. Morgan	Citibanamex	USD/MXN
Currency	USD	USD	USD/MXN
Notional	US\$125,000	US\$95,000	US\$665,000
Coupon receives	4.125%	4.125%	-
Currency	MXN	MXN	-
Notional	\$2,280,000	\$1,732,000	-
Coupon pays	8.88%	8.9%	-
Maturity	May 2, 2026	May 2, 2026	Nov 3, 2023
Strike (average)	-	-	\$20.94
Carrying amount ^{(1) (2)}	\$192,562	\$151,280	\$(560,377)
Change in fair value to measure ineffectiveness	176,631	132,542	(648,939)
Reclassification of OCI to earnings	(152,750)	(116,090)	(486,860)
Balance recognized in OCI net of reclassifications	(19,068)	(71,449)	26,994
Change in fair value of the hedged item to measure ineffectiveness	(325,282)	(325,282)	651,864

(1) The carrying amount of USD/MXN CCS as of December 31, 2022 is composed of an asset position of \$517,167 and a liability position of \$173,325.

(2) The carrying amount of forward as of December 31, 2022 is composed of an asset position of \$2,964 and a liability position of \$563,341.

2021

Characteristics	CCS	CCS	Forwards
	J. P. Morgan	Citibanamex	USD/MXN
Currency	USD	USD	USD/MXN
Notional	US\$125,000	US\$95,000	US\$510,000
Coupon receives	4.125%	4.125%	-
Currency	MXN	MXN	-
Notional	\$2,280,000	\$1,732,000	-
Coupon pays	8.88%	8.9%	-
Maturity	May 2, 2026	May 2, 2026	September 15, 2022
Strike (average)	-	-	\$21.13
Carrying amount ^{(1) (2)}	\$458,516	\$339,353	\$(71,860)
Change in fair value to measure ineffectiveness	450,566	333,778	(29,205)
Reclassification of OCI to earnings	79,350	60,306	151,634
Balance recognized in OCI net of reclassifications	94,136	533	28,650
Change in fair value of the hedged item to measure ineffectiveness	(809,449)	(809,449)	29,234

(1) The carrying amount of USD/MXN CCS as of December 31, 2021 is composed of an asset position of \$954,721 and a liability position of \$156,852.

(2) The carrying amount of forward as of December 31, 2021 is composed of an asset position of \$48,511 and a liability position of \$120,371.



2020

Characteristics	CCS J. P. Morgan	CCS Citibanamex	Forwards
Currency	USD	USD	USD/MXN
Notional	US\$125,000	US\$95,000	US\$700,000
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	December 23, 2021
Strike (average)	-	-	\$21.66
Carrying amount ^{(1) (2)}	\$245,969	\$183,912	\$(957,697)
Change in fair value to measure ineffectiveness	222,452	158,667	(950,383)
Reclassification of OCI to earnings	137,938	104,833	(187,351)
Balance recognized in OCI net of reclassifications	(39,061)	(94,602)	(705,552)
Change in fair value of the hedged item to measure ineffectiveness	(397,488)	(397,488)	952,771
Change in DFI fair value vs. 2019	148,052	133,659	(737,223)

(1)The carrying amount of USD/MXN CCS as of December 31, 2020 is composed of an asset position of \$596,115 and a liability position of \$166,234.

(2)The carrying amount of forward as of December 31, 2020 is composed of an asset position of \$1,715 and a liability position of \$959,412.

With the interest and reference amounts of these derivative financial instruments, the Company offsets the exchange rate fluctuation that is maintained at the consolidated level, resulting from the dollar-denominated liabilities of subsidiaries with the Mexican peso as functional currency.

As of December 31, 2022, the results of the effectiveness of this hedge confirm that the hedging ratio is highly effective, as changes in fair value and cash flows of the hedged item are offset in the effectiveness range established by the Company. The prospective effectiveness test resulted in 99%, confirming that there is an economic relationship between hedging instruments and the hedged instrument. The method used by the Company is to offset flows using a hypothetical derivative, which is to compare changes in the fair value of the hedging instrument with changes in the fair value of the hypothetical derivative that would result in a perfect hedge of the hedged element.

According to the amounts described and according to how CCS and Forwards flows are exchanged, for this hedging strategy, the average hedging ratio is 12%. If necessary, a rebalancing will be performed to maintain this relationship for the strategy. According to the timing of the cash flows of the instruments and the hedged item, there is a slight gap in time as the hedged item is a monthly budget while the CCSs have interest exchange on a six-monthly basis and with exchange of the amounts referred to the maturity, and Forwards have weekly maturities. Under this structure, the average hedging ratio of the relationship is obtained and some possible over-hedge is ruled out.

As of December 31, 2021 and 2020, the prospective effectiveness test resulted in 99% and 99% respectively, confirming that the relationship was highly effective. The average hedging ratio were 11% and 28% respectively.

In this hedging ratio, the source of ineffectiveness can be caused by three main reasons: the difference in the date of settlement of derivatives and the hedged item, the credit risk and that the budget would become less than the hedging instruments. For the year ended December 31, 2022, 2021 and 2020, no ineffectiveness was recognized in earnings.

During 2022, the Company held USD/MXN forwards designated as accounting hedge in order to mitigate the currency risk arising from the business operations. The Mexican operational subsidiaries of Sigma (functional currency MXN) are entities that purchase raw material in foreign currency (USD) to carry out the production processes in accordance with the Company's business line. Therefore, an increase in the USD/MXN exchange rate negatively affects the cash flows of the operations.

The currency forwards hedge contracts were contracted by Sigma Alimentos Holding Company. However, since the risk lies with the operational entities, intercompany derivatives were made, and individual hedge relationships were designated. As of December 31, 2022, there are no outstanding forwards for this hedge.



i. Price risk

In carrying out its activities, the Company depends on the supply of the raw materials provided by its suppliers, both in Mexico and abroad, among which are bovine, pig and poultry meat products and dairy products, principally. In recent years, the price of some food supplies such as meat, cereals and milk have shown volatility. In order to set selling prices for its products, the Company changes the prices based on the fluctuation in the market of certain inputs.

In addition, the Company acquires inputs for its production process; therefore, its costs are exposed to variations in the prices of such inputs and services. Significant increases in the prices of such inputs and services would adversely affect the operating margin and/or sales. On the one hand, if the cost of production absorbs the increase, it would reduce the operating margin; on the other hand, if this increase is transferred to the final price, there would be a negative impact on sales.

Prices for the most important inputs for the Company such as chicken, turkey and pork pastes, powdered milk, and fuels are subject to international prices. The price of the paste depends on the price of cereals, as these are used as livestock feed. Increasing the price of cereals increases the price of meat and, therefore, that of the Company's inputs.

Derivative financial instruments to hedge the exposure to market price

During 2022, the Company contracted raw material swaps and designated them as cash flow accounting hedges to protect itself against the risk of the butterfat price exposed by its purchases of this raw material. As of December 31, 2022, the Company does not maintain current derivative financial instruments due to their natural maturity during the course of the year.

ii. Interest risk rate

The Company is exposed to interest rate risk mainly for the bank loan acquisition during 2019. Moreover, fixed-interest loans expose the Company to interest rate risk at fair value, which reflects that SIGMA might be paying interest at rates significantly different from those of an observable market.

As of December 31, 2022, 92% of the financing is denominated at a fixed rate, and 8% at a variable rate.

As of December 31, 2022, if interest rates on variable rate loans are increased or decreased by 100 basis points in relation to the rate in effect, the income and stockholders' equity of the Company would change by \$34,873.

Credit risk

Credit risk represents the potential loss due to non-compliance with the counterparties of their payment obligations. Credit risk is generated from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions as well as credit exposure to customers, including receivables and committed transactions.

During the years ended December 31, 2022, 2021 and 2020, credit limits were not exceeded.

Additionally, the Company performs a qualitative evaluation of economic projections, 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, 2022, there have been no 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

Projected cash flows are determined at each operating entity of the Company and subsequently the finance department 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.

As of December 31, 2022, 2021 and 2020, the Company has short term deposits of \$934,382, \$479,291 and \$767,903, 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, 2022			
Trade and other accounts payable	\$24,633,069	\$ -	\$ -
Bank loan	-	3,500,000	-
Senior notes	-	41,409,751	-
Lease liabilities	648,862	1,331,182	219,331
Non-accrued future interests	1,991,933	4,589,863	-
As of December 31, 2021			
Trade and other accounts payable	\$24,402,767	\$ -	\$ -
Bank loan	-	3,500,000	-
Senior notes	-	34,590,759	10,291,750
Lease liabilities	678,866	1,290,264	571,451
Non-accrued future interests	1,937,423	6,000,657	532,035
As of December 31, 2020			
Trade and other accounts payable	\$22,757,768	\$ -	\$ -
Bank loan	-	3,500,000	-
Senior notes	-	14,617,173	29,899,011
Lease liabilities	588,906	1,341,403	771,609
Non-accrued future interests	1,895,031	7,158,330	1,368,876

SIGMA expects to meet its obligations with cash flows generated by operations. As of December 31, 2022, the Company maintains unused committed credit lines for the amount of \$12,520,663 (\$3,000,000, US\$400,000, and €86,000), as of December 31, 2021, \$13,480,649 (\$3,000,000, US\$400,000, and € 96,001), and as of December 2020, \$15,982,570 (\$3,000,000, US\$400,000 and €205,001). The credit lines previously described for the year ended December 31, 2022, were renewed with a maturity up to five years.

Fair value hierarchy

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 where one or more of their significant data inputs are unobservable.

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, 2022, 2021 and 2020, SIGMA maintains derivative financial instruments measured at fair value.

