

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

You should read this discussion in conjunction with our consolidated financial statements, and related notes and the other financial information included in our audited financial statements. Our financial statements are prepared in accordance with IFRS. The IFRS include all the effective International Accounting Standards ("IAS"), and the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), including those issued previously by the Standing Interpretations Committee ("SIC").

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

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

Overview

We are a producer, marketer and distributor of quality branded foods, including processed meats, cheese, yogurt and other refrigerated foods, throughout Mexico, the United States, Europe, Central America, the Dominican Republic, Peru and Ecuador

Our portfolio of brands, range of innovative products, focus on production processes and technology, and distribution network have allowed us to continue to grow net sales and cash flow. We generated consolidated net sales of Ps. 71,465 million and Adjusted EBITDA of Ps. 8,459 million for 2014; and consolidated net sales of Ps. 93,568 million and Adjusted EBITDA of Ps. 13,891 million for 2015.

Economic Environment and other Macroeconomic Factors

Our business is closely tied to general economic conditions in the countries where we operate. As a result, our economic performance and our ability to implement our business strategies may be affected by changes in general economic conditions in those regions.

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

Burgos Incident – Non-Recurrent Proceeds from Insurance

On November 16, 2014, a fire occurred at our Campofrío meat processing plant in Burgos, Spain. The incident resulted in the complete destruction of our La Bureba plant, which, prior to the incident had annual production of approximately 61,700 tons, primarily consisting of cooked ham, poultry and dry sausages products. In response to the Burgos fire, and in an effort to minimize the impact on our ongoing operations, we promptly implemented a comprehensive recovery plan. As part of this plan, we transferred approximately 40% of displaced production throughout Campofrío's extensive network of processing facilities, both in Spain and throughout Europe, and reallocated the remaining 60% to third-party processors outside of Campofrío.

The new factory construction project to be built in the same location is underway and progressing according to schedule. The project is expected to finalize by the end of 2016.

During the year ended December 31, 2015 Campofrío made payments amounting to €6.0 million and recognized additions to property, plant and equipment amounting to €21.5 million. Also, at December 31, 2015

commitments were assumed in connection with the aforementioned construction work amounting to €55.8 million. In October 2015, a final settlement was reached with our insurers resulting in a total indemnity of €313 million, of which €241 million was paid in 2015 and €72 million was paid in 2014. This total compensation is divided into fixed asset damages, inventory damages and business interruption.

We believe that this settlement provides a substantial mitigation of the incurred losses and damages and also allows us to undertake the investments associated to the new factory without any material financial impact.

Factors Affecting Our Results of Operations

Net Sales

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

- available production capacity, including through the acquisition of new production facilities or the expansion of existing plant capacity (see “—Effect of Acquisitions, Capacity Expansion and Production Efficiencies” below);
- our capacity utilization rate and the existence or absence of operational disruptions;
- demand for packaged meats, dairy products and other refrigerated foods, as well as economic growth or contraction in the countries in which we sell our products and resilience to adverse economic scenarios;
- competition from substitute products, including those outside the categories in which we participate; and
- our ability to develop new products and product characteristics that meet consumers’ changing needs and preferences.

The principal factors affecting the pricing of our products include:

- market conditions and the regional supply and demand for packaged meats, dairy products and other refrigerated food products;
- the pricing strategies of our principal competitors;
- our product mix, ranging from premium to economic brands;
- changes in raw material prices and in other costs; and
- changes in the exchange rate of local currencies of the countries in which we operate.

Cost of Sales

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

- raw material prices, particularly for pork and poultry, which are closely related to the cost of grains, such as corn, that comprise the majority of the cost of raising such animals, as well as for fluid and dry milk;
- changes in the price of imported raw materials, due to changes in the exchange rate against the local currencies of the countries in which we conduct our business;
- sales volumes;

- our product mix;
- our ability to streamline or create efficiencies in our production processes; and
- energy costs.

