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

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

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

Overview

Sigma is a leading multinational food company that produces, markets, and distributes quality branded foods, including packaged meats, cheese, yogurt, and other refrigerated and frozen foods. Sigma has a diversified portfolio of leading brands, including FUD®, Campofrío®, Aoste®, Bar-S®, Chimex®, San Rafael®, Braedt®, La Villita® and Yoplait®. Its large brand portfolio covers different socioeconomic levels, allowing the Company to diversify its sales through a variety of markets.

Through brand development, quality products and continuous innovation, Sigma has established a leading market position operating 64 plants and 183 distribution centers in 18 countries across four key regions: Mexico, Europe, The United States, and Latin America. During 2022 the Company generated consolidated net sales of Ps. 149,311 million and Adjusted EBITDA of Ps. 13,107 million, a 13% decline when compared to the previous year, mainly due to the greater-than-expected impact in Europe which offset the positive performance in the Americas.

The Company conducts operations in Mexico, the U.S.A., Costa Rica, El Salvador, the Dominican Republic, Peru, Ecuador, Honduras, Nicaragua, Guatemala, Spain, France, Italy, the Netherlands, Germany, Romania, Belgium, and Portugal; and sells its products in more than 670,000 points of sale in those countries. Distribution channels include the modern channel that consists of supermarkets, hypermarkets, and convenience stores; the traditional channel that consists of small grocery stores, traditional butchers, delicatessens, and wholesalers; and the foodservice channel that consists of hotels, restaurants, hospitals, among others. Sigma has built and maintained close relationships, which has allowed the Company to grow its businesses and create value.

Economic Environment and other Macroeconomic Factors

Sigma's business is closely tied to population growth, general economic environment, as well as region-specific conditions where the Company operates. Also, a significant portion of costs and net sales are either denominated in or linked to the value of the U.S. Dollar and the Euro. Therefore, sudden moves in exchange rates could impact margins. Also, Raw materials costs may fluctuate due to changes in the price of commodities, such as corn, wheat and other grains, fuel, and transportation, all of which may be affected by market dynamics, and consumer trends. These are all commonly mitigated through revenue management initiatives.

Net Sales

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

- Production capacity and the absence of operational disruptions. This includes any changes arising from company mergers and acquisitions (see "—Effect of Acquisitions, Capacity Expansion and Production Efficiencies" below), as well as the construction of new production facilities or the expansion of existing plants.
- Product demand, consumer disposable income growth, or general economic expansions or contractions in the countries in which the Company operates, and resilience to adverse economic scenarios.
- Competition from substitute products, including those outside the categories in which the Company participates.
- Ability to innovate and develop new products and product characteristics that meet consumers' changing needs and preferences.

The main factors affecting the pricing of products include:

- Market conditions and the regional supply and demand for packaged meats, dairy products, and other refrigerated food products.
- Competitive pricing strategies.
- Product mix, ranging from premium to economic brands.
- Changes in raw material and other costs, along currency exchanges rates.

Cost of Sales

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

- Raw material cost volatility, particularly for pork and poultry, which are related to market dynamics and the cost of feed, such as grains and corn, as well as for fluid and dry milk or the impact of exchange rate fluctuations on raw material costs.
- Sales volume and Product mix.
- Ability to streamline or create efficiencies in production processes.
- Production costs and capacity utilization rates.

Gross Profit

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

Selling and Administrative Expenses

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

Comprehensive Financing Expense, Net

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

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

In the past, the Company has used derivative financial instruments to manage the risk profile associated with interest rates and currency exposure, reduce financing costs and hedge some of commodity and financial market risks. As of December 31, 2022, the Company had US$ 220 million in cross currency swaps (CCS) and US$ 665 million in exchange rate Forwards designated as hedges for accounting purposes at a consolidated level to reduce its exposure to the exchange rate risks associated with its business operations. Internal policy prohibits any derivative financial instruments for speculative purposes, however, they can be used as an economic hedge against certain business risks, even if these instruments do not qualify for hedge accounting under IFRS. In addition, the Company may be required to record fair value losses in the future that could be material. The mark-to-market accounting for derivative financial instruments is reflected in the income statement and has resulted in volatility in earnings. In addition, the Company may incur future losses in connection with derivative financial instruments transactions, which could have a material adverse effect on financial condition and results of operations.