5. Critical accounting estimates and judgments

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 estimates and judgments

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 lives

The Company annually performs tests to determine whether goodwill and intangibles assets with indefinite useful lives have suffered any impairment (Note 13). For impairment testing, goodwill and intangibles assets with indefinite lives are allocated to the groups of cash generating units (CGUs) of which the Company has considered that economic and operating 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:

- Estimate of gross margins and future operations 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 group of CGUs.
- 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 18). 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 calculated when the asset is acquired and is based on past experience with similar assets, considering anticipated technological changes or any other type of changes. Were technological changes to occur faster than estimated, or differently than anticipated, the useful lives assigned to these assets could have to be reduced. This would lead to the recognition of a greater depreciation and amortization expense in future periods. Alternatively, these types of technological changes could result in the recognition of a charge for impairment to reflect the reduction in the expected future economic benefits associated with the assets.

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

To test for impairment, the Company uses cash flows, which consider the administrative estimates for future transactions, including estimates for revenues, costs, operating expenses, capital expenses and debt service. In accordance with IFRS, discounted future cash flows associated with an asset or cash-generating unit (CGU) would be compared to the carrying amount of the asset or CGU in question to determine whether an impairment exists whenever such discounted future cash flows are less than their carrying amount. In such case, the carrying amount of the asset or group of assets is reduced to its recoverable amount.

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.



e. *Estimation of the discount rate to calculate the present value of future minimum lease payments*

The Company estimates the discount rate to use in the determination of the lease liability, based on the incremental borrowing rate (“IBR”).

The Company uses a three-tier model, with which it determines the three elements that comprises the discount rate: (i) reference rate, (ii) credit risk component and (iii) adjustment for characteristics of the underlying asset. In this model, management also considers its policies and practices to obtain financing, distinguishing between the one obtained at the corporate level (that is, the holding company), or at the level of each subsidiary. Finally, for real estate leases, or in which there is significant and observable evidence of their residual value, the Company estimates and evaluates an adjustment for characteristics of the underlying asset, based on the possibility that said asset is granted as collateral or guarantee against the risk of default.

f. *Estimation of the lease term*

The Company defines the lease term as the period for which there is a contractual payment commitment, considering the non-cancelable period of the contract, as well as the renewal and early termination options that are probable to be exercised. The Company participates in lease contracts that do not have a defined non-cancellable term, a defined renewal period (in case it contains a renewal clause), or automatic annual renewals, so, to measure the lease liability, it estimates the contracts term considering their contractual rights and limitations, their business plan, as well as management’s intentions for the use of the underlying asset.

Additionally, the Company considers the clauses of early termination of its contracts and the probability of exercising them, as part of its estimate of the lease term.

6. Cash and cash equivalents

Cash and cash equivalents presented in the consolidated statements of financial position consist of the following:

	As of December 31,		
	2022	2021	2020
Cash on hand and in banks	\$ 12,274,110	\$ 16,376,915	\$ 15,532,935
Short-term bank deposits	934,383	479,291	767,903
Total cash and cash equivalents	<u>\$ 13,208,493</u>	<u>\$ 16,856,206</u>	<u>\$ 16,300,838</u>

7. Restricted cash

The value of restricted cash is composed as follows:

	As of December 31,		
	2022	2021	2020
Current	\$ 6,500	\$ -	\$ 23,938
Non-current	6,500	32,500	32,500
Restricted cash	<u>\$ 13,000</u>	<u>\$ 32,500</u>	<u>\$ 56,438</u>

Restricted cash includes warranty deposits in favor of SIGMA, of which as of December 31, 2022, 2021 and 2020, restricted cash is derived from the acquisitions of Vigar Group and SUPEMSA. The restricted remaining 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,		
	2022	2021	2020
Trade accounts receivable	\$6,453,344	\$ 5,420,638	\$ 4,334,974
Allowance for impairment of trade account receivables	(287,975)	(334,482)	(501,795)
Trade accounts receivable, net	<u>6,165,369</u>	<u>5,086,156</u>	<u>3,833,179</u>
Due from related parties (Note 27)	3,891	2,138	5,446
Recoverable value added tax (“VAT”)	2,301,696	2,360,306	2,414,998
Interest receivable	-	-	726
Other debtors:			
Short-term notes receivable	79,642	87,505	94,094
Sundry debtors	526,862	220,379	546,665
	<u>\$ 9,077,460</u>	<u>\$ 7,756,484</u>	<u>\$ 6,895,108</u>



Movements in the allowance for impairment of trade accounts receivable in 2022, 2021 and 2020 are presented below, with the expected loss model used by the Company:

2022

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
Modern Channel	\$ 392,790	0.03%	100%	\$ 73,392	\$ 13,383	\$ 28,521	\$ 58,254
Wholesale Distributors	689,522	0.00%	100%	4,967	1,398	4,742	1,623
Mom-and-Pop	1,333,060	0.05%	100%	23,476	8,973	8,198	24,251
Other	2,265,720	0.03%	100%	157,638	13,506	31,916	139,228
Foodservice	<u>1,772,252</u>	0.05%	100%	<u>75,009</u>	<u>6,980</u>	<u>17,370</u>	<u>64,619</u>
Total	<u>\$6,453,344</u>			<u>\$ 334,482</u>	<u>\$ 44,240</u>	<u>\$ 90,747</u>	<u>\$287,975</u>

2021

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
Modern Channel	\$ (372,327)	0.01%	100%	\$ 87,339	\$ 7,396	\$ 21,343	\$ 73,392
Wholesale Distributors	630,298	0.08%	100%	13,884	66,671	75,588	4,967
Mom-and-Pop	1,139,417	0.30%	100%	23,653	22,662	22,839	23,476
Other	2,308,343	0.06%	100%	233,274	8,279	83,915	157,638
Foodservice	<u>1,714,907</u>	0.68%	100%	<u>143,645</u>	<u>29,844</u>	<u>98,480</u>	<u>75,009</u>
Total	<u>\$5,420,638</u>			<u>\$ 501,795</u>	<u>\$ 134,852</u>	<u>\$ 302,165</u>	<u>\$ 334,482</u>

2020

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
Modern Channel	\$ (710,481)	0.03%	100%	\$ 107,362	\$ 16,519	\$ 36,542	\$ 87,339
Wholesale Distributors	587,708	0.17%	100%	16,876	2,528	5,520	13,884
Mom-and-Pop	1,111,658	0.21%	100%	25,699	11,463	13,509	23,653
Other	2,131,259	0.06%	100%	205,535	27,739	-	233,274
Foodservice	<u>1,214,829</u>	1.24%	100%	<u>49,970</u>	<u>127,751</u>	<u>34,076</u>	<u>143,645</u>
Total	<u>\$4,334,973</u>			<u>\$ 405,442</u>	<u>\$ 186,000</u>	<u>\$ 89,647</u>	<u>\$501,795</u>



The decrease in the net variation of of the impairment allowance of accounts receivable for \$46,507, in the year ended December 31, 2022, was due to compliance with credit terms by some customers, mainly in the modern channel. The decrease in the net variation of the impairment allowance of accounts receivable for \$167,313, in the year ended December 31, 2021, was due to the compliance with credit terms by some costumers, mainly in the foodservice channel. The increase in the net variation of the impairment allowance of accounts receivable for \$96,353, in the year ended December 31, 2020, was due to non-compliance in credit terms by some customers, mainly in the foodservice channel increasing the allowance for impairment.

The Company does not maintain any guarantee or collateral that mitigate exposure to the credit risk of its financial assets.

The Company canceled an amount of accounts receivable and its corresponding impairment allowance of \$22,564 , \$199,578 and \$104,135, in 2022, 2021 and 2020, respectively, due mainly to financial or operational difficulties that some of its customers presented.

Increases (decreases) 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,		
	2022	2021	2020
Finished goods	\$ 5,564,540	\$ 5,052,286	\$ 4,097,138
Raw materials and other consumables	8,042,324	6,788,364	5,754,624
Work in progress	4,695,681	4,776,665	5,396,050
	<u>\$18,302,545</u>	<u>\$16,617,315</u>	<u>\$15,247,812</u>

For the years ended December 31, 2022, 2021 and 2020, a profit was recognized in the provision for damaged, slow-moving and obsolete inventory against cost of sales for \$3,057, \$8,311 and \$8,099, respectively.

As of December 31, 2022, 2021 and 2020, there were no inventories pledged as collateral.

10. Assets and liabilities held for sale

As of December 31, 2022, the assets and liabilities classified as held for sale are as follows:

Available-for-sale assets and liabilities

	As of December, 31 2022	As of December, 31 2021
Current Assets		
Cash and cash equivalents	\$ 3,656	\$ 5,683
Trade and other accounts receivable, net	503,282	648,836
Inventories	671,086	587,983
Other current assets	37,864	43,905
Non-currents assets		
Property, plant and equipment, net	1,168,555	1,479,876
Goodwill and intangible assets, net	180,758	111,434
Right of use asset, net	-	76,974
Other non-current assets	19,437	21,795
Total assets held for sale	<u>\$2,584,638</u>	<u>\$2,976,486</u>
Current liabilities		
Debt	\$ 28,564	\$ 36,688
Tarde and other accounts payable	1,808,152	1,841,674
Income taxes payable	139,123	267,067
Provisions and other current liabilities	432,329	390,711
Non-current liabilities		
Debt	81,397	97,400
Provisions and other non-current liabilities ⁽¹⁾	376,331	574,708
Total liabilities held for sale	<u>2,865,896</u>	<u>3,208,248</u>
Net assets	<u>\$ (281,258)</u>	<u>\$ (231,762)</u>

(1) This concept includes \$18,900 and \$52,138 for movements in the employee benefit obligation (see Note 20) for 2022 and 2021, respectively.



