

**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,
2020 and 2019, and Independent
Auditors' Report Dated January 31,
2021



**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, 2020 and 2019

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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, 2020 and 2019, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of the principal 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, 2020 and 2019, and their consolidated financial performance and their cash flows for the years then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Basis of the Opinion

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

Other Matters

The accompanying consolidated financial statements have been translated into 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 of the Company are responsible for supervising 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 audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

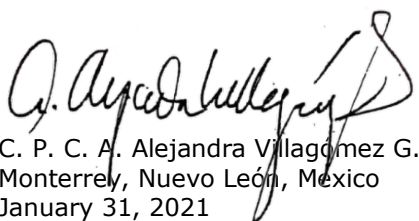
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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 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 of the Company regarding, among other matters, the planning, scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance of the Company with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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



C. P. C. A. Alejandra Villagómez G.
Monterrey, Nuevo León, Mexico
January 31, 2021



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, 2020 and 2019

In thousands of Mexican pesos

	Note	2020	2019
Assets			
Current assets:			
Cash and cash equivalents	6	\$ 16,300,838	\$ 9,730,213
Restricted cash	7	23,938	11,307
Trade and other accounts receivable, net	8	6,895,108	7,903,117
Inventories	9	15,247,812	16,244,535
Recoverable income tax	17	741,417	407,015
Derivative financial instruments	4	1,715	-
Other current assets		521,042	485,997
Total current assets		<u>39,731,870</u>	<u>34,782,184</u>
Non-current assets:			
Property, plant and equipment, net	10	33,345,796	32,306,053
Right-of-use asset, net	11	2,366,003	2,106,179
Goodwill and intangible assets, net	12	29,451,265	26,459,392
Investments in associates and other assets	13	222,787	215,252
Deferred income taxes	17	4,125,223	2,678,379
Derivative financial instruments	4	596,115	326,380
Restricted cash	7	32,500	55,114
Total non-current assets		<u>70,139,689</u>	<u>64,146,749</u>
Total assets		<u>\$109,871,559</u>	<u>\$ 98,928,933</u>
Liabilities and Stockholders' Equity			
Current liabilities:			
Trade and other accounts payable	14	\$ 26,610,208	\$ 26,186,839
Debt	15	648,603	575,749
Lease liabilities	16	557,969	440,132
Income taxes payable	17	460,549	1,739,222
Provisions	18	182,410	101,634
Derivative financial instruments	4	1,125,646	410,819
Other current liabilities	19	363,894	350,944
Total current liabilities		<u>29,949,279</u>	<u>29,805,339</u>
Non-current liabilities:			
Debt	15	47,746,027	44,083,260
Lease liabilities	16	1,947,198	1,747,054
Deferred income taxes	17	3,933,647	3,523,695
Income taxes payable	17	973,617	555,832
Provisions	18	90,373	82,867
Other non-current liabilities	19	119,854	159,141
Employee benefits	20	1,807,379	1,771,234
Total non-current liabilities		<u>56,618,095</u>	<u>51,923,083</u>
Total liabilities		<u>86,567,374</u>	<u>81,728,422</u>
Stockholders' equity:			
Controlling interest:			
Capital stock		27,081	27,081
Additional paid-in capital		666,988	666,988
Retained earnings		20,501,732	15,509,781
Other reserves		2,108,384	996,661
Total stockholders' equity	21	<u>23,304,185</u>	<u>17,200,511</u>
Total liabilities and stockholders' equity		<u>\$109,871,559</u>	<u>\$ 98,928,933</u>

See accompanying notes to consolidated financial statements.



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

Consolidated Statements of Income

For the years ended December 31, 2020 and 2019

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

	Note	2020	2019
Revenues	3.t, 28	\$ 135,982,954	\$ 124,497,945
Cost of sales	23	(97,660,997)	(89,669,591)
Gross profit		<u>38,321,957</u>	<u>34,828,354</u>
Selling expenses	23	(21,900,693)	(20,335,548)
Administrative expenses	23	(6,404,842)	(5,472,987)
Other (expenses) income, net	24	(749,804)	127,965
Operating income		<u>9,266,618</u>	<u>9,147,784</u>
Financial income	25	258,071	326,416
Financial expenses	25	(2,945,743)	(2,526,992)
Exchange gain (loss), net	25	222,339	(428,389)
Financial cost, net		<u>(2,465,333)</u>	<u>(2,628,965)</u>
Equity in income of associates	13	12,226	10,297
Income before taxes		<u>6,813,511</u>	<u>6,529,116</u>
Income taxes	17	(1,821,560)	(2,977,268)
Net consolidated income		<u>\$ 4,991,951</u>	<u>\$ 3,551,848</u>
Income attributable to:			
Controlling interest		\$ 4,991,951	\$ 3,564,898
Non-controlling interest		-	(13,050)
		<u>\$ 4,991,951</u>	<u>\$ 3,551,848</u>
Earnings per basic and diluted share, in Mexican pesos		<u>\$ 3.87</u>	<u>\$ 2.76</u>
Weighted average outstanding shares	21	<u>1,290,654,555</u>	<u>1,290,654,555</u>

See accompanying notes to consolidated financial statements.



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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2020 and 2019

In thousands of Mexican pesos

	Note	2020	2019
Net consolidated income		<u>\$4,991,951</u>	<u>\$3,551,848</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	17	28,631	(246,104)
<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	17	(349,157)	(123,350)
Effect of translation of foreign entities	17	1,432,249	(1,407,707)
Total comprehensive income of the year		<u>1,111,723</u>	<u>(1,777,161)</u>
Consolidated comprehensive income		<u>\$6,103,674</u>	<u>\$1,774,687</u>
Attributable to:			
Controlling interest		\$6,103,674	\$1,754,472
Non-controlling interest		-	20,215
Comprehensive income for the year		<u>\$6,103,674</u>	<u>\$1,774,687</u>

See accompanying notes to consolidated financial statements.



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

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2020 and 2019

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, 2019	\$ 27,081	\$ 666,988	\$14,300,351	\$1,477,214	\$16,471,634	\$590,476	\$17,062,110
Transactions with stockholders:							
Non-controlling interest acquisition (Note 2.g)	-	-	(13,050)	623,741	610,691	(610,691)	-
Effect on acquisition of subsidiary in joint control (Note 3.b)	-	-	-	706,132	706,132	-	706,132
Dividends declared	-	-	(2,342,418)	-	(2,342,418)	-	(2,342,418)
Total transactions with stockholders	-	-	(2,355,468)	1,329,873	(1,025,595)	(610,691)	(1,636,286)
Net income	-	-	3,564,898	-	3,564,898	(13,050)	3,551,848
Total other comprehensive income	-	-	-	(1,810,426)	(1,810,426)	33,265	(1,777,161)
Comprehensive income	-	-	3,564,898	(1,810,426)	1,754,472	20,215	1,774,687
Balances as of December 31, 2019	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>

See accompanying notes to consolidated financial statements.



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

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

In thousands of Mexican pesos

	2020	2019
Cash flows from operating activities		
Income before income taxes	\$ 6,813,511	\$ 6,529,116
Depreciation and amortization	4,609,549	4,270,577
Impairment of fixed assets and intangible assets	830,470	124,487
Costs associated with defined benefit plans	195,442	157,453
Gain from sale of property, plant and equipment	(19,549)	(39,827)
Equity in income of associates	(12,226)	(10,297)
Exchange (gain) loss, net	(222,338)	428,389
Financial cost, net	2,582,038	2,094,889
Other	(321,396)	(19,927)
Changes in working capital:		
Decrease (increase) in trade and other accounts receivable	3,299,214	(1,341,207)
Decrease (increase) in inventories	2,130,534	(2,562,508)
(Decrease) increase in suppliers and other accounts payable	(4,222,189)	2,424,603
Income taxes paid	(4,117,143)	(3,456,417)
Net cash flows generated by operating activities	<u>11,545,917</u>	<u>8,599,331</u>
Cash flows from investing activities		
Cash flows from associates and business acquisition, net of cash acquired	(2,402)	(243,854)
Interest received	148,105	202,746
Cash flows from acquisition of intangible assets	(295,224)	(324,744)
Cash flows from acquisition of property, plant and equipment	(2,322,122)	(3,026,328)
Restricted cash and other assets	13,649	14,883
Net cash flows used in investing activities	<u>(2,457,994)</u>	<u>(3,377,297)</u>
Cash flow from financing activities		
Proceeds from debt	13,074,129	3,954,039
Payments of debt	(12,786,634)	(5,335,660)
Lease payments	(708,953)	(596,548)
Derivative financial instruments	331,704	(417,117)
Non-controlling interest acquisition	-	(301,746)
Interest paid	(2,441,088)	(2,142,510)
Dividends paid	-	(2,342,418)
Net cash flows used in financing activities	<u>(2,530,842)</u>	<u>(7,181,960)</u>
Net increase (decrease) in cash and cash equivalents	6,557,081	(1,959,926)
Effects of changes in exchange rate	13,544	(523,185)
Cash and cash equivalents at the beginning of the year	<u>9,730,213</u>	<u>12,213,324</u>
Cash and cash equivalents at the end of the year	<u>\$16,300,838</u>	<u>\$ 9,730,213</u>

See accompanying notes to consolidated financial statements.



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

Notes to Consolidated Financial Statements

As of and for the years ended December 31, 2020 and 2019

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”), is a company engaged in the production, sale and distribution of processed meat, dairy products, and other refrigerated and frozen foods. It operates through various subsidiary companies.

The Company conducts operations in Mexico, the U.S.A., Costa Rica, El Salvador, the Dominican Republic, Peru, Ecuador, Honduras, Nicaragua, Guatemala, Spain, France, Italy, the Netherlands, Germany, Romania, Belgium and Portugal; and sells its products in more than 640,000 points of sale in those countries. Distribution channels include the modern channel that consists of supermarkets, hypermarkets and convenience stores; the traditional channel that consists of small grocery stores, traditional butchers, delicatessens and wholesalers; and the foodservice channel that consists of hotels, restaurants, hospitals, among others. SIGMA has maintained a close relationship with some of its major customers in Mexico, the United States and Europe, which has allowed the Company to develop different businesses that provide added value to its operations. Its large brand portfolio has managed to cover different socioeconomic levels, allowing the Company to diversify its sales through a variety of markets.

SIGMA is located in Avenida Gómez Morín Sur No. 1111, Col. Carrizalejo, San Pedro Garza García, Nuevo León, México.

In the following notes to the financial statements, references to pesos or "\$" mean thousands of Mexican pesos. References to "US\$" or dollars, mean thousands of dollars of the United States. References to “€”, means thousands of Euros, except where indicated otherwise.

2. Significant events

2020

a. 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, compared to the same period in 2019. 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% and 12% of SIGMA's consolidated revenues for the years ended December 31, 2020 and 2019, respectively.

- **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 15.a), 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, 2019, continues to be valid as of December 31, 2020; therefore, the consolidated financial statements are presented on such basis.

As of the date of approval of the consolidated financial statements, the Company's management continues to implement measures to face the economic conditions of the market, as a part of its risk management strategy.

b. 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.

c. 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.

d. 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.

e. 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.

2019

f. Acquisition of Vigar Group

On August 31, 2019, the Company acquired the 100% of the shares of Praimint, S.A. de C.V. and Procesadora Laminin S.A. de C.V. (together "Vigar Group") for \$252,956; whereby SIGMA became the sole owner. Vigar Group is a company dedicated to processing and selling meat and is included in the Mexico segment (Note 28).



This acquisition was classified as a business combination in accordance with IFRS 3, *Business Combinations* (“IFRS 3”), requirements; therefore, the Company applied the purchase method to measure the assets acquired and liabilities assumed in the transaction. SIGMA recognized goodwill of \$104,157 million, which was recognized in 2019, when the Company completed the allocation of fair values of the net assets acquired.

The profit and loss of Vigar Group was included in the consolidated financial statements since the acquisition date. The consolidated statement of cash flow in 2019 presents the business acquisition in a single line into the investment activity, net of the cash acquired.

g. Acquisition of non-controlling interest

On October 21, 2019, SIGMA acquired the entire non-controlling interest through its subsidiary Sigma Alimentos Exterior S.L.U. for an amount of \$1,162,867, through the settlement of a liability position of a derivative financial instrument, designated for the purchase of the shares of the non-controlling interest. Therefore, as of December 31, 2020 and 2019, the Company does not have a non-controlling interest in its subsidiaries.

h. Acquisition of bank loan

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 TIEE 28 + 1.00% on the amount of the outstanding principal on a monthly basis.

i. Settlement of Senior Notes

On December 16, 2019, the Company paid its Senior Notes with maturity on that date, for an amount of US\$250 million. The Notes were issued in 2009 in accordance with Rule 144A and Regulation S at an annual coupon of 6.875%

3. Summary of significant accounting policies

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

a. Basis for preparation

The consolidated financial statements of Sigma Alimentos S. A de C. V and Subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). IFRS include all International Accounting Standards (“IAS”) in force and all related interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”), including those previously issued by the Standing Interpretations Committee (“SIC”).

