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 has managed to cover 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 179 distribution centers in 17 countries across four key regions: Mexico, Europe, The United States, and Latin America. During 2023 the Company generated consolidated net sales of Ps. 150,838 million and Adjusted EBITDA of Ps. 15,805 million, a 21% increase when compared to the previous year, mainly driven by solid results in the Americas, which more than offset a 16% decrease in Europe mainly due to inflationary pressures.

The Company conducts operations in Mexico, the U.S.A., Costa Rica, El Salvador, the Dominican Republic, Peru, Ecuador, Honduras, Nicaragua, Guatemala, Spain, France, 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, which are commonly mitigated through revenue management initiatives. 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.

Net Sales

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

- 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 food products.

- Competitive pricing strategies.

- Product mix, ranging from premium to value 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, 2023, the Company had US$ 520 million in cross currency swaps (CCS) and US$ 613 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 optimizations 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 150,838 million from the sale of goods to third parties during 2023. 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, 2023, and 2022, the balance of this provision was approximately Ps. 129 million and Ps. 138 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
	2022	Percent of Net Sales	2023	Percent of Net Sales	2023 vs. 2022
Net sales	149,311	100	150,838	100	1
Cost of sales	(110,989)	(74)	(106,162)	(70)	(4.3)
Gross profit	38,321	26	44,675	30	16.6
Selling and administrative	(29,394)	(20)	(32,943)	(22)	12.1
Other expenses, net	(288)	(0)	(1,906)	(1)	562
Operating profit	8,640	6	9,827	7	13.7
Financial income	359	0	443	0	23.4
Financial expenses	(2,725)	(2)	(3123)	(2)	14.6
Gain (loss) due to exchange fluctuation, net	(1,023)	(1)	(4,107)	(3)	301.5
Comprehensive financing expense	(3,389)	(2)	(6,787)	(4)	100.3
Share of losses of investments accounted for using the equity method	(1)	(0)	3	0	(400)
Profit before income tax	5,251	4	3,043	2	(42)
Income tax	(3,249)	(2)	(4,199)	(3)	29.2
Net profit	2,002	1	(1,156)	(1)	(157.7)
Adjusted EBITDA	13,107	9%	15,805	10%	20.6

The following table provides a breakdown of net sales by product line for 2022 and 2023:

	For the Year Ended December 31, (in millions of Pesos, except percentages)				Percentage Change
	2022	Percent of Net Sales	2023	Percent of Net Sales	2023 vs. 2022
Product lines:					
Packaged meats	105,795	71%	102,975	68%	(3)
Dairy products	31,280	21%	34,911	23%	12
Other products	12,235	8%	12,951	9%	6
Total	149,311	100%	150,838	100%	1

The following table provides a breakdown of net sales by geographic region for 2022 and 2023:

	For the Year Ended December 31, (in millions of Pesos, except percentages)				Percentage Change
	2022	Percent of Net Sales	2023	Percent of Net Sales	2023 vs. 2022
Geographic region:					
Europe	43,792	29%	41,755	28%	(5)
United States	27,943	19%	26,921	18%	(4)
Mexico	66,756	45%	71,727	48%	7
Latin America	10,820	7%	10,436	7%	(4)
Total	149,311	100%	150,838	100%	1

2023 compared with 2022:

Net Sales by Product Line

Net sales of packaged meats for the year ended December 31, 2023, were Ps. 102,975 million, a 3% decrease from the Ps. 105,795 million reported in 2022 mainly due to a pricing dynamic that reflected less pressure on raw material costs, an appreciation of the Mexican Peso against the Dollar and the Euro, and a decrease in volume primarily in Europe.

Net sales of dairy products for the year ended December 31, 2023, were Ps. 34,911 million, an increase of 12% from the Ps. 31,280 million reported in 2022 mainly due to solid demand for both cheese and yogurt in Mexico and in the United States, pricing actions, and the incorporation of Los Altos operations in the United States.

Net sales of other products for the year ended December 31, 2023 were Ps. 12,951 million, a 6% increase from the Ps. 12,235 million reported in 2022. This increase was primarily due to volume growth and pricing actions in beverage, prepared food, snacking, and plant-based lines.

Net Sales by Geographic Region

Net sales in Mexico for the year ended December 31, 2022, were Ps. 71,727 million, a 7% increase from the Ps. 66,756 million in 2022, mostly due to record volume growth during the last quarter of the year, reflecting strong demand across all channels and categories.

