

## OFFERING MEMORANDUM

US\$500,000,000



### SIGMA FINANCE NETHERLANDS B.V.

#### 4.875% Senior Notes due 2028

#### Fully and Unconditionally Guaranteed by Sigma Alimentos, S.A. de C.V. and Certain of its Subsidiaries

Sigma Finance Netherlands B.V. (the “Issuer”) is offering US\$500,000,000 aggregate principal amount of its 4.875 % Senior Notes due 2028 (the “notes”). Interest will be payable on the notes semi-annually in arrears on March 27 and September 27 of each year, beginning on September 27, 2018. The notes will mature on March 27, 2028.

The Issuer may redeem the notes at its option, in whole or in part, at any time and from time to time, prior to December 27, 2027 (the date that is three months prior to the scheduled maturity of the notes), at a redemption price equal to the greater of 100% of the outstanding principal amount of the notes to be redeemed and the applicable “make-whole” amount, plus in each case accrued and unpaid interest to the redemption date. In addition, the Issuer may redeem the notes at its option, in whole or in part, at any time and from time to time, beginning on December 27, 2027 (the date that is three months prior to the scheduled maturity of the notes), at a redemption price equal to 100% of the outstanding principal amount of the notes to be redeemed, plus accrued and unpaid interest to the redemption date. In the event of certain changes in tax laws applicable to payments of interest or amounts deemed interest under the notes, the Issuer may redeem all, but not part, of the notes. Upon the occurrence of a change of control triggering event, the Issuer will be required to offer to repurchase the notes at 101% of the principal amount thereof, plus accrued and unpaid interest, if any.

The notes will be unconditionally guaranteed by the Parent Guarantor and by the Subsidiary Guarantors (together with the Parent Guarantor, the “Guarantors”). The notes and the guarantees will be senior unsecured obligations of the Issuer and each of the Guarantors, respectively (subject to certain statutory preferences under Mexican law, such as tax, social security and labor claims), and will rank equally in right of payment to all existing and future senior unsecured indebtedness of the Issuer and each of the Guarantors, respectively. The notes and the guarantees will rank effectively junior in right of payment to any existing and future secured indebtedness of the Issuer and each of the Guarantors, respectively, to the extent of the value of the assets securing such indebtedness. The notes and the parent guarantee will be structurally subordinated to all claims of creditors (including trade creditors and preferred stockholders, if any) of each non-guarantor subsidiary of the Parent Guarantor, and each of the subsidiary guarantees will be structurally subordinated to all claims of creditors (including trade creditors and preferred stockholders, if any) of the non-guarantor subsidiaries of each respective Subsidiary Guarantor.

No public market currently exists for the notes. These listing particulars have been approved by the Irish Stock Exchange plc trading as Euronext Dublin (“Euronext Dublin”). Application has been made to Euronext Dublin for the notes to be admitted to the Official List and to trading on the Global Exchange Market of Euronext Dublin. This offering memorandum constitutes a listing particulars for the purposes of listing on the Official List of the Global Exchange Market.

Investing in the notes involves risks. See “Risk Factors” beginning on page 20.

Issue Price: 99.336%, plus accrued interest, if any, from March 27, 2018.

**THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES, OR “RNV”*) MAINTAINED BY THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION (*COMISIÓN NACIONAL BANCARIA Y DE VALORES OR “CNBV”*), AND MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO. EXCEPT THAT THE NOTES MAY BE OFFERED TO INSTITUTIONAL OR QUALIFIED INVESTORS IN MEXICO PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*) AND REGULATIONS THEREUNDER.**

The notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any other jurisdiction and may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S under the Securities Act (“Regulation S”)) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, the Issuer is offering the notes to qualified institutional buyers in reliance on Rule 144A under the Securities Act (“Rule 144A”) and outside the United States to non-U.S. persons in reliance on Regulation S. You are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. See “Transfer Restrictions” for additional information about eligible offerees and transfer restrictions.

The notes will be represented by global notes in registered form. We expect that delivery of the notes will be made to investors in book-entry form through the facilities of The Depository Trust Company (“DTC”) for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”), and Clearstream Banking, *société anonyme*, Luxembourg (“Clearstream”), on or about March 27, 2018.

*Joint Book-Running Managers*

**Citigroup**

**HSBC**

**J.P. Morgan**

**The date of this offering memorandum is May 17, 2018.**

	EUROPE	UNITED STATES	MEXICO	LATIN AMERICA
PACKAGED MEATS	            	   	            	          
DAIRY		  	      	   
OTHERS			   	  
THIRD PARTY	 		    	

Note: Except for Oscar Mayer®, Philadelphia®, La vaca que rie®, Yoplait®, WeightWatchers®, Grill Mates® and Hershey's® brands, the above brands are owned by Sigma. The above brands are registered by us or by our licensor in the appropriate jurisdictions where they are used and/or registered and/or pending registration in other jurisdictions, as appropriate to the needs of our relevant businesses.

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**You should rely only on the information contained in this offering memorandum. We have not, and the initial purchasers have not, authorized anyone to provide you with information that is different from or additional to that contained in this offering memorandum, and we take no responsibility for any other information that others may give you. If anyone provides you with different or additional information, you should not rely on it. You should assume that the information in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum, regardless of time of delivery of this offering memorandum or any sale of the notes. Our business, financial condition, results of operations and prospects may change after the date on the front cover of this offering memorandum. This document may only be used where it is legal to sell the notes. Neither we nor any of the initial purchasers is making an offer to sell the notes in any jurisdiction where such an offer is not permitted.**

Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to “Sigma,” “our company,” “the Company,” “we,” “our,” “us” or similar terms refer to Sigma Alimentos, S.A. de C.V., together with its consolidated subsidiaries; the “Parent Guarantor” refer to Sigma Alimentos, S.A. de C.V. on an individual basis; and “the Issuer” refer to Sigma Finance Netherlands B.V. on an individual basis.

## NOTICE TO INVESTORS

This offering memorandum has been prepared by us solely for use in connection with the proposed offering of the notes described in this offering memorandum. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire the notes.

Neither we nor the initial purchasers are making an offer to sell the notes in any jurisdiction except where such an offer or sale is permitted. You must comply with all applicable laws and regulations in force in your jurisdiction and you must obtain any consent, approval or permission required by you for the purchase, offer or sale of the notes under the laws and regulations in force in your jurisdiction to which you are subject or in which you make such purchase, offer or sale, and neither we nor the initial purchasers will have any responsibility therefor.

We are relying upon an exemption from registration under the Securities Act for an offer and sale of securities which do not involve a public offering. We have submitted this offering memorandum solely to a limited number of qualified institutional buyers in the United States and to investors outside the United States so they can consider a purchase of the notes. This offering memorandum may be used only for the purposes for which it has been published. By accepting delivery of this offering memorandum, you acknowledge that the use of the information in this offering memorandum for any purpose other than to consider a purchase of the notes is strictly prohibited. These undertakings and prohibitions are for our benefit, and we may enforce them. U.S. federal securities laws restrict trading in our securities while in possession of material non-public information with respect to us. By accepting delivery of this offering memorandum and by purchasing the notes, you will be deemed to have made certain acknowledgments, representations and agreements as set forth under “Transfer Restrictions” in this offering memorandum. The notes are subject to restrictions on transfer and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser of the notes, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

This offering memorandum is based on information provided by us and obtained from other sources that we believe to be reliable. We and the initial purchasers cannot assure you that the information obtained from other sources is accurate or complete. This offering memorandum summarizes certain documents and other information and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely upon your own examination of our company and of the terms of the offering and the notes, including the merits and risks involved.

Neither we nor the initial purchasers are making any representation to any purchaser regarding the legality of an investment in the notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, financial, business or tax advice. You should consult your own counsel, accountant, business advisor and tax advisor for legal, accounting, business and tax advice regarding any investment in the notes.

We reserve the right to withdraw this offering of notes at any time and we and the initial purchasers reserve the right to reject any commitment to subscribe for the notes in whole or in part and to allot to any prospective investor less than the full amount of notes sought by that investor. The initial purchasers and certain related entities may acquire for their own account a portion of the notes.

The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future.

**None of the U.S. Securities and Exchange Commission (“SEC”), the Dutch Authority for the Financial Markets (*Autoriteit Financiële Markten*, or “AFM”) the CNBV or any state or foreign securities commission or any other regulatory authority has approved or disapproved the offering of the notes nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy, adequacy or completeness of this offering memorandum. Any representation to the contrary is a criminal offense.**

## ENFORCEMENT OF CIVIL LIABILITIES

The Issuer, the Parent Guarantor and the majority of the Subsidiary Guarantors (collectively, the “Non-U.S. Sigma Companies”) are incorporated or formed under the laws of countries other than the United States. In addition, almost all of the directors, executive officers and controlling persons of the Non-U.S. Sigma Companies are non-residents of the United States and a majority of our assets and the assets of such non-resident persons are located in Mexico or elsewhere outside the United States. As a result, it may not be possible for investors to effect service of process on the Non-U.S. Sigma Companies or their directors or executive officers, or to enforce judgments obtained in U.S. courts against the Non-U.S. Sigma Companies or such persons predicated on civil liability provisions of the U.S. securities laws. We have appointed CT Corporation System, 111 Eighth Avenue New York, NY 10011, as our agent to receive service of process with respect to any action brought against us in any federal or state court in the State of New York arising from the offering and issuance of the notes.

Uncertainty exists as to whether courts in the jurisdictions of organization of the Non-U.S. Sigma Companies will enforce judgments obtained in other jurisdictions, including the United States, against the Non-U.S. Sigma Companies or their directors or officers under the securities laws of those jurisdictions or entertain actions in those jurisdictions against the Non-U.S. Sigma Companies or their directors or officers under the securities laws of other jurisdictions.

The United States and the Netherlands currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. Consequently, a final judgment for payment given by any court in the United States, whether or not predicated solely upon U.S. securities laws, would not be enforceable in the Netherlands. In order to obtain a judgment which is enforceable in the Netherlands, the claim must be re-litigated before a competent Dutch court. A Dutch court will, under current practice, generally grant the same judgment without relitigation on the merits if (a) that judgment results from proceedings compatible with the Dutch concept of due process, (b) that judgment does not contravene public policy (*openbare orde*) of the Netherlands, (c) the jurisdiction of the court has been based on an internationally acceptable ground and (d) the judgment by the court is not incompatible with a judgment rendered between the same parties by a Dutch court, or with an earlier judgment rendered between the same parties by a non-Dutch court in a dispute that concerns the same subject and is based on the same cause, provided that the earlier judgment qualifies for recognition in the Netherlands.

Subject to the foregoing and provided that service of process occurs in accordance with applicable treaties, investors may be able to enforce in the Netherlands, judgments in civil and commercial matters obtained from U.S. federal or state courts. However, no assurance can be given that such judgments will be enforceable. In addition, it is doubtful whether a Dutch court would accept jurisdiction and impose civil liability in an original action commenced in the Netherlands and predicated solely upon U.S. federal securities laws.

No treaty exists between the United States and Mexico for the reciprocal enforcement of judgments issued in the other country. Generally, Mexican courts would enforce final judgments rendered in the United States if certain requirements are met, including the review in Mexico of the U.S. judgment to ascertain compliance with certain basic principles of due process and the non-violation of Mexican law or public policy (*orden público*), provided that U.S. courts would grant reciprocal treatment to Mexican judgments issued in analogous cases. Additionally, there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated, in whole or in part, on U.S. federal securities laws and as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated on the civil liability provisions of U.S. federal securities laws.

## AVAILABLE INFORMATION

We are not subject to the information requirements of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). To permit compliance with Rule 144A in connection with resales of notes, we will be required under the indenture under which the notes are issued (the “indenture”), upon the request of a holder of Rule 144A notes or Regulation S notes (during the restricted period, as defined in the legend included under “Transfer Restrictions”), to furnish to such holder and any prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act, unless we either furnish information to the SEC in accordance with Rule 12g3-2(b) under the Exchange Act or furnish information to the SEC pursuant to Section 13 or 15(d) of the Exchange Act. Any such request may be made to us in writing at our main office located at Ave. Gómez Morín 1111 Sur, Col. Carrizalejo, San Pedro Garza García, C.P. 66254, Nuevo León, Mexico.

The indenture will further require that we furnish to the trustee (as defined herein) all notices of meetings of the holders of notes and other reports and communications that are generally made available to holders of the notes. At our request, the trustee will be required under the indenture to mail these notices, reports and communications received by it from us to all record holders of the notes promptly upon receipt. See “Description of the Notes.”

These listing particulars have been approved by Euronext Dublin for the notes to be admitted to the Official List and to trading on the Global Exchange Market of Euronext Dublin. We will be required to comply with any undertakings given by us from time to time to Euronext Dublin in connection with the notes, and to furnish to them all such information as the rules of Euronext Dublin may require in connection with the listing of the notes.

## FORWARD-LOOKING STATEMENTS

This offering memorandum includes forward-looking statements. These statements relate to our future prospects, developments and business strategies and are identified by our use of terms and phrases such as “anticipate,” “believe,” “can,” “could,” “continue,” “would,” “will,” “estimate,” “expect,” “intend,” “may,” “might,” “potential,” “plan,” “predict,” “project,” “goals,” “target,” “seek,” “should,” “strategy” and similar terms and phrases, and may include references to assumptions. These statements are contained in the sections entitled “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business” and other sections of this offering memorandum.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, by their nature, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global economic, business, market and regulatory conditions, without limitation, and the following:

- general economic conditions in the countries in which we conduct our business and any significant economic, political, regulatory or social developments in those countries;
- competition and loss of market shares;
- our ability to implement our strategy;
- the loss of one or more significant customers;
- the performance of our customers which are retailers and any preference they give to products of our competitors;
- loss of reputation of our brands;
- changing consumer preferences, health trends and the general perception of our products;
- controls imposed by governmental agencies;
- the loss of any of our licensing, franchise or distribution agreements;
- disruption of our supply chain;
- the buying power of consumers;
- increases in commodity or other raw material costs that may not be timely reflected in the prices of our products;
- the failure of our suppliers to perform in a timely manner;
- health concerns, contamination and product liability risks related to the food industry;
- changes in health-related and sanitary regulations and other applicable laws;
- trade barriers, including tariffs or import taxes and changes in existing trade policies or changes to, or withdrawals from, free trade agreements, including the North American Free Trade Agreement (“NAFTA”), to which Mexico is a party and which is currently undergoing renegotiation by all parties;
- the imposition of price controls or additional taxes on our products;



- difficulties, uncertainties, liabilities, unenforceability of provisions (including indemnifications) and regulations related to mergers, acquisitions, strategic alliances or joint ventures;
- credit and financing risks, including restructuring of our consolidated debt;
- risks inherent in international operations;
- reductions in demand for our products as a result of political, social or economic conditions;
- health epidemics and other outbreaks in the countries in which we operate;
- natural disasters and other events that may affect consumption;
- our ability to continuously apply and comply with laws and regulations, including environmental laws, regulations and official standards;
- our ability to complete transactions, take advantage of synergies or develop our business, as a result of regulations or provisions regulating competition;
- deterioration of labor relations with our employees, strikes and similar work stoppages, or an increase in labor costs;
- loss of key personnel;
- risks related to our control by Alfa, S.A.B. de C.V., the parent company of the Parent Guarantor, whose interest may not be aligned with yours;
- interruptions or failures in our information technology systems, including as a result of malicious software;
- risks related to fluctuations in currencies or interest rates;
- terrorist and organized criminal activities as well as geopolitical events;
- losses in connection with derivative financial instruments; and
- other factors described under “Risk Factors” and elsewhere in this offering memorandum.

Should one or more of these factors or situations materialize, or should the underlying assumptions prove to be incorrect, the actual results may differ considerably from those that are described, foreseen, considered, estimated, expected, predicted or intended in this offering memorandum.

These forward-looking statements speak only as of the date of this offering memorandum and we undertake no obligation to update our forward-looking statements or risk factors to reflect new information, future events or otherwise. Additional factors affecting our business emerge from time to time and it is not possible for us to predict all of these factors, nor can we assess the impact of all such factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Although we believe that the plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that those plans, intentions or expectations will be achieved. In addition, you should not interpret statements regarding past trends or activities as assurances that those trends or activities will continue in the future. All written, oral and electronic forward-looking statements attributable to us or to the persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

## CERTAIN DEFINITIONS

Except where indicated or the context otherwise requires, the following terms used in this offering memorandum have the meanings specified below.

“Alfa” means Alfa, S.A.B. de C.V., the parent company of Sigma.

“Axtel” means Axtel, S.A.B. de C.V., a subsidiary of Alfa.

“Bar-S” means our subsidiary Bar-S Foods Co., a Delaware corporation based in Phoenix, Arizona, and its subsidiaries.

“Campofrío” means our subsidiary Campofrío Food Group, S.A. (Unipersonal) and its subsidiaries.

“CAGR” means compound annual growth rate.

“Euro” or “€” means the lawful currency of the European Economic and Monetary Union.

“GDP” means the gross domestic product of the indicated country.

“IASB” means the International Accounting Standards Board.

“IFRIC” means the International Financial Reporting Interpretations Committee.

“IFRS” means International Financial Reporting Standards, as issued by the IASB.

“Issuer” means Sigma Finance Netherlands B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under Dutch law and registered with the Dutch trade register under number 70876398, on an individual basis.

“Libor” means the London Interbank Offered Rate.

“Mexican Central Bank” means *Banco de México*.

“M&A” means mergers and acquisitions.

“Mexican Pesos”, “Pesos” or “Ps.” means the lawful currency of Mexico.

“Mexican Stock Exchange” means Bolsa Mexicana de Valores, S.A.B. de C.V.

“NAFTA” means the North American Free Trade Agreement effective as of January 1, 1994.

“Net Debt” means gross debt *less* cash and cash equivalents.

“Parent Guarantor” means Sigma Alimentos, S.A. de C.V., a variable capital stock corporation (*sociedad anónima de capital variable*) organized under the laws of Mexico, on an individual basis.

“RNV” means the National Securities Registry (*Registro Nacional de Valores*).

“SAGARPA” means the Mexican Ministry of Agriculture, Livestock, Rural Development, Fishing and Food (*Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación*).

“Sigma”, “our company”, “the Company”, “we”, “us” or “our” mean the Parent Guarantor and its subsidiaries on a consolidated basis, unless otherwise specified or the context otherwise requires.

“Sodima” means Sodima, S.A.S., a French company, which has granted us franchise rights to manufacture, market and distribute Yoplait® brand products.