The consolidated financial statements have been prepared on a historical cost basis. The historical cost is generally based on the fair value of the consideration granted in exchange for the related assets.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Additionally, it requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where judgments and estimates are significant to the consolidated financial statements are disclosed in Note 5.

b. Consolidation

i. Subsidiaries

The subsidiaries are all the entities over which the Company has control. The Company controls an entity when it is exposed or has the right to variable returns from its interest in the entity and it is capable of affecting the returns through its power over the entity. When the Company's shareholding in subsidiaries is less than 100%, the shareholding attributed to outside stockholders is recorded as non-controlling interest. Subsidiaries are consolidated in full from the date on which control is transferred to the Company and up to the date it loses such control.

The method of accounting used by the Company for business combinations is the acquisition method. The Company defines a business combination as a transaction through which it obtains control over a business, whereby it has the power to steer and manage the relevant operations of all assets and liabilities of the business for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors.



The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable acquired assets and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree based on the share of the non-controlling interest in the net identifiable assets of the acquired entity.

The Company accounts for business combinations using the predecessor method in a jointly controlled entity. The predecessor method involves the incorporation of the carrying amounts of the acquired entity, which includes the goodwill recognized at the consolidated level with respect to the acquiree. Any difference between the carrying value of the net assets acquired at the level of the subsidiary and its carrying amount at the level of the Company are recognized in stockholders' equity.

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

Goodwill is initially measured as the excess of the sum of the consideration paid and the fair value of the non-controlling interest in the acquired subsidiary over the fair value of net identifiable assets and liabilities acquired. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of income.

If the business combination is conducted in stages, the book value at the date of acquisition of the equity previously held by the Company in the acquired entity is remeasured at its fair value at acquisition date. Any loss or gain resulting from such remeasurement is recorded in income for the year.

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

As of December 31, 2020 and 2019, the principal subsidiaries of SIGMA were:

<u>Subsidiary</u>	<u>Country</u>	<u>Percentage of ownership</u>		<u>Functional currency</u>
		<u>2020</u>	<u>2019</u>	
Aoste, SNC ^(a & c)	France	100	100	Euro
Campofrio Food Group, S. A. U. ("Campofrio") ^(a & c)	Spain	100	100	Euro
Caroli Food Group, B.V. ^(a & c)	Romania	100	100	Rumanian Leu
Cesare Fiorucci, S.P.A. ^(a & c)	Italy	100	100	Euro
Imperial Meat Products, VOF ^(a & c)	Belgium	100	100	Euro
Nobre Alimentação, S. A. ^(d)	Portugal	100	100	Euro
Stegeman, CV ^(a & c)	Holland	100	100	Euro
Bar-S Foods Co. ^{(i) (a & c)}	U.S.A	100	100	U.S. Dollar
Mexican Cheese Producers, Inc. ^(a)	U.S.A	100	100	U.S. Dollar
Sigma Alimentos International, Inc. ^(c)	U.S.A	100	100	U.S. Dollar
Campofrio Food Group Americas, Inc. ^{(ii) (a & c)}	U.S.A	100	100	U.S. Dollar
Alimentos Finos de Occidente, S. A. de C. V. ^(a)	Mexico	100	100	Mexican Peso
Bonanza Industrial, S. A. de C. V. ^(d)	Mexico	100	100	Mexican Peso
Carnes Selectas Tangamanga, S. A. de C. V. ^(a)	Mexico	100	100	Mexican Peso
Comercializadora de Embutidos ICO, S. A. de C. V. ^(a & c)	Mexico	100	100	Mexican Peso
Empacadora de Carnes Frías Hidalmix, S. A. de C. V. ^(a & c)	Mexico	100	100	Mexican Peso
Empacadora de Carnes Premium, S. de R. L. de C. V. ^(a & c)	Mexico	100	100	Mexican Peso
Empacadora de Embutidos del Centro, S. A. de C. V. ^(a & c)	Mexico	100	100	Mexican Peso
Empacadora Supremo de Monterrey, S. A. de C. V. ^(a & c)	Mexico	100	100	Mexican Peso
Sigma Foodservice Comercial, S. de R. L. de C. V. ^(d)	Mexico	100	100	Mexican Peso
Sigma Foodservice S. de R.L. de C. V. ^(b)	Mexico	100	100	Mexican Peso
Sigma Foodservice Operaciones S. de R.L. de C. V. ^(b)	Mexico	100	100	Mexican Peso
Grupo Chen, S. de R. L. de C. V. y Subsidiarias ^(b)	Mexico	100	100	Mexican Peso
Industrias Alimentarias del Sureste, S. A. de C. V. ^(a & c)	Mexico	100	100	Mexican Peso
Servilac, S. A. de C. V. ^(b)	Mexico	100	100	Mexican Peso
Sigma Alimentos Centro, S. A. de C. V. ^(a)	Mexico	100	100	Mexican Peso
Sigma Alimentos Comercial, S. A. de C. V. ^(c)	Mexico	100	100	Mexican Peso
Sigma Alimentos Congelados, S. A. de C. V. ^(a)	Mexico	100	100	Mexican Peso
Sigma Alimentos Corporativo, S. A. de C. V. ^(b)	Mexico	100	100	Mexican Peso
Sigma Alimentos Lácteos, S. A. de C. V. ^(a)	Mexico	100	100	Mexican Peso
Sigma Alimentos Noreste, S. A. de C. V. ^(a)	Mexico	100	100	Mexican Peso
Sigma Alimentos Prom. S. A. de C. V. ^(b)	Mexico	100	100	Mexican Peso
Praimit, S.A. de C.V. ^{(iii) (c & d)}	Mexico	100	100	Mexican Peso
Procesadora Laminin, S.A. de C.V. ^{(iii) (c & d)}	Mexico	100	100	Mexican Peso



Alfa Subsidiarias Alimentos, S.A. de C.V. ^(iv)	Mexico	100	100	Mexican Peso
Braedt, S. A. ^(a&c)	Peru	100	100	Peruvian Nuevo Sol
Sociedad Suizo Peruana Embutidos, S. A. ^(a&c)	Peru	100	100	Peruvian Nuevo Sol
Elaborados Cárnicos, S. A. ^(a&c)	Ecuador	100	100	U.S. Dollar
Sigmaec CIA, LTDA ^{(i)(a&c)}	Ecuador	100	100	U.S. Dollar
Productos Cárnicos, S. A. de C. V. ^(a)	El Salvador	100	100	U.S. Dollar
Productos de Importación, S. A. de C. V. ^(c)	Honduras	100	100	Lempira
Savi San José de Alajuela, S. A. ^{(v)(a)}	Costa Rica	-	100	Colon
Sigma Alimentos Costa Rica, S. A. ^{(v)(a)}	Costa Rica	100	100	Colon
	Dominican			
Sigma Alimentos Dominicana, S. A. ^(a&c)	Republic	100	100	Dominican Peso
Sigma Alimentos Guatemala, S. A. ^(a)	Guatemala	100	100	Quetzal
Sigma Alimentos Nicaragua, S. A. ^(c)	Nicaragua	100	100	Cordoba

- i. In 2019, Fabrica Juris CIA, LTDA changed his legal entity to Sigmaec CIA, LTDA.
- ii. In 2019, the non-controlling interest was acquired (see Note 2.g).
- iii. Business acquisition in 2019 (Note 2.f)
- iv. Business acquired from ALFA in 2019, the acquisition effect was \$706,132; which is presented in the statement of changes in stockholders' equity, since they were operations under joint control.
- v. Companies merged during the year ended December 31, 2020, with Sigma Alimentos Costa Rica, S.A. existing as the merging company and Savi San José de Alajuela, S.A. as the merged company.
 - a) Refrigerated food production.
 - b) Administrative and human resources services.
 - c) Commercialization and distribution of refrigerated foods.
 - d) Processing and commercialization of several types of meat.

As of December 31, 2020 and 2019, there are no significant restrictions for investment in shares of the subsidiary companies mentioned above.

ii. Absorption (dilution) of control in subsidiaries

The effect of absorption (dilution) of control in subsidiaries, that is, an increase or decrease in the percentage of control, is recorded in stockholders' equity, directly in retained earnings, in the period in which the transactions that caused such effects occur. The effect of absorption (dilution) of control is determined by comparing the book value of the investment before the event of dilution or absorption against the book value after the relevant event. In the case of loss of control, the dilution effect is recognized in profit or loss.

When the Company issues a call option on certain non-controlling interests in a consolidated subsidiary and the non-controlling shareholders retain the risks and benefits of said interests in the consolidated subsidiary, they are recognized as financial liabilities at the present value of the amount to be reimbursed of the options, initially recorded with the respective reduction in stockholders' equity and subsequently accrued through financial charges to income during the contractual period.

iii. Sale or disposal of subsidiaries

When the Company ceases to have control any retained interest in the entity is re-measured at fair value, and the change in the carrying amount is recognized in income for the period. The fair value is the initial carrying value for the purpose of accounting for any subsequent retained interest in the associate, joint venture or financial asset. Any amount previously recognized in comprehensive income in respect of that entity is accounted for as through the Company had directly disposed of the related assets and liabilities. This implies that the amounts recognized in the comprehensive income are reclassified to income for the year.

iv. Associates

Associates are all entities over which the Company has significant influence but not control. Generally, an investor must hold between 20% and 50% of the voting rights in an investee for it to be an associate. Investments in associates are accounted for by the equity method and are initially recognized at cost. The Company's investment in associates includes goodwill identified at acquisition, net of any accumulated impairment loss.

If the equity in an associate is reduced but significant influence is maintained, only a portion of the amounts recognized in comprehensive income is reclassified to income for the year, where appropriate.



The Company's share in profits or losses of associate post-acquisition is recognized in the consolidated statement of income and its share in other comprehensive income post acquisition is recognized as other comprehensive income. When the Company's share of losses in an associate equals or exceeds its equity in the associate, including unsecured receivables, the Company does not recognize further losses unless it has incurred obligations or made payments on behalf of the associate.

The Company assesses at each reporting date whether there is objective evidence that the investment in the associate is impaired. If so, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes it in "share of profit/loss of associates recognized by the equity method" in the consolidated statement of income.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's equity in such gains. Unrealized losses are also eliminated unless the transaction provides evidence that the asset transferred is impaired. In order to ensure consistency with the policies applied by the Company, the accounting policies of associates have been modified. When the Company ceases to have significant influence over an associate, any differences between the fair value of the retained investment, including any consideration received from the partial disposal of the investment, and the book value of the investment is recognized in the consolidated statement of income.

v. Joint ventures

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

Investments in joint arrangements are classified in accordance with the contractual rights and obligations of each investor, as: joint operations or joint ventures. When the Company holds the right over assets and obligations of related assets under a joint arrangement, it is classified as a joint operation. When the company holds rights over net assets of the joint arrangement, this is classified as a joint venture. Joint ventures are accounted for by the equity method.

c. **Foreign currency translation**

i. Functional and presentation currency

The amounts included in the financial statements of each of the Company's entities should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency", see Note 3.b.i. In the case of Sigma Alimentos, S. A. de C. V., the functional currency was determined to be the U.S. dollar. The consolidated financial statements are presented in Mexican pesos, which is the Company's reporting currency.

When there is a change in the functional currency of one of the subsidiaries, in accordance with the International Accounting Standard 21, *Effects of Changes in Foreign Exchange Rates* ("IAS 21"), the change is made prospectively. At the date of the change in the functional currency, all assets, liabilities, capital and income statement items are translated into US\$ at the exchange rate in effect at that date.

ii. Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rates prevailing at the transaction date or valuation date when the amounts are re-measured. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing exchange rates are recognized as foreign exchange gain or loss in the consolidated statement of income.

Changes in the fair value of securities or monetary financial assets denominated in foreign currency classified as available for sale are divided between fluctuations resulting from changes in the amortized cost of such securities and other changes in value. Subsequently, currency fluctuations are recognized in income and changes in the carrying amount arising from any other circumstances are recognized as part of comprehensive income.



iii. Translation of subsidiaries with a currency different from the reporting currency

Incorporation of subsidiaries whose functional currency is different from their recording currency.