Gross Profit

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

Selling and Administrative Expenses

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

Comprehensive Financing Expense, Net

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

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

We have in the past used derivative financial instruments to manage the risk profile associated with interest rates and currency exposure, reduce financing costs and hedge some of our commodity and financial market risks. We did not have any derivative financial instruments outstanding for the years ended December 31, 2014 and 2015. Our internal policy is not to enter into derivative financial instruments for speculative purposes, however, we may enter into derivative financial instruments as an economic hedge against certain business risks, even if these instruments do not qualify for hedge accounting under IFRS. In addition, we may be required to record fair value losses in the future that could be material. The mark-to-market accounting for derivative financial instruments is reflected in our statement of income and has resulted in volatility in our earnings. In addition, we may incur losses in the future in connection with our derivative financial instruments transactions, which could have a material adverse effect on our financial condition and results of operations.

Effect of Acquisitions, Capacity Expansion and Production Efficiencies

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

In April 2013, we acquired Corporación de Empresas Monteverde S.A. and subsidiaries (“Monteverde”), a cheese producer in Costa Rica which operated three plants in that country. This acquisition enhanced our product and brand portfolio, strengthening our presence in Central America.

In May 2013, we acquired Comercial Norteamericana S. de R.L. de C.V. (“ComNor”), a producer, marketer and distributor of value added meat which includes beef, poultry and pork for the foodservice market. This acquisition improved our product portfolio and reinforce our market position in the foodservice segment.

In November 2013, we acquired 45% of the shares of Campofrío and in December 2013 we signed an agreement according to which WH Group, which at that time owned 37% of Campofrío, would join Sigma in a cash tender offer for shares of Campofrío that would allow us to increase our stake in Campofrío to 58%. At the end of 2014, we and WH Group had control of approximately 94.5% of Campofrío (57.5% corresponding to Sigma and 37% to WH Group). In September 2014, Campofrío was delisted from Madrid and Barcelona Stock Exchanges. The shares representing 37% of Campofrío that until June 3, 2015 were owned by WH Group were acquired by Alfa and were subsequently transferred by Alfa to Sigma on June 18, 2015. As a result, we now control Campofrío. Campofrío was consolidated in our statement of financial position as of June 30, 2014 and its results of operations have been consolidated from July 1, 2014.

In April 2014, we acquired Savi San José de Alajuela S.A. and Inversiones Arhuaco J&K S.A. (“Savi”), both companies located in Costa Rica which produce packaged meats. These acquisitions have strengthened our presence in Central America.

In November 2014, we acquired Fábrica Juris Compañía Limitada (“Juris”), a pioneer company in the production of packaged meats, which sells under the Juris brand. The company is based in Quito, Ecuador and has been in existence for more than 80 years.

In July 2015, we entered into a strategic alliance with Kinesis Food Service S.A. de C.V. in the administration of Proveedores de Alimentos de Cancun, S.A. de C.V. (“Pacsa”), a company engaged in the distribution of meat and dairy products in the foodservice market in certain regions of Mexico, mainly Southeast Mexico.

In August 2015, we acquired Elaborados Cárnicos S.A. (“Ecarni”), a company engaged in the production of packaged meats, which sells under the Don Diego and La Castilla brands. The company is based in Quito, Ecuador and has operated for more than 30 years.

Effects of Foreign Currency Exchange Rate Fluctuations

Because we operate in several countries, we are exposed to foreign exchange rate risk when we translate sales and expenses from foreign currencies, most notably the U.S. Dollar and the Euro, into Pesos. In order to report consolidated financial statements, we must effectively convert multiple currencies into a single reporting currency. As such, fluctuations in currency rates could affect our statement of income, even if local currency results remain the same. In particular, changes in the relative value of the Peso to the U.S. Dollar have an effect on our results of operations.

Change in Functional Currency

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

As of July 1, 2015, we concluded that the most adequate functional currency for the Issuer is the U.S. Dollar based on the economic environment wherein the entity generates and uses cash. This is due primarily to the fact that revenues from dividends and revenues from brand use are collected in U.S. Dollars. The previous functional currency was the Mexican Peso and in accordance with the International Accounting Standard 21 “Effects of changes in foreign exchange rates” (“IAS 21”), the changes are made prospectively. At the date of the change in the functional currency,

all assets, liabilities, capital and income statement items were translated into U.S. Dollars at the exchange rate at that date

Limited Seasonality

Our operating results are not materially affected by seasonality, although we generally experience higher sales of packaged meats during the year-end holiday season, particularly Campofrío, and in the case of Bar-S higher sales of sausages, cooked ham and hot dogs during the summer months.