When the sale is completed a gain or loss will be recognized in the consolidated statement of income.

There are currently cumulative foreign exchange effects recognized in the consolidated statement of comprehensive income, on completion these foreign exchange effect will be recycled to the income statement. The amount of the gains (losses) that will be recycled is uncertain as that amount will be affected by movements in foreign exchange rates up to the date of completion. We currently estimate the associated cumulate foreign exchange at December 31, 2022 to be \$107,783.

When the production plants presented as held for disposal at December 31, 2022 and 2021, an impairment was allocated pro rata to the non-current assets. The associated impairment is \$312,232 (€15,045) and \$1,239,073 (€52,458) for 2022 and 2021, respectively.



11. 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, 2020	\$3,219,883	\$9,274,391	\$14,631,954	\$1,710,395	\$ 581,404	\$19,580	\$2,503,247	\$ 364,849	\$ 352	\$32,306,055
Translation effect	248,021	941,002	1,388,095	19,393	43,228	(265)	97,773	5,779	32	2,743,058
Additions	26,384	150,965	413,495	183,520	114,327	1,406	2,023,334	17,451	385	2,931,267
Disposals	(62,736)	(30,812)	-	(66,213)	1,073	(1,087)	(350,341)	(125,188)	(26)	(635,330)
Impairment charges and reversals recognized in the year	(1,867)	(123,996)	(468,435)	1,688	(9,996)	-	(1,721)	-	-	(604,327)
Depreciation charges recognized in the year	-	(602,581)	(2,105,791)	(449,565)	(201,337)	(500)	-	(35,131)	(22)	(3,394,927)
Transfers	154	241,504	1,173,353	111,008	72,519	-	(1,650,028)	51,847	(357)	-
Transfers to held for sale	-	-	-	-	-	-	-	-	-	-
Final balance as of December 31, 2020	<u>\$3,429,839</u>	<u>\$9,850,473</u>	<u>\$15,032,671</u>	<u>\$1,510,226</u>	<u>\$ 601,218</u>	<u>\$19,134</u>	<u>\$2,622,264</u>	<u>\$279,607</u>	<u>\$364</u>	<u>\$33,345,796</u>
Cost	3,429,839	17,962,324	41,169,909	4,489,159	2,752,019	29,612	2,622,264	808,928	466	73,264,520
Accumulated depreciation	-	(8,111,851)	(26,137,238)	(2,978,933)	(2,150,801)	(10,478)	-	(529,321)	(102)	(39,918,724)
Net carrying amount as of December 31, 2020	<u>\$3,429,839</u>	<u>\$9,850,473</u>	<u>\$15,032,671</u>	<u>\$1,510,226</u>	<u>\$601,218</u>	<u>\$19,134</u>	<u>\$2,622,264</u>	<u>\$279,607</u>	<u>\$364</u>	<u>\$33,345,796</u>
Translation effect	(65,970)	(220,287)	(284,717)	(5,227)	(7,174)	881	(27,460)	(9,389)	41	(619,302)
Additions	31,622	427,261	1,033,924	1,000,131	192,927	407	3,528,668	20,591	1,904	6,237,435
Disposals	(47,991)	(418,525)	(486,841)	(776,682)	(23,478)	(1,556)	(576,033)	1,820	-	(2,329,286)
Impairment charges and reversals recognized in the year	1,745	49,075	84,685	(110)	483	-	(148)	-	-	135,730
Depreciation charges recognized in the year	-	(574,132)	(1,988,615)	(418,229)	(211,837)	(313)	-	(51,741)	(262)	(3,245,129)
Transfers	-	219,557	1,084,262	62,622	77,630	-	(1,465,039)	20,968	-	-
Impairment charges of assets classified as held for sale	(196,069)	(363,120)	(510,225)	-	(16,538)	-	(13,208)	-	-	(1,099,160)
Transfer to assets held for sale	(263,981)	(488,894)	(686,953)	-	(22,266)	-	(17,782)	-	-	(1,479,876)
Final balance as of December 31, 2021	<u>\$2,889,195</u>	<u>\$8,481,408</u>	<u>\$13,278,191</u>	<u>\$1,372,731</u>	<u>\$ 590,965</u>	<u>\$ 18,553</u>	<u>\$ 4,051,262</u>	<u>\$ 261,856</u>	<u>\$ 2,047</u>	<u>\$30,946,208</u>
Cost	2,889,195	17,167,392	41,404,044	4,769,893	2,953,603	29,343	4,051,262	842,918	2,411	74,110,061
Accumulated depreciation	-	(8,685,984)	(28,125,853)	(3,397,162)	(2,362,638)	(10,790)	-	(581,062)	(364)	(43,163,853)
Net carrying amount as of December 31, 2021	<u>\$2,889,195</u>	<u>\$8,481,408</u>	<u>\$13,278,191</u>	<u>\$1,372,731</u>	<u>\$ 590,965</u>	<u>\$ 18,553</u>	<u>\$4,051,262</u>	<u>\$ 261,856</u>	<u>\$ 2,047</u>	<u>\$30,946,208</u>
Translation effect	(157,952)	(631,714)	(889,064)	(30,882)	(34,378)	(851)	(149,759)	3,574	(126)	(1,891,152)
Additions	20,913	166,570	1,198,859	566,057	116,672	6,825	2,520,795	359,480	-	4,956,171
Disposals	(25,797)	(36,487)	-	(51,924)	-	(1,669)	(405,685)	-	-	(521,562)
Impairment charges and reversals recognized in the year	(7,864)	38,834	12,488	37	192	-	(1,310)	-	-	42,377
Depreciation charges recognized in the year	-	(479,364)	(1,671,053)	(480,175)	(183,552)	-	-	(108,447)	(534)	(2,923,125)
Transfers	75,461	350,461	291,091	342,808	67,134	-	(1,308,281)	181,326	-	-
Impairment charges of assets classified as held for sale	-	(8,149)	-	-	-	-	-	-	-	(8,149)
Transfer to assets held for sale	(18,233)	(34,496)	-	-	-	-	-	-	-	(52,729)
Final balance as of December 31, 2022	<u>\$2,775,723</u>	<u>\$7,847,063</u>	<u>\$12,220,512</u>	<u>\$1,718,652</u>	<u>\$ 557,033</u>	<u>\$22,858</u>	<u>\$4,707,022</u>	<u>\$697,789</u>	<u>\$1,387</u>	<u>\$30,548,039</u>
Cost	2,775,723	17,012,411	42,017,417	5,595,989	3,103,223	33,649	4,707,022	1,387,297	2,286	76,635,017
Accumulated depreciation	-	(9,165,348)	(29,796,905)	(3,877,337)	(2,546,190)	(10,791)	-	(689,508)	(899)	(46,086,978)
Net carrying amount as of December 31, 2022	<u>\$2,775,723</u>	<u>\$7,847,063</u>	<u>\$12,220,512</u>	<u>\$1,718,652</u>	<u>\$ 557,033</u>	<u>\$ 22,858</u>	<u>\$4,707,022</u>	<u>\$697,789</u>	<u>\$ 1,387</u>	<u>\$30,548,039</u>



Of the total depreciation expense in the amount of \$2,923,125, \$3,245,129 and \$3,394,927, \$2,035,878, \$2,366,933 and \$2,338,881 were recorded in cost of sales, \$727,271, \$698,700 and \$829,335 in selling expenses, and \$159,976, \$179,496 and \$226,711 in administrative expenses, in 2022, 2021 and 2020, respectively.

As of December 31, 2022, 2021 and 2020, there were no significant obligations guaranteed by property, plant and equipment.

As of December 31, 2022, 2021 and 2020, the Company has no significant qualifying assets to capitalize borrowing costs.

12. Right-of-use asset, net

The Company leases a different set of fixed assets including, buildings, machinery and equipment, vehicles, and computer equipment. The average term of the lease contracts is 4.5 years.

a) The right of use recognized in the consolidated statement of financial position as of December 31, 2022, 2021 and 2020, is as follows:

	Land	Buildings	Land and Buildings	Machinery and equipment	Vehicles	Lift Truck	IT Equipment	Other fixed assets	Total
Final balance as of December 31, 2020	\$ 7,059	\$ 1,492,909	\$ 265,947	\$ 148,745	\$ 220,569	\$ 210,060	\$ 854	\$ 19,860	\$ 2,366,003
Final balance as of December 31, 2021	\$ 7,500	\$ 1,282,490	\$ 234,495	\$ 133,303	\$ 226,717	\$ 150,269	\$ 4,086	\$ 47	\$ 2,038,907
Final balance as of December 31, 2022	\$ 72	\$ 1,235,064	\$ 96,929	\$ 88,616	\$ 210,565	\$ 109,283	\$ 2,986	\$ 182	\$ 1,743,697
Depreciation expense of 2020	\$ 2,965	\$ 281,247	\$ 87,357	\$ 24,961	\$ 102,531	\$ 81,897	\$ 1,025	\$ 8,224	\$ 590,207
Depreciation expense of 2021	\$ 5,423	\$ 278,192	\$ 85,776	\$ 38,602	\$ 122,581	\$ 88,384	\$ 1,646	\$ 2,806	\$ 623,410
Depreciation expense of 2022	\$ 3,533	\$ 305,867	\$ 40,135	\$ 34,756	\$ 110,497	\$ 71,395	\$ 1,037	\$ 44	\$ 567,264

The Company recognized in the consolidated statement of income for the year ended December 31, 2022, 2021 and 2020, an expense from low-value assets and short-term leases of \$66,210 and \$264,546, \$40,569 and \$43,043 and \$37,485 and \$89,577, respectively.

Additions to the net book value of the right-of-use asset for leases as of December 31, 2022, 2021, and 2020 amounted to \$584,631, \$459,363 and \$678,417, respectively.