The financial statements of subsidiaries with a recording currency different from their functional currency were translated to the functional currency in accordance with the following procedure:

- a. The balances of monetary assets and liabilities denominated in the recording currency were translated at the closing exchange rates.
- b. The historical balances of non-monetary assets and liabilities and stockholders' equity translated to the functional currency were added to the movements occurred in the period, which were translated at historical exchange rates. On the other hand, movements of non-monetary items recognized at fair value that occurred in the period, stated in the recording currency, were translated using the historical exchange rates in effect on the date when the fair value was determined.
- c. The income, costs and expenses for the periods, expressed in the recording currency, were translated at the historical exchange rate of the date they were accrued and recognized in the consolidated statement of income, except when they arose from non-monetary items, in which case the historical exchange rate for non-monetary items was used.
- d. The differences in exchange arising in translation from the recording currency to the functional currency were recognized in the consolidated statement of income for the period in which they arose.

Incorporation of subsidiaries whose functional currency is different from their presentation currency

The results and financial position of all SIGMA entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the reporting currency are translated to the reporting currency as follows:

- a. Assets and liabilities for each consolidated statement of financial position presented are translated at the closing exchange rate in effect at the date of the consolidated statement of financial position.
- b. The stockholders' equity of each consolidated statement of financial position presented is translated at historical rates.
- c. Income and expenses for each consolidated statement of income are translated at the average exchange rate (when the average exchange rate is not a reasonable approximation of the cumulative effect of exchange rates, the exchange rate at transaction date is used).
- d. All the resulting exchange differences are recognized in other comprehensive income.

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

Country	Local currency	Local currency to Mexican pesos			
		Closing exchange rate as of December 31,		Average exchange rate	
		2020	2019	2020	2019
Germany	Euro	\$24.41	\$21.15	\$24.51	\$21.56
Belgium	Euro	24.41	21.15	24.51	21.56
Costa Rica	Colon	0.03	0.03	0.04	0.03
Ecuador	U.S. Dollar	19.95	18.85	21.49	19.26
El Salvador	U.S. Dollar	19.95	18.85	21.49	19.26
Spain	Euro	24.41	21.15	24.51	21.56
The United States	U.S. Dollar	19.95	18.85	21.49	19.26
France	Euro	24.41	21.15	24.51	21.56
Guatemala	Quetzal	2.55	2.45	2.79	2.51
Honduras	Lempira	0.83	0.77	0.87	0.79
Italy	Euro	24.41	21.15	24.51	21.56
Nicaragua	Córdoba	0.57	0.56	0.63	0.58
Netherlands	Euro	24.41	21.15	24.51	21.56
Peru	Peruvian Nuevo Sol	5.51	5.69	6.16	5.78
Dominican Rep.	Dominican Peso	0.34	0.35	0.38	0.38
Romania	Romanian Leu	5.01	4.42	5.09	4.55



d. Cash and cash equivalents

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

e. Restricted cash

Cash whose restrictions cause it not to comply with the definition of cash and cash equivalents provided above, are presented in a separate line in the consolidated statement of financial position and are excluded from cash and cash equivalents in the consolidated statement of cash flows.

f. Financial instruments

Financial assets

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 also has substantially transferred all the risks and rewards of its ownership, as well as the control of the financial asset.

Classes of financial assets

i. Financial assets at amortized cost

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

ii. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are those whose business model is based on collecting contractual cash flows and selling financial assets, also that their contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal. As of December 31, 2020 and 2019, the Company does not have financial assets to be measured at its 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 those that do not meet the characteristics to be measured at amortized cost or fair value through other comprehensive income, since i) they have a business model different to those that seek to collect contractual cash flows, or collect contractual cash flows and sell the financial assets, or otherwise ii) the generated cash flows are not solely payments of principal and interest on the amount of outstanding principal.

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

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

As of December 31, 2020 and 2019, the Company has not made any of the irrevocable designations described above.



Impairment of financial assets

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

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

b. Other financial instruments

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

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



Derecognition of financial liabilities

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

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

Offsetting of financial assets and liabilities

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

g. *Derivative financial instruments and hedging activities*

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

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

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

Fair value hedges

Changes in the fair value of derivative financial instruments are recorded in the consolidated statement of 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, 2020 and 2019, the Company has no derivative financial instruments classified as fair value hedges.

Cash flow hedges

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

Net investment hedge in a foreign transaction

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

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



Suspension of hedge accounting

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

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

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

h. Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined by the average cost method. The cost of finished goods and work in progress includes costs of product design, raw materials, direct labor, other direct costs and indirect production overheads (based on normal operating capacity). It excludes borrowing costs. The net realizable value is the estimated selling price in the normal course of business, less the applicable variable selling expenses of each product.

i. Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. The carrying amount of the replaced part is derecognized. Repairs and maintenance are recognized in the consolidated statement of income in the year they are incurred. Major improvements are depreciated over the remaining useful life of the related asset.

When the Company carries out major repairs or maintenance of its property, plant and equipment, the cost is recognized in the book value of the corresponding asset as a replacement, only when the recognition criteria are met. The remaining portion of any major repair or maintenance is derecognized. The Company subsequently depreciates the recognized cost in the useful life assigned to it, based on its best estimate of useful life.

Depreciation is calculated by the straight-line method, considering separately each of the asset's components, except for land, which is not subject to depreciation. The estimated useful lives of assets classes are as follows:

Buildings and constructions	30 to 50 years
Machinery and equipment	5 to 30 years
Vehicles	7 to 10 years
Furniture and lab and IT equipment information	4 to 25 years
Tooling	7 to 10 years
Leasehold improvements	20 years

The spare parts to be used after one year and attributable to specific machinery are classified as property, plant and equipment in other fixed assets.



General and specific borrowing costs, related to the acquisition, construction or production of qualified assets, which require a substantial period (nine months), are capitalized as part of the cost of acquiring such qualifying assets, up to the moment when they are suitable for their intended use or sale.

Assets classified as property, plant and equipment are subject to impairment tests when events or circumstances occur indicating that the carrying amount of the assets may not be recoverable. An impairment loss is recognized in the consolidated statement of income within other expenses, net, for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

The residual value, useful lives and depreciation method of assets are reviewed at least at the end of each reporting period and, if expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

In the event that the carrying value is greater than the estimated recoverable amount, a decrease in the carrying amount of the asset is recognized and it is immediately recognized at the recoverable value.

Gains and losses on disposal of assets are determined by comparing the sales value to the carrying amount and they are recognized under other expense, net, in the consolidated statement of income.

j. Leases

The 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 an asset for right-of-use 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 or the useful life of the underlying asset; therefore, 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 have not been 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.

k. Intangible assets

Intangible assets are recognized in the consolidated statement of financial position when they meet the following conditions: they are identifiable, provide future economic benefits and the Company has control over such benefits.

Intangible assets are classified as follows:

i. Indefinite useful life

These intangible assets are not amortized and are subject to annual impairment assessment. As of December 31, 2020 and 2019, no factors have been identified limiting the useful life of these intangible assets.

ii. Finite useful life

These assets are recognized at cost less accumulated amortization and recognized impairment losses. They are amortized on a straight line basis over their estimated useful life, determined based on the expectation of generating future economic benefits, and are subject to impairment tests when indicators of impairment are identified.

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

Development costs	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 relating to the entity sold.

b. Development costs

Research costs are recognized in income as incurred. Expenditures on development activities are recognized as intangible assets when such costs can be reliably measured, the product or process is technically and commercially feasible, potential future economic benefits are obtained and the Company expects to incur and also has sufficient resources to complete the development and use or sell the asset. Amortization thereof is recognized in income by the straight-line method over the estimated useful life of the asset. Development expenditures that do not qualify for capitalization are recognized in income as incurred.



c. Trademarks

Trademarks acquired in a separate transaction are recorded at acquisition cost and in a business combination are recognized at fair value at the acquisition date. Trademarks are not amortized, but are subject to annual impairment tests.

d. Licenses

Licenses acquired in a separate transaction are recorded at acquisition cost. Licenses acquired in a business combination are recognized at fair value at acquisition date.

Licenses that have a defined useful life are presented at cost less accumulated amortization. Amortization is recorded by the straight-line method over its estimated useful life.

The acquisition of software licenses is capitalized based on the costs incurred to acquire and use the specific software.

e. Software development

Costs associated with the maintenance of software are recorded as expenses as incurred.

Development costs directly related with the design and tests of unique and identifiable software products controlled by the Company are recorded as intangible assets when they fulfill the following criteria:

- Technically, it is possible to complete the intangible asset so that it may be available for its use or sale;
- The intangible asset is to be completed for use or sale;
- The ability to use or sell the intangible asset;
- The way in which the intangible asset is to generate probable future economic benefits;
- The availability of adequate technical, financial or other type of resources, to complete the development and use or sell the intangible asset; and
- The ability to reliably calculate the disbursement attributable to the intangible asset during its development.

The amount initially recognized for an intangible asset generated internally will be the sum of disbursements incurred from the moment the element fulfills the conditions for recording, as established above. When no intangible asset internally generated may be recognized, the disbursements for development are an expense in the period they are incurred.

l. Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not depreciable or amortizable and are subject to annual impairment tests. Assets that are subject to amortization are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized within other expenses in the consolidated statement of income in the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels at which separately identifiable cash flows exist (cash generating units or "CGUs"). Non-financial long-term assets other than goodwill that have suffered impairment are reviewed for possible reversal of impairment at each reporting date.

m. Income taxes

The item of income taxes in the consolidated statement of income represents the sum of the current and deferred income taxes.

The amount of income taxes included in the consolidated statement of income represents the current tax and the effects of deferred income tax assets determined in each subsidiary by the asset and liability method, applying the rate established by legislation enacted or substantially enacted at the statement of financial position date wherever SIGMA and its subsidiaries operate and generate taxable. The applicable rates are applied to the totality of the temporary differences resulting from comparing the accounting and tax values of assets and liabilities in accordance with the years in which the deferred asset tax is realized or the deferred liability tax is expected to be settled, considering, when applicable, any tax loss carry forwards expected to be recoverable. The effect of a change in tax rates is recognized in income for the period in which the rate change is enacted.



Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable law is subject to interpretation. Provisions are recognized when appropriate based on the amounts expected to be paid to the tax authorities.

Deferred tax assets are recognized only when it is probable that future taxable profits will exist against which the deductions for temporary differences can be taken.

Deferred income tax on temporary differences arising from investments in subsidiaries and associates is recognized, unless the period of reversal of temporary differences is controlled by SIGMA and it is probable that the temporary differences will not reverse in the near future.

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

n. Employee benefits

i. Pension plans

Defined contribution plans:

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

Defined benefit plans:

A defined benefit plan is a plan, which specifies the amount of the pension an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the consolidated statement of financial position date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries by the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rates established in IAS 19, *Employee Benefits*, that are denominated in the currency in which the benefits will be paid, and which have maturities that approximate the terms of the pension liability.

Actuarial remeasurements from adjustments and changes in actuarial assumptions are recognized directly under other comprehensive income in the year they occur, and are not reclassified to the consolidated statement of income.

The Company determines the net financial expense (income) by applying the discount rate to the liabilities (assets) from net defined benefits.

Past-service costs are recognized immediately in the consolidated statement of income.

ii. Post-employment medical benefits

The Company provides medical benefits to retired employees after termination of employment. The right to access these benefits usually depends on the employee's having worked until retirement age and completing a minimum of years of service. The expected costs of these benefits are accrued over the period of employment using the same criteria as those described for defined benefit pension plans.

iii. Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or when an employee accepts voluntary termination of employment in exchange for these benefits. The Company recognizes termination benefits on the first of the following dates: (a) when the Company can no longer withdraw the offer of these benefits, and (b) when the Company recognizes restructuring costs within the scope of IAS 37 and it involves payment of termination benefits. If there is an offer that promotes the termination of the employment relationship voluntarily by employees, termination benefits are valued based on the number of employees expected to accept the offer. The benefits that will be paid in the long term are discounted at their present value.



iv. Short term benefits

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

v. Employee share in profits and bonuses

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

o. Provisions

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

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

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

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

p. Stock based compensation

The Company's compensation plans are based on the market value of shares of ALFA in favor of certain senior executives of SIGMA. The conditions for granting such compensation to the eligible executives include among other things, compliance with certain financial metrics such as the level of profit achieved, remaining in the Company for up to 5 years, among others. The ALFA Board of Directors has appointed a technical committee to manage the plan, which reviews the estimated cash settlement of said compensation at the end of the year. The payment plan is always subject to the discretion of the senior management of ALFA. Adjustments to this estimate are charged or credited to the consolidated statement of income.