Net sales in Europe for the year ended December 31, 2023, were Ps. 41,755 million, a 5% decrease from the Ps. 43,792 million reported in 2022. This decrease was mainly due to regional price increases that were more than offset by a volume reduction that reflected the divestment in Italy, product mix, and the strengthening of the Mexican Peso against the Euro.

Net sales in the United States for the year ended December 31, 2023, were Ps. 26,921 million, a 4% decrease from the Ps. 27,943 million reported in 2022. This decrease was primarily due to the appreciation of the Mexican Peso against the Dollar, which was not compensated by volume increases, pricing initiatives, and the acquisition of Los Altos.

Net sales in Latin America for the year ended December 31, 2023, were Ps. 10,436 million, a 4% decrease from the Ps. 10,820 million reported in 2022. This decrease was primarily due to the appreciation of the Mexican Peso against most of the currencies of the countries where the company operates in Latin America, which was not compensated by a volume increase.

General

Net sales for the year ended December 31, 2023, were Ps. 150,838 million, a 1% increase compared to Ps. $149,311 million for the same period in 2022. This increase was mainly driven by volume and record consolidated sales, as well as a strengthened Mexican Peso against the Dollar.

As a percentage of total sales, Mexico sales in accounted for 48%, sales in the Europe accounted for 28%, sales in United States accounted for 18% and sales in Latin America accounted for 7%.

Cost of sales for the year ended December 31, 2023, decreased 4.3% to Ps.106,162 million from Ps. 110,989 million in 2022. This decrease was mainly due to lower inflationary pressures on dairy and meat raw materials in the Americas and the appreciation of the Mexican Peso.

Gross profit, defined as the difference between revenues and cost of sales, for the year ended December 31, 2023, was Ps. 44,675 million, a 16.6% increase compared to Ps. 38,321 million one year prior. This increase was primarily due to the factors discussed for the two previous items.

Selling and administrative expenses were Ps. 32,943 million in 2023, a 12.1% increase when compared to Ps. 29,394 million in 2022 mainly due to the increase in sales in Mexico

Other income (expenses), net for the year ended December 31, 2023, was an expense of Ps. 1,906 million, when compared to Ps. 288 million during 2022. This increase is mainly explained by expenses related to the divestment of operations in Italy.

Operating profit for the period was Ps. 9,827 million, up 13.7% versus Ps. 8,640 million during 2022. This increase was mainly driven by the factors discussed above.

Comprehensive financing expense net, for the year ended December 31, 2023, resulted in an expense of Ps. 6,787 million. This represents a 100.3% increase compared to the expense of Ps. 3,389 million reported in 2022. This increase was mainly due to exchange rate losses related to the impact of financial instruments originated by a stronger than expected Mexican Peso against the US Dollar, as well as higher interest rates.

Income tax for the year ended December 31, 2023, was a tax expense of Ps. 4,199 million, a 29.2% increase year on year from Ps. 3,249. This increase was mainly due to higher taxable profits, a greater adjustment for inflation during 2023, as well as a strengthened exchange rate due to the appreciation of the Peso.

In December 2022, the Company made the decision to voluntarily abandon its fiscal regime (incorporation 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, and which were paid in 2023. This decision aims to adhere to best practices and provide a more stable and predictable income tax.

Net loss during 2023 reached Ps. 1,156 million when compared to a net profit of Ps. 2,002 million in 2022. This change was primarily due to the increase in other net expenses and in the comprehensive financing expense, effects that were not offset by the 16.6% increase in Gross profit.

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.

Treasury Policies

Sigma withholds treasury policies (financing, risks, investments) aligned with its obligations and needs of its operations and necessary capital investments. All investments, financing and financing operations with derivative financial instruments are subject to the guidelines established by Alfa´s Board of Directors in coordination with Financial Planning and Audit Commitees.

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, 2022 and 2023:

	(in millions of Pesos) For the Year Ended December 31,	
	2022	2023
Net resources generated from operating activities	9,062	9,433
Net resources (used in) provided by investing activities	(4,802)	(5,485)
Net resources provided by (used in) financing activities	(7,062)	(5,907)
Cash and cash equivalents at period end	13,208	10,563

Operating Activities

In 2023, net resources generated from the operating activities amounted to Ps. 9,433 million, partly due to solid performance in the Americas which more than offset a decline in profitability from operations in Europe.

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 on the consolidated results in Europe, which offset the positive performance in America.

Investing Activities

In 2023, net resources used in investing activities were Ps. 5,485 million, primarily due to maintenance expenses and strategic capital, including the acquisition and majority shareholding of Los Altos Foods in the United States.