“Subsidiary Guarantors” means Sigma Alimentos Corporativo, S.A. de C.V., Sigma Alimentos Centro, S.A. de C.V., Sigma Alimentos Comercial, S.A. de C.V., Sigma Alimentos Lácteos, S.A. de C.V., Comercializadora de Embutidos ICO, S.A. de C.V., Alimentos Finos de Occidente, S.A. de C.V., Carnes Selectas Tangamanga, S.A. de C.V., Sigma Alimentos Congelados, S.A. de C.V., Sigma Alimentos Noreste, S.A. de C.V., Empacadora de Embutidos del Centro, S.A. de C.V., Grupo Chen, S. de R.L. de C.V., Comercial Norteamericana, S. de R.L. de C.V., Sigma Alimentos Exterior, S.L., Sigma Processed Meats, LLC, Sigma Foods, LLC, Mexican Cheese Producers, Inc., Bar-S Foods Co. and Sigma Alimentos Costa Rica, S.A.

“tons” means metric tons (one metric ton is equal to 1,000 kilograms, or 2,204.6 pounds).

“U.S. Dollars,” “Dollars,” “US\$” or “\$” means the lawful currency of the United States.

“UDIs” means *unidades de inversión*, which are value units that automatically adjust the principal amount of an obligation to the inflation rate officially recognized by the Mexican Central Bank.

## **PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION**

### **Financial Information**

Our annual audited consolidated financial statements as of December 31, 2016 and 2017 and for the years ended December 31, 2015, 2016 and 2017, together with the notes thereto (the “Annual Audited Financial Statements”), as well as the other financial information of Sigma included in this offering memorandum related to the Annual Audited Financial Statements, have been prepared in accordance with IFRS. The selected financial information set forth in this offering memorandum for the years ended December 31, 2011, 2012, 2013 and 2014 have been derived from our annual audited consolidated financial statements prepared in accordance with IFRS that have not been included in this offering memorandum.

Prior to 2011, we issued our consolidated financial statements in conformity with Mexican Financial Reporting Standards (*Normas de Información Financiera*, or “MFRS”), as issued from time to time by the Mexican Financial Reporting Standards Board (*Consejo Mexicano de Normas de Información Financiera, A.C.*). In accordance with IFRS 1 “First-time adoption of IFRS” we considered January 1, 2011 as our IFRS transition date and January 1, 2012 as our IFRS adoption date.

The selected financial information included in this offering memorandum for the years ended December 31, 2007, 2008, 2009 and 2010 has been derived from our annual audited consolidated financial statements prepared in accordance with MFRS that have not been included in this offering memorandum. Because of the differences between the accounting principles used in the preparation of such financial statements and the accounting principles used in the preparation of the Annual Audited Financial Statements included elsewhere in this offering memorandum, such information is not comparable, and you should use caution when comparing financial information prepared in accordance with MFRS to financial information prepared in accordance with IFRS.

IFRS and MFRS differ in certain significant respects from generally accepted accounting principles in the United States (“U.S. GAAP”) and financial reporting standards and generally accepted accounting principles used in other jurisdictions. We have made no attempt to quantify the impact of those differences by a reconciliation of our financial statements or the other financial information included in this offering memorandum to such other generally accepted accounting principles and financial reporting standards.

In making an investment decision, you must rely upon your own examination of the Company, the terms of the offering and the financial information included herein. We urge you to consult your own advisors regarding the differences between MFRS, IFRS and U.S. GAAP and how these differences might affect the financial information included in this offering memorandum.

On May 16, 2017, our board of directors approved the appointment of Galaz, Yamazaki, Ruiz Urquiza, S.C. (a Member of Deloitte Touche Tohmatsu Limited) as our new independent auditors effective for all periods after December 31, 2016.

The Issuer was incorporated on February 12, 2018 as a private company with limited liability under the laws of the Netherlands. The Issuer has not conducted operations since its incorporation and has no subsidiaries or significant business other than the issuance of debt securities; therefore, no financial information of the Issuer is included in this offering memorandum.

### **Exchange Rate Information**

This offering memorandum contains translations of certain Peso amounts into U.S. Dollars at specified rates solely for the convenience of the reader. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. Furthermore, the exchange rate for purposes of the convenience translation is not necessarily the same rate we used in preparing our Annual Audited Financial Statements, which means that U.S. Dollar-denominated items, including U.S. Dollar-denominated expenses and liabilities, may have been translated into Mexican Pesos using one exchange rate (or an average exchange rate) and have been retranslated into U.S. Dollars for the convenience of the reader using the convenience translation exchange rate.

Unless otherwise indicated, the exchange rate used for purposes of the convenience translations is:

- with respect to statement of financial position data, the exchange rate published by the Mexican Central Bank in the Federal Official Gazette (*Diario Oficial de la Federación*) as the rate for the payment of obligations denominated in foreign currency (the “Official Exchange Rate”) on December 31, 2017 (Ps. 19.7354 to US\$1.00); and
- with respect to financial information other than statement of financial position data, the average exchange rate for the year ended December 31, 2017, which consists of the average of the Official Exchange Rate on each day during the year ended December 31, 2017 (Ps. 18.9291 to US\$1.00).

See “Exchange Rates” for further information regarding the rates of exchange between the Mexican Peso and the U.S. Dollar.

### **Rounding Adjustments**

Certain figures included in this offering memorandum have been rounded for ease of presentation. Any discrepancies in tables between the total and the amounts listed are due to rounding. Percentage figures included in this offering memorandum have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, certain percentage amounts in this offering memorandum may vary from those obtained by performing the same calculations using the figures in our Annual Audited Financial Statements included elsewhere in this offering memorandum. Certain other amounts that appear in this offering memorandum may not sum due to rounding.

### **Non-GAAP Financial Measures**

A body of generally accepted accounting principles is commonly referred to as “GAAP.” A non-GAAP financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. We present “Adjusted EBITDA,” “Adjusted EBITDA by geographic region” and “Free Cash Flow” in this offering memorandum, each of which are non-GAAP financial measures. For the years ended December 31, 2007, 2008, 2009 and 2010, we define “Adjusted EBITDA” as operating income after adding back or subtracting, as the case may be, other income (expenses), depreciation and amortization and the impairment of fixed and intangible assets. For the years ended December 31, 2011, 2012, 2013, 2014, 2015, 2016 and 2017, we define “Adjusted EBITDA” as operating income after adding back or subtracting, as the case may be, depreciation and amortization and the impairment of fixed and intangible assets, and “Adjusted EBITDA” by geographic region as operating income for a geographic region after adding back or subtracting, as the case may be, the associated depreciation and amortization and the impairment of fixed and intangible assets for each such geographic region. For the years ended December 31, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017, we define “Free Cash Flow” as the sum of Adjusted EBITDA, change in working capital, capital expenditures and taxes.

In managing our business we rely on Adjusted EBITDA and Free Cash Flow as a means of assessing our operating performance. We believe that Adjusted EBITDA and Free Cash Flow enhance the understanding of our financial performance and our ability to satisfy principal and interest obligations with respect to our indebtedness as well as to fund capital expenditures and working capital requirements. We also believe Adjusted EBITDA and Free Cash Flow are useful because they present operating results on a basis unaffected by capital structure. Adjusted EBITDA and Free Cash Flow, however, are not measures of financial performance under MFRS or IFRS and should not be considered as an alternative to net profit or operating income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Adjusted EBITDA and Free Cash Flow have material limitations that impair their value as measures of our overall profitability since they do not address certain ongoing costs of our business that could significantly affect profitability such as financial expenses, income taxes, depreciation, amortization and the impact of derivative instruments (except when designated as hedge accounting in accordance with MFRS and IFRS). Our calculation of Adjusted EBITDA and Free Cash Flow may not be comparable to other companies’ calculation of similarly titled measures. For a reconciliation of Adjusted EBITDA to consolidated profit (loss) for the years ended December 31, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014,

2015, 2016 and 2017, see “Summary Historical Financial Data and Other Information” and “Selected Historical Financial Data and Other Information.”

Additionally, in evaluating our business financial structure, we rely on calculations such as net leverage ratio and interest coverage ratio. We define net leverage ratio as net debt (debt minus cash) divided by Adjusted EBITDA and we define interest coverage ratio as Adjusted EBITDA divided by net interest expense (interest expense minus interest income). Net leverage ratio and interest coverage ratio are not measures of financial performance under IFRS. In addition, our calculations of such measures may not be comparable to other companies’ calculations of similarly titled measures.

## **Industry and Market Data**

Market data and other statistical information used throughout this offering memorandum are generally based on independent industry publications, government publications, reports by market research firms or other published independent sources, as well as our internal studies. Some data is also based on our estimates, which are derived from our review of internal surveys, as well as independent sources. Although we believe these sources are reliable, we have not independently verified the information and cannot guarantee its accuracy or completeness.

In addition, in many cases, we have based certain statements contained in this offering memorandum regarding our industry and our position in the industry on certain assumptions concerning our customers and competitors. These assumptions are based on our experience in the industry and our own investigation of market conditions. We cannot assure you as to the accuracy of any such assumptions, and such assumptions may not be indicative of our position in the industry.

## **Intellectual Property**

We own or have rights to use the trademarks, service marks and trade names that we use in conjunction with the operation of our business. Some of the more important trademarks that we own or have rights to use or distribute that appear in this offering memorandum include: FUD<sup>®</sup>, San Rafael<sup>®</sup>, Chimex<sup>®</sup>, Iberomex<sup>®</sup>, Viva<sup>®</sup>, Bar-S<sup>®</sup>, Campofrío<sup>®</sup>, Tangamanga<sup>®</sup>, Bernina<sup>®</sup>, Oscar Mayer<sup>®</sup>, San Antonio<sup>®</sup>, Supremo<sup>®</sup>, Galicia<sup>®</sup>, Nayar<sup>®</sup>, Iassa<sup>®</sup>, Longmont<sup>®</sup>, Yoplait<sup>®</sup>, Chen<sup>®</sup>, La Villita<sup>®</sup>, Noche Buena<sup>®</sup>, Camelia<sup>®</sup>, Franja<sup>®</sup>, Norteñita<sup>®</sup>, La Chona<sup>®</sup>, El Cazo Mexicano<sup>®</sup>, Sugerencias del Chef<sup>®</sup>, Braedt<sup>®</sup>, Otto Kunz<sup>®</sup>, Juris<sup>®</sup>, Don Diego<sup>®</sup>, Aoste<sup>®</sup>, Nobre<sup>®</sup>, Stegeman<sup>®</sup>, Justin Bridou<sup>®</sup>, Cochonou<sup>®</sup>, Caroli<sup>®</sup>, Sissi<sup>®</sup>, Primo<sup>®</sup>, César Moroni<sup>®</sup>, Navidul<sup>®</sup>, Fiorucci<sup>®</sup>, Revilla<sup>®</sup>, Marcassou<sup>®</sup>, Hershey’s<sup>®</sup>, Philadelphia<sup>®</sup>, Disney<sup>®</sup> and Weight Watchers<sup>®</sup>, each of which are registered by us or by our licensor in the appropriate jurisdictions where they are used and/or registered and/or pending registration in other jurisdictions, as appropriate to the needs of our relevant businesses. Solely for convenience, we may refer to our trademarks, service marks and trade names in this offering memorandum without the <sup>TM</sup> and <sup>®</sup> symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent permitted under applicable law, our rights to our trademarks, service marks and trade names. Each trademark, trade name or service mark of any other company appearing in this offering memorandum is, to our knowledge, owned by such other company.

## SUMMARY

*This summary highlights certain information contained in this offering memorandum and may not include all the information relevant to you. For a more complete understanding of our business, you should read the following summary together with the more detailed information appearing elsewhere in this offering memorandum, including that set forth under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and the notes thereto included elsewhere in this offering memorandum.*

### Overview

The Issuer is a wholly-owned subsidiary of the Parent Guarantor. The Parent Guarantor is a wholly-owned indirect subsidiary of Alfa, one of the largest publicly traded companies in Mexico. The Issuer is incorporated under the laws of the Netherlands and was formed with the sole purpose of issuing the notes.

We are a leading global branded refrigerated food company focused on the development, production, marketing and distribution of quality value-added foods, primarily packaged meats, cheese, yogurt and other refrigerated and frozen foods. We have a diversified portfolio of leading brands, including Campofrío<sup>®</sup>, Aoste<sup>®</sup>, Bar-S<sup>®</sup>, FUD<sup>®</sup>, San Rafael<sup>®</sup>, Braedt<sup>®</sup>, La Villita<sup>®</sup> and Yoplait<sup>®</sup>. We operate facilities in 18 countries in four regions: Europe, the United States, Mexico and other Latin American countries. We distribute over 15,000 different products, through more than 100 brands, reaching over 640,000 points of sale (approximately 65,000 in Europe, 57,000 in the United States, 377,000 in Mexico and 145,000 in other Latin American countries) through an extensive refrigerated distribution network. Our company operates with more than 45,000 employees across 70 manufacturing facilities (48 packaged meats plants, 13 dairy product plants, five fresh meat plants, three pre-cooked meal plants and one beverage plant), 208 distribution centers and more than 7,900 vehicles.

We have established leading market positions for our products across Europe, the United States, Mexico and other Latin American countries by developing our brands in every country in which we operate, developing value-added products and adopting consumer-driven innovation processes. According to industry reports and our own market research, our brands are the number one or number two in their respective categories in most of our markets. According to Nielsen Scantrack (“Nielsen”), we were the largest packaged meats producer in both Europe and Mexico in 2017, and our brands Campofrío<sup>®</sup> in Spain and FUD<sup>®</sup> in Mexico had the highest revenue across all brands in their respective categories and countries. According to industry specialists, Campofrío<sup>®</sup> and FUD<sup>®</sup> are the most recognized packaged meats brands in Spain and Mexico, respectively. In the United States, Bar-S<sup>®</sup> has been the number one selling frank (hot dog) brand by volume for thirteen consecutive years, according to Nielsen, and was the second largest packaged meat brand by volume in 2017.

We believe we have one of the largest refrigerated distribution networks in the industry, reaching consumers through a number of different distribution channels, including modern retail (supermarkets, hypermarkets and convenience stores), traditional retail (mom & pop shops and wholesalers), exports and foodservice (hotels, restaurants, movie theaters and others). We do not depend significantly on any single client; our top 40 customers represented only 35.5% of our total revenues in 2017 while our largest single customer represented 9.2%. We have long-term relationships with our main customers in Europe, the United States, Mexico and other Latin American countries. We have a global raw material supplier network that we utilize to capture economies of scale across our geographies and to maintain a diversified supplier base. Furthermore, we do not depend on any single supplier; our top 10 suppliers represented less than 17.8% of our total raw material purchases in 2017 while our largest single supplier represented approximately 2%.

Since Alfa acquired Sigma in 1980, we have rapidly expanded in size and geography, through organic growth as well as through strategic acquisitions. We have also forged alliances with leading brands such as Oscar Mayer<sup>®</sup>, Yoplait<sup>®</sup>, Philadelphia<sup>®</sup>, Hershey’s<sup>®</sup> and McCormick Grill Mates<sup>®</sup> to distribute their products in certain markets and regions where we operate. We reported revenues of Ps. 114,222 million (US\$6,034 million), Adjusted EBITDA of Ps. 12,725 million (US\$672 million) and net consolidated income of Ps. 2,074 million (US\$110 million) in 2017. In addition, from 2013 to 2017, our revenues and Adjusted EBITDA have grown at a CAGR of 23.6% and 17.4% (measured in Pesos) and 12.0% and 6.3% (measured in Dollars), respectively. We have been able to maximize our value creation through the realization of synergies arising from the integration of our acquisitions, improved market position in attractive markets and the generation of strong cash flows on a sustained basis.

In 2017, our revenues accounted for 36% of Alfa's US\$16,804 million of total revenues and 34% of its US\$2,018 million of Adjusted EBITDA. The chart below highlights our key operating metrics:

### Key Operating Metrics

**Operations in 18 Countries**

**+ 640,000 Points of Sale**

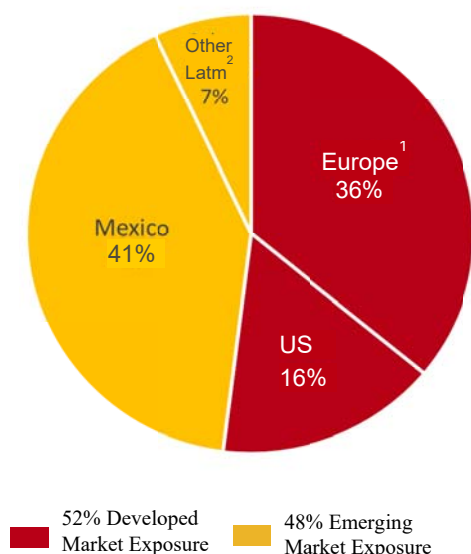
**2013 - 2017 Revenues CAGR: 12%**

**208 Distribution Centers**

**1.7 million Food Tons Produced in 2017**

**70 Manufacturing Facilities**

**2017 Geographic Sales Mix US\$6.0 bn**



**Market Leadership<sup>(4)</sup>**

#### Europe

- 1st Packaged Meats
- 1st Packaged Meats in Spain, Portugal, France and Romania
- 2nd Packaged Meats in Belgium and the Netherlands

#### US

- 1st Frank (volume)
- 1st Packaged Meats Value Segment (volume)
- 2nd Packaged Meats (volume)

#### Mexico

- 1st Packaged Meats
- 1st Cheese
- 2nd Yogurt

#### LatAm

- 1st Cheese in Dominican Republic
- 1st Packaged Meats in Peru
- 2nd Packaged Meats in Central America

- (1) Europe includes Belgium, France, Germany, Italy, Portugal, Romania, Spain and The Netherlands.
- (2) Other Latam includes Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, and Peru.
- (3) Number one in dry meats in France.
- (4) For the year ended December 31, 2016.

Source: Nielsen, IRI and our estimates.

### Competitive Strengths

We believe our competitive position as a leading producer, marketer and distributor of quality value-added branded food products is supported by the following strengths:

#### **Global Diversified Food Company with Leading Positions Across Markets**

We are one of the largest refrigerated packaged food companies and among the top five largest packaged meats companies in the world in terms of sales according to public information. With operations in 18 countries and sales generated in more than 110 countries worldwide (including sales through our independent distributors), we have diversified sales and cash flow streams. We have undergone a unique transformation process in which we have expanded our geographic footprint. In 2000, we had approximately 2% developed market exposure (principally in the United States). In 2010, our developed market exposure in the United States had grown to 15% and Latin America represented 9%. By 2017, our developed market exposure (Europe and the United States) had grown to 52%. Additionally, during this timeframe, we have also diversified our product categories significantly; our product



mix has evolved from 74% cooked meats, 25% dairy products and 1% other products in 2000 to 63% cooked meats, 32% dairy products and 5% other products in 2010, while by 2017 our product mix was composed of 57% cooked meats, 20% dry meats, 18% dairy products and 5% other products. We believe our unique global footprint and our highly recognized brands across refrigerated packaged food categories provide us with significant opportunities for both future growth and attractive returns.