As of December 31, 2022, 2021 and 2020, the Company has commitments for an amount of \$75,576, \$96,928 and \$74,560, respectively, which arose from short-term lease agreements and low-value leased assets.

The Company has signed vehicle lease contracts for an average term of 6.5 years, which as of the date of these consolidated financial statements have not started.

During the year, the Company made extensions to the terms of its building lease contracts, which increased the average term to 4.38 years.



13. Goodwill and intangible assets, net

	Finite life			Indefinite life		Total
	Development cost	Customer relationships	Software, licenses and other ⁽¹⁾	Goodwill	Trademarks	
Cost						
As of January 1, 2020	\$ 499,802	\$ 2,984,857	\$ 3,314,804	\$ 12,865,033	\$ 11,453,047	\$ 31,117,543
Exchange differences	476	31,530	490,826	1,857,886	1,403,762	3,784,480
Additions	23,804	-	256,020	-	-	279,824
Disposals	(4,224)	-	(122,174)	-	-	(126,398)
Impairment	-	-	-	(84,677)	-	(84,677)
As of December 31, 2020	<u>519,858</u>	<u>3,016,387</u>	<u>3,939,476</u>	<u>14,638,242</u>	<u>12,856,809</u>	<u>34,970,772</u>
Exchange differences	(2,390)	52,456	(87,707)	(424,634)	(296,483)	(758,758)
Additions	8,109	-	787,767	-	-	795,876
Disposals	-	-	(177,597)	-	-	(177,597)
Transfer to assets held for sale	-	-	-	-	(111,433)	(111,433)
Impairment	-	-	(1,223)	-	(82,742)	(83,965)
As of December 31, 2021	<u>525,577</u>	<u>3,068,843</u>	<u>4,460,716</u>	<u>14,213,608</u>	<u>12,366,151</u>	<u>34,634,895</u>
Exchange differences	(4,284)	(148,084)	(436,780)	(1,614,086)	(1,238,211)	(3,441,445)
Additions	1,639	-	388,331	-	-	389,970
Disposals	-	-	(102,369)	-	-	(102,369)
Transfer to assets held for sale	-	-	-	-	-	-
Impairment	-	-	5,636	-	-	5,636
As of December 31, 2022	<u>\$ 522,932</u>	<u>\$ 2,920,759</u>	<u>\$4,315,534</u>	<u>\$ 12,599,522</u>	<u>\$ 11,127,940</u>	<u>\$ 31,486,687</u>

	Finite life			Indefinite life		Total
	Development cost	Customer relationships	Software, licenses and other	Goodwill	Trademarks	
Accumulated amortization and impairment						
As of January 1, 2020	\$ (376,560)	\$ (1,934,903)	\$(2,346,688)	\$ -	\$ -	\$ (4,658,151)
Amortizations	(6,033)	(351,689)	(266,693)	-	-	(624,415)
Disposals	2,271	-	121,685	-	-	123,956
Exchange differences	(2,170)	28,016	(386,743)	-	-	(360,897)
As of December 31, 2020	<u>(382,492)</u>	<u>(2,258,576)</u>	<u>(2,878,439)</u>	<u>-</u>	<u>-</u>	<u>(5,519,507)</u>
Amortizations	(6,700)	(330,024)	(305,997)	-	-	(642,721)
Disposals	-	-	180,156	-	-	180,156
Exchange differences	2,631	(44,965)	64,639	-	-	22,305
As of December 31, 2021	<u>(386,561)</u>	<u>(2,633,565)</u>	<u>(2,939,641)</u>	<u>-</u>	<u>-</u>	<u>(5,959,767)</u>
Amortizations	(3,993)	(277,832)	(300,281)	-	-	(582,106)
Disposals	-	1,095	79,327	-	-	80,422
Exchange differences	3,380	131,472	330,774	-	-	465,626
As of December 31, 2022	<u>\$ (387,174)</u>	<u>\$ (2,778,830)</u>	<u>\$(2,829,821)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (5,995,825)</u>



	Finite life			Indefinite life		Total
	Development cost	Customer relationships	Software, licenses and other	Goodwill	Brands	
<u>Net carrying amount</u>						
Cost	\$ 519,858	\$ 3,016,387	\$ 3,939,476	\$ 14,638,242	\$ 12,856,809	\$ 34,970,772
Accumulated amortization and impairment	<u>(382,492)</u>	<u>(2,258,576)</u>	<u>(2,878,439)</u>	<u>-</u>	<u>-</u>	<u>(5,519,507)</u>
As of December 31, 2020	<u>\$ 137,366</u>	<u>\$ 757,811</u>	<u>\$ 1,061,037</u>	<u>\$ 14,638,242</u>	<u>\$ 12,856,809</u>	<u>\$ 29,451,265</u>
Cost	525,578	3,068,843	4,460,716	14,213,608	12,366,150	34,634,895
Accumulated amortization and impairment	<u>(386,561)</u>	<u>(2,633,565)</u>	<u>(2,939,641)</u>	<u>-</u>	<u>-</u>	<u>(5,959,767)</u>
As of December 31, 2021	<u>\$ 139,017</u>	<u>\$ 435,278</u>	<u>\$ 1,521,075</u>	<u>\$ 14,213,608</u>	<u>\$ 12,366,150</u>	<u>\$ 28,675,128</u>
Cost	522,932	2,920,759	4,315,534	12,599,522	11,127,940	31,486,687
Accumulated amortization and impairment	<u>(387,174)</u>	<u>(2,778,830)</u>	<u>(2,829,821)</u>	<u>-</u>	<u>-</u>	<u>(5,995,825)</u>
As of December 31, 2022	<u>\$ 135,758</u>	<u>\$ 141,929</u>	<u>\$ 1,485,713</u>	<u>\$ 12,599,522</u>	<u>\$ 11,127,940</u>	<u>\$ 25,490,862</u>

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

From the total amortization expense of \$582,106, \$642,721 and \$624,415, have been recorded in cost of sales, \$ 73,371, \$10,907 and \$12,368, in selling expenses, \$479,395, \$351,688 and \$387,623, and in administrative expenses \$29,340, \$280,126 and \$224,424, in 2022, 2021 and 2020, respectively.

Goodwill impairment tests

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

	As of December 31,		
	2022	2021	2020
Mexico	\$ 2,023,653	\$ 2,181,097	\$ 2,099,308
USA	4,610,452	5,225,874	5,448,361
Europe	4,298,998	4,873,059	5,116,935
LATAM	<u>1,666,419</u>	<u>1,933,578</u>	<u>1,973,638</u>
	<u>\$ 12,599,522</u>	<u>\$ 14,213,608</u>	<u>\$ 14,638,242</u>

The recoverable value from each group of CGUs has been determined based on calculations of the values in use, which consist of cash flow projections after on pre-tax 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 group of CGUs 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 group of CGUs and reflects the specific risks associated with each of them.



The key assumptions used in calculating the value in use in 2022, 2021 and 2020 were as follows:

	2022			
	Mexico	USA	Europe	LATAM
Long-term growth rate	2.3%	4.0%	1.0%	1.9%
Discount rate	9.5%	13.6%	9.1%	12.2%
	2021			
	Mexico	USA	Europe	LATAM
Long-term growth rate	1.9%	2.1%	1.0%	1.9%
Discount rate	8.7%	14.5%	7.8%	9.8%
	2020			
	Mexico	USA	Europe	LATAM
Long-term growth rate	3.3%	1.9%	1.6%	1.9%
Discount rate	8.6%	5.9%	6.9%	11.2%

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 in the impairment calculations prepared as of December 31, 2022.

14. Investments in associates and other assets

	As of December 31,		
	2022	2021	2020
Long-term notes receivable	\$ 17,561	\$ 29,526	\$ 34,711
Investment in shares of associates	143,147	157,030	132,287
Other assets	158,594	90,337	55,789
Total investments in associates and other assets	<u>\$ 319,302</u>	<u>\$ 276,893</u>	<u>\$ 222,787</u>

The change in investment in associates for the years ended December 31, 2022, 2021 and 2020 is as follows:

	For the years ended December 31,		
	2022	2021	2020
Opening balance (January 1)	\$ 157,030	\$ 132,287	\$ 110,163
Equity method	(584)	20,980	12,226
Additions	-	-	2,402
Exchange differences and dividends received, net	(13,299)	3,763	7,496
Ending balance (December 31)	<u>\$ 143,147</u>	<u>\$ 157,030</u>	<u>\$ 132,287</u>

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

	For the years ended December 31,		
	2022	2021	2020
Net income and comprehensive income	\$3,935	\$66,429	\$39,459

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

15. Trade and other accounts payable

	As of December 31,		
	2022	2021	2020
Trade accounts payable	\$22,639,611	\$21,213,527	\$ 20,351,896
Taxes and withholdings payable	1,268,342	827,018	1,558,565
Short-term employee benefits	1,346,199	1,197,612	2,293,875
Other accounts and accrued expenses payable	1,993,458	3,189,240	2,405,872
	<u>\$27,247,610</u>	<u>\$26,427,397</u>	<u>\$ 26,610,208</u>



16. Debt

The carrying amounts of debt are as follows:

	As of December 31,		
	2022	2021	2020
Current:			
Interest payable	\$ 590,469	\$ 648,782	\$ 648,603
Current debt	<u>\$ 590,469</u>	<u>\$ 648,782</u>	<u>\$ 648,603</u>
Debt:			
In U.S. dollars:			
Senior Notes	\$29,156,920	\$30,965,421	\$ 29,969,362
In euros:			
Senior Notes	12,673,373	14,350,900	14,931,967
In Mexican pesos:			
Bank loans	3,514,829	3,498,906	3,493,301
	<u>45,345,122</u>	<u>48,815,227</u>	<u>48,394,630</u>
Less: interest generated by the non-current debt	<u>(590,469)</u>	<u>(648,782)</u>	<u>(648,603)</u>
Non-current debt	<u>\$44,754,653</u>	<u>\$48,166,445</u>	<u>\$ 47,746,027</u>