The fair value of the amount payable to employees with respect to share-based payments, which are settled in cash, is recognized as an expense in the consolidated statement of income under administrative expenses, with the corresponding increase in liabilities, over the period of service required. The liability is included under other liabilities and is adjusted at each reporting date and the settlement date. Any change in the fair value of the liability is recognized as a compensation expense in the consolidated statement of income.

q. Capital stock

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

r. Comprehensive income

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



s. ***Segment reporting***

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

t. ***Revenue recognition***

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

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

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

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

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

The Company maintains obligations for the return of goods from its customers, and records a provision related to the right of customers to return or replace goods that cannot be sold or that expire, according to the distribution channel to which they belong. The creation of this provision is based on the historical behavior of customers, estimating the corresponding liability through the application of the expected value method. As of December 31, 2020 and 2019, the balance of this provision was \$60,729 and \$68,225, respectively, and is recognized in the "Other accounts and accrued expenses payable" line item.

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

u. ***Earnings per share***

Earnings per share are calculated by dividing the income attributable to the owners of the controlling entity by the weighted average of outstanding common shares during the year. As of December 31, 2020 and 2019, there are no dilutive effects for instruments potentially convertible to shares.

v. ***Changes in accounting policies and disclosures***

i. New standards and changes adopted by the Company

In the current year, the Company has applied a series of modified interpretation, issued by the IASB that are the mandatory for accounting periods beginning on or after January 1, 2020:



Amendments to IFRS 16, Rent concessions related to Covid-19

The amendments introduce a practical expedient that provides lessees the option not to assess whether a rent concession that meets certain conditions is a lease modification. The practical expedient is applicable to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met:

- a) The change in the lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- b) Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- c) There is no substantive change to other terms and conditions of the lease.

The Company determined that there are no impacts in the implementation of these amendments on its consolidated financial statements, considering that the rent concessions in the leases it maintains as a lessee, were recognized as lease modifications.

Additionally, the Company adopted the following amendments, which did not have any effects on the consolidated financial statements in the current year:

- Amendments to IAS 1 and IAS 8, *Definition of materiality*
- Amendments to IFRS 3, *Definition of a business*
- Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest rate benchmark reform*

ii. New and revised IFRS in issue but not yet effective

At the date of authorization of these financial statements, the Company has not applied the following new and revised IFRS that have been issued but are not yet effective. The Company does not expect that the adoption of the following standards will have a material impact on the financial statements in future periods, considering they have no significant applicability:

- Amendments to IAS 1, *Classification of liabilities as current or non-current*⁽¹⁾
- Amendments to IAS 16, *Property, plant and equipment proceeds before intended use*⁽¹⁾
- Amendments to IFRS 9- *Financial instruments*⁽¹⁾
- IFRS 17, *Insurance contracts*⁽²⁾

⁽¹⁾ Effective for annual reporting periods beginning on January 1, 2022

⁽²⁾ Effective for annual reporting periods beginning on January 1, 2023

Additionally, the Company is continuously monitoring the progress of the reference interest rate reform project that modifies the regulations as mentioned below:

- Phase 2 of the benchmark interest rate reform (IBOR- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Interbank benchmark rates such as LIBOR, EURIBOR and TIBOR, which represent the cost of obtaining unsecured funds, have been questioned about their viability as long-term financing benchmarks. The changes in the reform to the reference interest rates in its phase 2 refer to the modifications of financial assets, financial liabilities and lease liabilities, requirements for accounting coverage and disclosure of financial instruments. These improvements are effective as of January 1, 2021 with retrospective application, without the need to redo the comparative periods.

Regarding the modification of financial assets, financial liabilities and lease liabilities, the IASB introduced a practical expedient that involves updating the effective interest rate.

On the other hand, regarding hedge accounting, the hedge relationships and documentation must reflect the modifications to the hedged item, the hedging instrument and the risk to be hedged. Hedging relationships must meet all criteria for applying hedge accounting, including effectiveness requirements.



Finally, regarding disclosures, entities should disclose how they are managing the transition to alternative reference rates and the risks that may arise from the transition; in addition, they must include quantitative information on financial assets and non-derivative financial liabilities, as well as non-derivative financial instruments, that continue under the reference rates subject to the reform and the changes that have arisen to the risk management strategy.

The Company is in the process of evaluating the impacts arising from the application of these amendments.

4. Financial instruments and financial risk management

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

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. The Company constantly analyzes the impact of financial risk in order to determine the representative changes that can gradually be passed on to the sales prices of their products and thereby hedge the risks of exchange rates and interest rates, mainly. The objective is to protect the financial health of its business considering the volatility associated to exchange rates and interest rates.

ALFA has a Risk Management Committee (RMC), comprised of the Board's Chairman, the CEO, CFO and a Risk Management officer acting as technical secretary. The RMC reviews derivative transactions proposed by the subsidiaries of ALFA, including SIGMA, in which a potential loss analysis surpasses US\$1 million. This Committee supports both the CEO and the President of Board of ALFA. All new derivative transactions which the Company proposes to enter into, as well as the renewal or cancellation of derivative arrangements, must be approved by both SIGMA's and ALFA's CEO according to the following schedule of authorizations:

	Maximum possible loss of US\$ million	
	Individual transaction	Annual cumulative transactions
Chief Executive Officer of SIGMA	1	5
Risk Management Committee of ALFA	30	100
Finance Committee	100	300
ALFA Board of Directors	>100	>300

The proposed transactions must meet certain criteria, including that the hedges are lower than established risk parameters and that they are the result of a detailed analysis and are properly documented. In addition, sensitivity analyses and other risk analyses should be performed before the operation is entered into. As of December 31, 2020, the Company has two Cross-Currency-Swaps (CCS) and sixty-nine USD/MXN Forwards; whereas, as of December 31, 2019 it had two Cross-Currency-Swaps (CCS), one hundred and three Lean Hog Swaps, and twenty-seven USD/MXN Forwards, all of hedge accounting.

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

	<i>Maximum coverage (as a percentage with respect to the projected exposure)</i>
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 to maintain an optimal capital structure so as 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 shareholders, return equity to shareholders, issue new shares or sell assets to reduce debt.



SIGMA monitors capital based on a leverage ratio. This percentage is calculated by dividing the total liabilities by total equity.

The financial ratio of total liabilities/total equity was 3.71 and 4.75 as of December 31, 2020 and 2019, respectively, resulting in a leverage ratio that meets the Company's management and risk policies.

Financial instruments by category

As of December 31, 2020 and 2019, financial assets and liabilities consist of the following:

	As of December 31,	
	2020	2019
Cash and cash equivalents	\$16,300,838	\$ 9,730,213
Restricted cash	56,438	66,421
Financial assets measured at amortized cost:		
Trade and other accounts receivable	3,933,445	5,440,077
Financial assets measured at fair value through profit or loss:		
Derivative financial instruments ⁽¹⁾	597,830	326,380
	<u>\$20,888,551</u>	<u>\$15,563,091</u>
Financial liabilities measured at amortized cost:		
Debt	\$48,394,630	\$44,659,009
Lease liabilities	2,505,167	2,187,186
Trade and other accounts payable	22,757,768	23,522,803
Financial liabilities measured at fair value through profit and loss:		
Derivative financial instruments ⁽¹⁾	1,125,646	410,819
	<u>\$74,783,211</u>	<u>\$70,779,817</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 measured at amortized cost

The amount of cash and cash equivalents, trade and other accounts receivable, suppliers and other accounts payable, approximate their fair value due to their short-term maturity. The net carrying amount of these accounts represents the expected cash flows to be received as of December 31, 2020 and 2019.

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

	As of December 31, 2020		As of December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Debt	\$ 48,016,184	\$52,770,532	\$44,404,464	\$47,066,841

The carrying amount of debt, for purposes of the fair value calculation, is disclosed gross of interest payable and issuance costs.

The estimated fair values as of December 31, 2020 and 2019 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, 2020 and 2019 was determined based on the discounted cash flows, using the equilibrium interbank interest rate ("THIE"), which reflects a similar credit risk in Mexican pesos. The fair value measurement of the bank loan is considered within the Level 2 of the fair value hierarchy.

As of December 31, 2020 and 2019, there were no transfers between the fair value hierarchy levels.

Market risks

i. Exchange rate risk

The Company operates internationally and is exposed to exchange rate changes, mainly derived from transactions and balances conducted and held by subsidiaries, respectively. Foreign currency is defined as that which is other than the functional currency of an entity.



Changes in the exchange rates between the Mexican peso, the U.S. dollar and the euro represents a significant factor for the Company due to the effect that such currencies have on its financial results. Furthermore, a significant amount of SIGMA's its revenues are denominated in a currency other than the Mexican peso, primarily in euros and U.S. dollars, either because they arise from goods exported from Mexico, or because they are goods manufactured and sold abroad.

For this reason, in the past, sometimes where the Mexican peso has appreciated in real terms against other currencies, such as the U.S. dollar, the Company's profit margins have increased. On the contrary, when the Mexican peso has lost value, SIGMA profit margins have decreased. However, although this correlation of factors has arisen in several occasions in the recent past, it is uncertain that it will be repeated in the event the exchange rate between the Mexican peso and any other currency fluctuates again, because it also depends on the monetary position in foreign currency of the Company's subsidiaries.

Therefore, occasionally, the Company enters into derivative financial instrument transactions to hedge its exchange rates in order to manage the comprehensive cost of funding and the volatility associated with foreign exchange rates. In addition, as a significant portion of the Company's revenues are denominated in US dollars and euros, there is a natural hedge of the liabilities payable in U.S. dollars and euros.

Given the above, primarily, the Company maintains the following financial assets and liabilities denominated in foreign currencies in relation to the functional currency of the subsidiary entities, translated to thousands of Mexican pesos at the closing exchange rate of December 31, 2020:

	MXP	USD	EUR
Financial assets	\$ 100	\$5,405,610	\$ 9,780
Financial liabilities	<u>3,509,170</u>	<u>3,732,670</u>	<u>14,687,560</u>
Foreign exchange financial position	<u>\$(3,509,070)</u>	<u>\$1,672,940</u>	<u>\$(14,677,780)</u>

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

Based on the financial positions in foreign currency maintained by the Company, a hypothetical variation of 10% in the MXN/USD and MXN/EUR exchange rate and keeping all other variables constant, would result in an effect of \$1,651,391 in the consolidated statements of income and stockholders' equity.

Financial instruments to hedge net investments in foreign transactions

The Company has 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, 2020 and 2019, SIGMA maintains the following hedging relationships:

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

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 74.46% for January 1, 2020 (designation date) until December 31, 2020 and 2019, respectively. Therefore, the exchange fluctuation generated by the hedging instrument for the years ended December 31, 2020 amounted to a net gain of \$217,734, 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.

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 15.a 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, TIIE+ 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, 2020, the 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	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>



2019

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	€ 335,863
				Imperial Meat Products, VOF	45,507
				Stegeman C.V.	28,265
				Carnes Selectas 2000, S.A.U.	50,141
				Nobre Alimentação, S.A.	49,325
				Cesare Fiorucci, S.p.A.	14,625
				Luigi Ugolotti, S.r.l.	5,609
					<u>€ 529,335</u>

The average hedging ratio of Sigma Alimentos S.A. de C.V. amounted to 104.1% and 116.4% for the years ended December 31, 2020 and 2019, respectively. Therefore, the exchange fluctuation generated by the hedging instrument for the years ended December 31, 2020 and 2019 amounted to a net (loss)/gain of \$(1,314,951) and \$191,977, 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 (loss)/gain of \$(47,192) and \$40,766 in 2020 and 2019, respectively.

b) 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.	<u>US\$105,696</u>

2019

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\$99,511	Campofrio Food Group Americas, Inc.	<u>US\$ 99,511</u>

The average hedging ratio of Campofrio Food Group amounted to 100% from the date of designation, since the Company has a debt security of US\$495,430 as of December 31, 2020 and 2019, of which it designated only US\$105,696 and US\$99,511, respectively, 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 and 2019 amounted to a net gain/(loss) of \$199,066 and \$(29,674), 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.

c) Hedging relationships of Sigma Alimentos Exterior:

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 Cárnicos, S.A.	10,744
				Fábrica Juris CIA, LTDA	25,409
				Productos Cárnicos, S.A. de C.V.	11,274
				Sigma Alimentos International, Inc.	30,781
					<u>US\$ 506,849</u>



2019

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 \$395,919	Bar-S Foods Co.	US\$ 309,250
				Mexican Cheese Producers, Inc.	49,174
				Sigma Processed Meats, LLC	(10,606)
				Elaborados Cárnicos, S.A.	12,268
				Fábrica Juris CIA, LTDA	22,723
				Productos Cárnicos, S.A. de C.V.	8,755
				Sigma Alimentos International, Inc.	28,805
					<u>US\$ 420,369</u>

The average hedging ratio of Sigma Alimentos Exterior amounted to 84.2% and 100.7% during the years ended December 31, 2020 and 2019, respectively, since the Company has a debt security of US\$495,430, as of December 31, 2020 and 2019, of which it designated US\$389,734 and US\$395,919, 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, 2020 and 2019 amounted to a net gain/(loss) of \$756,066 and \$(139,280), 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; however, the effects of ineffectiveness that caused the need to rebalance the hedging relationship during the period were recognized immediately in profit or loss as a net loss of \$7,498 in 2019.