Additionally, from 2000 to 2017, we increased our sales, measured in U.S. Dollars, by a multiple of approximately 6.8x, from Ps. 8,342 million (US\$882 million (based on an exchange rate of Ps. 9.4580 to US\$1.00)) to Ps. 114,222 million (US\$6,034 million) and our Adjusted EBITDA, measured in U.S. Dollars, by a multiple of approximately 5.4x, from Ps. 1,186 million (US\$125 million (based on an exchange rate of Ps. 9.4580 to US\$1.00)) to Ps. 12,725 million (US\$672 million). We believe our global network provides a platform to outperform our competitors, while maintaining a stable position as a refrigerated packaged food participant in the industry.

We have a leading position in most of the markets in which we participate. In 2017, we were the number one producer of packaged meat products in Europe and Mexico (by sales) and of franks (hot dogs) in the United States (by volume), and a leading producer of cheese and yogurt products in Mexico with the number one cheese brand and number two yogurt brand (by sales in 2016), according to Nielsen and internal estimates. We believe that our leading positions in these markets and our highly recognized brands provide us with a strong competitive advantage in serving our customers. As a result of our global platform, scale and operational excellence, we are able to achieve significant economies of scale in the sourcing, sale and distribution of our products and to identify relevant industry trends and shifting consumer habits, leading to strategic advantages compared to our competitors.

#### ***Diverse Portfolio of Leading Brands Across Categories and Consumer Segments***

We have a broad portfolio of value-added food products with highly recognized brands that are consistently considered “top-of-mind” household names in the countries where we operate, according to both external industry reports and our internal findings. Eleven brands individually generated over Ps. 1,894 million (US\$100 million) in revenues in 2017. Our flagship brand FUD<sup>®</sup>, available in the United States, Mexico, Central America, the Dominican Republic and Peru, generated over Ps. 16,254 million (US\$858 million) in revenues in 2017 and captured over five times the “top-of-mind” brand recognition compared to its next two competitors in Mexico, according to our internal estimates. In Spain, Campofrío<sup>®</sup> is the most popular brand of packaged meats measured by “share of mind,” according to Kantar Millward Brown, and the best-selling brand of packaged meats by sales, generating over Ps. 7,273 million (US\$386 million) in revenues in 2017. In France and Portugal, we own Aoste<sup>®</sup> and Nobre<sup>®</sup>, which are the best-selling brands in their categories in terms of sales in those countries, respectively, according to Nielsen and Information Resources Incorporated (“IRI”). In the United States, Bar-S<sup>®</sup> was the number one selling frank (hot dog) brand by volume in 2017 according to Nielsen, and was the number two packaged meat brand overall by volume, generating over Ps. 11,724 million (US\$619 million) in revenues in 2017. We also own other strong and well-recognized brands, such as Justin Bridou<sup>®</sup>, Navidul<sup>®</sup>, Chimex<sup>®</sup>, San Rafael<sup>®</sup> and Sosua<sup>®</sup>, leading brands in their respective markets.

Our brands target a broad range of consumers, segmented by socioeconomic status, demographics, gender and consumer attitudes towards food, among other things. Targeting a broad range of segments allows us to capture consumer demand across economic cycles, while generating resilient and sustainable sales and cash flows and consistently posting double-digit top-line growth in eight of the last ten years, when measured in Pesos. In addition, our premium brands and presence in developed economies provide strong upside potential during expansive economic cycles, while our strong position in the value segment provides downside protection during economic downturns.

Besides our own brands, we complement our portfolio with highly recognized third-party brands. We produce, market and distribute yogurt under the Yoplait<sup>®</sup> brand throughout Mexico, Central America and the Dominican Republic, and packaged meats products under the Oscar Mayer<sup>®</sup> brand in Europe. In Mexico, we also distribute products under other world-renowned brands, such as Oscar Mayer<sup>®</sup>, Philadelphia<sup>®</sup>, Hershey’s<sup>®</sup> and La Vaca que ríe<sup>®</sup>. During 2017, sales from licensed brands represented 7.3% of our revenues.

We believe that our portfolio of leading and highly recognized brands provides us with a competitive advantage by allowing us to launch new products more effectively.





We also follow consumer and health trends, and we continuously seek to engage with government and industry organizations to identify new trends. Some of our most recent products launches developed under this innovation methodology include Yogurt Yoplait® Placer, San Rafael® ham snacks, low-fat Campofrío® sausages and Paninos Fiorucci®.

Other recent examples of innovation include the addition of re-sealable and multi-pack packaging to our existing packaged meat and cheese offerings, as well as newly developed pre-cooked meals, pre-packaged snacks and a wide variety of yogurts and beverages. To address consumers' increasing focus on convenience, we have also redesigned some of our classic products in convenient formats including portable, sliced and snack-size options with highly differentiated re-sealable packaging. In addition, we have developed vegan meat-like products such as Vegalia®.

We support our innovation process by using cutting-edge technology to develop our products. We own research and development facilities and have a team of over 200 highly trained specialists who monitor and respond to changes in consumer preferences and technology, assisting us in the development of new products and processes. Our innovation initiatives have resulted in approximately 9% of sales originating from products that have been developed in the last 36 months.

### ***Extensive Supply Chain and Distribution Network with Scalable Operations and Go-to-Market Capabilities***

We own or operate 70 production facilities worldwide (26 in Europe, 6 in the United States, 25 in Mexico and 13 in other Latin American countries). Our global footprint enables us to share production plans and best practices among our facilities, optimizing our operations and productivity. Our strong manufacturing capabilities enable us to further innovate and optimize our distribution platform.

We own a new state-of-the-art production facility located in Burgos, Spain. With the support of our employees and experts in the design and technology fields, we designed a manufacturing facility with advanced technology to promote further efficiencies in our operations. We expect this new facility will help us capture additional synergies from the Campofrío acquisition and will expand our margins in Europe.

We leverage our large footprint with a global sourcing operation, which we believe conforms to the highest international food safety and quality standards in order to achieve economies of scale, and maintain a diversified supplier base in which our top 10 suppliers represent less than 20% of our raw material purchases.

Additionally, we have a least-cost production model based on commodity fundamental analysis and formulation expertise. This gives us the ability to offset raw materials cost increases and maintain consumer preference and EBITDA margins throughout economic cycles.

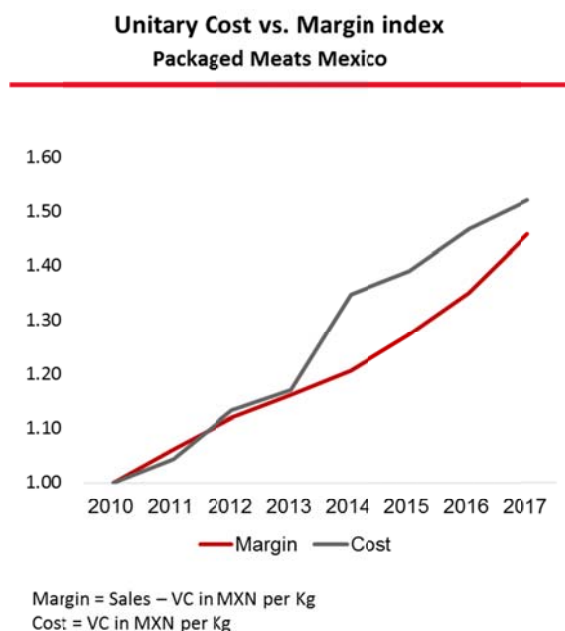
Our 208 distribution centers (18 in Europe, 14 in the United States, 137 in Mexico and 39 in other Latin American countries) are strategically located within the countries where we operate. Together with our 7,900 vehicles, our distribution centers and global sourcing operation support one of the world's largest refrigerated distribution networks in the segment, reaching more than 640,000 points of sale (65,000 in Europe, 57,000 in the United States, 377,000 in Mexico and 145,000 in the rest of Latin America).

We are highly focused on superior point of sale execution, with a sales force of over 18,000 collaborators, including those who serve consumers at the point of sale. To optimize point of sale execution, we utilize data-driven pricing analysis by sales channel, product and location to conduct a weekly market census, which we use to modify pricing and supply by sales channel, product and individual store. Furthermore, we support sales to mom & pop shops using regression analysis through handheld devices to best predict the ideal drop size at the point of sale. Our sales force personnel undergo internal certifications to guarantee correct execution at the point of sale.

### ***Consistent Cash Flow Generation and Growth***

We have achieved robust growth in the last ten years and have, at the same time, maintained solid and sustained free cash flow generation, with expansion being driven primarily by an increased distribution network, entrance into attractive new markets and categories, market share gains, disciplined acquisitions and improved efficiencies in our operating processes. From 2010 to 2017, we achieved revenues, Adjusted EBITDA and Free Cash Flow CAGR of 19.4%, 19.6% and 20.4% (measured in Pesos) and 12.7%, 12.8% and 13.6% (measured in Dollars), respectively.

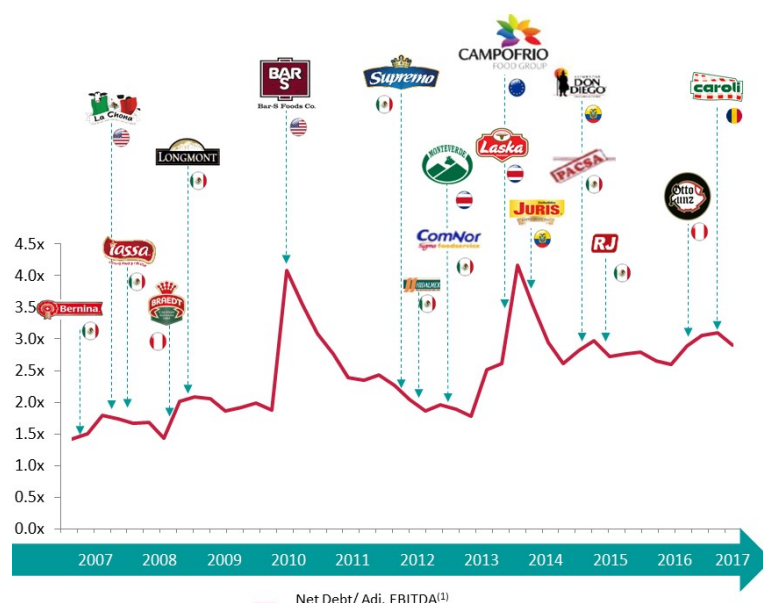
We have a resilient business position in all the regions in which we conduct and operate our business. Our European, U.S. and Latin American operations source their raw materials mainly from local suppliers. On the other hand, our Mexican operations source most of their raw materials from the United States. Nevertheless, our margins have remained stable even during periods of foreign exchange volatility, mainly because they are supported by our strong brands and price strategy. Additionally, contingency plans have been executed in Mexico and other geographic areas in which we conduct and operate our business against possible changes in trade agreements.



We have significant M&A and post-merger integration experience, which has enabled us to successfully execute and integrate 29 M&A transactions since 1997. Our due diligence and post-merger integration experience

help us identify and execute value generating strategies that result in significant synergies. Some examples include cost efficiencies, purchasing leverage, process improvements and technology sharing. We have particular expertise in acquiring and integrating family-owned businesses where, by leveraging our values and culture, we are able to present ourselves as an ideal transaction partner.

Our acquisitions, together with our integration and operational expertise, have been a key component of our annual cash flow generation. Our Adjusted EBITDA grew at a CAGR of 14.4% (measured in Pesos) during the four years ended December 31, 2017, propelled by acquisitions as well as organic growth. Acquisitions consummated during such four-year period contributed 32.6% of our total Adjusted EBITDA for 2017. Our cash flow from operations represents a significant portion of our Adjusted EBITDA (118% in 2016 and 73% in 2017), which enables us to utilize free cash flow to rapidly reduce leverage after each acquisition. For example, we reduced our Net Debt/Adjusted EBITDA ratio calculated in U.S. Dollars from 4.1x after the Bar-S acquisition in September 2010 to 2.5x as of December 31, 2013. After the consolidation of Campofrío in June 2014, our Net Debt/Adjusted EBITDA ratio calculated in U.S. Dollars was 4.2x, which we reduced to 2.2x as of December 31, 2015. From 2014 to 2017, our Net Debt/Adjusted EBITDA ratio calculated in U.S. Dollars was 2.9x, 2.7x (excluding US\$160 million in EBITDA related to property damage insurance compensation), 2.6x and 2.9x, respectively. During the same period, our Interest Coverage Ratio was 5.6x, 6.9x (excluding US\$160 million in EBITDA related to property damage insurance compensation), 5.5x and 4.7x, respectively.



- (1) Ratios calculated in U.S. Dollars. The 2015 period excludes a non-recurring gain of US\$160 million from property damage insurance compensation related to a fire in one of our subsidiaries' plants.

### ***Experienced Management Team and Diversified Workforce***

Our team of 7 senior executives has on average 28 years of experience in the industry across a wide range of areas that include finance, manufacturing, human resources, distribution, marketing and sales. We have a strong track record of promotion of in-house talent, bolstered by our robust succession management program and career path design. To support these programs and ensure we recruit and retain the best talent at all levels of the organization, we have several continuous development plans with leading global educational institutions (such as Stanford University, Harvard Business School, Wharton School of Management, Kellogg Business School, London Business School and IE Business School, among others). We believe investing in our people is a key pillar for long-term sustainable growth. We embrace diversity and have a highly diversified workforce, with more than 62 different nationalities represented and women accounting for 39% of our employees. Such diversity allows us to better

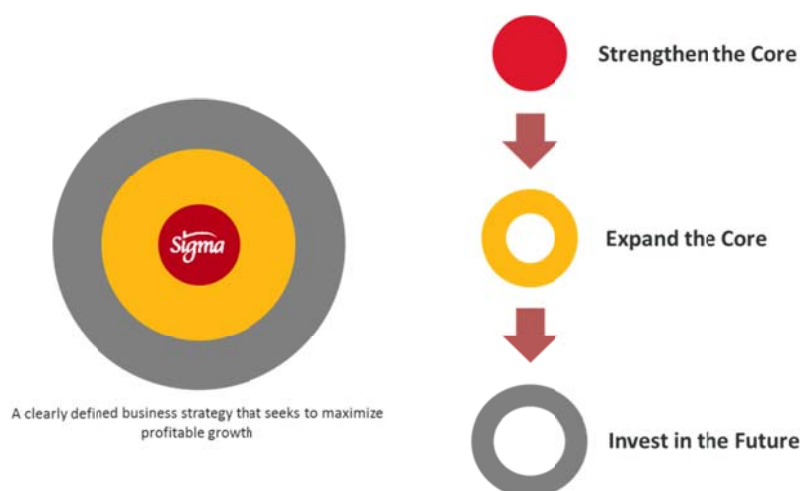
identify with our broad range of consumers. As of December 31, 2017, our workforce was allocated 40%, 39%, 20% and 1% to Sales, Operations and Logistics, Administrative and Research and Development roles, respectively.

We are organized in five different organizational units: Mexico, Europe, the United States, Central and South America and Foodservice, together with a central staff devoted to coordinate and support organizational units. Central staff is comprised of Finance and Central Marketing, Technology and Talent and Culture. This structure allows us to achieve global benchmarks and implement best practices throughout our operations.

## Business Strategy

Our strategy is founded on our differentiated capabilities and competitive advantages, through which we seek to strengthen and expand our current position while capitalizing on attractive market trends.

The main elements of our strategy are as follows:



### Strengthen our Core Business

**Consolidate and Optimize our Operations.** We intend to continue to consolidate acquisitions and implementing best practices and processes across our businesses. This will help us increase our sales and optimize our supply chain in a wide variety of aspects such as production efficiencies, raw material yields and global sourcing, which we expect will improve our profitability.

**Enhance our Brand Recognition.** We intend to further reinforce our brand equity through differentiated advertising and promotional activity. We also plan on increasing our presence in digital media as we believe this is an efficient and effective way to reach consumers.

**Drive Innovation Using Consumer Insights.** We plan to continue to invest in consumer analysis to further enhance our insights regarding consumer preferences. We intend to increase consumer appeal, brand loyalty and sales by enhancing our product offerings via innovation. For example, we intend to take advantage of the growing “health-conscious” consumer trend by expanding our health and wellness product offerings as we did with the launch of our Cuida-t+<sup>®</sup> line in Spain and Mexico and our low-fat Greek yogurt product line in Mexico.

**Further Improve Market Share through Enhanced Distribution.** We intend to continue to invest in and expand our distribution channels to improve market shares in attractive categories in our primary countries of operation. Our extensive knowledge of consumer preferences and spending habits allows us to expand our distribution capability in an intelligent and targeted manner, while working alongside our distribution partners to ensure success.

## ***Expand our Core Businesses***

***Expand our Foodservice Operations.*** The foodservice channel, which primarily includes sales to restaurants, hospitals, schools, hotels, movie theaters and catering businesses, represented approximately 11.2% of our revenues in 2017. We view this channel as a significant growth opportunity across all regions where we have a presence, and we expect to expand our foodservice operations by leveraging our brands, existing customer base, distribution network, supply chain and innovation platforms.

We have established a business unit dedicated to the expansion of the foodservice business in Mexico, as we consider this market to have solid growth potential given its highly fragmented nature, and to be a perfect fit for us given that we can support its growth on our existing infrastructure and distribution capabilities. According to Euromonitor International (“Euromonitor”), the top three players in the foodservice channel in Mexico account for only 8% of market share. In addition, it is a very attractive channel from a return on capital perspective given the highly cash generative characteristics of the business relative to the amount of capital investment required. We currently provide integrated foodservice solutions, including our own and third-party products (including non-food products), to more than 20,000 customers.

Our growth in this distribution channel in Mexico has been driven by key acquisitions. In 2013, we acquired Comercial Norteamericana, S. de R.L. de C.V. (“ComNor”), a producer, distributor and retailer of poultry, pork and beef. Similarly, in 2015 we entered into a strategic alliance with Kinesis Food Service, S.A. de C.V. for the administration of Proveedores de Alimentos de Cancun, S.A. de C.V. (“Pacsa”), a company engaged in the foodservice industry mainly in southeast Mexico. We intend to continue exploring acquisition targets in this industry, which will allow us to expand our customer base.