Effect of Acquisitions, Capacity Expansion and Production Efficiencies

Financial results for the periods presented below were not affected by mergers or acquisitions.

Effects of Foreign Currency Exchange Rate Fluctuations

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

Functional Currency

The financial statements of each of the subsidiaries should be measured using the currency of the primary economic environment in which each such entity operates ("the functional currency"). Sigma concluded that the most adequate functional currency for the Issuer is the U.S. Dollar. This was based on the economic environment where the entity generates and uses cash. Revenues from dividends and revenues from brand use are collected in U.S. Dollars. The previous functional currency was the Mexican Peso and in accordance with the International Accounting Standard 21 "Effects of changes in foreign exchange rates" ("IAS 21"), the changes are made prospectively. At the date of the change in the functional currency, all assets, liabilities, capital, and income statement items were translated into U.S. Dollars at the exchange rate at that date.

Limited Seasonality

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

Key Drivers of Profitability

The key drivers of profitability include:

- The Company's ability to respond to economic conditions in its markets and offer broad portfolio of brands across the diverse consumer base.
- The Company's ability to understand and attend to consumer needs through innovation by focusing its research and development activities on tailoring products to the preferences and needs of consumers.
- The Company's ability to successfully integrate acquisitions and benefit from synergies and optimization initiatives.
- The Company's ability to achieve optimize and operate at scale through efficiency in the use its production and distribution facilities and control of variable costs and expenses.

Critical Accounting Policies

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

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

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

- It requires the Company to make assumptions due to lack of information or if it included matter that were highly uncertain at the time the estimate was made.

- Changes in the estimate or different estimates that would have had a material impact on the financial condition or operating results.

Estimated Impairment of Goodwill

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

Income Taxes

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

Pension Benefits

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

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

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

Long-lived Assets

The Company estimates the useful lives of long-lived assets to determine the depreciation and amortization expenses to be recorded during the reporting period. The useful life of an asset is determined when the asset is acquired based on experience with similar assets and considering anticipated technological changes or any other type of changes. When technological changes occur faster or differently than estimated, the useful lives assigned to the assets could be reduced.

This would lead to the recognition of a higher depreciation and amortization expense in future periods. Alternatively, these types of technological changes could result in the recognition of a charge for impairment to reflect the reduction in the value of the assets. The Company reviews assets on an annual basis for signs of impairment, or when certain events or circumstances indicate that the value in books may not be recovered during the remaining useful life of the assets.

To evaluate the impairment, the Company uses cash flows that consider the administrative estimates for future transactions, including estimates for revenues, costs, operating expenses, capital expenses and debt service. In accordance with IFRS, if an assessment is required, future discounted cash flows associated with an asset would be compared to the value in books of the asset to determine if an asset is impaired. In this case, the asset is reduced to its fair value.

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 number of variable considerations, which comprise the estimated number of returns from customers, rebates and similar discounts and payments made to customers. The Company recognized revenues of Ps 149,311 million from the sale of goods to third parties during 2022. Customers have the right to return the products if they are not satisfied or, in some cases, when these expire. Sigma includes a provision based on the historical behavior of customers, estimating the corresponding liability through the application of the expected value method. As of December 31, 2022, and 2021, the balance of this provision was approximately Ps. 138 million and Ps. 58 million, respectively.

Recognition of Deferred Tax Assets

The Company has tax losses to be applied, derived mainly from significant foreign exchange losses, which may be used in the years following their maturity. Based on the projections of 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.