Derivative financial instruments to hedge foreign currency exposure

As of December 31, 2020, the Company maintains two Currency Swaps (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, 2019, for the same strategy described above, the Company had two Currency Swaps (CCS) 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:

2020

Characteristics	CCS J. P. Morgan USD	CCS Citibanamex USD	Forwards USD/MXN
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 portion of \$596,115 and a liability portion of \$166,234.

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

2019

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

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

With the interest and 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, 2020, 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 28%. 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, 2019, the prospective effectiveness test resulted in 97%, confirming that the relationship was highly effective. The average hedging ratio was 27%.

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, 2020 and 2019, no ineffectiveness was recognized in earnings.

i. Price risk

To carry out its activities, the Company depends on the supply of the raw materials provided by its suppliers, both from Mexico and abroad, including bovine, pig and poultry meat products and dairy products, mainly. 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

As of December 31, 2019, the Company had 103 pork Swaps of accounting hedge in order to mitigate the risk of exposure to pork leg price variability. Derivatives were contracted by the holding entity; however, the risk lies in Sigma Alimentos Comercial, S.A. de C.V., which is why derivatives were mirrored to that entity through intercompany derivatives.

The underlying of the derivative financial instruments is different from that found in the hedged item. The Company determined that the hedging relationship can be established between the pork and the price of the pork leg, as the separable risk component can be identified and can be reliably measured. In addition, it could determine the relationship through a correlation analysis between the pork and the pork leg and by assessing the market structure. A cash flow hedging relationship was documented, where the hedged item is highly likely predicted transactions related to the purchase of a raw material necessary for the production of its products.

The characteristics of Swaps designated as accounting hedges of the risk of price variability of such raw material are as follows:

2019

	Characteristics	Rabobank
Total Notional		9,980,000
Unit		Lb
Currency		USD
Price received		Market
Price paid (average)		81.99 c/lb
Maturity		15-April-2020
Carrying amount		(weekly)
Change in fair value to measure Ineffectiveness		\$(12,135)
Reclassification of OCI to earnings		-
Recognized in OCI net of reclassifications		(12,135)
Change in fair value of the hedged item to measure ineffectiveness		8,746

As of December 31, 2019, the results of the prospective effectiveness test resulted in 114%, confirming that the relationship is highly effective, as changes in fair value and cash flows of the hedged item were offset in the effective range established by the Company. 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 perfect hedging of the hedged element.

According to the amounts described and the exchanges of flows, for this hedging strategy, the average hedging ratio was 50%. If necessary, a rebalancing will be performed to maintain this relationship for the strategy.

In this hedge relationship, the source of ineffectiveness can be caused by four main reasons: the difference in the date of settlement of the derivative and of the hedged item, the credit risk, that the budget would become less than the hedging instruments, and the difference in underlying instruments. For the year ended December 31, 2019, no ineffectiveness was recognized in profit or loss.

As of December 31, 2020, the Company does not maintain derivative financial instruments to hedge the exposure to market prices.

ii. Interest risk rate

The Company is exposed to interest rate risk mainly for the bank loan acquisition during 2019 (Note 2.h). 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, 2020, 93% of the financing is denominated at a fixed rate, and 7% at a variable rate.



As of December 31, 2020, 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 \$34,805.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. Credit risk is generated from cash and cash equivalents, derivative financial instruments and deposits in banks and financial institutions, as well as credit exposure to customers, including accounts receivable and committed transactions.

The Company evaluates and aggregates groups of customers that share a credit risk profile, in accordance with the distribution channel in which they operate, in agreement with business management and internal risk. Each subsidiary is responsible for managing and analyzing credit risk for each of its new customers before setting the terms and conditions of payment. If wholesale customers are rated independently, those are the ratings used. If there is no independent rating, the Company evaluates the creditworthiness of customers, taking into account their financial position, past experience and other factors. The maximum exposure to credit risk is given by the balances of these items, as presented in the consolidated statement of financial position.

During the years ended on December 31, 2020 and 2019, credit limits were not exceeded.

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

During the year ended December 31, 2020, there have been no material changes in estimation techniques or assumptions.

SIGMA's customers are commercial establishments classified as: supermarkets, convenience stores, institutions and small grocery stores. The credit risk on accounts receivable is diversified because the Company has an extensive portfolio of clients that is globally scattered.

Liquidity risk

Cash flows projections are prepared at each operating entity of the Company and, subsequently, the finance area consolidates this information. The entity's finance area continuously monitors the cash flow projections and liquidity requirements of the entity ensuring there is a proper level of cash and investment with immediate implementation to meet operational needs, and to maintain some flexibility through unused open credit lines, committed and uncommitted. The Company monitors regularly and makes its decisions considering not violating the limits or covenants established in its debt contracts. The projections consider the Company's financing plans, compliance with covenants, compliance with internal minimum liquidity ratios and legal or regulatory requirements.

As of December 31, 2020 and 2019, the Company has short term deposits of \$767,903 and \$531,068, 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, 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
As of December 31, 2019			
Trade and other accounts payable	\$23,522,803	\$ -	\$ -
Bank loan	-	-	3,500,000
Senior notes	-	12,663,026	28,241,437
Lease liabilities	541,543	1,590,065	496,220
Non-accrued future interests	1,876,925	7,508,163	3,616,444



SIGMA expects to meet its obligations with cash flows generated by operations. As of December 2020 and 2019, the Company maintains unused committed credit lines for the amount of \$15,982,570 (\$3,000,000, US\$400,000 and €205,001) and \$5,482,490 (US\$200,000 and €81,000), respectively.

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 in which one or more of the significant data are not observable.

Specific valuation techniques used to value financial instruments include:

- Market quotations or offers from retailers for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on observable yield curves.
- The fair value of forward exchange contracts is determined using the exchange rates for the statement of financial position date, with the resulting value discounted at present value.
- Other techniques, such as the analysis of discounted cash flows, which is used to determine fair value for the remaining financial instruments.

As of December 31, 2020 and 2019, SIGMA maintains derivative financial instruments measured at fair value.

5. Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5.1 Critical accounting and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a. Estimated impairment of goodwill and intangible assets with indefinite useful lives

The Company conducts annual tests to determine whether goodwill and intangibles assets with indefinite useful lives have suffered any impairment (Note 12). For impairment testing, goodwill and intangibles assets with indefinite lives is allocated with those cash generating units (CGUs) of which the Company has considered that economic and operational synergies of the business combinations are generated. The recoverable amounts of the groups of CGUs were determined based on the calculations of their value in use, which require the use of estimates, within which the most significant are the following:

- Estimation of future gross and operating margins according to the historical performance and expectations of the industry for each CGU group.
- Discount rate based on the weighted cost of capital (WACC) of each CGU or CGU group.
- Long-term growth rates.

b. Recoverability of deferred tax assets

The Company has tax losses to be applied, derived mainly from significant foreign exchange losses, which may be used in the years following their maturity (Note 17). 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 projected cash flows, which consider the estimates of future transactions, including estimates of revenues, costs, operating expenses, capital expenditures and debt service. In accordance with IFRS, discounted future cash flows associated with an asset or CGU are compared to the book value of the asset or CGU being tested to determine if impairment exists whenever the aforementioned discounted future cash flows are less than its book value. In such case, the carrying amount of the asset or group of assets is reduced to its value in use.

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 shown in the consolidated statement of financial position are comprised as follows:

	As of December 31,	
	2020	2019
Cash at bank and on hand	\$ 15,532,935	\$ 9,199,145
Short-term bank deposits	767,903	531,068
Total cash and cash equivalents	<u>\$ 16,300,838</u>	<u>\$ 9,730,213</u>

7. Restricted cash

The restricted cash balance is composed as follows:

	As of December 31,	
	2020	2019
Current	\$23,938	\$ 11,307
Non-current	32,500	55,114
Restricted cash	<u>\$56,438</u>	<u>\$ 66,421</u>

Restricted cash includes warranty deposits in favor of SIGMA, of which as of December 31, 2020 and 2019, restricted cash is derived from the acquisitions of SUPEMSA and Vigar Group. The restricted cash will be fully released in accordance with various contractual requirements within two to four years after the acquisition date of such entities.

8. Trade and other accounts receivable, net

	As of December 31,	
	2020	2019
Trade accounts receivable	\$ 4,334,974	\$ 5,770,634
Allowance for impairment of trade receivables	(501,795)	(405,442)
Trade accounts receivable, net	<u>3,833,179</u>	<u>5,365,192</u>
Due from related parties (Note 27)	5,446	3,699
Recoverable value added tax ("VAT")	2,414,998	1,988,494
Interest receivable	726	687
Other debtors:		
Short-term notes receivable	94,094	70,499
Sundry debtors	546,665	474,546
	<u>\$ 6,895,108</u>	<u>\$ 7,903,117</u>

Movements in the allowance for impairment of trade accounts receivable in 2020 and 2019 are presented below, with the expected loss model used by the Company:

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
Supermarkets	\$ (710,481)	0.03%	100%	\$ 107,362	\$16,519	\$ 36,542	\$ 87,339
Special markets	587,708	0.17%	100%	16,876	2,528	5,520	13,884
Detail	1,111,658	0.21%	100%	25,699	11,463	13,509	23,653
Other	2,131,259	0.06%	100%	205,535	23,956	(3,783)	233,274
Foodservice	1,214,829	1.24%	100%	49,970	127,751	34,075	143,645
Total	<u>\$ 4,334,973</u>			<u>\$ 405,442</u>	<u>\$182,217</u>	<u>\$ 85,863</u>	<u>\$ 501,795</u>



2019

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
Supermarkets	\$ (780,023)	0.08%	100%	\$ 65,733	\$ 6,326	\$ (35,303)	\$ 107,362
Special markets	682,157	0.18%	100%	61,972	2,788	47,884	16,876
Detail	1,315,231	0.55%	100%	117,469	9,305	101,075	25,699
Other	2,550,383	4.47%	100%	140,901	11,554	(53,080)	205,535
Foodservice	2,002,886	0.17%	100%	53,785	11,425	15,240	49,970
Total	<u>\$ 5,770,634</u>			<u>\$ 439,860</u>	<u>\$ 41,398</u>	<u>\$ 75,816</u>	<u>\$ 405,442</u>

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 (Note 2.a.), increasing the allowance for impairment. On the other hand, the decrease in the net variation of the impairment allowance of accounts receivable for \$34,418 in the year ended December 31, 2019, was mainly due to the increase in the credit quality of the Company's customers, reflecting a decrease in the probability of default assigned to the different business segments, besides improving the estimated recovery rate with respect to the beginning of the year.

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

The Company canceled an amount of accounts receivable and its corresponding impairment allowance of \$104,135 and \$32,011, in 2020 and 2019, respectively, due mainly to financial or operational difficulties that some of its customers presented.

Increases in the allowance for impairment of trade accounts receivable are recorded in the consolidated statement of income under sales expenses.

9. Inventories

	As of December 31,	
	2020	2019
Finished goods	\$ 4,097,138	\$ 4,545,864
Raw materials and other consumable goods	5,754,624	6,732,765
Production in progress	5,396,050	4,965,906
	<u>\$15,247,812</u>	<u>\$16,244,535</u>

For the years ended December 31, 2020 and 2019, a profit (loss) was recognized in the provision for damaged, slow-moving and obsolete inventory against cost of sales for \$8,099 and \$(19,217), respectively.

As of December 31, 2020 and 2019, there were no pledged inventories.