***Fully Leverage Assets through Distribution of Third-Party Leading Brands.*** We intend to leverage our geographic footprint and operating expertise to identify suitable partners with well-known branded products which we believe would complement our product portfolio and refrigerated distribution capabilities. As part of this strategy, we plan to leverage our existing asset base to expand our business by offering value-added distribution services to third-party producers similar to the agreements we currently have with Oscar Mayer®, Philadelphia® and Hershey’s®, among others. We expect our licensing strategy to continue to be an important part of our business and we believe there are significant growth opportunities through new agreements.

***Grow Prepared Meal and Snack Business.*** We believe our prepared meal and snack business is positioned to capitalize on the growing consumer trends of convenience and practicality. We intend to continue investing in R&D to offer products to consumers with increasingly shorter preparation time. Recent examples of this include Campofrío® mini-snacks and FUD® ham and cheese snacks.

***Achieve Larger Market Share in Relevant Markets / Categories.*** We foresee strong potential for growth in several European, U.S. and Latin American markets where we are currently present but have a relatively undersized market share. We intend to leverage our existing product portfolio and operational expertise to increase our market shares through both organic and inorganic expansion.

***Continue Exploring M&A Opportunities in Packaged Meats, Dairy and Other Refrigerated Foods.*** We believe there remains significant opportunity for consolidation in the packaged meats and dairy sectors, especially in Europe, Latin America and certain markets in the United States. We intend to leverage our operational expertise and experience in M&A integration to continue to analyze and pursue attractive consolidation opportunities.

***Grow Exports for Heritage Products to Current and New Geographies.*** We have a strong European heritage portfolio operating under the Campofrío® and Fiorucci® brands in Spain and Italy, respectively. Spanish and Italian cuisine are widely accepted all over the world, which has contributed to the success of this portfolio. In the United States, we have diversified our existing heritage portfolio with our Fiorucci® products. In Mexico, we recently introduced Spanish products such as Serrano ham (*jamón serrano*), *chorizo* and pork loin under the Campofrío® brand. We intend to further capitalize on consumers’ desires for high quality food associated with historic practices by entering new geographies and growing our market share in other attractive categories.



***Replicate our Successful Business Model in our Current Markets.*** We plan to leverage the success of our current business model to introduce new products within our existing product categories and regions. For example, we plan to leverage our experience in the United States and Mexican cheese markets to begin distributing cheese in Europe and other Latin American countries. In addition, we plan to continue targeting attractive companies within our existing markets and product categories, capturing synergies and leveraging our capabilities to continuously improve operational performance.

#### ***Invest in the Future***

***Expand our Product Portfolio by Introducing New Product Categories.*** We intend to continue to meet our diverse consumers' needs as well as capitalize on evolving market trends by expanding our portfolio to other food categories through product innovation and continued value-creating acquisitions.

***Enter New Geographies.*** We plan to continue expanding our footprint through carefully evaluated value accretive acquisitions in attractive geographies where we believe we can attain a leading market position. We intend to replicate our successful business model to leverage our proven due diligence and post-merger integration capabilities to realize synergies and efficiencies from each of our acquisitions.

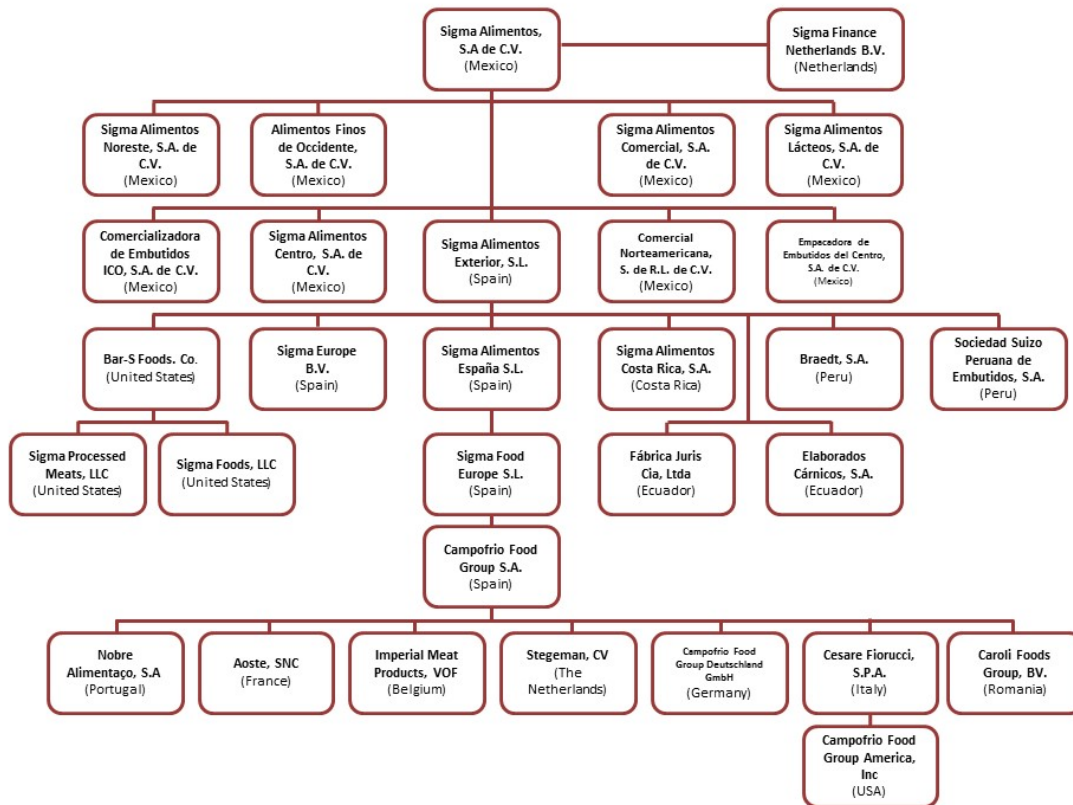
***Complement Innovation Capabilities through Open Innovation and a Corporate Capital Fund.*** In addition to our continuous innovation programs and our participation in global innovation forums, we are in the process of forming a corporate capital fund which we believe will allow us to participate in potentially highly innovative and technological projects. We believe that these types of early stage technologies have the potential to be key future differentiators.

***Continue Developing World Class Talent.*** We intend to continue investing in our people as we believe this is one of our key strengths. We have established relationships with a range of elite academic institutions and intend to develop similar relationships with other institutions. We expect that these investments in human capital at all levels of our organization will promote the development of highly trained and experienced professionals. Having a world-class diversified workforce will continue to allow us to capitalize on our strengths for the benefit of consumers and customers.



## Corporate Organization

The following chart describes our corporate structure including our significant subsidiaries, which are all directly or indirectly controlled by us:



Our executive offices are located at Ave. Gómez Morín No. 1111 Sur, Col. Carrizalejo, San Pedro Garza García, Nuevo León, 66254 Mexico. Our telephone number is +52 (81) 8748-9000.

## THE OFFERING

*The summary below describes the principal terms of the notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The “Description of the Notes” section of this offering memorandum contains a more detailed description of the terms and conditions of the notes.*

Issuer .....	Sigma Finance Netherlands B.V., a private company with limited liability ( <i>besloten vennootschap met beperkte aansprakelijkheid</i> ) incorporated under Dutch law.
Notes Offered.....	US\$500,000,000 aggregate principal amount of 4.875% Senior Notes due 2028.
Issue Price .....	4.875%, plus accrued interest, if any, from March 27, 2018.
Maturity .....	March 27, 2028.
Interest Rate and Payment Dates.....	Interest will accrue at an annual rate of 4.875% and will be payable in cash semi-annually on March 27 and September 27 of each year, beginning September 27, 2018.
Guarantors.....	The notes will be fully and unconditionally guaranteed on a senior unsecured basis by Sigma Alimentos, S.A. de C.V., Sigma Alimentos Corporativo, S.A. de C.V., Sigma Alimentos Centro, S.A. de C.V., Sigma Alimentos Comercial, S.A. de C.V., Sigma Alimentos Lácteos, S.A. de C.V., Comercializadora de Embutidos ICO, S.A. de C.V., Alimentos Finos de Occidente, S.A. de C.V., Carnes Selectas Tangamanga, S.A. de C.V., Sigma Alimentos Congelados, S.A. de C.V., Sigma Alimentos Noreste, S.A. de C.V., Empacadora de Embutidos del Centro, S.A. de C.V., Grupo Chen, S. de R.L. de C.V., Comercial Norteamericana, S. de R.L. de C.V., Sigma Alimentos Exterior, S.L., Sigma Processed Meats, LLC, Sigma Foods, LLC, Mexican Cheese Producers, Inc., Bar-S Foods Co. and Sigma Alimentos Costa Rica, S.A. The Subsidiary Guarantors (in addition to the Issuer and the Parent Guarantor on a stand-alone basis) accounted for 50% of our consolidated assets and 67% of our consolidated Adjusted EBITDA as of and for the year ended December 31, 2017.
Ranking .....	<p>The notes and the guarantees will be the senior unsecured obligations of the Issuer and the Guarantors, respectively, and will rank:</p> <ul style="list-style-type: none"> <li>• equal in right of payment to all other existing and future senior unsecured indebtedness of the Issuer and each of the respective Guarantors; and</li> <li>• junior to certain obligations given preference under applicable law, including labor, social security and tax claims.</li> </ul> <p>The notes and the guarantees will effectively rank junior to all existing and future secured indebtedness of the Issuer and each of the Guarantors, respectively, to the extent of the value of the assets securing such indebtedness. The notes and the parent guarantee will be structurally subordinated to all claims of creditors (including trade creditors and preferred stockholders, if any) of each non-</p>

guarantor subsidiary of the Parent Guarantor, and each of the subsidiary guarantees will be structurally subordinated to all claims of creditors (including trade creditors and preferred stockholders, if any) of the non-guarantor subsidiaries of each respective Subsidiary Guarantor.

As of December 31, 2017, we had total consolidated indebtedness of Ps. 50,409 million (US\$2,554 million), of which Ps. 9,612 million (US\$487 million) was indebtedness of the non-guarantor subsidiaries of the Parent Guarantor to which the notes will be structurally subordinated, and none of which was secured indebtedness. As of December 31, 2017 the Issuer had no outstanding indebtedness.

Optional Redemption ..... The Issuer may redeem the notes at its option, in whole or in part, at any time and from time to time, prior to December 27, 2027 (the date that is three months prior to the scheduled maturity of the notes), at a redemption price equal to the greater of 100% of the outstanding principal amount of the notes to be redeemed and the applicable “make-whole” amount, plus in each case accrued and unpaid interest and Additional Amounts, if any, to the redemption date. See “Description of the Notes—Redemption—Optional Make-Whole Redemption.”

In addition, the Issuer may redeem the notes at its option, in whole or in part, at any time and from time to time, beginning on December 27, 2027 (the date that is three months prior to the scheduled maturity of the notes), at a redemption price equal to 100% of the outstanding principal amount of the notes to be redeemed, plus accrued and unpaid interest and Additional Amounts, if any, to the redemption date. See “Description of the Notes—Redemption—Optional Redemption without a Make-Whole Premium.”

Tax Redemption..... In the event of certain changes to applicable tax laws and regulations that would require us to pay Additional Amounts (as defined below) in respect of payments of interest or amounts deemed interest on the notes, in excess of the Additional Amounts payable on the date hereof, the Issuer may, subject to certain conditions, redeem in whole, but not in part, the notes prior to maturity at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest thereon to, but excluding, the date of redemption and any Additional Amounts payable with respect thereto. See “Description of the Notes—Redemption—Optional Redemption upon Tax Event.”

Additional Amounts ..... If the Issuer is required to deduct or withhold taxes attributable to any payments of interest on the notes (and amounts deemed interest, such as any discount on the principal amount of the notes), subject to certain exceptions described in this offering memorandum, the Issuer and the Guarantors, jointly and severally, will pay additional amounts (“Additional Amounts”) to the holders of the notes, so that the net amount received by holders of the notes in respect of principal, interest or other payments on the notes, after any such withholding or deduction, will not be less than the amount each holder of notes would have received if such withholding or deduction had not applied. See “Description of the Notes—

Additional Amounts.”

Change of Control.....	Upon the occurrence of a Change of Control Triggering Event (as defined in the indenture), the Issuer must offer to repurchase the notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the repurchase date. See “Description of the Notes—Change of Control Triggering Event.”
Further Issues .....	The Issuer may, from time to time, without notice to or consent of the holders of the notes, create and issue an unlimited principal amount of additional notes offered pursuant to this offering memorandum, subject to limitations described in “Description of the Notes—General.”
Certain Covenants .....	The indenture contains certain covenants, including limitations on liens, limitations on sale and leaseback transactions, and limitations on consolidations, mergers, and transfers of assets. However, all of these limitations and restrictions are subject to a number of significant exceptions. See “Description of the Notes—Covenants.”
Use of Proceeds.....	We intend to use the net proceeds from this offering to redeem the Campofrio 2022 Notes and the remainder, if any, for general corporate purposes. See “Use of Proceeds.”
Transfer Restrictions .....	We have not and will not register the notes under the Securities Act or the securities laws of any other jurisdiction. The notes are subject to restrictions on transfer and may only be offered in transactions exempt from or not subject to the registration requirements of the Securities Act. Furthermore, there are restrictions on the offer, sale and transfer of the notes in the Netherlands. See “Transfer Restrictions.”
Taxation .....	You should consult your tax advisor with respect to the Dutch and U.S. tax considerations relating to purchasing, holding or disposing of the notes in light of your own particular situation and with respect to any tax consequences arising under the laws of any federal, state, local, foreign or other taxing jurisdiction. See “Taxation” for a summary of certain Dutch income tax considerations and U.S. federal income tax considerations of an investment in the notes.
Governing Law .....	The indenture and the notes will be governed by the laws of the State of New York.
Listing .....	Application has been made to Euronext Dublin for the notes to be admitted to the Official List and trading on the Global Exchange Market. We cannot assure you that this application will be accepted.
Trustee, Registrar, Paying Agent and Transfer Agent .....	The Bank of New York Mellon.
Irish Listing Agent .....	The Bank of New York Mellon SA/NV, Dublin Branch.
Form and Denomination .....	The Issuer will issue the notes in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof and the notes will, once issued, be represented by one or more global notes. The global notes representing the notes will be deposited with a custodian for DTC and registered in the name of Cede & Co., as

nominee for DTC.

Settlement ..... The notes will be delivered in book-entry form through the facilities of DTC for the accounts of its direct and indirect participants, including Euroclear and Clearstream.

Risk Factors ..... See “Risk Factors” in this offering memorandum for a discussion of certain relevant factors you should carefully consider before deciding to invest in the notes.

## SUMMARY HISTORICAL FINANCIAL DATA AND OTHER INFORMATION

You should read the following summary historical financial data and other information in conjunction with our Annual Audited Financial Statements, and the information set forth in the sections “Presentation of Financial and Certain Other Information,” “Selected Historical Financial Data and Other Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this offering memorandum.

The consolidated financial information set forth below as of December 31, 2016 and 2017 and for the years ended December 31, 2015, 2016 and 2017 has been derived from our Annual Audited Financial Statements prepared in accordance with IFRS contained elsewhere in this offering memorandum.

	For the Year Ended December 31,			
	2015	2016	2017	2017 <sup>(1)</sup>
	(Ps.)	(Ps.)	(Ps.)	(US\$)
(in millions)				
<b>Income Statement Data:</b>				
Revenues .....	93,568	106,341	114,222	6,034
Cost of sales .....	(66,708)	(75,370)	(82,748)	(4,371)
Gross profit.....	26,860	30,971	31,474	1,663
Selling expenses.....	(15,330)	(17,398)	(18,266)	(965)
Administrative expenses .....	(4,132)	(4,579)	(4,781)	(253)
Other income (expenses), net <sup>(2)</sup> .....	3,506	(476)	164	9
Operating income .....	10,904	8,519	8,591	454
Financial income .....	93	133	297	16
Financial expenses .....	(1,716)	(2,393)	(3,047)	(161)
Gain due to exchange fluctuation .....	808	1,938	2,658	140
Loss due to exchange fluctuation .....	(1,791)	(2,434)	(4,297)	(227)
Financial cost, net .....	(2,606)	(2,757)	(4,389)	(232)
Equity in income of associates recognized using the equity method.....	(401)	50	16	1
Income before taxes .....	7,896	5,812	4,218	223
Income taxes.....	(1,586)	(860)	(2,144)	(113)
Net consolidated income.....	6,310	4,953	2,074	110
Earnings per share .....	4.91	3.81	1.57	0.08
Number of shares outstanding .....	1,291	1,291	1,291	1,291

	As of December 31,		
	2016	2017	2017 <sup>(1)</sup>
	(Ps.)	(Ps.)	(US\$)
(in millions)			
<b>Statement of Financial Position Data:</b>			
Current assets:			
Cash and cash equivalents .....	12,838	12,807	649
Restricted cash .....	124	85	4
Trade and other accounts receivable, net <sup>(3)</sup> .....	9,039	7,977	404
Recoverable income tax .....	846	819	42
Inventories .....	13,751	14,687	744
Other current assets.....	344	426	22
Total current assets .....	36,942	36,802	1,865
Non-current Assets:			
Property, plant and equipment, net.....	33,089	35,268	1,787
Goodwill and intangible assets, net.....	26,665	30,457	1,543
Deferred income taxes.....	2,995	2,792	141
Investments accounted for using the equity method and other non-current assets .....	1,069	220	11
Restricted cash .....	-	47	2
Total non-current assets .....	63,819	68,785	3,485
Total assets.....	100,761	105,586	5,350

As of December 31,			
	2016	2017	2017 <sup>(1)</sup>
	(Ps.)	(Ps.)	(US\$)
(in millions)			
Current liabilities:			
Debt <sup>(4)</sup> .....	442	2,380	121
Trade and other accounts payable .....	26,099	25,818	1,308
Income taxes payable .....	668	1,784	90
Provisions .....	211	324	16
Other current liabilities .....	967	303	15
Total current liabilities .....	27,719	30,608	1,551
Non-current liabilities:			
Debt .....	47,400	48,030	2,434
Provisions .....	348	110	6
Deferred income taxes .....	3,846	4,068	206
Income tax payable .....	2,460	2,342	119
Employees' benefits .....	1,118	1,339	68
Other non-current liabilities .....	821	800	41
Total non-current liabilities .....	55,994	56,689	2,872
Total liabilities .....	83,713	87,297	4,423
Total equity .....	17,048	18,289	927