Results of Operations

	For the Years Ended December 31 (in millions of Pesos, except percentages)				**Percentage Change**
	2021	**Percent of Net Sales**	**2022**	**Percent of Net Sales**	**2022 vs. 2021**
Net sales	138,314	100	149,311	100	8.0
Cost of sales	(99,735)	(72)	(110,989)	(74)	11.3
Gross profit	38,578	28	38,321	26	(0.7)
Selling and administrative	(28,347)	(20)	(29,394)	(20)	4.0
Other expenses, net	(1,159)	(1)	(288)	(0)	(75.2)
Operating profit	9,072	7	8,640	6	(4.8)
Financial income	205	0	359	0	75.0
Financial expenses	(2,527)	(2)	(2,725)	(2)	7.8
Gain (loss) due to exchange fluctuation, net	(1,039)	(1)	(1,023)	(1)	(1.6)
Comprehensive financing expense	(3,361)	(2)	(3,389)	(2)	
Share of losses of investments accounted for using the equity method	21	0	(1)	(0)	(102.8)
Profit before income tax	5,732	4	5,251	4	(8.4)
Income tax	(4,589)	(3)	(3,249)	(2)	(29.2)
Net profit	1,143	1	2,002	1	75.2
Adjusted EBITDA	15,050	11%	13,107	9%	(12.9)

The following table provides a breakdown of net sales by product line for 2021 and 2022:

	For the Year Ended December 31, (in millions of Pesos, except percentages)				Percentage Change
	2021	Percent of Net Sales	2022	Percent of Net Sales	2022 vs. 2021
Product lines:					
Packaged meats	102,199	74%	105,795	71%	4%
Dairy products	26,511	19%	31,280	21%	18%
Other products	9,603	7%	12,235	8%	27%
Total	138,314	100%	149,311	100%	8%

The following table provides a breakdown of net sales by geographic region for 2021 and 2022:

	For the Year Ended December 31, (in millions of Pesos, except percentages)				Percentage Change
	2021	Percent of Net Sales	2022	Percent of Net Sales	2022 vs. 2021
Geographic region:					
Europe	47,121	34%	43,792	29%	-7%
United States	24,394	18%	27,943	19%	15%
Mexico	57,327	41%	66,756	45%	16%
Latin America	9,472	7%	10,820	7%	14%
Total	138,314	100%	149,311	100%	8%

2022 compared with 2021:

Net Sales by Product Line

Net sales of packaged meats for the year ended December 31, 2022, were Ps. 105,795 million, a 4% increase from the Ps. 102,199 million reported in 2021 mainly due to pricing actions in response to inflationary pressures across all regions, as well as volume growth, which was partially offset by lower fresh pork meat exports to China and a depreciation of the Euro.

Net sales of dairy products for the year ended December 31, 2022, were Ps. 31,280 million, an increase of 18% from the Ps. 26,511 million reported in 2021 mainly due to pricing actions in response to the higher raw material costs, as well as volume growth particularly in Mexico and the U.S.

Net sales of other products for the year ended December 31, 2022, were Ps. 12,235 million, a 27% increase from the Ps. 9,603 million reported in 2021. This increase was primarily due to pricing actions and volume growth. Revenue growth resulted from a positive performance in the Americas, led by Mexico. In contrast, contribution from Europe in the category decreased mainly due to the depreciation of the Euro versus the Mexican Peso.

Net Sales by Geographic Region

Net sales in Mexico for the year ended December 31, 2022, were Ps. 66,756 million, a 16% increase from the Ps. 57,327 million in 2021, due to revenue management initiatives in response to raw material inflationary pressures and a positive performance in the Foodservice and Convenience channels.

Net sales in Europe for the year ended December 31, 2022, were Ps. 43,792 million, a 7% decrease from the Ps. 47,121 million reported in 2021 as the depreciation of the Euro impacted the top-line. However, Euro-denominated Revenue increased 5% year-on-year, driven by 10% higher average prices. Volume declined 4% due to lower fresh meat sales in response to market conditions, as operations were adjusted to account for higher live hog costs vis-à-vis low market prices for cuts and trims. Volume in the Packaged Meats business remained stable. As a reference, Packaged Meats account for approximately 87% of European Revenues and Fresh Meats the remainder.