10. Property, plant and equipment, net

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Furniture and lab and IT equipment	Tooling	Constructions in progress	Leasehold improvements	Other fixed assets	Total
Opening balance as of January 1, 2019	\$ 3,359,297	\$ 9,876,266	\$ 17,986,589	\$ 1,651,953	\$ 645,118	\$ 25,313	\$ 1,760	\$ 405,837	\$ 392	\$ 33,952,525
Reclassification of financial leases to right-of-use asset	-	(12,857)	(182,924)	-	-	-	-	-	-	(195,781)
Exchange differences	(125,629)	(433,575)	(644,989)	(20,910)	(25,839)	(1,780)	(54,209)	2,049	(11)	(1,304,893)
Additions	83,678	273,215	713,432	359,409	122,526	381	1,989,471	29,038	-	3,571,150
Additions due to business acquisitions	-	-	15,663	4,987	1,436	-	-	7,530	-	29,616
Disposals	(96,191)	(111,888)	262,530	(27,347)	(6,686)	(889)	(493,640)	(131,076)	-	(605,187)
Transfers	(1,273)	238,214	801,169	198,773	24,572	-	(1,343,699)	82,250	(6)	-
Depreciation charges of the year	-	(546,415)	(1,945,647)	(437,940)	(175,446)	(3,445)	-	(32,461)	(23)	(3,141,377)
Ending balance as of December 31, 2019	<u>3,219,882</u>	<u>9,282,960</u>	<u>17,005,823</u>	<u>1,728,925</u>	<u>585,681</u>	<u>19,580</u>	<u>99,683</u>	<u>363,167</u>	<u>352</u>	<u>32,306,053</u>
Cost	3,219,882	16,429,598	39,785,601	4,421,490	2,414,838	28,998	99,683	735,441	114	67,135,645
Accumulated depreciation	-	(7,146,638)	(22,779,778)	(2,692,565)	(1,829,157)	(9,418)	-	(372,274)	238	(34,829,592)
Net carrying amount as of December 31, 2019	3,219,882	9,282,960	17,005,823	1,728,925	585,681	19,580	99,683	363,167	352	32,306,053
Exchange differences	248,021	941,002	1,388,095	19,393	43,229	(264)	97,772	5,778	33	2,743,059
Additions	26,384	150,965	287,493	181,127	114,327	1,406	2,023,334	17,451	385	2,802,872
Disposals	(64,602)	(154,809)	(342,433)	(62,132)	(8,923)	(1,087)	(352,061)	(125,188)	(26)	(1,111,261)
Transfers	54	241,504	1,173,353	111,008	72,519	-	(1,650,028)	51,847	(357)	-
Depreciation charges of the year	-	(602,581)	(2,105,791)	(449,565)	(201,337)	(500)	-	(35,131)	(22)	(3,394,927)
Ending balance as of December 31, 2020	<u>3,429,839</u>	<u>9,859,041</u>	<u>17,406,540</u>	<u>1,528,756</u>	<u>605,496</u>	<u>19,135</u>	<u>218,700</u>	<u>277,924</u>	<u>365</u>	<u>33,345,796</u>
Cost	3,429,839	17,608,260	42,292,109	4,670,886	2,635,990	29,053	218,700	685,329	149	71,570,315
Accumulated depreciation	-	(7,749,219)	(24,885,569)	(3,142,130)	(2,030,494)	(9,918)	-	(407,405)	216	(38,224,519)
Net carrying amount as of December 31, 2020	<u>\$ 3,429,839</u>	<u>\$ 9,859,041</u>	<u>\$ 17,406,540</u>	<u>\$ 1,528,756</u>	<u>\$ 605,496</u>	<u>\$ 19,135</u>	<u>\$ 218,700</u>	<u>\$ 277,924</u>	<u>\$ 365</u>	<u>\$ 33,345,796</u>



During the years ended December 31, 2020 and 2019, the Company recognized an impairment in the amount of \$745,793 and \$124,487, respectively, which are disclosed in the Disposals item.

Of the total depreciation expense in the amount of \$3,394,927 and \$3,141,377, \$2,338,881 and \$2,153,065 were recorded in cost of sales, \$829,335 and \$779,001 in selling expenses, and \$226,711 and \$209,311 in administrative expenses, in 2020 and 2019, respectively.

As of December 31, 2020 and 2019, there are no significant obligations guaranteed by property, plant and equipment.

As of December 31, 2020 and 2019, the Company has no significant qualifying assets to capitalize borrowing costs.



11. 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 3 years.

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

	<u>Land</u>	<u>Buildings</u>	<u>Land and Buildings</u>	<u>Machinery and equipment</u>	<u>Vehicles</u>	<u>Lift Truck</u>	<u>IT Equipment</u>	<u>Other fixed assets</u>	<u>Total</u>
Initial balance as of January 1, 2019	\$ 8,618	\$ 978,317	\$647,272	\$ 167,963	\$ 200,465	\$ 180,000	\$ 2,676	\$ 10,395	\$ 2,195,706
Final balance as of December 31, 2019	\$ 6,790	\$ 1,084,206	\$550,908	\$ 154,620	\$ 132,212	\$ 167,194	\$ 1,879	\$ 8,370	\$ 2,106,179
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
Depreciation expense of 2019	1,828	192,072	121,752	13,164	102,831	69,608	797	6,512	508,564
Depreciation expense of 2020	2,965	281,247	87,357	24,961	102,531	81,897	1,025	8,224	590,207

The Company recognized in the consolidated statement of income for the year ended December 31, 2020 and 2019, an expense from low-value assets and short-term leases of \$37,485 and \$89,577, and \$26,964 and \$7,728, respectively.

Additions to the carrying amount of the right-of-use asset amounted to \$678,417 and \$540,351 as of December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the Company has commitments for an amount of \$74,560 and \$43,051, respectively, which arose from short-term lease agreements and low-value leased assets.

The Company has signed lease contracts of buildings for an average period of 5 years, which at the date of the consolidated financial statements have not started.

During the year, the Company extended the terms of its lease contracts of buildings, which increased the average term for 3.7 years.



12. Goodwill and intangible assets, net

	Finite life			Indefinite life		Total
	Development cost	Customer relationships	Software, licenses and other	Goodwill	Trademarks	
Cost						
As of January 1, 2019	\$ 500,961	\$ 2,958,690	\$ 3,143,482	\$ 13,567,177	\$ 12,169,525	\$32,339,835
Exchange changes	(2,259)	(77,487)	(153,685)	(806,301)	(753,392)	(1,793,124)
Additions due to business acquisitions	-	103,654	9,722	104,157	31,289	248,822
Additions	1,100	-	315,285	-	5,625	322,010
As of December 31, 2019	499,802	2,984,857	3,314,804	12,865,033	11,453,047	31,117,543
Exchange changes	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>
Accumulated amortization						
As of January 1, 2019	\$(373,054)	\$(1,653,361)	\$(2,243,594)	\$ -	\$ -	\$(4,270,009)
Amortizations	(5,553)	(315,268)	(299,815)	-	-	(620,636)
Exchange differences	2,047	33,726	196,721	-	-	232,494
As of December 31, 2019	(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>
Net carrying amount						
Cost	\$ 499,802	\$ 2,984,857	\$ 3,314,804	\$ 12,865,033	\$ 11,453,047	\$31,117,543
Accumulated amortization and impairment	(376,560)	(1,934,903)	(2,346,688)	-	-	(4,658,151)
As of December 31, 2019	<u>\$ 123,242</u>	<u>\$ 1,049,954</u>	<u>\$ 968,116</u>	<u>\$ 12,865,033</u>	<u>\$ 11,453,047</u>	<u>\$26,459,392</u>
Cost	\$ 519,858	\$ 3,016,387	\$ 3,939,476	\$ 14,638,242	\$ 12,856,809	\$34,970,772
Accumulated amortization and impairment	(382,492)	(2,258,576)	(2,878,439)	-	-	(5,519,507)
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>

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

From the total amortization expense of \$624,415 and \$620,636, \$12,368 and \$12,035 have been recorded in cost of sales, \$387,623 and \$379,959 in selling expenses, and \$224,424 and \$228,642 in administrative expenses, in 2020 and 2019, respectively.



Goodwill impairment tests

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

	As of December 31,	
	2020	2019
Mexico	\$ 2,099,308	\$ 1,944,082
USA	5,448,361	4,722,477
Europe	5,116,935	4,469,723
LATAM	1,973,638	1,728,751
	<u>\$14,638,242</u>	<u>\$ 12,865,033</u>

The recoverable value of each group of CGUs has been determined based on the calculations of the values in use, which consist of projections of cash flows after taxes based on financial budgets approved by management covering a period of 5 years.

The gross and operating margins included in the estimates of value in use have been estimated based on the historical performance and the growth expectations of the market in which each CGU group operates. The long-term growth rate used in estimating value in use is consistent with the projections included in industry reports. The present value of the cash flows was discounted using a specific discount rate after taxes for each CGU group and reflects the specific risks associated with each of them.

The key assumptions used in calculating the value in use in 2020 and 2019 are as follows:

	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%

	2019			
	Mexico	USA	Europe	LATAM
Long-term growth rate	3.3%	2.5%	1.0%	2.0%
Discount rate	8.2%	6.3%	7.0%	9.3%

The Company performed a sensitivity analysis considering an increase in the discount rate of 100 basis points, and a similar decrease in the long-term growth rate. As a result of this analysis, the Company concluded that there are no significant variations with the impairment calculations prepared as of December 31, 2019.

13. Investments in associates and other assets

	As of December 31,	
	2020	2019
Long-term notes receivable	\$ 34,711	\$ 57,864
Investment in shares of associates	87,008	64,884
Other assets	101,068	92,504
Total investments in associates and other assets	<u>\$ 222,787</u>	<u>\$ 215,252</u>

The change in investment in associates for the years ended December 31, 2020 and 2019 is as follows:

	For the years ended December 31,	
	2020	2019
Opening balance (January 1)	\$ 64,884	\$ 58,433
Equity method	12,226	10,297
Additions	2,402	-
Exchange differences and dividends received, net	7,496	(3,846)
Ending balance (December 31)	<u>\$ 87,008</u>	<u>\$ 64,884</u>



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

	For the years ended December 31,	
	2020	2019
Net and comprehensive income (loss)	\$ 39,459	\$ 30,251

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

14. Trade and other accounts payable

	As of December 31,	
	2020	2019
Trade accounts payable	\$20,351,896	\$ 21,521,055
Taxes and withholdings payable	1,558,565	1,247,155
Short-term employee benefits	2,293,875	1,416,881
Other accounts and accrued expenses payable	2,405,872	2,001,748
	<u>\$26,610,208</u>	<u>\$ 26,186,839</u>

15. Debt

The carrying amounts of debt are as follows:

	As of December 31,	
	2020	2019
Current:		
Current portion of non-current debt	\$ -	\$ -
Interest payable	648,603	575,749
Current debt	<u>\$ 648,603</u>	<u>\$ 575,749</u>
Non-current:		
In U.S. dollars:		
Senior Notes	\$29,969,362	\$ 28,266,228
In euros:		
Senior Notes	14,931,967	12,894,492
In Mexican pesos:		
Bank loans	3,493,301	3,498,289
	<u>48,394,630</u>	<u>44,659,009</u>
Less: interest generated by the non-current debt	<u>(648,603)</u>	<u>(575,749)</u>
Non-current debt	<u>\$47,746,027</u>	<u>\$ 44,083,260</u>

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

Description	Contractual currency	Balance in Mexican pesos	Debt issuance costs	Interest payable	As of December 31, 2020	As of December 31, 2019 ⁽¹⁾	Maturity date MM/DD/YYYY Y	Interest rate at maturity
Senior Notes:								
Senior Notes 144A fixed rate ⁽²⁾	USD	\$19,924,661	\$ 97,344	\$141,470	\$19,968,787	\$18,827,842	02/05/2026	4.125%
Senior Notes 144A fixed rate ⁽²⁾	USD	9,974,350	100,741	126,966	10,000,575	9,438,386	27/03/2028	4.875%
Senior Notes 144A fixed rate ⁽⁴⁾	EUR	14,617,173	52,581	367,375	14,931,967	12,894,492	07/02/2024	2.625%
Total Senior Notes		44,516,184	250,666	635,811	44,901,329	41,160,720		
Bank loans:								
Bank loan, TIIE+1.00% ^(b)	MXN	3,500,000	19,491	12,792	3,493,301	3,498,289	20/10/2025	5.48%
Total		<u>\$48,016,184</u>	<u>\$270,157</u>	<u>\$ 648,603</u>	<u>\$48,394,630</u>	<u>\$44,659,009</u>		



As of December 31, 2020, the annual maturities of non-current debt are as follows:

	2021	2022	2023	2024	2025 onwards	Total
Bank loans	\$ -	\$ -	\$ -	\$ -	\$ 3,500,000	\$3,500,000
Senior Notes	-	-	-	14,617,173	29,899,011	44,516,184
Interest payable	648,603	-	-	-	-	648,603
	<u>\$648,603</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$14,617,173</u>	<u>\$33,399,011</u>	<u>\$48,664,787</u>

The relevant debt transactions are described as follows:

- 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 TIEE 28 + 1.00% on the amount of the outstanding principal on a monthly basis.
- 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.