For the Year Ended December 31,				
	2015	2016	2017	2017 <sup>(1)</sup>
	(Ps.)	(Ps.)	(Ps.)	(US\$)
(in millions)				
<b>Cash Flow Data:</b>				
Net cash generated from operating activities .....	11,773	14,578	9,334	493
Net cash used in investing activities .....	(4,928)	(6,156)	(4,899)	(259)
Net cash used in financing activities .....	(3,651)	(5,270)	(3,833)	(202)

	2015	2016	2017	2017 <sup>(1)</sup>
	(Ps.)	(Ps.)	(Ps.)	(US\$)
(in millions)				
<b>Other Financial Data:</b>				
Revenues by product line:				
Packaged meats .....	72,807	82,109	88,018	4,650
Dairy products .....	16,927	19,235	20,965	1,108
Other products .....	3,834	4,997	5,239	277
Revenues by geographic region <sup>(5)</sup> :				
Europe .....	33,892	40,002	40,456	2,137
United States .....	13,697	15,308	18,257	965
Mexico .....	39,915	43,433	47,079	2,487
Latin America <sup>(6)</sup> .....	6,064	7,598	8,429	445
Free Cash Flow <sup>(7)</sup> .....	7,958	8,053	6,284	332
Adjusted EBITDA by geographic region <sup>(5)</sup> :				
Europe .....	5,619	3,096	3,318	175
United States .....	2,126	2,492	2,638	139
Mexico .....	5,557	5,905	6,056	320
Latin America <sup>(6)</sup> .....	589	881	713	38
Adjusted EBITDA <sup>(8)</sup> .....	13,891	12,374	12,725	672

- (1) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps. 19.7354 per U.S. Dollar, the Official Exchange Rate in effect on December 31, 2017, with respect to statement of financial position data and (ii) Ps. 18.9291 per U.S. Dollar, the average of the Official Exchange Rate on each day during the year ended December 31, 2017, with respect to financial information other than statement of financial position data. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

- (2) Other income (expenses), net, for the years ended December 31, 2015, 2016 and 2017 consisted primarily of the following: (i) in 2015, an insurance reimbursement from the fire at the La Bureba facility, (ii) in 2016, impairment of fixed and intangible assets and (iii) in 2017, a gain due to the remeasurement of the acquisition of Caroli and the impairment of fixed and intangible assets. See Note 23 to the Annual Audited Financial Statements.
- (3) Allowance for doubtful accounts as of December 31, 2015, 2016 and 2017 consisted of Ps. 419 million, Ps. 481 million and Ps. 459 million, respectively.
- (4) Current debt includes interest payable.
- (5) Beginning in 2017, the results for the United States include the earnings of Campofrío's U.S. operations, which were previously included in the results for Europe. Prior periods have not been reclassified, as the effects in the operating segments are not significant.
- (6) Includes Guatemala, Honduras, El Salvador, Costa Rica, Nicaragua, the Dominican Republic, Peru and Ecuador.
- (7) Free Cash Flow has been included solely because we believe that it enhances the understanding of our financial performance and capabilities to generate cash from our operations. We define "Free Cash Flow" as the sum of Adjusted EBITDA, change in working capital, capital expenditures and taxes. Our calculation of Free Cash Flow may not be comparable to other companies' calculations of similarly titled measures. See "Presentation of Financial and Certain Other Information—Non-GAAP Financial Measures." The following table sets forth a reconciliation of Adjusted EBITDA to Free Cash Flow for each of the periods presented:

	Year Ended December 31,			
	2015	2016	2017	2017 <sup>(a)</sup>
	(Ps.)	(Ps.)	(Ps.)	(US\$)
	(in millions)			
Adjusted EBITDA <sup>(b)</sup> .....	13,891	12,374	12,725	672
Change in working capital <sup>(c)</sup> .....	(1,306)	2,211	(1,677)	(89)
Capital expenditures <sup>(d)</sup> .....	(3,638)	(6,298)	(3,542)	(187)
Taxes .....	(989)	(234)	(1,223)	(65)
Free Cash Flow (unaudited) .....	<u>7,958</u>	<u>8,053</u>	<u>6,284</u>	<u>332</u>

(a) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of Ps. 18.9291 per U.S. Dollar, the average of the Official Exchange Rate on each day during the year ended December 31, 2017. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

(b) 2015 includes a non-recurring gain of US\$71 million from business interruption and a non-recurring gain of US\$160 million from property damage insurance compensation related to a fire in one of our subsidiaries' plants.

(c) In 2015, we received non-recurring payments of US\$60 million from business interruption and US\$207 million from property damage insurance compensation, both related to a fire in one of our subsidiaries' plants.

(d) 2015 and 2016 include US\$24 million and US\$165 million, respectively, of expenditures made in connection with the construction of the Bureba facility.

- (8) Adjusted EBITDA has been included solely because we believe that Adjusted EBITDA enhances the understanding of our financial performance. We also believe Adjusted EBITDA is useful because it presents operating results on a basis unaffected by capital structure and taxes. Adjusted EBITDA, however, is not a measure of financial performance under IFRS and should not be considered as an alternative to net consolidated income or operating income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Adjusted EBITDA has material limitations that impair its value as a measure of our overall profitability since it does not address certain ongoing costs of our business that could significantly affect profitability such as financial expenses, income taxes, depreciation and amortization. For the years ended December 31, 2015, 2016 and 2017, we define "Adjusted EBITDA" as operating income after adding back or subtracting, as the case may be, depreciation and amortization and the impairment of fixed and intangible assets. Our calculation of Adjusted EBITDA may not be comparable to other companies' calculations of similarly titled measures. See "Presentation of Financial and Certain Other Information—Non-GAAP Financial Measures." The following table sets forth a reconciliation of Adjusted EBITDA to net profit (loss) for each of the periods presented:

	Year Ended December 31,			
	2015	2016	2017	2017 <sup>(a)</sup>
	(Ps.)	(Ps.)	(Ps.)	(US\$)
	(in millions)			
Operating income <sup>(b)</sup> .....	10,904	8,519	8,591	454
Depreciation and amortization .....	2,829	3,494	3,776	199
Impairment of fixed assets .....	158	177	278	15
Impairment of intangible assets .....	-	184	81	4
Adjusted EBITDA .....	<u>13,891</u>	<u>12,374</u>	<u>12,725</u>	<u>672</u>

(a) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of Ps. 18.9291 per U.S. Dollar, the average of the Official Exchange Rate on each day during the year ended December 31, 2017. These convenience translations should not be



construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See “Exchange Rates.”

(b) In November 2014 there was a fire in one of the Campofrío plants, located in the city of Burgos, Spain. The losses recorded as a consequence of the fire amounted to Ps. 1,858 million, affecting property, plant and equipment, inventory and other costs. These assets were covered by an insurance policy and based on the analysis and confirmations made by our management, it was concluded that such policy covered material damages, loss of benefits resulting from the reduction of revenues and additional costs that we may have incurred to recover sales for a period of twelve months from the date of the fire. During 2014, we recorded income from the insurance reimbursement of Ps. 1,766 million, of which Ps. 1,275 million was collected in cash. During 2015, we received insurance payments of Ps. 2,598 million and during the month of November 2015, the closing of the insurance indemnity was completed in a total amount of Ps. 3,913 million.

## RISK FACTORS

*An investment in our notes is subject to risks and uncertainties. You should carefully consider the risks described below, in addition to the other information contained in this offering memorandum, before deciding whether to purchase the notes. Realization of any of these risks could have a material adverse effect on our business, financial condition, cash flows, results of operations and prospects, and could materially affect the value or liquidity of the notes and result in the loss of all or part of your investment in or failure to receive timely payments in respect of the notes. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial, and that are not described below, may also materially adversely affect us, which could also result in the loss of all or part of your investment in our notes.*

### **Risks Relating to Our Company**

#### ***Global economic conditions may adversely affect our business and financial performance.***

Economic conditions in Europe, the United States, Mexico and other Latin American countries, as well as globally, may negatively affect our business, results of operations, financial condition or prospects. When economic conditions deteriorate, the end markets for our products may experience declines, and we may suffer reductions in our sales and profitability. In addition, the financial stability of our customers and suppliers may be affected, which could result in decreased, delayed or canceled purchases of our products, increases in uncollectable accounts receivable or non-performance by suppliers. We may also find it more costly or difficult to obtain financing to fund operations or investment or acquisition opportunities, or to refinance our debt in the future. If we are not able to access the capital markets at competitive rates or at all, or obtain other forms of financing (including financings from banks), our ability to implement our business plan and strategy or to refinance debt may be negatively affected. Furthermore, we may encounter additional competition that may impact our externally-driven growth.

The global economy may continue to experience periods of slowdown and volatility, which in turn may further diminish expectations and consumer spending in the economies in which we operate. In addition, the global economy may be adversely affected by a lack of liquidity, loss of confidence in the financial sector, currency fluctuations, disruptions in the credit markets, difficulty in obtaining financing, reduced business activity, rising unemployment, uncertainty in the level of interest rates, erosion of consumer confidence and reduced consumer spending. Although our strategy is targeted at offsetting or taking advantage of market trends as appropriate, worsening of the global economic downturn in general has had, and may continue to have, a negative impact on our business, financial condition, results of operations and prospects.

Furthermore, on June 23, 2016, the United Kingdom held an in-or-out referendum on the United Kingdom's membership within the European Union, the result of which favored the exit of the United Kingdom from the European Union, or "Brexit." On March 29, 2017, the country formally notified the European Union of its intention to withdraw pursuant to Article 50 of the Lisbon Treaty. The Brexit negotiation, which is expected to be completed within the next two years, will determine the future terms of the United Kingdom's relationship with the European Union. The potential impact of Brexit on our results of operations is unclear. Depending on the terms of Brexit, economic conditions in the United Kingdom, the European Union and global markets may be adversely affected by reduced growth and volatility. The uncertainty before, during and after the period of negotiation could also exacerbate Brexit's economic impact and increase volatility in the markets, particularly in Europe. Such volatility and negative economic impact could, in turn, adversely affect the value and trading of the notes.

#### ***Our business may be negatively affected by trade barriers.***

We import a significant amount of our raw materials into certain countries in which we have production facilities, principally poultry, for the production of our packaged meat products. Events that affect international trade may restrict our ability to import poultry, pork and other livestock products and could result in our inability to obtain sufficient raw materials for our production. In the past, our operations have been affected by various factors, including trade disputes and security concerns. For example, in the past, the Mexican government has imposed import restrictions on poultry from the United States due to concerns about the A(H5N1) virus (bird flu). In addition, the United States, Canada and Mexico are currently negotiating certain provisions of NAFTA. The parameters of any potential revisions have not been determined, but could potentially include trade restrictions applicable to our products and raw materials. Any such restrictions in any of the countries where we operate could

limit our ability to import raw materials and consequently could have a material adverse effect on our business, financial condition and results of operations.

***We operate in a highly competitive industry.***

The food industry is highly competitive and is not subject to regulatory or to other material barriers to entry. A great number of competitors offer similar products in the countries and segments in which we have a presence. Further, several competitors are niche producers that direct their products to certain market segments or geographies. To varying degrees, existing and new competitors may have strengths in particular product lines and regions, greater financial or technological resources, newly developed products or flavors, and business strategies that may increase competition in the industry. Increased competition could reduce our revenues or require us to reduce prices to respond to competitive pressures which could have a material adverse effect on our business, financial condition, results of operations and prospects.

We expect that we will continue to face strong competition in all of our markets and anticipate that existing or new competitors may broaden their product lines, offer new lines of products that may be responsive to developed customer demands and extend their geographical scope. Also, certain competitors may target specific niches, market segments or geographies. Our competitors may improve their competitive position by introducing new products, improving manufacturing processes, making their product offering more exclusive or artisanal, or expanding the capacity of manufacturing facilities individually or through joint ventures. If we are unable to keep pace with our competitors' product and manufacturing process initiatives, our results of operations and financial condition could be materially adversely affected.

***Loss of one or more significant customers could negatively impact our revenues and overall financial performance.***

Our top five customers accounted for 17.05% of our consolidated revenues for the year ended December 31, 2017, and our top 10 customers, together, accounted for 23.10% of our consolidated revenues for year ended December 31, 2017. The loss of any significant customer could negatively impact our revenues and profitability. We do not generally enter into sales agreements with our customers, and where such agreements exist, they are generally terminable at will by the customer. Because our profitability depends on our maintenance of a high capacity utilization rate, the loss of all or a substantial portion of the sales volume related to a significant customer would have an adverse effect on us. If any of our significant customers faces financial difficulties or gives preference to any of our competitors, our ability to collect accounts receivable and/or our results could also be adversely affected. In addition, the consolidation of our customer base could reduce our revenues and profitability, particularly if one of our significant customers is acquired by a company that has a relationship with one of our competitors. Furthermore, customers may integrate vertically or horizontally and demand more favorable conditions in order to purchase our products.

***We rely on our customers which are retailers; and if they perform poorly, are subject to adverse circumstances or give preference to products of our competitors, our financial performance could be negatively affected.***

We derive a significant portion of our operating revenues from sales to retailers. We sell our products to modern retailers, such as supermarkets and hypermarkets and traditional retailers, such as small family-owned stores, butchers and delicatessens, which, in turn, sell our products to end consumers. A small portion of our revenues comes from the foodservice channel which includes operators such as restaurants, hotels, movie theaters and the on-the-go channel including vending machines and kiosks. In the year ended December 31, 2017, revenues from customers in our modern and traditional retailers accounted for 52.3% and 47.7%, respectively, of our total revenues. Any significant deterioration in the sales performance of our customers could adversely affect the performance of our products. Our retail customers also carry products that directly compete with our products for retail space and consumer purchases. There is a risk that our retail customers may give higher priority to the products of, or form alliances with, our competitors or their own private labels, including providing priority shelf space. If our retail customers fail to purchase our products or to provide our products with promotional support, change their purchasing policies or terms and conditions with respect to our products or give preference to their private labels instead of our products, our financial performance and results of operations could be adversely affected.

***Loss of the reputation of our brands and the brands licensed to us and/or the loss of our intellectual property rights could have a material adverse effect on our business.***

A substantial amount of our revenues are derived from sales of products under brands that we own or are licensed to us. Our brand names are a key asset of our business and maintaining the reputation of our brands, including those licensed to us, is essential to our future success and results. Loss of reputation, for any or a series of reasons, including product recalls, changes in consumer preferences, health concerns, or any other reason, could have a material adverse effect on our business, results of operations and financial condition. Although we believe our brands are well-recognized by consumers and entail significant value, we cannot assure you that we will be able to maintain the current value of our brands.

Our current principal trademarks are registered with the intellectual property authorities in the relevant countries in which we use such trademarks. While we intend to enforce our trademark rights against infringement by third parties, we cannot assure you that our actions to establish, preserve and protect our trademark rights are adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products on grounds that our products violate their trademarks and proprietary rights or that authorities in some of the markets in which we participate will take action to police or observe our rights. If a competitor were to infringe on our trademarks, enforcing our rights would likely be costly, could involve litigation in several jurisdictions (including jurisdictions in which we may not be familiar with the legal system) and would divert resources that would otherwise be used to operate and develop our business. Although we intend to actively defend our brands and trademark rights, we cannot predict the costs we may incur or assure you that we will be successful in enforcing our intellectual property rights even after incurring those costs. See “Business—Intellectual Property.”

***Changes in consumer preferences could affect our financial performance.***

Consumer preferences change over time and our success depends on our ability to maintain consumer demand for our products by identifying and satisfying the evolving needs, tastes, trends and health habits of consumers in order to respond in a timely manner to offer products that appeal to these needs, tastes, trends and habits. Consumer preferences may shift in the future due to several factors that are difficult to predict such as changes in demographic trends, governmental regulations, weather conditions, health concerns or changes in economic conditions. While our experience and expertise provide us with a solid understanding of our markets, we cannot predict the preferences and needs of current or potential consumers with absolute certainty. We market our products in several different countries and the consumers in each country have their own tastes and preferences. If we misjudge the market for our products, fail to respond appropriately or are unable to effectively produce and market products that meet the changing preferences of consumers in each of our markets, our business, financial condition and results of operations may be adversely impacted.

Changes in consumer preferences also influence the retail space allotted to products. If we are allotted less or different retail space, we may experience lower consumer demand which could adversely affect our business, financial condition and results of operations. The introduction of new products and product extensions that meet these changing preferences requires significant research and development as well as marketing initiatives. We regularly monitor consumer tastes and preferences in all of our markets and devote significant resources to developing, renovating and marketing new products, as well as to expanding and improving existing product lines. We may incur significant costs related to these actions and cannot guarantee that any new products will be profitable. If our new products fail to meet consumers’ preferences, our sales volume and the return on that investment would be negatively impacted which could have a material adverse effect on our business, financial condition and results of operations.

***The loss of rights granted pursuant to any of our franchise or distribution agreements could harm our business and competitive position.***

Through our franchise agreements with Sodima, we have the exclusive right to manufacture, market and distribute certain Yoplait® products, including fermented drinks, fresh cheese, dairy-based desserts and fresh creams, in Mexico, Central America, the Dominican Republic and Haiti. We also have the rights to use Sodima’s production and manufacturing processes and to receive technical assistance from Sodima. In exchange for these rights, we have agreed to refrain from selling identical or substantially similar products to certain Yoplait® products. The franchise agreement with respect to Mexico has a 10-year term, which is renewable automatically unless one of the parties

notifies the other of its intention to terminate it, while the franchise agreement with respect to Central America, the Dominican Republic and Haiti will expire on June 30, 2026.

Because of the nature of franchising and our agreements with Sodima, our success in the yogurt industry is, to a large extent, directly related to the success of Yoplait® products that we distribute. In Mexico, if we fail to maintain the Yoplait® brand as one of the top three brands in the Mexican yogurt market, Sodima could grant rights to sell and distribute its products in Mexico to another party, despite our existing Mexican franchise agreement, in which case we would cease to be the sole distributor of Yoplait® products in Mexico. We cannot assure you that the Yoplait® brand will be able to compete effectively with other brands in the Mexican yogurt market, and any failure of the Yoplait® brand to compete effectively in such market or a loss of our exclusivity with Sodima would likely have a material adverse effect on our results of operations.

In Europe, we sell products under the *Oscar Mayer* brand under a license and technical assistance agreement with Kraft Foods Group Inc. (currently The Kraft Heinz Company), dated as of January 1, 1994. This agreement permits us to, subject to certain conditions, use the brand in Spain, Gibraltar and Portugal through December 31, 2029. Royalties are calculated as a specified percentage of revenues of licensed products, subject to annual minimum payments. Upon the occurrence of certain events, The Kraft Heinz Company has the right to terminate the agreement at any time upon 60 days written notice.