Key Drivers of Profitability

The key drivers of our profitability include:

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

Critical Accounting Policies

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

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

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

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

Estimated impairment of goodwill

We test annually whether goodwill has suffered any impairment, in accordance with the established accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Income Taxes

We are subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the final tax determination is uncertain. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. In the event the final tax outcome of these matters is different from the amounts that were initially recorded, these differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. As of December 31, 2015, if income before taxes increased/decreased by 5%, income tax would have increased/decreased by Ps. 118 million.

Pension Benefits

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

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

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

Long-lived Assets

We estimate 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 value of the assets. We review assets on an annual basis for signs of impairment, or when certain events or circumstances indicate that the value in books may not be recovered during the remaining useful life of the assets.

To evaluate the impairment, we use 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, if an assessment is required, future discounted cash flows associated with an asset would be compared to the value in books of the asset to determine if an asset is impaired. In this case, the asset is reduced to its fair value. Based on analysis of cash flow, there was no impairment at December 31, 2015.

Revenue Recognition

We recognized revenues of Ps 93,568 million from the sale of goods to third parties during 2015. Customers have the right to return the products if not satisfied. We believe that, based on previous experience in similar sales,

the dissatisfaction rate and maturity will not exceed 1%. Consequently, we have recognized revenues from these transactions with the corresponding provision against revenues from the estimate of returns. If the estimate were to change by 10%, revenues would decrease/increase by Ps 93.6 million.

Recognition of Deferred Tax Assets

We have tax losses to be applied derived mainly from exchange losses in U.S. dollar-denominated debt originated during 2015 and 2014, which can be used in the following years expiring beginning in 2024.

Based on our projections of tax revenues and gains to be obtained in the following years through a structured and solid business plan, including new services to be rendered to our entities and increases in the collection of royalties, among others, as of 2016, management has considered using current tax losses before they expire. Therefore, it has been deemed adequate to record a deferred tax asset for those losses.

Results of Operations

	For the Year Ended December 31,				Percentage
	2014	Percent of Net Sales	2015	Percent of Net Sales	2015 vs. 2014
	(in millions of Pesos, except percentages)				
Net sales	71,465	100.0%	93,568	100.0%	30.9
Cost of sales	(50,435)	(70.6)	(66,708)	(71.3)	32.3
Gross profit	21,030	29.4	26,860	28.7	27.7
Selling and administrative	(14,385)	(20.1)	(19,462)	(20.8)	35.3
Other expenses, net	(209)	(0.3)	3,506	3.7	
Operating profit	6,436	9.0	10,904	11.7	69.4
Financial income	789	1.1	901	1.0	14.2
Financial expenses	(5,412)	(7.6)	(3,507)	(3.7)	-35.2
Comprehensive financing expense	(4,623)	(6.5)	(2,606)	(2.8)	-43.6
Share of losses of investments accounted for using the equity method	(249)	0.3	(401)	(0.4)	61.2
Profit before income tax	1,564	2.2	7,896	8.4	404.9
Income tax	(923)	(1.3)	(1,586)	(1.7)	71.9
Net profit	641	0.9	6,310	6.7	883.9
Adjusted EBITDA	8,495	11.9	13,891	14.8	63.5

The following table provides a breakdown of net sales by product line for 2014 and 2015:

	For the Year Ended December 31,				Percentage
	2014	Percent of Net Sales	2015	Percent of Net Sales	2015 vs. 2014
	(in millions of Pesos, except percentages)				
<u>Product lines:</u>					
Packaged meats	52,142	73.0	72,807	77.8	39.6
Dairy products	15,445	21.6	16,927	18.1	9.6
Other products	3,878	5.4	3,834	4.1	-1.1
Total	71,465	100.0	93,568	100.0	30.9

The following table provides a breakdown of net sales by geographic region for 2014 and 2015:

	For the Year Ended December 31,				Percentage
	2014	Percent of Net Sales	2015	Percent of Net Sales	2015 vs. 2014
	(in millions of Pesos, except percentages)				
<u>Geographic region:</u>					
Mexico	37,387	52.3	39,915	42.7	6.8