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.

Financing Activities

In 2023, net resources used in financing activities were Ps. 5,907 million, mainly due to dividends paid, interest, and derivative financial instruments.

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

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, 2023, the Company’s total indebtedness was Ps. 41,799 million, of which Ps. 26,753 million was denominated in U.S. dollars, Ps. 11,525 million was denominated in Euros and Ps. 3,522 million was denominated in Mexican pesos. Of this total amount, Ps. 12,249 million constituted short-term debt, which are explained by interest payments and the maturity of Euro Senior Notes due 2024 and Ps. 29,550 million constituted long-term debt. The primary use of debt has been to fund acquisitions and capital expenditures. As of December 31, 2023, the Company had available committed credit facilities available for over Ps. $11,288 million.

Capital Expenditures

In 2023 and 2022, the capital expenditures were Ps. 3,868 million and Ps. 4,996 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, 2023:

	Total	**Less than 1 Year**	**1-5 Years**	**More than 5 Years**
Contractual Obligations				
Short-term debt obligations....................	23,047	23,047	-	-
Long-term debt obligations.....................	46,369	11,937	32,105	-
Capital lease obligations..........................	9,539	3,108	6,431	2,329
Total	78,956	38,092	38,536	2,329

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, 2023, the Company has seven Cross-Currency-Swaps (CCS) and seventy-three USD/MXN Forward, whereas , as of December 31, 2022, the Company has two Cross-Currency-Swaps (CCS) and sixty-nine USD/MXN Forwards. Exchange rate Forwards are used 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**	**CCS Rabobank**	**CCS Bank of America 1**
Currency	USD	USD	USD	USD

Notional	US$125,000	US$95,000	US$100,000	US$50,000
Coupon receives	4.125%	4.125%	4.125%	4.125%
Currency	MXN	MXN	MXN	MXN
Notional	$2,280,000	$1,732,800	$1,737,970	$868,500
Coupon pays	8.88%	8.90%	9.545%	9.495%
Maturity	May 2, 2026	May 2, 2026	May 2, 2026	May 2, 2026
Strike (average)	-	-	-	-
Carrying amount (1)(2)	$(137,867)	$(106,265)	$(60,238)	$(25,401)
Change in fair value to measure ineffectiveness	(145,464)	(111,468)	(56,081)	(26,816)
Reclassification of OCI to earnings	(308,500)	(234,460)	(48,620)	(23,825)
Recognized in OCI net of reclassifications	(40,997)	(94,535)	(11,618)	(1,576)
Change in fair value of the hedged item to measure ineffectiveness	224,493	224,493	56,273	28,058

	Information In Thousands			
Characteristics	**CCS Bank of America 2**	**CCS Scotiabank**	**CCS BBVA**	**Forwards**
Currency	USD	USD	USD	USD
Notional	US$50,000	US$50,000	US$50,000	US$460,000
Coupon receives	4.125%	4.125%	4,125%	-
Currency	MXN	MXN	MXN	-
Notional	$864,150	$855,750	$854,250	-
Coupon pays	9.515%	9.38%	9.342%	-
Maturity	May 2, 2026	May 2, 2026	May 2, 2026	Jul 5, 2024
Strike (average)	-	-	-	18.8696
Carrying amount (1)(2)	$(21,382)	$(8,771)	$(6,984)	$(742,016)
Change in fair value to measure ineffectiveness	(22,820)	(11,779)	(9,516)	(762,489)
Reclassification of OCI to earnings	(19,475)	(11,075)	(9,575)	(1,116,772)
Recognized in OCI net of reclassifications	(1,907)	2,304	2,591	962,128
Change in fair value of the hedged item to measure ineffectiveness	22,088	13,151	8,605	765,928

(1) The carrying amount of USD/MXN CCS as of December 31, 2023 is composed of an asset portion of $122,381 and a liability portion of $(489,290).
(2) The carrying amount of forward as of December 31, 2023 is composed of an asset portion of $2,964 and a liability portion of $(742,016).

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, 2023 and 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	
	CCS	**CCS**
Characteristics	**Bank of America**	**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	$(26,896)	$496
Change in fair value to measure ineffectiveness	$(26,896)	$496
Reclassification of OCI to earnings	-	-
Balance recognized in OCI net of reclassifications	$(26,896)	$496
Change in fair value of the hedged item to measure ineffectiveness	$26,896	$(496)

(1) The book value of the CCS of USD/EUR as of December 31, 2023, is made up of an asset position for $347,284 and a liability position for $(373,684).

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.