We have entered into annual licensing agreements with The Walt Disney Company to commercialize certain products targeted at the youth consumer segment. Under one of our current licensing agreements, we are permitted to sell products in packaging featuring certain licensed Disney characters in Belgium and Luxembourg, and under another licensing agreement effective as of January 1, 2015, in Spain, Andorra and Portugal. The Walt Disney Company has the right to terminate the agreement at any time upon 15 days written notice.

We also sell products under the *Weight Watchers* brand under a trademark license agreement with Weight Watchers dated as of November 2, 2009, the terms of which, subject to certain conditions, permit us to use the brand in Belgium and Luxembourg. This contract is usually renewed on an annual or biannual basis.

We have also entered into distribution agreements with (i) Oscar Mayer Foods, a division of The Heinz Kraft Foods, Co., which grants us the exclusive right to distribute certain Oscar Mayer® products in Mexico, (ii) Mondelez Mexico, S. de R.L. de C.V. and Mondelez International Holdings LLC, which grant us the exclusive right to sell and distribute Philadelphia® cream cheese through the traditional distribution channels in Mexico, Costa Rica, Nicaragua, Guatemala, Honduras and El Salvador and (iii) Hershey's Mexico, S.A. de C.V. to market and distribute products under the Hershey's® and Pelón Pelo Rico® brands in Mexico.

Although we have no reason to believe that any of the aforementioned agreements will be terminated or not be renewed, we cannot provide any assurances that such renewals will occur timely or at all, and the failure to renew or termination of any such agreement is likely to have a material adverse impact on our business and results of operations.

***Our level of indebtedness may affect our flexibility in operating and developing our business and our ability to satisfy our obligations.***

As of December 31, 2017, we had Ps. 50,409 million (US\$2,554 million) of total outstanding consolidated debt, none of which was secured. Our level of indebtedness may have important consequences for investors, including:

- limiting our ability to generate sufficient cash flow to satisfy our obligations with respect to our indebtedness, particularly in the event of a default under one of our other debt instruments;
- limiting cash flow available to fund our working capital, capital expenditures (including maintenance) or other general corporate requirements;
- increasing our vulnerability to adverse economic and industry conditions, including increases in interest rates, foreign currency exchange rate fluctuations and market volatility;

- limiting our ability to obtain additional financing to refinance debt or to fund future working capital, capital expenditures, other general corporate requirements and acquisitions on favorable terms or at all;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry; and
- limiting our ability to incur additional financings to make acquisitions, investments or generally take advantage of corporate opportunities.

To the extent that we incur additional indebtedness, the risks outlined above could increase. In addition, our actual cash requirements in the future may be greater than expected. Our cash flow from operations may not be sufficient to repay all of the outstanding debt as it becomes due, and we may not be able to borrow money, sell assets or otherwise raise funds on acceptable terms, or at all, to refinance our debt.

***Disruption of our supply chain could adversely affect our operations.***

Our operations depend on the continuous operation of our supply chain. Damage or disruption to our manufacturing or distribution capabilities due to weather, natural disaster, fire, electricity shortages, terrorism, social or politically motivated protests, pandemics, strikes, the financial and/or operational instability of key suppliers, distributors, warehousing and transportation providers, or other reasons could impair our ability to manufacture or distribute our products or to timely comply with our commitments.

Our operations are vulnerable to power shortages that generally affect enterprises located in Mexico, Central America, the Dominican Republic, Ecuador and Peru. If the cities in which we have operations are affected by power outages or must ration power, our production volumes could decrease and our production could be delayed and resources could be required to restore our supply chain, adversely affecting our financial performance. In addition, increases in electricity costs may adversely affect our profitability. Furthermore, electricity shortages may affect the quality of our products. We cannot assure you that our electricity costs will not rise significantly or that power shortages will not affect us in the future.

To the extent that we are unable, or it is not financially feasible, to mitigate interruptions in our supply chain or their potential consequences, there could be an adverse effect on our business and results of operations, and additional resources could be required to restore our supply chain.

***Increases in commodity costs may have a negative impact on profits.***

We use many different commodities including, among others, pork, poultry, and fluid and dry milk. Commodities are subject to price volatility caused by, among other things, commodity market fluctuations, supply and demand, currency fluctuations, weather conditions, livestock disease and changes in governmental agricultural programs. Commodity price increases will result in increases in raw material costs and operating costs. We may not be able to increase our product prices and achieve cost savings that fully offset these increased costs; and increasing prices may result in reduced sales volume and profitability.

The prices of our raw materials normally fluctuate due to market conditions and currency fluctuations. We cannot assure you that these fluctuations will not have an adverse effect on our financial performance or that we will be able to pass along the effect of increased costs to consumers.

***Our operations could be adversely affected if our suppliers fail to perform in a satisfactory manner.***

Our production depends on the availability of raw materials such as pork, turkey, chicken, beef and milk, which we obtain from several third-party suppliers in different countries. Although we believe any of our suppliers could be replaced, if for any reason any of our major suppliers is unable or unwilling to continue providing us with raw materials due to production delays, increased competition for their products, failure to meet our quality or hygienic standards or any other reason, we may face delays in obtaining alternate suppliers, and such suppliers may be unwilling to supply our raw material needs on terms as favorable, or by satisfying the same quality, as those provided by our current suppliers. Any such event could result in delays in our operations, deterioration of our brands (and, as a result, reduced demand for our products) and diminished financial results. See “Business—Raw Materials and Suppliers.”

***Health and product liability risks related to the food industry could adversely affect our business, results of operation and financial condition.***

We are subject to risks affecting the food industry generally, including risks posed by contamination or food spoilage, evolving nutritional and health-related concerns, consumer product liability claims, product tampering, the possible unavailability and expense of liability insurance and the potential cost and disruption of product recalls. In addition, in the past we have voluntarily recalled products because of their failure to meet our quality standards. Any actual or perceived health risks associated with our products, including any adverse publicity or health-related reports concerning these risks, could cause customers and consumers to lose confidence in the safety and quality of our products. For example, recently there have been perceived concerns with regard to the health effects of consuming nitrates, sodium and certain other ingredients, which could have a negative effect on sales of our packaged meat products. Even if our own products are not affected by contamination, our industry may face adverse publicity if the products of other producers become contaminated, which could result in reduced consumer demand for our products in the affected category. We maintain systems designed to monitor food safety risks throughout all stages of the production process. However, our systems and internal policies may not be fully effective in mitigating risks related to food safety. Any product contamination or other condition negatively affecting our products could have a material adverse impact on our business, results of operations and financial condition.

***Our operations are subject to extensive food quality and safety regulations.***

Our operations, including our manufacturing facilities, transportation vehicles and products, are subject to extensive regional and national laws, rules, regulations and standards of hygiene and quality regulation in the food safety area and oversight by authorities in each of the countries where we operate regarding the processing, packaging, labeling, storage, distribution and advertising of our products. These authorities enact and enforce regulations with respect to our operations by, among other things, licensing our plants, enforcing federal and state standards for selected food products, grading food products, inspecting plants and warehouses, regulating trade practices related to the sale of dairy products and imposing their own labeling requirements on food products and through governmental food processing controls. Consequently, we are required to maintain various registries, licenses and permits in order to operate our business.

Our operations in Europe are subject to extensive food safety regulations and are subject to governmental food processing controls in each of the European countries in which we conduct our business. Directive EC/178/2002, as amended, provides the framework for a unified approach to food safety in the European Union and all member states have implemented the requirements into law. Among the other major requirements of Directive EC/178/2002 are Article 17, which imposes on food business operators a general obligation to ensure that the operations under their control satisfy the relevant food law requirements and an obligation to verify that such requirements are met, and Article 18, which imposes a mandatory traceability requirement along the food chain. In addition to the general requirements of Directive EC/178/2002, we are subject to the specific food hygiene legislation. Further, we are regularly inspected by various national and local regulatory authorities. In addition, we are subject to extensive consumer-protection and product liability regulations.

Our U.S. food products and packaging materials are regulated by the FDA or, for products containing meat or poultry, the USDA. These agencies enact and enforce regulations relating to the manufacturing, distribution and labeling of food products. In addition, various states regulate our U.S. operations by licensing plants, enforcing federal and state standards for selected food products, grading food products, inspecting plants and warehouses, regulating trade practices related to the sale of dairy products and imposing their own labeling requirements on food products.

Our operations in Mexico are subject to extensive laws, rules, regulations, standards of hygiene and quality regulation and oversight by designated authorities such as SAGARPA, the Ministry of Health (*Secretaría de Salud*), the Ministry of Economy (*Secretaría de Economía*) and other local and foreign authorities regarding the processing, packaging, labeling, storage, distribution and advertising of our products.

***Non-compliance with health-related regulations and changes to such regulations could have a negative impact on our business.***

If we are found to be out of compliance with applicable laws and regulations, particularly if it relates to or compromises food safety, we could be subject to civil penalties, including significant fines, injunctions, recalls or asset seizures, as well as potential criminal sanctions and civil liability for damages to ultimate consumers any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, future material changes in food safety regulations could result in increased operating costs or additional capital expenditures or could be required to be implemented on schedules that cannot be met without interruptions in our operations. Moreover, the loss of or failure to obtain necessary permits and registrations could delay or prevent us from meeting current product demand, introducing new products, building new facilities or acquiring new businesses and could have a material adverse effect on our business, financial condition and results of operations.

Government policies in Europe, the United States, Mexico and the other markets in which we participate, varying interpretations of applicable laws and regulations and the enactment of new laws and regulations may adversely affect the supply of, demand for and prices of our products, restrict our ability to do business in existing and target local and export markets and could adversely affect our results of operations and financial condition.

***We are subject to anti-corruption, anti-bribery, anti-money laundering and antitrust laws and regulations. Any violation of any such laws or regulations could have a material adverse impact on our reputation and results of operations and financial condition.***

We are subject to anti-corruption, anti-bribery, anti-money laundering, antitrust and other similar or equivalent international laws and regulations and are required to comply with the applicable laws and regulations of the countries in which we operate. In addition, we are subject to economic sanctions regulations that restrict our dealings with certain sanctioned countries, individuals and entities. There can be no assurance that our internal policies and procedures will be sufficient to prevent or detect all inappropriate practices, fraud or violations of law by our affiliates, employees, directors, officers, partners, agents and service providers or that any such persons will not take actions in violation of our policies and procedures. Any violations by us of anti-bribery and anti-corruption laws or sanctions regulations could have a material adverse effect on our business, reputation, results of operations and financial condition.

***The imposition of price controls or additional taxes on the products that we make could have an impact on our business, results of operations and financial condition.***

The sale prices of our products are not currently subject to any government regulation and are mainly determined through demand and supply in our markets, which allows us to modify the prices of our products according to our own strategic decisions. However, such price controls have existed in the past from time to time as a means by which to control inflation and could be imposed in the future by the governments of the countries in which we operate. We cannot assure you that the governments of the countries in which we conduct our business will not impose price control mechanisms in the future. The imposition of price controls or additional taxes on the products we sell could have an adverse impact on our sales, which could have a negative effect on our results of operations and financial condition.

***Our growth through mergers, acquisitions or joint ventures may be impacted by antitrust laws, governmental approval requirements, our inability to identify material liabilities or contingencies, access to capital resources, and challenges in integrating significant acquisitions.***

We have made in the past, and may make in the future, significant acquisitions to continue to grow our business. Acquisitions involve risks, including, among others, the failure of acquired businesses to achieve expected results; the inability to identify material liabilities or contingencies; the inability to enforce liabilities arising from contractual provisions or the inability to do so in a timely fashion; the inability to retain or hire key personnel of acquired businesses; and the inability to achieve expected synergies or economies of scale. If we are unable to successfully integrate or manage our acquired businesses, we may not realize anticipated cost savings and revenue growth, which may result in reduced profitability or losses. Furthermore, if we fail to identify material liabilities or contingencies, we may incur unanticipated costs, which could adversely affect our results of operations and financial condition.



If new expansion opportunities arise, we may not have sufficient resources to take advantage of these opportunities and additional financing may not be available to us on favorable terms, or at all, causing us to forfeit such opportunities.

Approval of the antitrust authorities in the appropriate jurisdictions is required for us to acquire and sell significant businesses or enter into significant joint ventures. We cannot assure you that the antitrust authorities will authorize our proposed joint ventures and acquisitions in the future, or will not order us to divest a portion of our assets or impose any other condition in order to consummate any proposed joint venture or acquisition, which may adversely affect our business strategy, financial condition and results of operations.

***Health epidemics and other outbreaks may affect our business and results of operations.***

Our business could be adversely affected by health epidemics and other outbreaks, including any future outbreaks of disease in pork and poultry flocks, including Porcine Epidemic Diarrhea Virus (“PEDV”), Porcine Circovirus 2, African Swine Fever (ASF), A(H7N3) (bird flu) and *Brucella suis*, among others. During the first half of 2015, an outbreak of PEDV occurred in the United States resulting in a decrease in supply and a corresponding significant price increase of pig carcass affecting the cost of our products. We may experience additional occurrence of diseases or adverse public health developments that could result in the implementation of our emergency measures such as product tracking, recall measures or closure of our facilities which could disrupt our operations. Any prolonged occurrence of disease or other public health problems in any of the countries where we are present could result in an adverse effect on the economy of any of these countries and could discourage consumers from purchasing our products, which may have a material adverse effect on our business, financial condition and results of operations.

***Compliance with environmental and other governmental laws and regulations could result in additional expenditures or liabilities.***

Our past and present operations and properties are subject to extensive and increasingly stringent laws and regulations and official standards relating to the protection of the environment and natural resources.

Such laws and regulations require us to obtain regulatory licenses, permits and other approvals and to comply with the requirements thereof. Governmental authorities may not grant us these regulatory licenses, permits and approvals, and such laws and regulations may change or be interpreted in a manner that increases our costs of compliance or has a material adverse effect on our operations or our plants.

We have incurred, and will continue to incur, capital and operating expenditures to comply with specific environmental laws and regulations. We have specific programs across our business units designed to meet applicable environmental compliance requirements. However, we cannot predict with certainty the amounts of any capital expenditures or any increases in operating costs or other expenses that we may incur to comply with applicable environmental or other regulatory requirements and environmental remediation actions. Additionally, environmental regulations, and their interpretation, have changed rapidly in recent years, and it is possible that we will be subject to even more stringent environmental standards in the future. Furthermore, the companies we have acquired or may acquire, and their assets, could have environmental liabilities or be subject to risks that are not uncovered through our due diligence investigations and that could have a material adverse effect on our business, financial condition and results of operations.

We cannot assure you that amendments of existing laws and regulations (including environmental) or the adoption of more stringent laws and regulations (including environmental) in the jurisdictions in which we operate will not result in the need for investments that are not currently provided for in our capital expenditures program or will not otherwise result in a material adverse effect on our business, results of operations or financial condition.

***We prepare our financial information in accordance with IFRS, which may be amended and require us to modify internal procedures and could impact our financial position and our results of operations. Additionally, such changes could affect the comparability of the financial information reported prior to such changes taking effect.***

We prepare our financial information in accordance with IFRS. The IASB may implement new standards or modify existing ones. This could require us to change our internal procedures regarding financial information and

accounting records and could impact our financial position and our results of operations. Additionally, the adoption of such standards may impact the recognition of our commitments and obligations with suppliers, creditors and investors.

The financial information included in this offering memorandum was prepared by us in accordance with IFRS in force as of the periods covered by of our Annual Audited Financial Statements, and we have not applied in advance the new standards, amendments, clarifications and interpretations that were issued but were not effective as of December 31, 2017. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—New Accounting Standards and Interpretations—New and revised IFRS not yet adopted.” As a result, the financial information reported could change and therefore may not be comparable to those presented in our Annual Audited Financial Statements included in this offering memorandum.

***Our operations are subject to the general risks of litigation.***

We are involved, on an ongoing basis, in litigation arising in the ordinary course of business or otherwise. Litigation may include class actions involving consumers, shareholders, employees or injured persons, and claims related to commercial, labor, employment, antitrust, intellectual property, securities or environmental matters. Moreover, the process of litigating requires substantial time, which may distract our management. Even if we are successful, any litigation may be costly, and may approximate the cost of damages sought. These actions could also expose us to adverse publicity, which might adversely affect our brands and reputation and customer preference for our products and therefore, our results of operations. Furthermore, there may be claims or expenses which are denied insurance coverage by our insurance carriers, not fully covered by our insurance, in excess of the amount of our insurance coverage or not insurable at all. Litigation trends and expenses and the outcomes of litigation cannot be predicted with certainty and adverse litigations trends, expenses and outcomes could have a material adverse effect on our business, financial condition and results of operations.

***We may incur liabilities that are not covered by insurance.***

We maintain the types and amounts of insurance coverage that we believe are consistent with customary industry practices in the jurisdictions in which we conduct our business.

Our insurance policies cover, among other things, employee-related accidents and injuries, property damages and business interruption, machinery breakdowns, fixed assets, facilities and liability. We do not have and do not intend to obtain political risk insurance.

While we seek to maintain appropriate types and levels of insurance, not all claims may be insurable. Moreover, there may be insurable events which cannot be fully covered according to our cover conditions or limits, such as indirect damages affecting our reputation and brand image. In addition, our insurance carriers may seek to rescind or deny coverage with respect to future liabilities, including from lawsuits, investigations and other legal actions against us.

Furthermore, the occurrence of an event resulting in substantial claims could have a material adverse effect on our business, financial condition and results of operations. In addition, our insurance premiums may increase over time in response to any negative development of our claims history or due to overall market conditions.

***Any deterioration of labor relations with our employees or increase in labor costs could adversely affect our business, results of operations and financial condition.***

We have approximately 45,000 employees. Our operations are labor intensive and subject to various labor laws and regulations. Any significant increase in labor costs, increase in benefits to current or former employees or any liabilities arising therefrom, deterioration of employee relations, slowdowns or work stoppages at any of our locations, whether due to union activities, inability to successfully negotiate salaries and other working conditions, employee turnover, social unrest, or otherwise, could have a material adverse effect on our business, financial condition and results of operations. Unions may be different and more aggressive in certain jurisdictions. A strike, work slowdown or other labor unrest could, in some cases, impair our ability to supply our products to customers, which could result in reduced revenues. A portion of our workforce is unionized. We cannot predict the outcome of negotiations with our trade unions and if any significant differences arise during these negotiations, or any other

significant conflicts arise, our results of operations and financial condition could be adversely affected. In addition, we could incur higher ongoing labor costs and disruptions in our operations in the event of a strike or other work stoppage.