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

Description	Contractual currency	Balance in Mexican pesos	Debt issuance costs	Interest payable	As of December 31, 2022	As of December 31, 2021	As of December 31, 2020	Maturity date MM/DD/YYYY Y	Interest rate at maturity
Senior Notes:									
Senior Notes 144A fixed rate ^(f)	USD	\$19,346,168	\$ 55,075	\$132,652	\$19,423,745	\$ 20,632,275	\$ 19,968,787	02/05/2026	4.125%
Senior Notes 144A fixed rate ^(d)	USD	9,680,750	70,803	123,228	9,733,175	10,333,146	10,000,575	27/03/2028	4.875%
Senior Notes 144A fixed rate ^(e)	EUR	12,382,833	16,545	307,085	12,673,373	14,350,900	14,931,967	07/02/2024	2.625%
Total Senior Notes		<u>41,409,751</u>	<u>142,423</u>	<u>562,965</u>	<u>41,830,293</u>	<u>45,316,321</u>	<u>44,901,329</u>		
Bank loans:									
Bank loan, THIE+1.00% ^(c)	MXN	<u>3,500,000</u>	<u>12,675</u>	<u>27,504</u>	<u>3,514,829</u>	<u>3,498,906</u>	<u>3,493,301</u>	20/10/2025	11.316%
Total		<u>\$44,909,751</u>	<u>\$155,098</u>	<u>\$590,469</u>	<u>\$45,345,122</u>	<u>\$ 48,815,227</u>	<u>\$ 48,394,630</u>		

As of December 31, 2021, the annual maturities of non-current debt are as follows:

	2023	2024	2025	2026 onwards	Total
Bank loans	\$ -	\$ -	\$ 3,500,000	\$ -	\$ 3,500,000
Senior Notes	-	12,382,833	-	29,026,918	41,409,751
Interest payable	590,469	-	-	-	590,469
	<u>\$ 590,469</u>	<u>\$12,382,833</u>	<u>\$ 3,500,000</u>	<u>\$ 29,026,918</u>	<u>\$45,500,220</u>

The relevant debt transactions are described as follows:

- During the year ended December 31, 2022 and 2021, the Company did not obtain new bank loans
- During the year ended December 31, 2020, the Company obtained short-term bank loans for amounts of \$2,350,000, US\$300,000 and €135,000, which were paid in full during the same period. The withdrawals and the bank loan payments represented cash inflows and outflows in the amount of \$13,074,129 and \$12,786,634, respectively.
- On December 6, 2019, the Company obtained a bank loan for \$3,500,000 with Export Development Canada (“EDC”) for a term of 6 years, which amount will be paid on October 20, 2025, day of its the maturity. SIGMA is obligated to pay an annual interest rate of THIE 28 + 1.00% on the amount of the outstanding principal on a monthly basis.



- d. 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.

- e. 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.

- f. 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 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 28) 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 at 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, debt issuance and credit contracts 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 is 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, 2022, 2021 and 2020 and at the date of issuance of these consolidated financial statements, the Company and its subsidiaries complied satisfactorily with such covenants and restrictions.

17. Lease liabilities

	December 31,		
	2022	2021	2020
Current portion:			
USD	\$ 97,830	\$ 125,045	\$ 114,648
MXP	100,904	111,852	109,431
EUR	231,343	324,715	332,019
Other currencies	5,871	11,898	1,871
Current lease liability	<u>\$ 435,948</u>	<u>\$ 573,510</u>	<u>\$ 557,969</u>
Lease liabilities:			
USD	\$ 550,684	\$ 699,108	\$ 729,568
MXP	578,225	668,453	713,533
EUR	706,501	818,727	1,057,915
Other currencies	16,281	30,845	4,151
	<u>1,851,691</u>	<u>2,217,133</u>	<u>2,505,167</u>
Less; Current portion of lease liabilities	<u>(435,948)</u>	<u>(573,510)</u>	<u>(557,969)</u>
Non-current lease liability	<u>\$1,415,743</u>	<u>\$ 1,643,623</u>	<u>\$ 1,947,198</u>

As of December 31, 2022, 2021 and 2020, the changes in the lease liability related to the financing activities in accordance with the statement of cash flows consist of the following:

	2022	2021	2020
Beginning Balance as of January 1	\$2,217,133	\$2,505,167	\$2,187,186
New contracts during the year	584,631	459,363	678,964
Write-offs	(232,580)	(241,260)	(12,450)
Adjustment to liability balance	82,328	70,717	50,341
Interest expense from lease liability	107,066	148,328	153,778
Lease payments	(732,361)	(746,637)	(708,953)
Exchange differences	(174,526)	21,455	156,301
Ending balance of lease liabilities as of December 31	<u>\$1,851,691</u>	<u>\$2,217,133</u>	<u>\$2,505,167</u>

The total future fixed payments of leases that includes un-accrued interest, is analyzed as follows:

	As of December 31,		
	2022	2021	2020
- Less than 1 year	\$ 648,862	\$ 678,866	\$ 588,906
- Over 1 year and less than 3 years	846,222	697,920	668,481
- Over 3 years and less than 5 years	484,960	592,344	672,922
-Over than 5 years	219,331	571,451	771,609
Total	<u>\$2,199,375</u>	<u>\$2,540,581</u>	<u>\$2,701,918</u>



18. Income taxes

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

	2022	2021	2020
Costa Rica	30.0%	30.0%	30.0%
Germany	32.3%	32.3%	32.3%
Belgium	25.0%	25.0%	25.0%
Dominican Republic	27.0%	27.0%	27.0%
El Salvador	30.0%	30.0%	30.0%
Honduras	25.0%	25.0%	25.0%
Guatemala	25.0%	25.0%	25.0%
Nicaragua	30.0%	30.0%	30.0%
Peru	29.5%	29.5%	29.5%
The United States	21.0%	21.0%	21.0%
Spain	25.0%	25.0%	25.0%
Netherlands	25.8%	25.0%	25.0%
Italy	24.0%	24.0%	24.0%
France	25.8%	27.5%	28.4%
Portugal	22.3%	22.3%	22.3%
Ecuador	25.0%	25.0%	25.0%
Romania	16.0%	16.0%	16.0%

Optional regime for consolidated groups in Mexico (Incorporation Regime)

As a result of the elimination of the tax consolidation regime in Mexico, the Company chose to adopt the new optional regime for consolidated groups beginning in 2014, which consists in grouping companies with specific characteristics and allows for the deferral of part of the income tax to the next three years; the deferral percentage is calculated using a factor determined in accordance to the amount of tax profit and losses of the year by which the tax deferral is determined. On December 2022, the Company made the decision to voluntarily and spontaneously abandon this regime, which generated the obligation of the total payment of the income tax for the Alfa entities that were part of said regime and that had been deferred for the years from 2019 to 2021 for \$1,109,174, which will have to be paid in 2023.

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

	For the years ended December 31,		
	2022	2021	2020
Current income tax	\$(2,380,634)	\$(2,732,030)	\$(2,613,782)
Deferred income tax	(868,588)	(1,857,007)	792,222
Income tax expensed	<u>\$(3,249,222)</u>	<u>\$(4,589,037)</u>	<u>\$(1,821,560)</u>

- b) The reconciliation between the statutory and effective income tax rates was as follows:

	For the years ended December 31,		
	2022	2021	2020
Income before income tax	\$5,250,934	\$5,731,631	\$ 6,813,511
Statutory rate	30%	30%	30%
Taxes at statutory rate	<u>(1,575,280)</u>	<u>(1,719,489)</u>	<u>(2,044,053)</u>
Effects due to differences in tax rates with other countries ⁽¹⁾	(48,247)	(244,380)	93,735
Plus (less) income tax effect on:			
Inflationary adjustment	(1,512,371)	(1,933,576)	(17,435)
Non-deductible expenses	(308,154)	(230,290)	(320,190)
Exchange rate differences and other items	140,909	(430,026)	505,072
Provision related to transactions of the year	<u>(3,303,143)</u>	<u>(4,557,761)</u>	<u>(1,782,871)</u>
True-up with respect to prior years	53,921	(31,276)	(38,689)
Total provision for income taxes expensed	<u>\$(3,249,222)</u>	<u>\$(4,589,037)</u>	<u>\$(1,821,560)</u>
Effective rate	<u>62%</u>	<u>80%</u>	<u>27%</u>



⁽¹⁾ For the year ended in 2022, the effect of changing tax rates corresponds to new rates enacted in France and the Netherlands. For the year ended, December 31, 2021 the effect of changes in tax rates corresponds to new rates enacted in France, in 2020 it corresponds to changes in tax rates enacted in Belgium, the Netherlands and France.

c) Movements in the deferred income tax asset and liability are as follows:

	2022	Asset (liability) December 31, 2021	2020
Inventories	\$ 68,357	\$ 57,349	\$ 49,487
Property, plant and equipment	92,204	22,921	(232,965)
Intangible assets	69,300	(830,714)	(879,160)
Provisions, liabilities and accrued expenses payable	1,484,899	655,248	886,707
Tax loss carryforwards	341,713	2,160,403	3,149,268
Other temporary differences, net	<u>(161,786)</u>	<u>94,378</u>	<u>1,151,886</u>
Deferred tax asset	<u>\$ 1,894,687</u>	<u>\$ 2,159,585</u>	<u>\$ 4,125,223</u>
Intangible assets	\$(5,234,505)	\$(4,679,860)	\$(3,585,442)
Property, plant and equipment	(1,522,863)	(1,949,343)	(1,845,131)
Provisions, liabilities and accrued expenses payable	253,661	257,578	260,162
Tax loss carryforwards	1,212,820	936,663	976,716
Other temporary differences, net	<u>1,439,058</u>	<u>1,720,958</u>	<u>260,048</u>
Deferred tax liability	<u>\$(3,851,829)</u>	<u>\$(3,714,004)</u>	<u>\$(3,933,647)</u>

To calculate the deferred tax, an average of the tax rates of 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 related tax benefit through future tax income is likely. Tax losses are in the amount of \$5,181,778 in 2022, \$10,323,554 in 2021 and \$13,753,281 in 2020. The Company has not reserved the recognition of deferred tax assets for tax losses that it considers that it will not be able to take advantage of.