Net sales in the United States for the year ended December 31, 2022, were Ps. 27,943 million, a 15% increase from the Ps. 24,394 million reported in 2021. The increase was mainly explained by revenue management initiatives in response to raw material inflationary pressures. Price adjustments and optimization initiatives more than offset higher costs for raw material and other inputs. Meanwhile, demand growth was driven by the Mainstream and Hispanic Brands Businesses.

Net sales in Latin America for the year ended December 31, 2022, were Ps. 10,820 million, a 14% increase from the Ps. 9,472 million reported in 2021 that mainly resulted from revenue management initiatives in response to raw material inflationary pressures and continued recovery in Foodservice led by Peru, the Dominican Republic, Ecuador, and Costa Rica.

General

Net sales for the year ended December 31, 2022, were Ps. 149,311 million, up 8% from Double-digit growth in the Americas was partially offset by the 12% exchange rate depreciation that impacted Europe. In local currency, Revenues rose by 12% versus 2021, driven by double-digit growth in the Americas and 5% in Europe.

As a percentage of total sales, Mexico sales in accounted for 45%, sales in the Europe accounted for 29%, sales in United States accounted for 19% and sales in Latin America accounted for 7%.

Cost of sales for the year ended December 31, 2022, increased 11% to Ps.110,989 million from Ps. 99,735 million in 2021. The increase was mainly driven by a net effect of higher raw material and other input costs, and the depreciation of the Euro.

Gross profit, defined as the difference between revenues and cost of sales, for the year ended December 31, 2022, a 1% decrease to Ps. 38,321 million from Ps. 38,578 million one year prior. This increase was primarily due to the factors discussed above.

Selling and administrative expenses were Ps. 29,394 million in 2022, a 4% increase when compared to Ps. 28,347 million in 2021 mainly due to inflationary effects.

Other income (expenses), net for the year ended December 31, 2022, was an expense of Ps. 287,631 million, when compared to Ps. 1,159 million during 2021. This is mainly explained by non-cash asset impairments mainly related to the six plants awaiting final sale approvals in Belgium and the Netherlands, as well as two plants sold in France, that impacted operating income and not EBITDA.

Operating profit for the period was Ps. 8,640 million, down 5% versus Ps. 9,072 million during 2021. This increase was primarily due to the factors discussed above. Mainly explained to lower EBITDA and a non-cash impairment mainly related to assets available for sale in Europe.

Comprehensive financing expense net, for the year ended December 31, 2022, resulted in an expense of Ps. 3,388 million. This represents a 1% increase from the expense of Ps. 3,361 million reported in 2021. Mainly due to the higher net financial expense.

Income tax for the year ended December 31, 2022, was a tax expense of Ps. 3,249 million, a 29% decrease year on year, mainly because of the higher inflationary effect in financing activities during 2021, in addition to the impact from exchange rate fluctuations. These inflationary tax effects did not require a cash out, since deferred income tax balances were utilized.

In December 2022, the Company made the decision to voluntarily abandon this regime, which generated the obligation of the total payment of the income tax for the Alfa entities that were part of said regime and that had been deferred for the years from 2019 to 2021 for Ps. 1,109,174, which will have to be paid in 2023. This decision aims to adhere to best practices and provide a more stable and predictable income tax.

Net profit during 2022 reached Ps. 2,002 million a 75% increase versus Ps. 1,143 million in 2021. This change was primarily due to lower taxes that more than offset the lower operating income.

Liquidity and Capital Resources

Overview

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

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

Liquidity

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

The following table summarizes the cash flows from operating, investing, and financing activities for the years ended December 31, 2021 and 2022:

	(in millions of Pesos) For the Year Ended December 31,	
	2021	**2022**
Net resources generated from operating activities..................	12,215	9,062
Net resources (used in) provided by investing activities..........	(4,459)	(4,802)
Net resources provided by (used in) financing activities..........	(7,187)	(7,062)
Cash and cash equivalents at period end	16,856	13,208

Operating Activities

In 2022, net resources generated from the operating activities amounted to Ps. 9,062 million. The lower cash flow from operating activities is explained by the greater-than-expected impact in consolidated results Europe which offset the positive performance in the Americas.