	For the Year Ended December 31,				Percentage
	2014	Percent of Net Sales	2015	Percent of Net Sales	2015 vs. 2014
	(in millions of Pesos, except percentages)				
<u>Geographic region:</u>					
USA	12,134	17.0	13,697	14.6	12.9
Europe	17,572	24.6	33,892	36.2	92.9
Other countries	4,372	6.1	6,064	6.5	38.7
Total	71,465	100.0	93,568	100.0	30.9

2015 compared with 2014

Net Sales by Product Line

Net sales of packaged meats for the year ended December 31, 2015 were Ps. 72,807 million, an increase of 39.6% from the Ps. 52,142 million reported in 2014. This increase was primarily due to the consolidation of Campofrío's results in the second half of 2014.

Net sales of dairy products for the year ended December 31, 2015 were Ps. 16,927 million, an increase of 9.6% from the Ps. 15,445 million reported in 2014. This increase was primarily due to higher average prices and a slight increase in sales volume.

Net sales of other products for the year ended December 31, 2015 were Ps. 3,834 million, a decrease of 1.1% from the Ps. 3,878 million reported in 2014. This decrease was primarily due to a slight decrease in sales volume.

Net Sales by Geographic Region

Net sales in Mexico for the year ended December 31, 2015 were Ps. 39,915 million, an increase of 6.8% from the Ps. 37,387 million reported in 2014. This increase was primarily due to increases in sales volume of our principal product lines and higher average prices.

Net sales in the U.S. for the year ended December 31, 2015 were Ps. 13,697 million, an increase of 12.9% from the Ps. 12,134 million reported in 2014. This increase was primarily due to higher net sales when converted into Pesos as a result of a Peso devaluation against the U.S. Dollar.

Net sales in Europe for the year ended December 31, 2015 were Ps. 33,892 million, an increase of 92.9% from the Ps. 17,572 million reported in 2014. This increase was primarily due to the consolidation of Campofrío's results in the second half of 2014.

Net sales in other countries for the year ended December 31, 2015 were Ps. 6,064 million, an increase of 38.7% from the Ps. 4,372 million reported in 2014. This increase was primarily due to the Juris and Ecarini acquisitions in Ecuador.

General

Net sales for the year ended December 31, 2015 were Ps. 93,568 million, an increase of 30.9% from the Ps. 71,465 million reported in 2014. This increase was primarily due to the consolidation of Campofrío's results in the second half of 2014. Campofrío net sales for the year ended December 31, 2015 were Ps. 33,892 million, an increase of 92.9% from Ps. 17,572 million for 2014, which increase was primarily due to the consolidation of Campofrío's results in the second half of 2014. Excluding Campofrío, net sales would have increased 10.7%. Our 2015 sales volume was 15.6% higher than in 2014, reflecting both organic growth and the acquisition of Campofrío.

Cost of sales for the year ended December 31, 2015 was Ps. 66,708 million, an increase of 32.3% from the Ps. 50,435 million reported in 2014. This increase was primarily due to the consolidation of Campofrío's results in the second half of 2014.

Gross profit, defined as the difference between net sales and cost of sales, for the year ended December 31, 2015 was Ps. 26,860 million, an increase of 27.7% from the Ps. 21,030 million reported in 2014. This increase was also due to the consolidation of Campofrío's results in the second half of 2014.

Selling and administrative expenses for the year ended December 31, 2015 were Ps. 19,462 million, an increase of 35.3% from the Ps. 14,385 million reported in 2014. This increase was primarily due to the consolidation of Campofrío's results in the second half of 2014.

Other income (expenses), net for the year ended December 31, 2015 was an income of Ps. 3,506 million, compared to an expense of Ps. 209 million in 2014. This income was primarily due to insurance proceeds received in 2015 in connection with the fire at the La Bureba facility

Operating profit for the year ended December 31, 2015 was Ps. 10,904 million, an increase of 69.4% from the Ps. 6,436 million reported in 2014. This increase was primarily due to the consolidation of Campofrío's results in the second half of 2014

Comprehensive financing expense, net for the year ended December 31, 2015 was an expense of Ps. 2,606 million, compared to an expense of Ps. 4,623 million reported in 2014. This change was primarily due to lower foreign exchange losses due to the change in functional currency effective in the third quarter of 2015.