Tax losses as of December 31, 2022 expire in the following years:

Tax loss arising year	Expiration year	2022
2013	2023	\$ 49,752
2014	2024	16,233
2015	2025	6,645
2016	2026	268,640
2017	2027	86,398
2018	2028	324,671
2019	2029	216,141
2020	2030	111,029
2021	2031	21,848
2022	2032	39,176
2014	No expiration (*)	<u>4,041,245</u>
		<u>\$5,181,778</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 tax charge/(credit) related to comprehensive income is as follows:

	Remeasurement of employee benefit obligations	Valuation of derivative financial instruments	Effect of translation of foreign entities	Other comprehensive income items
For the year ended December 31, 2022				
Before taxes	\$ 7,540	\$ (223,330)	\$(1,824,384)	\$(2,040,174)
Tax in charge/(in favor)	<u>1,697</u>	<u>66,999</u>	<u>-</u>	<u>68,696</u>
After taxes	<u>\$ 9,237</u>	<u>\$ (156,331)</u>	<u>\$(1,824,384)</u>	<u>\$(1,971,478)</u>
For the year ended December 31, 2021				
Before taxes	\$ 32,732	\$ 962,534	\$(1,165,127)	\$ (169,861)
Tax in charge/(in favor)	<u>(13,931)</u>	<u>(288,760)</u>	<u>-</u>	<u>(302,691)</u>
After taxes	<u>\$ 18,801</u>	<u>\$ 673,774</u>	<u>\$(1,165,127)</u>	<u>\$ (472,552)</u>
For the year ended December 31, 2020				
Before taxes	\$ 42,741	\$ (498,796)	\$ 1,432,249	\$ 976,194
Tax in charge/(in favor)	<u>(14,110)</u>	<u>149,639</u>	<u>-</u>	<u>135,529</u>
After taxes	<u>\$ 28,631</u>	<u>\$ (349,157)</u>	<u>\$ 1,432,249</u>	<u>\$ 1,111,723</u>

e) Income tax payable consists of the following:

	2022	December 31, 2021	2020
Current income tax	\$ 1,970,256	\$ 1,151,334	\$ 460,549
Income tax on optional regime for group of entities in Mexico	<u>-</u>	<u>1,071,400</u>	<u>973,617</u>
Total income tax payable	<u>\$ 1,970,256</u>	<u>\$ 2,222,734</u>	<u>\$ 1,434,166</u>
Current portion	\$ 1,970,256	\$ 1,151,334	\$ 460,549
Non-current portion	<u>-</u>	<u>1,071,400</u>	<u>973,617</u>
Total income tax payable	<u>\$ 1,970,256</u>	<u>\$ 2,222,734</u>	<u>\$ 1,434,166</u>

f) The recoverable income tax consists of the following:

	2022	December 31, 2021	2020
Advance payments of income taxes	\$ 714,985	\$ 892,419	\$ 715,748
Deferred income tax receivable	<u>25,899</u>	<u>21,810</u>	<u>25,669</u>
Total income tax to be recovered	<u>\$ 740,884</u>	<u>\$ 914,229</u>	<u>\$ 741,417</u>

19. Provisions and other liabilities

	2022	December 31, 2021	2020
Current portion:			
PTU (statutory employee profit sharing)	\$ 564,808	\$ 506,213	\$174,925
Provisions	62,800	100,451	182,410
Bank overdrafts	9,732	14,177	20,342
Share-based payments (Note 22)	39,050	20,733	14,767
Notes payable	149,506	132,029	134,430
Accounts payable to affiliates (Note 27)	<u>120,477</u>	<u>73,209</u>	<u>19,430</u>
Total other current liabilities	<u>\$ 946,373</u>	<u>\$ 846,812</u>	<u>\$546,304</u>
Non-current portion:			
Notes payable and others	\$ 227,838	\$ 321,076	\$ 83,124
Provisions	75,922	139,345	90,373
Share-based payments (Note 22)	<u>27,819</u>	<u>46,137</u>	<u>36,730</u>
Total other non-current liabilities	<u>331,579</u>	<u>506,558</u>	<u>210,227</u>
Total other liabilities	<u>\$1,277,952</u>	<u>\$1,353,370</u>	<u>\$756,531</u>



The movement in provisions for the years ended December 31, 2022, 2021 and 2020, is as follows:

	Disputes	Restructuring and severance payments⁽¹⁾	Total
As of January 1, 2020	\$ 74,055	\$ 110,446	\$ 184,501
Additions	36,769	101,459	138,228
Translation effect	10,473	17,638	28,111
Payments	<u>(19,682)</u>	<u>(58,375)</u>	<u>(78,057)</u>
As of December 31, 2020	101,615	171,168	272,783
Additions	9,842	82,216	92,058
Translation effect	(1,985)	(8,607)	(10,592)
Payments	<u>(64,525)</u>	<u>(49,928)</u>	<u>(114,453)</u>
As of December 31, 2021	<u>\$ 44,947</u>	<u>\$ 194,849</u>	<u>\$ 239,796</u>
Additions	10,615	22,161	32,776
Translation effect	(5,209)	(21,045)	(26,254)
Payments	<u>(5,479)</u>	<u>(102,117)</u>	<u>(107,596)</u>
As of December 31, 2022	<u>\$ 44,874</u>	<u>\$ 93,848</u>	<u>\$ 138,722</u>

⁽¹⁾ This provision includes amounts related 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 strengthening existing synergies.

20. 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.

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

Region	As of December 31,		
	2022	2021	2020
Mexico	\$1,274,599	\$ 892,916	\$1,154,662
Europe	264,734	385,774	503,823
LATAM	<u>156,319</u>	<u>167,706</u>	<u>148,894</u>
Total	<u>\$1,695,652</u>	<u>\$ 1,446,396</u>	<u>\$1,807,379</u>

Below is a summary of the primary financial data of these employee benefits:

	As of December 31,		
	2022	2021	2020
Pension benefits	\$ 826,157	\$1,034,793	\$1,419,879
Post-employment medical benefits	<u>18,626</u>	<u>7,358</u>	<u>7,296</u>
	844,783	1,042,151	1,427,175
Defined contribution plan	<u>850,869</u>	<u>404,245</u>	<u>380,204</u>
Liability in the consolidated statement of financial position	<u>\$1,695,652</u>	<u>\$1,446,396</u>	<u>\$1,807,379</u>
	For the years ended December 31,		
	2022	2021	2020
Expense in the consolidated statement of income:			
Pension benefits	\$ (117,517)	\$ (211,471)	\$ (194,814)
Post-employment medical benefits	<u>(312)</u>	<u>(505)</u>	<u>(628)</u>
	<u>\$ (117,829)</u>	<u>\$ (211,976)</u>	<u>\$ (195,442)</u>



	For the years ended December 31,		
	2022	2021	2020
Remeasurements due to employee benefit obligations recognized in other comprehensive income for the period	\$ 7,540	\$ 32,732	\$ 42,741
Remeasurements due to accrued employee benefit obligations recognized in other comprehensive income	\$ (114,425)	\$ (121,965)	\$ (154,697)

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 practice 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 schemes in Mexico and the United States. The accounting method, assumptions and frequency of the valuations are similar to those used for defined benefits in pension schemes. Most of these plans are not funded.

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

	As of December 31,		
	2022	2021	2020
Present value of funded obligations	\$1,769,870	\$ 2,020,250	\$ 4,046,921
Fair value of plan assets	(925,087)	(978,099)	(2,619,746)
Net liability in the consolidated statement of financial position	<u>\$ 844,783</u>	<u>\$ 1,042,151</u>	<u>\$ 1,427,175</u>

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

	For the years ended December 31,		
	2022	2021	2020
Opening balance (January 1)	\$ 2,020,250	\$ 4,046,921	\$3,671,515
Current service cost	157,181	161,416	147,638
Interest cost	134,339	121,984	125,306
Actuarial remeasurements	(136,356)	255,873	142,094
Past service costs	48	(250,400)	-
Exchange differences	(63,093)	(97,195)	291,972
Benefits paid	(116,575)	(140,381)	(309,495)
Effects from business restructuring	(128,038)	20,212	(16,501)
Transfer to liabilities held for sale	-	(1,984,947)	-
Plan curtailments	(97,886)	(113,233)	(5,608)
Ending balance (December 31)	<u>\$ 1,769,870</u>	<u>\$ 2,020,250</u>	<u>\$4,046,921</u>

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

	For the years ended December 31,		
	2022	2021	2020
Opening balance (January 1)	\$ (978,099)	\$(2,619,746)	\$(2,252,757)
Return on plan assets	(75,804)	(67,346)	(71,894)
Employee contributions	-	(9,789)	-
Benefits paid	-	48,874	45,492
Transfer to liabilities held for sale	-	1,932,809	-
Exchange differences	-	25,704	(155,752)
Actuarial remeasurements	128,816	(288,605)	(184,835)
Ending balance (December 31)	<u>\$ (925,087)</u>	<u>\$ (978,099)</u>	<u>\$(2,619,746)</u>