***We depend on key personnel.***

Our success depends, in large measure, on the skills, experience and efforts of our senior management team and other key personnel. Although we believe that we have expertise throughout our entire organization and continue to train personnel to become key executives, the loss of the services of one or more members of our senior management or other employees with critical skills could have a negative effect on our business, financial condition and results of operations. In addition, our future growth and success depends on our ability to identify, attract, hire, train, retain and motivate skilled managerial, sales, administrative, operating and professional and technical personnel. The loss of one or more of our key personnel or the failure to attract or retain highly skilled, talented and committed senior managers or other key personnel may adversely affect our ability to achieve our business objectives.

***The Parent Guarantor is controlled by Alfa, whose interests may not be aligned with ours or yours.***

The Issuer is a wholly-owned subsidiary of the Parent Guarantor and the Parent Guarantor is a wholly-owned subsidiary of Alfa. As such, Alfa has and will continue to have the power to control our affairs and operations. Alfa also controls the election of our Board of Directors, the appointment of our senior management, our entry into mergers, acquisitions and other extraordinary transactions, and our incurrence of indebtedness. The majority of our current and future directors are or will be designated by Alfa. The interests of Alfa could materially conflict with your interests as a holder of the notes. So long as Alfa owns a majority of the Parent Guarantor's capital stock, it will continue to be able to strongly influence and effectively control decisions by our Board of Directors and senior management team.

We have entered into and expect to continue entering into transactions with Alfa and its affiliates, including contracts for administrative and corporate services. Many of these transactions occur in the ordinary course of business. Transactions with affiliates may create potential conflicts of interest. See "Principal Shareholders" and "Related Party Transactions."

***The Parent Guarantor is a holding company and depends on the results of operations of its subsidiaries, including to meet its obligations under its guarantee of the notes.***

The Parent Guarantor is a holding company with no independent operations or substantial assets other than the capital stock of its operating companies. Accordingly, the Parent Guarantor depends on the results of operations of its subsidiary companies. The Parent Guarantor's ability to service its debt and other obligations, including its guarantee under the notes, will depend on its subsidiaries' generation of cash flow and their ability to make such cash available to the Parent Guarantor in the form of interest payments, debt repayment, dividends or otherwise. Each of the Parent Guarantor's subsidiaries is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit its ability to obtain cash from its subsidiaries. In addition, under Mexican law, the Parent Guarantor's Mexican subsidiaries may only pay dividends (i) out of retained earnings included in financial statements that have been approved by their respective shareholders' meeting, (ii) after all losses from prior fiscal years have been satisfied, and (iii) if the corresponding entity has allocated 5% of its net profit for such fiscal year to its legal reserve, which allocation must be made on an annual basis until its legal reserve represents at least 20% of such entity's capital stock. In the event that the Parent Guarantor does not receive dividends from its subsidiaries, or payments of interest, fees or otherwise, it may be unable to make required principal and interest payments on its indebtedness, including the notes, or honor its other obligations. Any adverse change in the financial condition or results of operations of the Parent Guarantor's subsidiaries could affect its financial condition.

***We may be subject to interruptions or failures in our information technology systems and may be exposed to cyber-attacks and the failure of our operational systems.***

We rely on sophisticated information technology systems, software and infrastructure in each of the countries in which we operate to support our business, including process control technology. Any of these systems may be susceptible to outages due to earthquakes, fire, floods, power loss, telecommunications failures and similar events.

The failure of any of our information technology systems may cause disruptions in our operations, and could have a material adverse effect on our business, financial condition and results of operations. Although we have business continuity plans in place to reduce the negative impact of information technology system failures on our operations, we cannot assure you of the extent to which these plans will be effective.

We are also vulnerable to the failure of our operational systems. This could temporarily interrupt our business, increase our costs and cause losses. Temporary interruptions or failures in hardware and software that support our business and suppliers and customers' transactions could result in regulatory fines, penalties, and reputational loss. We have not experienced any material losses related to cyber-attacks or operational stability. We are continuously working and investing resources in maintaining and updating control processes in order to prepare and adapt to new technologies. However, our use of the Internet and telecommunications technologies to conduct business transactions, as well as the increased sophistication and activities of organized criminals, hackers and other external parties can impact the confidentiality, integrity and availability of critical information.

***Changes in the relative value of the Mexican Peso to the U.S. Dollar and Euro may have an adverse effect on us.***

Currently, the Peso-Dollar and the Peso-Euro exchange rate is determined on the basis of a free market float in accordance with the policy set by the Mexican Central Bank, though the Mexican government has in the past imposed exchange controls and restrictions on the ability of Mexican companies to transfer money outside of Mexico. No assurances can be given that the Mexican Central Bank will maintain the current exchange rate regime or that the Mexican Central Bank will not adopt a different monetary policy, as it has done in the past, that may affect the exchange rate itself or our ability to exchange Mexican Pesos into foreign currencies, including the U.S. Dollar and the Euro, or our ability to transfer funds outside of Mexico. Any change in the monetary policy, the exchange rate regime or in the exchange rate itself, as a result of market conditions over which we have no control, could have a considerable impact on our business, financial condition and results of operations.

A real depreciation of the Peso will likely result in a decrease in our operating margins in Mexico and a real appreciation of the Peso will likely result in an increase in our operating margins in Mexico, in each case, when measured in Pesos. This is because a significant portion of our sales occur in Mexico and are denominated in Pesos while some of our raw materials are denominated in U.S. Dollars. We usually adjust the price of our products sold in Mexico to reflect changes in the Peso-U.S. Dollar exchange rate. We cannot assure you that such price adjustments will not have a significant adverse impact on our sales volume.

A real depreciation of the currency of a country to which we export against the Euro will likely result in a decrease in our operating margins in Europe and a real appreciation of the currency of a country to which we export will likely result in an increase in our operating margins in Europe, in each case, when measured in Euros, as a result of our exports from our operations in Europe.

Severe depreciation or appreciation of the Peso may also result in government intervention, as has occurred in other countries, or disruption of international foreign exchange markets. While the Mexican federal government does not currently restrict, and for many years has not restricted, the right or ability of Mexican or foreign persons or entities to convert Pesos into U.S. Dollars or Euros or to transfer other currencies outside of Mexico, the Mexican federal government could institute restrictive exchange control policies in the future as it has done so in the past. Accordingly, fluctuations in the value of the Peso against the U.S. Dollar and the Euro may have an adverse effect on our financial condition and results of operations and could impair our ability to make timely payments of principal and interest on the notes.

In the course of our business, we may enter into financial derivatives to hedge our exposure to foreign currency exchange rate variations. However, we cannot assure you that these instruments will be available to us at favorable terms, if at all, or will fully hedge our exposure.

***We may incur losses in connection with derivative financial instruments.***

We may use derivative financial instruments from time to time to manage the risk profile associated with interest rates and currency exposure, reduce financing costs and hedge some of our commodity and financial market risks.

Our internal policy is to enter into derivative financial instruments solely for hedging purposes and not for speculative purposes; however, we may continue to enter into derivative financial instruments as an economic hedge against certain business risks, even if these instruments do not qualify for hedge accounting under IFRS.

As of December 31, 2017, we did not have derivative financial instruments outstanding and did not have any collateral posted in response to margin calls. In the future, we may enter into derivative financial instruments and may be required to record fair value losses in respect of our derivative financial instruments or make cash payments or post cash as collateral in connection with our derivative financial instruments, which could, individually or in the aggregate, have a material adverse effect on our financial condition and results of operations.

Any derivative financial instruments that we may enter into are likely to be subject to margin calls in the event that the threshold or credit line set by the parties is exceeded. If we were to enter into any such derivative financial instruments, the cash required to cover any such margin calls could be substantial and could reduce the funds available to us for our operations or other capital needs. In addition, the creditworthiness of counterparties to any such instruments may deteriorate substantially. This could prevent our counterparties from honoring their obligations to us, which would expose us to market risks and could have a material adverse effect on us.

***We may be unable to successfully expand our operations into new markets.***

If the opportunity arises, we may expand our operations into new markets. Each of the risks applicable to our ability to successfully operate in our current markets is also applicable to our ability to successfully operate in new markets. In addition to these risks, we may not possess the same level of familiarity with the dynamics and market conditions of any new markets that we may enter, which could adversely affect our ability to expand into or operate in those markets. We may be unable to create similar demand for our products and business, which could adversely affect our profitability. If we are unsuccessful in expanding our operations into new markets, it could adversely affect our business, financial condition and results of operations.

***An impairment in the carrying value of goodwill or other acquired intangibles could negatively affect our consolidated results of operations and net worth.***

The carrying value of goodwill represents the fair value of acquired businesses in excess of identifiable assets and liabilities as of the acquisition date. The carrying value of other intangibles represents the fair value of trademarks, trade names, and other acquired intangibles as of the acquisition date. Given that we have made significant acquisitions in the past and we hold various trademarks, the carrying value of our goodwill and other intangible assets is material. Goodwill and other acquired intangibles expected to contribute indefinitely to our cash flows are not amortized, but must be evaluated by management at least annually for impairment. If carrying value exceeds current fair value, the intangible is considered impaired and is reduced to fair value via a charge to earnings. Events and conditions which could result in an impairment include changes in the industries in which we conduct our business, including competition and advances in technology; a significant product liability or intellectual property claim; or other factors leading to reduction in expected sales or profitability. Should the value of one or more of the acquired intangibles become impaired, our consolidated earnings and net worth may be materially adversely affected.

***Further consolidation of the retail food industry may adversely impact profitability.***

As supermarket chains continue to consolidate and as mass merchants gain scale, our larger customers may seek more favorable terms for their purchases of our products, including increased spending on promotional programs. Sales to our larger customers on terms less favorable to us than our current terms could adversely affect our business, financial condition and results of operations.

**Risks Relating to the Countries in Which We Operate**

***We are an international company subject to the market risk of the countries in which we produce and/or sell our products.***

We currently maintain production facilities and operations in Spain, France, Portugal, the Netherlands, Belgium, Italy, Germany, Romania, the United States, Mexico, Costa Rica, the Dominican Republic, El Salvador,

Guatemala, Honduras, Nicaragua, Peru and Ecuador. Our ability to conduct and expand our business and our financial performance are subject to the risks inherent in international operations, such as currency controls, currency fluctuations, trade barriers, tariffs and customs regulations, increases in duties, taxes and governmental royalties, expatriation, expropriation, nationalization, forced negotiation, changes in local labor conditions, labor strikes, price instability, interest rates, modification of existing contracts and changes in local laws and policies, regulation, taxation, social instability and other political, social and economic developments affecting the countries in which we operate. We have no control over these factors and they may have an adverse effect on our business, financial condition, results of operations and prospects.

Additionally, our operations may be adversely affected by trade barriers, market volatility, currency fluctuations, exchange controls, high levels of inflation, increases in duties, taxes and governmental royalties, social or political unrest, labor strikes, expropriation, nationalization, adverse geopolitical events, forced negotiation or modification of existing contracts and changes in the trade agreements, industry regulations, local laws and policies of the countries in which we conduct our business, including changes to environmental laws that could affect our manufacturing facilities or to health safety laws that could affect our products or our manufacturing process. We are also exposed to risks related to social instability and other political, economic or social events in these countries, which could have an adverse effect on our business, financial condition and results of operations, as well as our ability to comply with our financial obligations in a timely manner.

***The Parent Guarantor is incorporated in Mexico and a significant portion of our assets and operations are located in Mexico; therefore, we are subject to certain risks specific to Mexico.***

The Parent Guarantor is a variable capital stock corporation (*sociedad anónima de capital variable*) incorporated in Mexico. A significant portion of our assets and operations are located in Mexico, including many of our production facilities. As a result, our business, financial condition, results of operations and prospects are subject to political, economic, social, legal and regulatory risks specific to Mexico, over which we have no control. The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Accordingly, Mexican governmental actions or lack thereof, fiscal and monetary policies and regulation of private industry could have an impact on Mexican private sector entities, including our company, and on market conditions, prices and returns on Mexican securities, including our securities. We cannot predict the impact that these political, economic and social conditions, or similar political conditions in any other jurisdictions in which we conduct our business, could have on our business.

Furthermore, Mexico has recently experienced periods of violence and crime due to the activities of organized crime. In response, the Mexican government has implemented various security measures and has strengthened its police and military forces. Despite these efforts, organized crime (especially drug-related crime) continues to exist in Mexico. These activities, their possible escalation and the violence associated with them may have a negative impact on the Mexican economy or on our operations in Mexico in the future. The social and political situation in Mexico could adversely affect the Mexican economy, which in turn could have a material adverse effect on our business, financial condition, results of operations and prospects.

Political events in Mexico may significantly affect Mexican economic policy and, consequently, our business. National presidential elections in Mexico are set to take place in July 2018 and could result in political and economic instability. The Mexican president strongly influences new policies and governmental actions regarding the Mexican economy, and the new administration could implement substantial changes in law, policy and regulations in Mexico, which could negatively affect our business, financial condition, results of operations and prospects. Furthermore, although as of the date of this offering memorandum no political party holds a simple majority in either house of the Mexican Congress, Mexico's next federal legislative election will be held in July 2018. We cannot provide any assurances that these events, over which we have no control, will not have an adverse effect on our business, financial condition and results of operations.

We cannot predict the impact that these political conditions will have on the Mexican economy. Furthermore, our business, financial condition, results of operations and prospects may be affected by currency fluctuations, price, instability, inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico, over which we have no control. We cannot assure you that political developments in Mexico or changes in the Mexican laws, regulations and/or public policies will not adversely affect our business, financial condition, results of operations and prospects.

***The countries in which we operate may experience high levels of inflation in the future.***

Certain countries in which we conduct our business may experience high inflation in the future. A substantial increase in the inflation rate in the countries where we operate could adversely affect consumer purchasing power, thereby negatively impacting demand for our products, would increase some of our costs, and may impact our results of operations when measured in our reporting currency, which could adversely affect our business, financial condition and results of operations.

***Changes in U.S. government policies.***

Economic conditions in Mexico are highly correlated with economic conditions in the United States as a result of NAFTA and increased economic activity between the two countries. Following the U.S. presidential and congressional elections in November 2016 and the change in the U.S. administration for the four-year period from 2017 to 2020, there is uncertainty regarding future U.S. policies with respect to matters of importance to Mexico and its economy, particularly including trade and migration. Negotiations among the United States, Mexico and Canada to revise and update NAFTA began on August 16, 2017. Statements have been made to the effect that negotiations may be postponed until after the Mexican elections, which may impact timing of renegotiations. The U.S. administration has stated that if it is unable to reach an agreement that is satisfactory to it in the NAFTA renegotiations, it may terminate U.S. participation in NAFTA. There can be no assurance as to what the outcome of the NAFTA renegotiations will be, the timing of such renegotiations and the impact of these measures or any others adopted by the U.S. cannot be predicted. In addition, President Donald Trump has announced plans to institute import tariffs and to control illegal immigration from Mexico, which may create friction between the U.S. and Mexican governments and reduce economic activity between these countries.

Developments in any of the areas mentioned above or other related events could have a material adverse effect on the Mexican economy and on our business and results of operations, as well as the price of the notes.

***Terrorist activities and geopolitical events in the countries in which we operate and their consequences could adversely affect our business operations.***

Terrorist attacks or the continued threat of terrorism or organized crime in Europe, the United States, Mexico and elsewhere in the world and the potential for military action and heightened security measures in response to such threats may cause significant disruptions to commerce on a global basis, including restrictions on cross-border transport and trade. The consequences of terrorism and the responses thereto are unpredictable and could have an adverse effect on our business operations. In addition, related political events may cause periods of uncertainty that may adversely affect our business. Political and economic instability in the markets in which we operate could negatively impact our results of operations and financial condition.

**Risks Relating to the Notes**

***The enforceability of the obligations of the Issuer may be limited.***

The enforceability of the obligations of the Issuer may be limited under the 1977 Sanction Act (*Sanctiewet 1977*) or otherwise by international sanctions.

Furthermore, the validity and enforceability of the obligations of the Issuer under the notes may be successfully contested by the Dutch company (or its administrator (*bewindvoerder*) in suspension of payments or its receiver (*curator*) in bankruptcy) on the basis of an ultra vires claim, which will be successful if both (i) the obligations of the Issuer do not fall within the scope of the objects clause as set out in the company's articles of association (*doeloverschrijding*) and (ii) the company's counterparty of the Issuer knew or ought to have known (without inquiry) of this fact. In determining whether a transaction is in furtherance of the objects and purposes of a Dutch company, a court will consider (i) the text of the objects clause in the company's articles of association; (ii) whether the granting of such security right is in the company's corporate interest (*vennootschappelijk belang*) and to its benefit; and (iii) whether the company's subsistence is jeopardized by the granting of such security right. The mere fact that a certain legal act (*rechtshandeling*) is explicitly reflected in a Dutch company's objects clause may not be conclusive evidence that such legal act is not ultra vires.

A Dutch court may nullify the issuance of the notes, or any other transaction entered into by the Issuer in connection with the notes, under certain circumstances, if (i) the issuance of the notes, or any other transaction entered into by the Issuer in connection with the notes was conducted without prior existing legal obligation to do so (*onverplicht*), (ii) the creditor(s) concerned was/were prejudiced as a consequence of such transactions (irrespective of whether a creditor's claim arose prior to or after such transactions) and (iii) at the time the issuance of the notes, or any other transaction entered into by the Issuer in connection with the notes was conducted, both the Issuer and, unless the transactions were conducted for no consideration (*om niet*), the counterparty knew or should have known that one or more of the entities' creditors would be prejudiced (*actio pauliana*). A receiver (curator) may nullify a transaction on behalf of and for the benefit of the joint insolvent debtor's creditors, and the burden of proof of the abovementioned elements of fraudulent conveyance in principle rests on the receiver. Knowledge of prejudice is however presumed by law for certain transactions performed within a "suspect period" of one year prior to an adjudication of bankruptcy. This goes for certain transactions only, the most important being if the obligations of the bankrupt materially exceed those of the other party, the satisfaction of existing obligations of the bankrupt which are not yet due, and acts between the bankrupt and its counterparty when the shares in both are held (indirectly) by the same shareholder or if the bankrupt and its counterparty are part of the same group of companies. The foregoing requirements for invoking fraudulent transfer provisions outside of a bankruptcy apply *mutatis mutandis* when invoking fraudulent transfer provisions during a bankruptcy. In addition, the receiver may challenge a transaction if it was conducted on the basis of a prior existing legal obligation to do so (*verplichte rechtshandeling*), if (i) the transaction was conducted at a time when the counterparty knew that a request for bankruptcy had been filed, or (ii) if such transaction was conducted as a result of deliberation between the debtor and the counterparty with a view to giving preference to the counterparty over the debtor's other creditors. Consequently, the validity of any such transactions conducted by a Dutch legal entity may be challenged and it is possible that such challenge would be successful.