In 2021, net resources generated from the operating activities amounted to Ps.12,215 million, primarily attributable to strong operational results driven by successfully implemented revenue management initiatives amid inflationary pressures on raw material costs and other industry wide-challenges, and resilient volume.

Investing Activities

In 2022, net resources used in investing activities were Ps. 4,802 million, mainly due to maintenance and strategic capital expenditures. Financial results for the periods presented below were not affected by mergers or acquisitions. In 2021, net resources used in investing activities were Ps. 4,459 million, mainly due to the same concepts. Financial results for the periods presented below were not affected by mergers or acquisitions.

Financing Activities

In 2022, net resources used in financing activities were Ps. 7,062 million, mainly due to dividends paid, interest, and derivative financial instruments. In 2021 net resources used in financial activities were Ps. 7,187 million due to the same concepts.

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

Capital Resources

Existing Indebtedness

On December 31, 2022, the Company's total indebtedness was Ps. 45,345 million, of which Ps. 29,157 million was denominated in U.S. dollars, Ps. 12,673 million was denominated in Euros and Ps. 3,515 million was denominated in Mexican pesos. Of this total amount, Ps. 590 million constituted short-term debt, which was explained by interest payments and Ps. 44,755 million constituted long-term debt. The primary use of debt has been to fund acquisitions and capital expenditures. As of December 31, 2022, the Company had available committed credit facilities available for over Ps. $12,521 million.

Capital Expenditures

In 2022 and 2021, the capital expenditures were Ps. 4,996 million and Ps. 4,561 million, respectively. These capital expenditures were used for maintenance and replacement of productive assets, such as maintenance of production facilities, replacement of delivery vehicles and strategic capital expenditures for organic growth.

Tabular Disclosure of Contractual Obligations

The following is a summary of contractual obligations (other than operating leases) as of December 31, 2022:

	Payments Due by Period (in millions of Pesos)				
	Total	**Less than 1 Year**	**1-2 Years**	**3-5 Years**	**More than 5 Years**
Contractual Obligations					
Short-term debt obligations....................	27,248	27,248	-	-	-
Long-term debt obligations.....................	45,345	590	15,854	28,901	-
Capital lease obligations..........................	1,852	436	657	400	359
Total	74,444	28,274	16,511	29,301	359

Quantitative and Qualitative Disclosures about Market Risk

Derivative Financial Instruments

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

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

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

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

As of December 31, 2022, the Company has two Cross-Currency-Swaps (CCS) and sixty-nine USD/MXN Forwards, whereas, as of December 31, 2021, it had two CCS and fifty-one USD/MXN Forwards. Exchange rate Forwards at the consolidated level to mitigate the risk of the overall exposure to the exchange rate arising from the operations of the business. The characteristics of the CCS and Forwards designated as accounting hedges of the exchange rate risk are the following:

	Information In Thousands		
Characteristics	**CCS J. P. Morgan**	**CCS Citibanamex**	**Forwards**
Currency	USD	USD	USD/MXN
Notional	US$125,000	US$95,000	US$665,000
Coupon receives	4.125%	4.125%	-
Currency	MXN	MXN	-
Notional	$2,280,000	$1,732,800	-
Coupon pays	8.88%	8.90%	-
Maturity	May 2, 2026	May 2, 2026	November 3, 2023
Strike (average)	-	-	$20.94
Carrying amount (1)(2)	$192,562	$151,280	$(560,377)
Change in fair value to measure ineffectiveness	176,631	132,542	(648,939)
Reclassification of OCI to earnings	(152,750)	(116,090)	(486,860)
Recognized in OCI net of reclassifications	(19,068)	(71,449)	26,994
Change in fair value of the hedged item to measure ineffectiveness	(325,282)	(325,282)	651,864

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

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

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

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

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

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

Risk Management Committee

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