The primary actuarial assumptions were as follows:

	As of December 31,		
	2022	2021	2020
Discount rate (Mexico)	9.25%	7.75%	6.75%
Discount rate (Europe)	3.15%	1.75%	1.25%
Inflation rate (Mexico)	3.50%	3.50%	3.50%
Wage increase rate (Mexico)	4.50%	4.50%	4.50%
Wage increase rate (Europe)	1% a 3%	1% a 3%	1% a 3%
Future wage increase (Mexico)	3.50%	3.50%	3.50%
Medical inflation rate (Mexico)	7.00%	6.50%	6.50%

The sensitivity analysis of the main assumptions for defined benefit obligations, considering that the rest of the assumptions remain the same, was as follows:

	Discount rate	
	Increase of 1%	Decrease of 1%
Impact on defined benefit obligations	\$ (327,250)	\$ 369,041

	Medical inflation rate	
	Increase of 1%	Decrease of 1%
Impact on defined benefit obligations	\$ (3,631)	\$ 4,920

Assets of the pension benefits

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

	December 31,		
	2022	2021	2020
Short and long-term fixed income securities	\$ 548,272	\$ 395,530	\$ 2,117,005
Shares	376,815	582,569	502,741
Fair value of plan assets	<u>\$ 925,087</u>	<u>\$ 978,099</u>	<u>\$ 2,619,746</u>

21. Stockholders' equity

As of December 31, 2022, 2021 and 2020, Sigma Alimentos, S.A. de C.V., 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, 2022, 2021 and 2020, the legal reserve amounted to \$5,416, which is included in other capital reserves.

Dividends declared

- At the General Ordinary Stockholders' Meeting on December 16, 2022, the stockholders agreed to declare dividends in cash in the aggregate amount of US\$75 million, which was paid on December 16, 2022, in the aggregate amount of \$1,477,163 (\$1.44 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 March 11, 2022, the stockholders agreed to declare dividends in cash in the aggregate amount of US\$75 million, which was paid on March 11, 2022, in the aggregate amount of \$1,572,577 (\$1.22 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 October 1, 2021, the stockholders agreed to declare dividends in cash in the aggregate amount of US\$50 million, which was paid on October 1, 2021, in the aggregate amount of \$1,024,885 (\$0.79 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 April 1, 2021, the stockholders agreed to declare dividends in cash in the aggregate amount of US\$50 million, which was paid on April 1 2021, in the aggregate amount of \$1,030,125 (\$0.80 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 January 7, 2021, the stockholders agreed to declare dividends in cash in the aggregate amount of US\$50 million, which was paid on January 8 2021, in the aggregate amount of \$ 986,250 (\$0.76 dividends per share in Mexican pesos), fully applied to the Net Taxable Income Account ("CUFIN by its Spanish initials").

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, 2022, 2021 and 2020, the tax value of the CUFIN of Sigma Alimentos, S. A. de C. V. was \$17,130,228, \$16,466,184 and \$12,490,564, 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.

22. 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 will receive a cash payment conditional on the achievement of certain quantitative and qualitative metrics based on the following financial measures:

- Improved share price
- Improvement in net income
- Permanence of the executives in the Company.

The bonus will be paid in cash over five years after the grant date, i.e. 20% each year, and will be paid with reference to the average price of the share during the month of December at the end of each year. The average price of ALFA's share in pesos for measuring the executive incentive for 2022, 2021 and 2020 was \$13.17, \$15.25 and \$15.39, respectively.

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

	As of December 31,		
	2022	2021	2020
Current	\$ 39,050	\$ 20,733	\$ 14,767
Non-current	27,819	46,137	36,730
Total carrying amount	<u>\$ 66,869</u>	<u>\$ 66,870</u>	<u>\$ 51,497</u>

23. Expenses classified by their nature

The total cost of sales, selling and administrative expenses, classified by nature of the expense, were as follows:

	For the years ended		
	December 31,		
	2022	2021	2020
Changes in inventory of finished goods and in progress	\$ (88,060,463)	\$ (77,682,887)	\$ (75,135,962)
Employee benefit expenses (Note 26)	(21,879,439)	(20,411,386)	(21,335,126)
Maintenance	(4,150,960)	(3,655,695)	(3,482,397)
Depreciation and amortization	(4,072,494)	(4,511,260)	(4,609,549)
Freight expenses	(2,780,605)	(2,847,681)	(2,808,477)
Advertising expenses	(3,042,716)	(2,755,033)	(2,414,844)
Energy and fuel consumption	(3,260,189)	(2,033,993)	(1,898,847)
Travel expenses	(508,849)	(392,824)	(375,466)
Lease expenses and other services ⁽¹⁾	(519,967)	(340,295)	(374,701)
Technical assistance, professional fees and administrative services	(2,532,168)	(2,288,132)	(2,359,870)
Other	(9,575,069)	(11,163,567)	(11,171,293)
Total	<u>\$ (140,382,919)</u>	<u>\$ (128,082,753)</u>	<u>\$ (125,966,532)</u>

(1) This concept includes expenses in 2022, 2021 and 2020 of \$384,901, \$214,729 and \$215,368, respectively, corresponding to services derived of contracts with suppliers that do not meet the definition of a lease, as well as the expense of short-term lease, low-value asset and variable lease; which, according to the Company's policy, do not result in the recognition of a right-of-use asset and a lease liability.



24. Other (expenses) income, net

	For the years ended December 31,		
	2022	2021	2020
Claim reimbursements	\$ 41,735	\$ 45,661	\$ 49,228
Gain on sale of property, plant and equipment	72,156	108,282	19,549
Other income	104,820	200,758	79,607
Total other income	<u>218,711</u>	<u>354,701</u>	<u>148,384</u>
Project consulting	(8,787)	(7,207)	(5,349)
Impairment of property, plant and equipment and intangible assets	(394,141)	(1,466,582)	(830,470)
Other expenses	(103,414)	(40,115)	(62,369)
Total other expenses	<u>(506,342)</u>	<u>(1,513,904)</u>	<u>(898,188)</u>
Total other (expenses) income, net	<u>\$ (287,631)</u>	<u>\$ (1,159,203)</u>	<u>\$ (749,804)</u>

25. Financial cost, net

	For the years ended December 31,		
	2022	2021	2020
Financial income:			
- Interest income on short-term bank deposits	\$ 180,484	\$ 97,691	\$ 135,327
- Other financial income	178,755	107,311	122,031
- Interest on accounts receivable	253	465	713
Total financial income	<u>359,492</u>	<u>205,467</u>	<u>258,071</u>
Financial expenses:			
- Interest expense on bank loans	(317,550)	(208,635)	(373,858)
- Interest expense on lease liability	(107,066)	(148,328)	(153,778)
- Interest expense on debt securities and Senior Notes	(1,752,396)	(1,828,620)	(2,003,310)
- Financial expense for portfolio sale	(130,197)	(81,727)	(114,195)
- Financial expense for employee benefits	(134,339)	(121,984)	(125,306)
- Other financial expenses	(283,880)	(137,899)	(175,296)
Total financial expenses	<u>(2,725,428)</u>	<u>(2,527,193)</u>	<u>(2,945,743)</u>
Exchange fluctuation:			
- Exchange fluctuation gain	10,695,271	2,572,899	11,203,367
- Exchange fluctuation loss	(11,717,934)	(3,612,369)	(10,981,028)
(Loss) gain exchange, net	<u>(1,022,663)</u>	<u>(1,039,470)</u>	<u>222,339</u>
Financial cost, net	<u>\$ (3,388,599)</u>	<u>\$ (3,361,196)</u>	<u>\$ (2,465,333)</u>

26. Employee benefit expenses

	For the years ended December 31,		
	2022	2021	2020
Salaries, wages and benefits	\$18,226,647	\$ 16,731,814	\$ 17,740,861
Social security fees	1,450,140	1,340,258	1,341,255
Employee benefits	157,181	161,416	147,638
Other fees	<u>2,045,471</u>	<u>2,177,898</u>	<u>2,105,372</u>
Total	<u>\$21,879,439</u>	<u>\$ 20,411,386</u>	<u>\$ 21,335,126</u>

Labor Reform Related to Vacations

On December 27, 2022, a decree was published by which articles 76 and 78 of the Federal Labor Law (“LFT” for its acronym in Spanish) for Mexico were reformed, which will be effective on January 1, 2023. The main changes resulting from this labor reform considers the increase in the minimum annual vacation period for workers with more than one year of service.



The Company evaluated the accounting impacts generated by this labor reform and determined that the increases in the vacation and vacation premium provision, as a result of the increase in vacation days, were not significant as of December 31, 2022.

27. Related party transactions

Transactions with related parties during the years ended December 31, 2022, 2021 and 2020, which were carried out in terms similar to those at arm's-length transactions with independent third parties, were as follows:

	For the years ended December 31,		
	2022	2021	2020
Expenses (affiliates):			
Administrative services	252,024	231,147	172,296
Leases and other items	309,450	182,219	223,800
Dividends paid to ALFA (holding)	3,049,740	3,041,260	-

For the years ended December 31, 2022, 2021 and 2020, wages and benefits received by top officials with director positions within the Company amounted to \$591,060, \$772,433 and \$563,516, 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 22).

As of December 31, 2022, 2021 and 2020, balances with related parties are as follows:

		As of December 31,		
	Nature of the transaction	2022	2021	2020
Receivable:				
Affiliates	Services	\$ 3,891	\$ 2,138	\$ 5,446
Payable:				
Affiliates	Services	\$120,477	\$73,209	\$19,430

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

28. Financial information by segments

Segment information is presented consistently with the internal reporting provided to the Chief Executive Officer, who is the highest authority in operational decision making, resource allocation and assessment of operating segment performance.