Income tax for the year ended December 31, 2015 was a tax expense of Ps. 1,586 million, an increase of 71.9% from the tax expense of Ps. 923 million reported in 2014. This increase was primarily due to the consolidation of Campofrío's results and a lower application of net operating losses.

Net profit for the year ended December 31, 2015 was Ps. 6,310 million, an increase of 883.9% from the Ps. 641 million reported in 2014, primarily due to the factors discussed above.

New Accounting Policies

A number of new standards, amendments and interpretations to the accounting policies have been published, which are not effective for the reporting period ended December 31, 2015, and that we have not adopted in advance. Our assessment of the effects of these new standards and interpretations are detailed below.

IFRS 9 - "Financial instruments" addresses the classification, measurement and recognition of financial assets and liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made additional changes to the classification and measurement rules and also introduced a new impairment model. These changes now comprise the entire new financial instruments standard. Following the approved changes, we no longer expect any impact from the new rules of classification, measurement and decrease of its financial assets or liabilities. There will be no impact on our accounting from financial liabilities, since the new requirements only affect financial liabilities at fair value through income and we have no such liabilities. The new hedge rules pair up our hedge accounting and risk management. As a general rule, hedge accounting will be simpler to apply since the standard introduces a principles-based approach. The new standard introduces extensive disclosure requirements and changes in presentation, which we will continue to assess. The new impairment model is a model of expected credit losses; therefore, it would result in advance recognition of credit losses. We continue to assess how our hedge agreements and impairment provisions are affected by the new rules. The standard is effective for periods beginning on or after January 1, 2018. Early adoption is allowed.

IFRS 15 - "Revenue from contracts with customers" is a new standard issued by the IASB for revenue recognition. This standard replaces IAS 18 "Revenues", IAS 11 "Construction contracts" and the interpretations to the aforementioned standards. The new standard is based on the concept that revenue should be recorded when the control over the good or different service is transferred to the customer, so that this control notion replaces the existing notion of risks and benefits.

The standard allows for a complete retrospective approach and a modified retrospective approach for its adoption. We are assessing which of the two approaches we may use and to date, we believe that the modified retrospective approach may be chosen for adoption. Under this approach entities will recognize adjustments from the effect of initial application (January 1, 2018) in retained earnings in the financial statements at December 2018 without

restating comparative periods, by applying the new rules to contracts effective as of January 1, 2018 or those that even when held in prior years continue to be effective at the date of initial application.

For disclosure purposes in the financial statements for 2018, the amounts of affected items must be disclosed, considering the application of the current revenue standard, as well as an explanation of the reason for the significant changes made.

The standard is effective for periods starting in or after January 1, 2018. Early adoption is allowed.

IFRS 16 - "Leases". The IASB issued a new standard for lease accounting in January 2016. This standard will replace current standard IAS 17, which classifies leases into financial leases and operating leases. IAS 17 identifies leases as financial in nature when the risks and benefits of an asset are transferred, and identifies the rest as operating leases. IFRS 16 eliminates the classification between financial and operating leases and requires the recognition of a liability showing future payments and assets for "right of use" in most leases. The IASB has included some exceptions in short-term leases and in low-value assets. The aforementioned amendments are applicable to the lease accounting of the lessee, while the lessor maintains similar conditions to those currently available. The most significant effect of the new requirements is an increase in leasing assets and liabilities, also affecting the statement of income in depreciation expenses and financing of recorded assets and liabilities, respectively, and decreasing expenses relative to leases previously recognized as operating leases. As of the date of this offering circular, we have not quantified the impact of these new requirements. The standard is effective for periods starting on or after January 1, 2019, and early adoption is allowed if IFRS 15 is also adopted.

There are no additional standards, amendments or interpretations of accounting policies issued but not effective that once effective would have a significant effect on us.

Liquidity and Capital Resources

Overview

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

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

Liquidity

We are a holding company and, as such, have no operations of our own. Our ability to meet our debt and other obligations is primarily dependent on the earnings and cash flows of our subsidiaries and the ability of those subsidiaries to pay us interest or principal payments on intercompany loans, dividends or other amounts or to make intercompany loans to us.