- 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.

- 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:

- 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.
- Leverage ratio: which is defined as consolidated debt as of that date, being this net debt divided by adjusted EBITDA for the period of the last four complete quarters, which shall not be more than 3.5 times.



The covenant restrictions contained in the loan agreements, 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, 2020 and 2019 and at the date of issuance of these consolidated financial statements, the Company and its subsidiaries complied satisfactorily with such covenants and restrictions.

16. Lease liabilities

	As of December 31,	
	2020	2019
Current portion:		
USD	\$114,648	\$ 67,216
MXP	109,431	131,325
EUR	332,019	233,166
Other currencies	<u>1,871</u>	<u>8,425</u>
Current lease liability	<u>\$557,969</u>	<u>\$440,132</u>
	As of December 31,	
	2020	2019
Non-current portion:		
USD	\$ 729,568	\$ 387,420
MXP	713,533	860,987
EUR	1,057,915	906,599
Other currencies	<u>4,151</u>	<u>32,180</u>
	<u>2,505,167</u>	<u>2,187,186</u>
Less; Current portion of lease liabilities	<u>(557,969)</u>	<u>(440,132)</u>
Non-current lease liability	<u>\$1,947,198</u>	<u>\$1,747,054</u>



As of December 31, 2020, the changes in the lease liability that arise from financing activities according to the cash flow are integrated as follow:

	2020	2019
Beginning Balance as of January 1	\$ 2,187,186	\$ 2,113,421
New contracts during the year	678,964	540,351
Write-offs	(12,450)	(29,936)
Adjustment to liability balance	50,341	21,824
Interest expense from lease liability	153,778	139,410
Lease payments	(708,953)	(596,548)
Exchange loss	156,301	(1,336)
Ending balance of lease liabilities as of December 31	<u>\$ 2,505,167</u>	<u>\$ 2,187,186</u>

The total future fixed payments of leases are analyzed as follow:

	December 31,	
	2020	2019
- Less than 1 year	\$ 588,906	\$ 541,543
- Over 1 year and less than 3 years	668,481	857,130
- Over 3 years and less than 5 years	672,922	732,935
-Over than 5 years	771,609	496,220
Total	<u>\$2,701,918</u>	<u>\$ 2,627,828</u>

17. Income taxes

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

	2020	2019
Costa Rica	30.0%	30.0%
Germany	32.3%	32.3%
Belgium	25.0%	29.6%
Dominican Republic	27.0%	27.0%
El Salvador	30.0%	30.0%
Honduras	25.0%	25.0%
Guatemala	25.0%	25.0%
Nicaragua	30.0%	30.0%
Peru	29.5%	29.5%
The United States	21.0%	21.0%
Spain	25.0%	25.0%
Netherlands	25.0%	20.5%
Italy	24.0%	24.0%
France	28.4%	34.4%
Portugal	22.3%	22.3%
Ecuador	25.0%	25.0%
Romania	16.0%	16.0%

Optional regime for groups of companies in Mexico (incorporation regime)

Due to the elimination of the tax consolidation regime in Mexico, the Company chose to adopt the new optional regime for groups of companies beginning in 2014. That regime consists of grouping companies with specific characteristics, and allows for the deferral of part of the income tax payable in three years in March 2018, 2019 and 2020; the deferral percentage is calculated using a factor determined in accordance with the amount of tax profit and losses of 2020 and 2019, respectively.



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

	2020	2019
Current income tax	\$(2,613,782)	\$(2,555,833)
Deferred income tax	<u>792,222</u>	<u>(421,435)</u>
Income tax expensed	<u><u>\$(1,821,560)</u></u>	<u><u>\$(2,977,268)</u></u>

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

	For the years ended December 31,	
	2020	2019
Income before income tax	\$ 6,813,511	\$ 6,529,115
Statutory rate	30%	30%
Income tax at statutory rate	<u>(2,044,053)</u>	<u>(1,958,735)</u>
Effect of changes and due to differences in tax rates with other countries ⁽¹⁾	93,735	62,724
Plus (less) income tax effect on:		
Inflationary adjustment	(17,435)	(343,989)
Non-deductible expenses	(320,190)	(240,409)
Exchange rate differences and other items	<u>505,072</u>	<u>(501,601)</u>
Provision related to transactions of the year	<u>(1,782,871)</u>	<u>(2,982,010)</u>
True-up with respect to prior years	<u>(38,689)</u>	<u>4,742</u>
Total provision for income taxes expensed	<u><u>\$(1,821,560)</u></u>	<u><u>\$(2,977,268)</u></u>
Effective rate	<u><u>27%</u></u>	<u><u>46%</u></u>

⁽¹⁾ For the year ended December 2020, the effect of changes in tax rates corresponds to new statutory income tax rates enacted in Belgium, Netherlands and France, while in 2019 the effect of changes in tax rates corresponds to new statutory income tax rates enacted in Netherlands.

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

	Asset (liability) As of December 31,	
	2020	2019
Inventories	\$ 49,487	\$ 35,937
Property, plant and equipment	(232,965)	(39,566)
Intangible assets	(879,160)	(849,929)
Provisions, liabilities and accrued expenses payable	886,707	664,333
Tax loss carryforwards	3,149,268	2,565,615
Other temporary differences, net	<u>1,151,886</u>	<u>301,989</u>
Deferred tax asset	<u><u>\$ 4,125,223</u></u>	<u><u>\$ 2,678,379</u></u>
Intangible assets	\$(3,585,442)	\$(3,215,294)
Property, plant and equipment	(1,845,131)	(1,968,449)
Provisions, liabilities and accrued expenses payable	260,162	347,287
Tax loss carryforwards	976,716	907,772
Other temporary differences, net	<u>260,048</u>	<u>404,989</u>
Deferred tax liability	<u><u>\$(3,933,647)</u></u>	<u><u>\$(3,523,695)</u></u>

Deferred income tax asset is recognized on the tax-loss carryforwards to the extent the realization of the tax benefit related through future tax income is likely. Tax losses are in the amount of \$13,753,281 in 2020 and \$11,577,957 in 2019. 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, 2020 expire in the following years:

Tax loss arising year	Expiration year	2020
2011	2021	\$ 44,428
2012	2022	25,206
2013	2023	21,316
2014	2024	16,133
2015	2025	6,515
2016	2026	6,099,469
2017	2027	85,920
2018	2028	1,363,370
2019	2029	1,144,219
2020	2030	1,691,768
2014	No expiration (*)	3,254,937
		<u>\$ 13,753,281</u>

(*) Tax losses arise from the acquisition of Campofrio performed in prior years, and do not expire according to the tax regulations in effect in the countries where they were generated.

d) The charge/(credit) of the tax related to comprehensive income components, is as follows:

	For the years ended December 31,					
	2020	2020	2020	2019	2019	2019
	Before tax	Tax payable/(receivable)	After tax	Before tax	Tax payable/(receivable)	After tax
Remeasurement of employee benefit liabilities	\$ 42,741	\$ (14,110)	\$ 28,631	\$ (351,572)	\$ 105,468	\$ (246,104)
Valuation of derivative financial instruments	(498,796)	149,639	(349,157)	(176,214)	52,864	(123,350)
Effect of translation of foreign entities	1,432,249	-	1,432,249	(1,407,707)	-	(1,407,707)
Other comprehensive income items	<u>\$ 976,194</u>	<u>\$ 135,529</u>	<u>\$1,111,723</u>	<u>\$(1,935,493)</u>	<u>\$ 158,332</u>	<u>\$ (1,777,161)</u>

e) Income tax payable consists of the following:

	As of December 31,	
	2020	2019
Current income tax	\$ 460,549	\$ 1,739,222
Income tax on optional regime for group of entities in Mexico	973,617	555,832
Total income tax payable	<u>\$ 1,434,166</u>	<u>\$ 2,295,054</u>
Current portion	\$ 460,549	\$ 1,739,222
Non-current portion	973,617	555,832
Total income tax payable	<u>\$ 1,434,166</u>	<u>\$ 2,295,054</u>

f) The recoverable income tax consists of the following:

	As of December 31,	
	2020	2019
Advance payments of income taxes	\$ 715,748	\$ 396,349
Deferred income tax receivable	25,669	10,569
Others	-	97
Total income tax to be recovered	<u>\$ 741,417</u>	<u>\$ 407,015</u>



18. Provisions

	Disputes	Restructuring and severance payments ⁽¹⁾	Total
As of January 1, 2019	\$ 61,017	\$ 173,435	\$234,452
Additions	53,919	15,113	69,032
Translation effect	(5,373)	(8,013)	(13,386)
Payments	<u>(35,508)</u>	<u>(70,089)</u>	<u>(105,597)</u>
As of December 31, 2019	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	<u>\$101,615</u>	<u>\$ 171,168</u>	<u>\$272,783</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 as to strengthen existing synergies.

19. Other liabilities

	As of December 31,	
	2020	2019
Current portion:		
PTU (statutory employee profit sharing)	\$174,925	\$175,460
Bank overdrafts	20,342	20,307
Share-based payments (Note 22)	14,767	12,198
Notes payable	134,430	105,286
Accounts payable to affiliates (Note 27)	19,430	37,693
Total other current liabilities	<u>363,894</u>	<u>350,944</u>
Non-current portion:		
Notes payable and others	83,124	128,377
Share-based payments (Note 22)	36,730	30,764
Total other non-current liabilities	<u>119,854</u>	<u>159,141</u>
Total other liabilities	<u>\$483,748</u>	<u>\$510,085</u>

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.

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

	Region	As of December 31,	
		2020	2019
Mexico		\$1,154,662	\$1,199,825
Europe		503,823	428,192
LATAM		148,894	143,217
Total		<u>\$1,807,379</u>	<u>\$1,771,234</u>



The following summarizes key financial data of such employee benefits:

	As of December 31,	
	2020	2019
Pension benefits	\$1,419,879	\$ 1,409,789
Post-employment medical benefits	7,296	8,969
	<u>\$1,427,175</u>	<u>\$ 1,418,758</u>
Defined contribution plan	380,204	352,476
Liability in the consolidated statement of financial position	<u>\$1,807,379</u>	<u>\$ 1,771,234</u>
	For the years ended	
	December 31,	
	2020	2019
Expense in the consolidated statement of income:		
Pension benefits	\$(194,814)	\$(152,910)
Post-employment medical benefits	(628)	(578)
	<u>\$(195,442)</u>	<u>\$(153,488)</u>
Remeasurements due to employee benefit obligations recognized in other comprehensive income for the period	<u>\$ 42,741</u>	<u>\$(351,572)</u>
Remeasurements due to accrued employee benefit obligations recognized in other comprehensive income	<u>\$(154,697)</u>	<u>\$(197,438)</u>

Pension benefits and post-employment medical benefits

The Company operates defined benefit pension plans based on employees' pensionable remuneration and length of service. Most plans are externally funded. Plan assets are held in trusts, foundations or similar entities, governed by local regulations and practices in each country, as is the nature of the relationship between the Company and the respective trustees (or equivalent). The Company operates post-employment medical benefits plans in Mexico and the United States. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension plans. Most of these plans are not being funded.

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

	As of December 31,	
	2020	2019
Present value of funded obligations	\$ 4,046,921	\$ 3,671,515
Fair value of plan assets	(2,619,746)	(2,252,757)
Net liability in the consolidated statement of financial position	<u>\$ 1,427,175</u>	<u>\$ 1,418,758</u>

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

	For the years ended	
	December 31,	
	2020	2019
Opening balance (January 1)	\$3,671,515	\$3,215,746
Current service cost	147,638	117,098
Interest cost	125,306	136,091
Actuarial remeasurements	142,094	302,311
Past service costs	-	789
Exchange differences	291,972	(129,500)
Benefits paid	(309,495)	25,016
Liabilities acquired in business restructuring	(16,501)	3,964
Settlement costs	(5,608)	-
Ending balance (December 31)	<u>\$ 4,046,921</u>	<u>\$3,671,515</u>



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

	For the years ended December 31,	
	2020	2019
Opening balance (January 1)	\$(2,252,757)	\$(2,158,266)
Return on plan assets	(71,894)	(95,737)
Employee contributions	-	(3,029)
Benefits paid	45,492	36,136
Exchange differences	(155,752)	(81,122)
Actuarial remeasurements	(184,835)	49,261
Ending balance (December 31)	<u>\$(2,619,746)</u>	<u>\$(2,252,757)</u>

The main actuarial assumptions were as follows:

	As of December 31,	
	2020	2019
Discount rate (Mexico)	6.75%	7.00%
Discount rate (Europe)	1.25%	1.25%
Inflation rate (Mexico)	3.50%	3.50%
Wage increase rate (Mexico)	4.50%	4.50%
Wage increase rate (Europe)	1% a 3%	1% a 3%
Future wage increase (Mexico)	3.50%	3.50%
Medical inflation rate (Mexico)	6.50%	6.50%

The sensitivity analysis of the main assumptions for defined benefit obligations, 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	\$ (445,537)	\$ 495,767

	Medical inflation rate	
	Increase of 1%	Decrease of 1%
Impact on defined benefit obligations	\$ (1,147)	\$ 1,471

Assets of the pension benefits

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

	As of December 31,	
	2020	2019
Short and long-term fixed income securities	\$2,117,005	\$1,817,132
Shares	502,741	435,625
Fair value of plan assets	<u>\$2,619,746</u>	<u>\$2,252,757</u>

21. Stockholders' equity

As of December 31, 2020 and 2019, the capital stock is variable, with a fixed minimum without withdrawal rights of \$27,081, represented by 1,290,654,555 nominal, Series "A" shares, with no par value, fully subscribed and paid.