An operating segment is defined as a component of an entity over which there is separate financial information that is evaluated regularly. 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.

The transactions between operating segments are performed 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 metric 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 as 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, 2022, 2021 and 2020, 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, 2022:

	Mexico	USA	Europe	LATAM	Total
Total income by segment	\$ 68,172,672	\$31,917,169	\$ 43,965,166	\$11,066,464	\$155,121,471
Intersegment income	(1,416,936)	(3,974,371)	(173,389)	(246,108)	(5,810,804)
Income from external customers	66,755,736	27,942,798	43,791,777	10,820,356	149,310,667
Adjusted EBITDA	8,293,279	2,934,017	920,468	958,988	13,106,752
Depreciation and amortization	(1,550,031)	(796,917)	(1,519,918)	(205,628)	(4,072,494)
Impairment of fixed and intangible	(144,042)	(1)	(249,817)	(281)	(394,141)
Operating income	6,599,206	2,137,099	(849,267)	753,079	8,640,117
Financial cost, net	(2,808,314)	658,536	(1,236,306)	(2,515)	(3,388,599)
Equity in income of associates	-	-	(584)	-	(584)
Income before taxes	<u>3,790,892</u>	<u>2,795,635</u>	<u>(2,086,157)</u>	<u>750,564</u>	<u>5,250,934</u>
Capital investment (Capex)	<u>\$ 2,389,318</u>	<u>\$ 832,396</u>	<u>\$1,467,280</u>	<u>\$ 307,268</u>	<u>\$ 4,996,262</u>

As of December 31, 2022:

	Mexico	USA	Europe	LATAM	Total
Non-current assets:					
Property, plant and equipment (*)	\$12,790,717	\$ 3,095,200	\$12,433,919	\$ 2,228,203	\$ 30,548,039
Intangible assets	4,007,786	251,923	8,319,051	312,580	12,891,340
Right-of use asset	592,523	382,099	703,303	65,772	1,743,697
Goodwill	<u>2,023,653</u>	<u>4,610,452</u>	<u>4,298,998</u>	<u>1,666,419</u>	<u>12,599,522</u>
	<u>\$19,414,679</u>	<u>\$ 8,339,674</u>	<u>\$25,755,271</u>	<u>\$ 4,272,974</u>	<u>57,782,598</u>
Other:					
Deferred income tax assets					1,894,687
Derivative financial instruments					517,167
Other non-current assets					<u>325,802</u>
Total non-current assets					<u>\$ 60,520,254</u>
Total liabilities	<u>\$50,367,964</u>	<u>\$ 3,779,445</u>	<u>\$ 30,898,362</u>	<u>\$2,084,653</u>	<u>\$ 87,130,424</u>

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



For the year ended December 31, 2021:

	Mexico	USA	Europe	LATAM	Total
Total income by segment	\$59,038,708	\$29,164,822	\$47,272,650	\$ 10,051,558	\$ 145,527,738
Intersegment income	<u>(1,712,083)</u>	<u>(4,770,421)</u>	<u>(151,724)</u>	<u>(579,707)</u>	<u>(7,213,935)</u>
Income from external customers	57,326,625	24,394,401	47,120,926	9,471,851	138,313,803
Adjusted EBITDA	6,996,096	2,649,133	4,453,926	950,534	15,049,689
Depreciation and amortization	(1,547,225)	(773,766)	(2,008,392)	(181,877)	(4,511,260)
Impairment of fixed and intangible assets	<u>(89,838)</u>	<u>-</u>	<u>(1,376,702)</u>	<u>(42)</u>	<u>(1,466,582)</u>
Operating income	5,359,033	1,875,367	1,068,832	768,615	9,071,847
Financial cost, net	(1,670,293)	(390,959)	(1,292,029)	(7,915)	(3,361,196)
Equity in income of associates	-	-	20,980	-	20,980
Income before taxes	<u>3,688,740</u>	<u>1,484,408</u>	<u>(202,217)</u>	<u>760,700</u>	<u>5,731,631</u>
Capital investment (Capex)	<u>\$ 1,985,460</u>	<u>\$ 496,957</u>	<u>\$ 1,500,293</u>	<u>\$ 578,484</u>	<u>\$ 4,561,194</u>

As of December 31, 2021:

	Mexico	USA	Europe	LATAM	Total
Non-current assets:					
Property, plant and equipment ^(*)	\$11,661,363	\$2,994,171	\$14,151,096	\$ 2,139,578	\$ 30,946,208
Intangible assets	4,232,553	411,957	9,404,865	412,145	14,461,520
Right-of use asset	653,974	558,081	765,130	61,722	2,038,907
Goodwill	<u>2,181,096</u>	<u>5,225,875</u>	<u>4,873,059</u>	<u>1,933,578</u>	<u>14,213,608</u>
	<u>\$18,728,986</u>	<u>\$9,190,084</u>	<u>\$29,194,150</u>	<u>\$ 4,547,023</u>	<u>61,660,243</u>
Other:					
Deferred income tax assets					2,159,585
Derivative financial instruments					954,721
Other non-current assets					309,393
Total non-current assets					<u>\$ 65,083,942</u>
Total liabilities	<u>\$51,069,066</u>	<u>\$3,919,317</u>	<u>\$32,500,147</u>	<u>\$ 2,193,202</u>	<u>\$ 89,681,732</u>

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

For the year ended December 31, 2020:

	Mexico	USA	Europe	LATAM	Total
Total income by segment	\$53,251,014	\$27,042,286	\$50,429,732	\$ 10,229,628	\$140,952,660
Intersegment income	<u>(1,448,093)</u>	<u>(2,850,575)</u>	<u>(128,295)</u>	<u>(542,743)</u>	<u>(4,969,706)</u>
Income from external customers	51,802,921	24,191,711	50,301,437	9,686,885	135,982,954
Adjusted EBITDA	6,583,535	3,837,764	3,397,556	887,782	14,706,637
Depreciation and amortization	(1,596,145)	(805,557)	(2,016,635)	(191,212)	(4,609,549)
Impairment of fixed and intangible assets	<u>(229,009)</u>	<u>-</u>	<u>(599,502)</u>	<u>(1,959)</u>	<u>(830,470)</u>
Operating income	4,758,381	3,032,207	781,419	694,611	9,266,618
Financial cost, net	(2,327,726)	(111,272)	(15,563)	(10,772)	(2,465,333)
Equity in income of associates	5,083	-	8,648	(1,505)	12,226
Income before taxes	<u>2,435,738</u>	<u>2,920,935</u>	<u>774,504</u>	<u>682,334</u>	<u>6,813,511</u>
Capital investment (Capex)	<u>\$ 1,319,469</u>	<u>\$ 514,935</u>	<u>\$ 641,831</u>	<u>\$ 141,111</u>	<u>\$ 2,617,346</u>



As of December 31, 2020:

	Mexico	USA	Europe	LATAM	Total
Non-current assets:					
Property, plant and equipment ^(*)	\$10,953,872	\$ 2,128,483	\$18,548,051	\$ 1,715,390	\$ 33,345,796
Intangible assets	4,002,764	497,560	9,758,367	554,332	14,813,023
Right-of use asset	713,944	301,910	1,277,064	73,085	2,366,003
Goodwill	2,099,308	5,448,361	5,116,935	1,973,638	14,638,242
	<u>\$17,769,888</u>	<u>\$ 8,376,314</u>	<u>\$34,700,417</u>	<u>\$ 4,316,445</u>	65,163,064
Other:					
Deferred income tax assets					4,125,223
Derivative financial instruments					596,115
Other non-current assets					255,287
Total non-current assets					<u>\$ 70,139,689</u>
Total liabilities	<u>\$49,015,416</u>	<u>\$ 3,396,734</u>	<u>\$32,644,715</u>	<u>\$ 1,510,509</u>	<u>\$ 86,567,374</u>

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

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

Income from external customers by products:

	For the years ended December 31,		
	2022	2021	2020
Cooked, fresh and dry meats ⁽¹⁾	\$105,795,141	\$ 102,199,346	\$ 106,419,521
Dairy ⁽²⁾	31,280,055	26,511,083	24,898,162
Other ⁽³⁾	12,235,471	9,603,374	4,665,271
Total	<u>\$149,310,667</u>	<u>\$ 138,313,803</u>	<u>\$ 135,982,954</u>

(1) Hams, sausages and other meat products.

(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, 2022, 2021, and 2020, sales to its largest customer represented 10.2%, 9.8% and 10.2%, respectively, of total sales.

29. Contingencies and commitments

In the normal course of its business, the Company is involved in controversies and litigation. Although the outcome of the disputes cannot be predicted as of December 31, 2022, the Company does not believe that there are current or threatened actions, claims or legal proceedings against or affecting the Company, which, if determined adversely to it, would damage significantly its individual or overall results of operations or financial position.

30. Subsequent event

In the preparation of the financial statements, the Company has evaluated the events and transactions for their recognition or disclosure subsequent to December 31, 2022 and until January 31, 2023 (date of issuance of the consolidated financial statements) and has identified the following, without representing adjustments to the figures as of December 31, 2022:

- During January 2023, the Company contracted derivative financial instruments to hedge the exchange risk through Forward contracts, for a total value of \$3,920,708 (US\$201,000).



31. Authorization to issue the consolidated financial statements

The issuance of the accompanying consolidated financial statements and its notes was authorized on January 31, 2023, by Rodrigo Fernández Martínez, Chief Executive Officer, and Roberto Rolando Olivares López, Chief Financial Officer.

These consolidated financial statements are subject to the approval of the Company's ordinary stockholders' meeting.

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