The following table summarizes the cash flows from operating, investing and financing activities for the years ended December 31, 2014 and 2015

	Year Ended December 31,	
	2014	2015
	(in millions of Pesos)	
Net resources generated from operating activities	8,264	11,773
Net resources (used in) provided by investing activities	(1,919)	(4,928)
Net resources provided by (used in) financing activities	(3,592)	(3,651)
Cash and cash equivalents at period end	4,912	8,448

Operating Activities

In 2015, net resources generated from operating activities were Ps. 11,773 million, primarily attributable to the net consolidated profit for the period and a change in working capital.

In 2014, net resources generated from operating activities were Ps. 8,264 million, primarily attributable to the net consolidated profit for the period, foreign exchange, net and a change in working capital.

Investing Activities

In 2015, net resources used in investing activities were Ps. 4,928 million, primarily attributable to the acquisition of the remaining shares of Campofrío.

In 2014, net resources used in investing activities were Ps. 1,919 million, primarily attributable to the maintenance and replacement of productive assets, the acquisition of approximately 18% of the shares of Campofrío, and the acquisitions of Juris and Laska.

Financing Activities

In 2015, net resources used in financing activities were Ps. 3,651 million, primarily attributable to the payments of loans and other debt and interest paid.

In 2014, net resources used in financing activities were Ps. 3,592 million, primarily attributable to the payments of loans and other debt and interest paid.

In the years ended 2014 and 2015 we paid dividends of Ps. 695 million and Ps. 1,079 million, respectively.

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

Capital Resources

Existing Indebtedness

At December 31, 2015, we had total indebtedness of Ps. 41,299 million, of which Ps. 1,733 million was denominated in pesos (including UDIs), Ps. 30,116 million was denominated in U.S. dollars, and Ps. 9,450 million was denominated in Euros. Of this total amount, Ps. 2,413 million constituted short-term debt and Ps. 38,886 constituted long-term debt. The primary use of our debt has been to fund acquisitions and capital expenditures. As of December 31, 2015, we had committed credit facilities available for an amount of Ps. 7,329 million for working capital and other requirements. UDIs (Unidades de Inversión) are instruments denominated in pesos that automatically adjust the principal amount of an obligation to the inflation rate officially recognized by Banco de México.

Capital Expenditures

In 2014 and 2015 we made capital expenditures of Ps. 1,871 million and Ps. 3,638 million. These capital expenditures were primarily used for maintenance and replacement of productive assets, such as maintenance of

production facilities, replacement of delivery vehicles and strategic capital expenditures for organic growth. These capital expenditures include the consolidation of Campofrio results in the second half of 2014.

Tabular Disclosure of Contractual Obligations

The following is a summary of our contractual obligations (other than operating leases) as of December 31, 2015:

	Payments Due By Period				
	Total	Less than 1 Year	1-2 Years	3-5 Years	More than 5 Years
Contractual Obligations					
Short-term debt obligations.....	20,226	20,226	-	-	-
Long-term debt obligations ⁽¹⁾	41,166	2,224	25,328	4,262	9,352
Capital lease obligations.....	133	20	40	18	55
Total.....	61,524	22,469	25,368	4,280	9,407

(1) Long-term debt includes interest payable.

Quantitative and Qualitative Disclosures about Market Risk

Derivative Financial Instruments

Because we operate in various countries and enter into credit agreements in U.S. Dollars, Euros and in Pesos, in the past we have entered into foreign exchange rate and interest rate derivatives when we considered necessary for purposes of reducing the overall cost of such financing and the volatility associated with interest rates.

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

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

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

We did not have any derivative financial instruments for the year ended December 31, 2015

Risk Management Committee

Alfa has a Risk Management Committee, which supervises among other things hedging and derivative transactions proposed to be entered into by its subsidiaries with a risk exposure in excess of US\$1 million. This committee reports directly to both Alfa's Chairman of the Board of Directors and its President. All new hedging and derivative transactions which we propose to enter into, as well as the renewal or cancellation of existing hedging and

derivative arrangements, are required to be approved by senior management of both Sigma and Alfa, including both Alfa's Chairman of the Board of Directors and its President. Proposed transactions must satisfy certain criteria, including that they be entered into for non-speculative purposes in the ordinary course of business, that they be based on fundamental analysis and that a sensitivity analysis and other risk analyses have been performed before the transaction is entered into.