The profit for the period is subject to the legal provision requiring at least 5% of the profit for each period to be set aside to increase the legal reserve until it reaches an amount equivalent to one fifth of the capital stock. As of December 31, 2020 and 2019, the legal reserve amounted to \$5,416, which is included in other capital reserves.



Dividends declared

- At the General Ordinary Stockholders' Meeting on September 6, 2019, the stockholders agreed to declare dividends in cash in the aggregate amount of US\$60 million, which was paid during the third quarter of 2019 in the aggregate amount of \$1,186,836 (\$0.92 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 6, 2019, the stockholders agreed to declare dividends in cash in the aggregate amount of US\$60 million, which was paid during the first quarter of 2019 in the aggregate amount of \$1,155,582 (\$0.90 dividends per share in Mexican pesos), fully applied to the Net Taxable Income Account ("CUFIN by its Spanish initials").

In accordance with the new Income Tax Law in Mexico effective as of January 1, 2014, 10% tax is payable on income generated starting in 2014 on dividends paid to parties resident abroad and to Mexican individuals when they correspond to tax profits generated as of 2014. It also establishes that for fiscal years 2001 to 2013, the net tax profit will be determined as established in the Income Tax Law effective in the respective fiscal year.

Dividends paid are not subject to income tax if paid from CUFIN. Dividends in excess of the CUFIN will cause an income tax at the applicable rate for the period in which they are paid. The tax is payable by the Company and may be credited against its income tax in the same year or the following two years. Dividends paid from profits on which income tax has previously been paid are not subject to tax withholding or to any additional tax payment. As of December 31, 2020 and 2019, the tax value of the CUFIN of Sigma Alimentos, S. A. de C. V. was \$12,490,564 and \$12,109,162, 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 receive a cash payment conditional on the achievement of quantitative and qualitative metrics from the following financial measures:

- Improved stock price
- Improvement in net income
- Continuance of the Directors in the Company.

The bond will be paid in cash in the next five years after the grant date, namely 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 the year. The average price of ALFA's share in pesos for measuring the executive incentive for 2020 and 2019 was \$15.39 and \$15.72, respectively.

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

	As of December 31,	
	2020	2019
Current	\$ 14,767	\$ 12,198
Non-current	36,730	30,764
Total carrying amount	<u>\$ 51,497</u>	<u>\$ 42,962</u>



23. Expenses classified by their nature

Cost of sales and selling and administrative expenses classified by nature are as follows:

	For the years ended December 31,	
	2020	2019
Changes in inventory of finished goods and in progress	\$ (75,135,962)	\$ (69,925,339)
Employee benefit expenses (Note 27)	(21,335,126)	(18,628,224)
Maintenance	(3,482,397)	(3,182,781)
Depreciation and amortization	(4,609,549)	(4,270,577)
Freight expenses	(2,808,477)	(2,493,373)
Advertising expenses	(2,414,844)	(2,477,498)
Energy and fuel consumption	(1,898,847)	(1,848,293)
Travel expenses	(375,466)	(577,376)
Lease expenses and other services ⁽¹⁾	(374,701)	(248,022)
Technical assistance, professional fees and administrative services	(2,359,870)	(1,945,255)
Other	(11,171,293)	(9,881,388)
Total	<u>\$ (125,966,532)</u>	<u>\$ (115,478,126)</u>

(1) This concept includes expenses in 2020 and 2019 of \$215,368 and \$162,065, 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,	
	2020	2019
Claim reimbursements	\$ 49,228	\$ 96,577
Gain on sale of property, plant and equipment	19,549	39,827
Other income	79,607	123,898
Total other income	<u>148,384</u>	<u>260,302</u>
Project consulting	(5,349)	(7,167)
Impairment of property, plant and equipment and intangible assets	(830,470)	(124,487)
Other expenses	(62,369)	(683)
Total other expenses	<u>(898,188)</u>	<u>(132,337)</u>
Total other (expenses) income, net	<u>\$ (749,804)</u>	<u>\$ 127,965</u>

25. Financial cost, net

	For the years ended December 31,	
	2020	2019
Financial income:		
- Interest income on short-term bank deposits	\$ 135,327	\$ 118,308
- Other financial income	122,031	182,509
- Interest on accounts receivable	713	25,599
Total financial income	<u>258,071</u>	<u>326,416</u>
Financial expenses:		
- Interest expense on bank loans	(373,858)	(496,675)
- Interest expense on lease liability	(153,778)	(139,410)
- Interest expense on debt securities and Senior Notes	(2,003,310)	(1,567,452)
- Financial expense for portfolio sale	(114,195)	(126,339)
- Financial expense for employee benefits	(125,306)	(136,091)
- Other financial expenses	(175,296)	(61,025)
Total financial expenses	<u>(2,945,743)</u>	<u>(2,526,992)</u>



	For the years ended December 31,	
	2020	2019
Exchange fluctuation:		
- Exchange fluctuation gain	\$11,203,367	\$ 5,856,170
- Exchange fluctuation loss	<u>(10,981,028)</u>	<u>(6,284,559)</u>
Exchange gain (loss), net	222,339	(428,389)
Financial cost, net	<u>\$(2,465,333)</u>	<u>\$(2,628,965)</u>

26. Employee benefit expenses

	For the years ended December 31,	
	2020	2019
Salaries, wages and benefits	\$17,740,861	\$15,424,392
Social security fees	1,341,255	1,256,319
Employee benefits	147,638	117,098
Other fees	<u>2,105,372</u>	<u>1,830,415</u>
Total	<u>\$21,335,126</u>	<u>\$18,628,224</u>

27. Related party transactions

Transactions with related parties for the years ended December 31, 2020 and 2019, which were held under equal conditions for similar transactions with independent parties, were as follows:

	For the years ended December 31,	
	2020	2019
Income (affiliates):		
Dividends received	\$ -	\$ 117
Expenses (affiliates):		
Administrative services	172,296	182,823
Leases and other items	223,800	245,520
Dividends paid to ALFA (holding)	-	2,342,418

For the years ended December 31, 2020 and 2019, the considerations and benefits received by the principal officers of the Company amounted to \$429,883 and \$490,531, 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, 2020 and 2019, balances with related parties are as follows:

	Nature of the transaction	As of December 31,	
		2020	2019
Receivable:			
Affiliates	Services	\$5,446	\$ 3,699
Payable:			
Affiliates	Services	19,430	37,693

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

28. Financial information by segments

Segment information is presented consistently with the internal reports provided to the CEO, who is the highest authority for operational decision making, resource allocation and performance assessment of the operating segments.



An operating segment is defined as a component of an entity on which separate financial information is regularly being evaluated. Inter-segment revenue from the sale of products and services is based on the approximate market price. The CEO considers the business from a geographic perspective. The geographies monitored by the CEO are defined as the Company's operating segments, which are classified in Mexico, the United States, Europe and LATAM (Latin America).

SIGMA controls and assesses its continued operations through segments that have been defined as established above; these segments are managed centrally, since although markets are different, products offered in each one of the segments are similar and correspond to processed meat, dairy products and other refrigerated products.

Operations between operating segments are conducted at market value and the accounting policies with which the financial information by segments is prepared are consistent with those described in Note 3.

The Company evaluates the performance of each of the operating segments based on income before financial result, income taxes, depreciation and amortization ("EBITDA"), considering that this indicator is a good measure to evaluate operating performance and the ability to meet principal and interest obligations with respect to indebtedness, and the ability to fund capital expenditures and working capital requirements. Nevertheless, EBITDA is not a measure of financial performance under IFRS and should not be considered an alternative to net income as a measure of operating performance, or cash flows as a measure of liquidity.

For the year ended December 31, 2020 and 2019, 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, 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	(1,448,093)	(2,850,575)	(128,295)	(542,743)	(4,969,706)
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	(229,009)	-	(599,502)	(1,959)	(830,470)
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	2,435,738	2,920,935	774,504	682,334	6,813,511
Capital investment (Capex)	\$ 1,319,469	\$ 514,935	\$ 641,831	\$ 141,111	\$ 2,617,346

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>	<u>\$65,163,064</u>
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.



For the year ended December 31, 2019:

	Mexico	USA	Europe	LATAM	Total
Total income by segment	\$ 53,670,903	\$ 22,177,486	\$ 43,580,564	\$ 9,527,621	\$ 128,956,574
Intersegment income	(1,189,813)	(2,797,014)	(126,689)	(345,113)	(4,458,629)
Income from external customers	52,481,090	19,380,472	43,453,875	9,182,508	124,497,945
Adjusted EBITDA	7,352,044	2,788,005	2,525,127	877,672	13,542,848
Depreciation and amortization	(1,551,072)	(638,293)	(1,896,488)	(184,724)	(4,270,577)
Impairment of fixed assets	(119,156)	-	(5,321)	(10)	(124,487)
Operating income	5,681,816	2,149,712	623,318	692,938	9,147,784
Financial cost, net	(2,055,287)	137,669	(685,973)	(25,374)	(2,628,965)
Equity in income of associates	(3,569)	-	13,104	762	10,297
Income before taxes	3,622,960	2,287,381	(49,551)	668,326	6,529,116
Capital investment (Capex)	\$ 1,497,129	\$ 255,847	\$ 1,432,546	\$ 165,550	\$ 3,351,072

As of December 31, 2019:

	Mexico	USA	Europe	LATAM	Total
Non-current assets:					
Property, plant and equipment ^(*)	\$10,955,480	\$ 1,961,146	\$17,640,891	\$1,748,536	\$32,306,053
Intangible assets	3,617,268	579,464	8,707,926	689,701	13,594,359
Right-of use asset	875,358	262,687	890,823	77,311	2,106,179
Goodwill	1,944,082	4,722,477	4,469,723	1,728,751	12,865,033
	<u>\$17,392,188</u>	<u>\$ 7,525,774</u>	<u>\$31,709,363</u>	<u>\$4,244,299</u>	<u>\$60,871,624</u>
Other:					
Deferred income tax assets					2,678,379
Derivative financial instruments					326,380
Other non-current assets					270,366
Total non-current assets					<u>\$64,146,749</u>
Total liabilities	<u>\$56,238,804</u>	<u>\$ 2,664,165</u>	<u>\$21,235,362</u>	<u>\$1,590,091</u>	<u>\$81,728,422</u>

^(*) 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,	
	2020	2019
Deli meats and smoked meats ⁽¹⁾	\$ 106,419,521	\$ 94,464,926
Dairy ⁽²⁾	24,898,162	23,730,948
Other ⁽³⁾	4,665,271	6,302,071
Total	<u>\$ 135,982,954</u>	<u>\$ 124,497,945</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, 2020, and 2019, sales to its largest customer represented 10.2% and 10%, respectively, of total sales.

29. Contingencies and commitments

In the normal course of its business, the Company is involved in controversies and litigation. While the results of the disputes cannot be predicted as of December 31, 2020, the Company does not believe that there are actions pending application or threats, claims or legal proceedings against or affecting the Company, which, if determined adversely to its interests, would significantly damage the individual or overall results of its operations or financial position.



30. Subsequent event

In preparing the financial statements, the Company has evaluated events and transactions to be recognized or disclosed after December 31, 2020 and through January 31, 2021 (date of issuance of the consolidated financial statements) and has identified the following, without representing adjustments to the figures as of December 31, 2020:

- 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 were 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").

31. Authorization to issue the consolidated financial statements

The issuance of the accompanying consolidated financial statements and its notes was authorized on January 31, 2021, 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 shareholders' meeting.

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