***The obligations of the Issuer may be voided, voidable, subordinated, limited in scope, unenforceable or practically unenforceable under Dutch insolvency laws.***

The Issuer is incorporated under Dutch law. Accordingly, where the Issuer has its "center of main interest" or an "establishment in the Netherlands", it may be subject to Dutch insolvency proceedings governed by Dutch insolvency laws, subject to certain exceptions as provided for in the recast EU Insolvency Regulation (no. 2015/848) (the "Insolvency Regulation").

There are two applicable corporate insolvency regimes under Dutch law: (a) suspension of payments (*surseance van betaling*), which is intended to facilitate the reorganization of a debtor's debts and enable the debtor to continue as a going concern, and (b) bankruptcy (*faillissement*), which is primarily designed to liquidate and distribute the debtor's assets to its creditors. Bankruptcy is the most commonly used insolvency regime and may result in the transfer of parts of the company as a going concern. A suspension of payments almost always results in the debtor's bankruptcy. Both insolvency regimes are set forth in the Dutch Bankruptcy Act (*Faillissementswet*).

Only the debtor can make an application for a suspension of payments, and only if it foresees that it will be unable to continue to pay its payable debts. Once the application has been filed, a court will immediately (*dadelijk*) grant a provisional suspension of payments and appoint one or more administrators (*bewindvoerders*). A meeting of creditors is required to decide on the definitive suspension of payments, but it will generally be granted, unless a qualified minority (i.e., more than one-quarter of the amount of claims held by creditors represented at the creditors' meeting or more than one-third of the number of creditors of the amount of claims held by creditors) of the unsecured, non-preferential, creditors declare against it or if there is a valid fear that the debtor will try to prejudice the creditors during a suspension of payments or if there is no prospect that the debtor will be able to satisfy its creditors in the (near) future. A suspension of payments will only affect unsecured, non-preferential creditors.

Unlike Chapter 11 proceedings under U.S. bankruptcy law, where both secured and unsecured creditors are generally barred from seeking to recover on their claims, suspension of payment and bankruptcy proceedings against the Issuer would allow certain secured creditors to satisfy their claims by proceeding against the assets that secure their claims as if there were no bankruptcy or suspension of payments. However, a statutory stay of execution of up to two months, extendable by another period of up to two months, may be declared applicable. Where the Issuer only has an establishment in the Netherlands, secondary insolvency proceedings pursuant to the Insolvency Regulation may only be liquidation proceedings which could impair the ability of restructuring efforts. In addition, the Dutch tax authorities have a statutory priority right on equipment and other movable assets (the priority assets)



which are used for furnishing and located at the premises of the debtor of certain tax claims in the Netherlands, which prevails over a right of pledge over such assets, even if the pledgor is not the debtor of the tax claim. The holder of a security right over priority assets must give the Dutch tax authorities at least four weeks prior notice before it may enforce its rights over the priority assets (including collecting or selling the priority assets) to allow the Dutch tax authorities to exercise their priority right first. Furthermore, certain preferred creditors have a preference by virtue of law. Unlike secured creditors, preferred creditors are not entitled to foreclose on assets of the bankrupt. They do have priority in the distribution of the proceeds of the bankrupt's assets.

Both in a definitive suspension of payments and bankruptcy, a composition (*akkoord*) may be offered to creditors. A composition will be binding for all unsecured and non-preferential creditors if it is: (i) approved by a simple majority (*gewone meerderheid*) of the number of creditors represented at the creditors' meeting, representing at least 50% of the amount of the claims that are acknowledged and conditionally admitted, and (ii) subsequently ratified (*gehomologeerd*) by the court. Since the unsecured and non-preferential creditors (including subordinated creditors) can vote on the composition plan and enforcement of security rights remains possible, Dutch insolvency law could preclude or inhibit the ability of the holders of the notes to effect a restructuring and could reduce the recovery of a holder of notes in a Dutch suspension of payments proceeding or bankruptcy. Interest accruing after the date on which a suspension of payments or bankruptcy is granted, cannot be claimed in a composition.

Under Dutch law, a debtor can be declared bankrupt when it has ceased to pay its debts. Bankruptcy can be requested by a creditor of a claim when there is at least one other creditor. At least one of the claims (of the creditor requesting bankruptcy or the other creditor) needs to be due and payable. The debtor can also request the application of bankruptcy proceedings itself. Furthermore, the Public Prosecution Service (*het Openbaar Ministerie*) can request the application of bankruptcy proceedings for reasons of public interest (*openbaar belang*). In Dutch bankruptcy proceedings, a debtor's assets are generally liquidated and the proceeds distributed to the debtor's creditors according to the relative priority of those creditors' claims and, to the extent certain creditors' claims have equal priority, in proportion to the amount of such claims. Certain parties, such as secured creditors, will benefit from special rights. Secured creditors, such as pledgees and mortgagees, may enforce their rights regardless of suspension of payments or bankruptcy and do not have to contribute to the liquidation costs; however, enforcement of the security right might be subject to the following: (a) a statutory stay of execution of up to two months extendable by another period of up to two months imposed by court order pursuant to articles 63a of the Dutch Bankruptcy Act; (b) a receiver (curator) can force a secured party to foreclose its security right within a reasonable time (as determined by the receiver pursuant to Article 58(1) of the Dutch Bankruptcy Act), failing which the receiver will be entitled to sell the relevant rights or assets and distribute the proceeds to the secured party after a deduction of liquidation costs; and (c) excess proceeds of enforcement must be returned to the company's receiver and may not be offset against an unsecured claim of the company's secured creditor.

All unsecured, pre-bankruptcy claims are submitted to a receiver for verification, and the receiver then makes a determination as to the claim's existence, ranking and value and whether and to what extent it should be admitted in the bankruptcy proceedings. Creditors that wish to dispute the receiver's verification of their claims will be referred to a claim validation proceeding (*renvooiprocedure*) in order to establish the amount and rank of the disputed claim. These procedures could cause holders of notes to recover less than the principal amount of their notes or less than they could recover in a U.S. liquidation proceeding. Such *renvooi* proceedings could also cause payments to the holders of notes to be delayed. Interest on the notes accruing after the bankruptcy order date cannot be admitted unless secured by a pledge or mortgage, in which case interest will be admitted *pro memoria*. To the extent that an interest is not covered by the proceeds of the security, the creditor may not derive any rights from the admission. No interest is payable in respect of unsecured claims as of the date of a bankruptcy.

***Payments on the notes and the guarantees will be effectively junior to any secured indebtedness of the Issuer and the Guarantors; payments on the notes and the parent guarantee will be structurally junior to the debt obligations of each non-guarantor subsidiary of the Parent Guarantor and payments on the subsidiary guarantees will be structurally junior to the debt obligations of the non-guarantor subsidiaries of each respective Subsidiary Guarantor.***

The notes and the guarantees will constitute senior unsecured obligations of the Issuer and the Guarantors, respectively, and will rank equal in right of payment with all of the other existing and future senior unsecured indebtedness of the Issuer and each of the Guarantors, other than obligations preferred by law (such as tax, social security and labor claims). The Issuer is a newly created company with no significant assets of its own and

dependent upon flows from the Guarantors to make payments under the notes. Payment on the notes and guarantees will be subordinated in right of payment to any existing or future secured debt of the Issuer and the Guarantors, respectively, to the extent of the value of the assets securing such debt. Although the indenture governing the notes will contain restrictions on the incurrence of additional liens, these restrictions are subject to important qualifications and exceptions, and the liens that we may incur in compliance with these restrictions or liens that arise from governmental or creditor action, could be substantial. Payment by the Issuer and the Parent Guarantor in respect of the notes and the parent guarantee, respectively, will also be structurally subordinated to the payment of secured and unsecured debt and other creditors of each non-guarantor subsidiary of the Parent Guarantor. Payments by the Subsidiary Guarantors in respect of the subsidiary guarantees will be structurally subordinated to the payment of secured and unsecured debt and other creditors of the non-guarantor subsidiaries of each respective Subsidiary Guarantor.

As of December 31, 2017, we had total consolidated indebtedness of Ps. 50,409 million (US\$2,554 million), none of which was indebtedness of the Issuer on an unconsolidated basis and Ps. 9,612 million (US\$487 million) was indebtedness of the non-guarantor subsidiaries of the Parent Guarantor (principally Campofrio) to which the notes will be structurally subordinated, and none of which was secured indebtedness.

If we become insolvent or are liquidated, or we become subject to bankruptcy proceedings, or if payment under any secured debt is accelerated, the relevant lenders would be entitled to exercise the remedies available to a secured lender. Accordingly, any proceeds upon a realization of the collateral granted for the benefit of secured creditors would be applied first to amounts due under the secured debt obligations, before any proceeds would be available to make payments on the notes. After such application of the proceeds from collateral and priorities, it is possible that there would be no assets remaining from which claims of the holders of the notes could be satisfied.

Further, if any assets remain after payment of these lenders, the remaining assets would be available to creditors preferred by law, such as holders of tax, social security and labor claims, and might be insufficient to satisfy the claims of the holders of the notes and holders of other unsecured debt including trade creditors that rank equal to holders of the notes.

In addition, the Issuer's and the Guarantors' creditors may hold negotiable instruments or other instruments governed by local law that grant rights to attach the Issuer's or the Guarantors' assets at the inception of judicial proceedings in the relevant jurisdiction, which attachment is likely to result in priorities benefitting those creditors when compared to the rights of holders of the notes.

***The guarantees may not be enforceable under applicable laws.***

The notes will be fully and unconditionally guaranteed by the Parent Guarantor and certain of its Mexican, U.S. and other subsidiaries. The guarantees provide a basis for a direct claim against the Guarantors; however, it is possible that the guarantees of the Subsidiary Guarantors may not be enforceable under Mexican, U.S. or other applicable laws. While Mexican law does not prohibit the giving of guarantees and, as a result, does not prevent the guarantees of the notes from being valid, binding and enforceable against a Guarantor that is a Mexican subsidiary of the Parent Guarantor, in the event that a Guarantor that is a Mexican subsidiary of the Parent Guarantor becomes subject to a judicial reorganization proceeding (*concurso mercantil*) or to bankruptcy (*quiebra*), the guarantee provided by any such Guarantor may be deemed to have been a fraudulent transfer and declared void based upon such Guarantor being deemed not to have received fair consideration in exchange for any such guarantee.

Under various fraudulent conveyance or fraudulent transfer laws (including under the laws of the United States), a court could subordinate or void the obligations of our subsidiaries under the guarantees. Generally, to the extent that a court were to find that at the time one of our subsidiaries entered into a guarantee either (a) the Subsidiary Guarantor incurred the guarantee with the intent to hinder, delay or defraud any present or future creditor or contemplated insolvency with a design to favor one or more creditors to the exclusion of others or (b) the Subsidiary Guarantor did not receive fair consideration or reasonably equivalent value for issuing the guarantee and, at the time it issued the guarantee, the Subsidiary Guarantor (i) was insolvent or became insolvent as a result of issuing the guarantee, (ii) was engaged or about to engage in a business or transaction for which the remaining assets of the Subsidiary Guarantor constituted unreasonably small capital, (iii) intended to incur, or believed that it would incur, debts beyond its ability to pay those debts as they matured or (iv) was a defendant in an action for money damages, or had a judgment for money damages declared against such Subsidiary Guarantor if, after final judgment,

the judgment is unsatisfied, then the court could void or subordinate the Subsidiary Guarantor's obligations under the guarantee in favor of the Guarantor's other obligations. In addition, any payment by any Subsidiary Guarantor could be voided and required to be returned to such Subsidiary Guarantor, or to a fund for the benefit of its creditors.

Among other things, a legal challenge of a Subsidiary Guarantor's obligations under a guarantee on fraudulent conveyance grounds could focus on the benefits, if any, realized by the Subsidiary Guarantors as a result of the issuance of the notes. To the extent a subsidiary guarantee is voided as a fraudulent conveyance or held unenforceable for any other reason, the holders of the notes would not have any claim against that Subsidiary Guarantor and would be creditors solely of the Issuer, the Parent Guarantor and the Subsidiary Guarantors, if any, whose obligations under the guarantees were not held unenforceable. If any such event were to occur, the creditworthiness of the notes, and the market value of the notes in the secondary market, may be materially adversely affected.

***The Issuer may be unable to purchase the notes upon a change of control triggering event, which would result in a default under the indenture governing the notes.***

The terms of the notes as described in the indenture governing the notes will require the Issuer to make an offer to repurchase the notes upon the occurrence of a change of control triggering event at a purchase price equal to 101% of the principal amount of the notes, plus accrued interest to the date of the purchase. Any financing arrangements the Issuer may enter may require repayment of amounts outstanding upon the occurrence of a change of control event and limit the Issuer's ability to fund the repurchase of the notes in certain circumstances. It is possible that the Issuer will not have sufficient funds at the time of the change of control to make the required repurchase of the notes or that restrictions in the Issuer's other financing arrangements will not allow the repurchase. If the Issuer fails to repurchase the notes in such circumstance, the Issuer would default under the indenture which may, in turn, trigger cross-default provisions in any of our other debt instruments. See "Description of the Notes—Change of Control Triggering Event."

***The change of control offer provisions of the indenture governing the notes would not be triggered by a change of control of the Issuer's indirect parent company, Alfa, and, as a result, may fail to provide any protection to holders of the notes in such circumstances.***

The change of control offer provisions of the indenture require the Issuer to offer to repurchase the notes in the event of a specified change of control event. However, these provisions do not address a change of control of Alfa itself, which would indirectly affect control of the Parent Guarantor and the Issuer. In the event of, for example, the sale by Alfa's shareholders of a substantial portion of the share capital of Alfa or a significant merger or other transaction affecting the ownership of Alfa, the change of control offer provisions of the indenture would likely not be triggered, even though such event may result in a change of control under our other indebtedness. Accordingly, the change of control offer provisions of the indenture may fail to protect holders of the notes in the case of certain transactions that indirectly affect control of the Parent Guarantor and the Issuer.

#### ***Potential changes in tax law in the Netherlands.***

On October 10, 2017, the newly formed government of The Netherlands presented its plans for this government term. One of the plans is to introduce a withholding tax on interest payments to "low tax jurisdictions". On February 23, 2018, the Dutch Secretary of Finance published a policy letter stating his plans to tackle tax evasion and tax avoidance. Among other things, it is proposed to introduce a withholding tax on intragroup interest payments to low-tax jurisdictions and non-cooperative jurisdictions as of 2021. Although no detailed guidance is available, the withholding taxes referred to above will most likely apply to payments to countries with a low statutory corporate income tax rate or countries that are included in the EU list of non-cooperative jurisdictions. A draft legislative proposal in this regard is expected to be submitted to the Dutch parliament in 2019. Considering that the policy letter specifically refers to intragroup payments in this context, debt instruments that are issued in the market, including publicly held listed instruments such as the notes offered hereby, are expected to fall outside the scope of the proposed withholding tax rules. In the event of any such change in Dutch law that results in an interest withholding tax as contemplated by the Dutch Coalition Agreement (as defined under "Description of the Notes – Additional Amounts"), the Issuer will not be entitled to redeem the notes pursuant to the provisions under "Description of the Notes – Optional Redemption upon Tax Event". However, the Issuer will not be required to pay any Additional Amounts (as defined under "Description of the

Notes – Additional Amounts”) to any holders or beneficial owners of the notes as a result of any such interest withholding tax.

***We may incur substantially more debt, which could further exacerbate the risks associated with our indebtedness.***

As of December 31, 2017, we had total consolidated indebtedness of Ps. 50,409 million (US\$2,554 million), none of which was indebtedness of the Issuer on an unconsolidated basis and Ps. 9,612 million (US\$487 million) was indebtedness of our non-guarantor subsidiaries (principally Campofrío). We and our subsidiaries may be able to incur substantial additional debt in the future. Adding new debt to our current indebtedness levels would increase our leverage and the related risks that we now face could intensify.

***The instruments governing our indebtedness, including the notes offered hereby, contain cross-default provisions that may cause all of the debt issued under such instruments to become immediately due and payable as a result of a default under an unrelated debt instrument.***

The indenture governing the notes contains restrictive covenants. Instruments governing our other indebtedness also contain certain affirmative and negative covenants and require us and our subsidiaries to meet certain financial ratios and tests. Our failure to comply with the obligations contained in the indentures or other instruments governing our indebtedness could result in an event of default under the applicable instrument, which could then result in the related debt and the debt issued under other instruments becoming immediately due and payable. In such event, we would need to raise funds from alternative sources, which may not be available to us on favorable terms, on a timely basis or at all. Alternatively, such default could require us to sell our assets and otherwise curtail operations in order to pay our creditors.

***The notes are subject to transfer restrictions, which could limit your ability to resell your notes.***

The notes have not been registered under the Securities Act or any state securities laws, and we are not required to and currently do not plan on making any such registration in the immediate future. As a result, the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Prospective investors should be aware that investors may be required to bear the financial risks of this investment for an indefinite period of time. See “Transfer Restrictions” for a full explanation of such restrictions.

***An active trading market for the notes may not develop.***

Currently there is no market for the notes. Application has been made to Euronext Dublin for the notes to be admitted to the Official List and trading on the Global Exchange Market. Even if the notes become listed on this exchange, we may delist the notes. A trading market for the notes may not develop, even if the notes are listed as specified above, or if a market for the notes were to develop, the notes may trade at a discount from their initial offering price, depending upon many factors, including prevailing interest rates, the market for similar securities, general economic conditions and our financial condition. The initial purchasers are not under any obligation to make a market with respect to the notes, and we cannot assure you that trading markets will develop or be maintained. Accordingly, we cannot assure you as to the development or liquidity of any trading market for the notes. If an active market for the notes does not develop or is interrupted, the market price and liquidity of the notes may be adversely affected.

***Trading in the clearing systems is subject to minimum denomination requirements.***

The terms of the notes provide that notes will be issued in minimum denominations of U.S.\$200,000 and multiples of U.S.\$1,000 in excess thereof. It is possible that the clearing systems may process trades which could result in amounts being held in denominations smaller than the minimum denomination. If definitive notes are required to be issued in relation to such notes in accordance with the provisions of the relevant global note, a holder who does not have the minimum denomination or any integral multiple of U.S.\$1,000 in excess thereof in its account with the relevant clearing system at the relevant time may not receive all of its entitlement in the form of definitive notes unless and until such time as its holding satisfies the minimum denomination requirement.

***Payments claimed on the notes or the guarantees in the country of incorporation of the Issuer or of the respective Guarantor, pursuant to a judgment or otherwise, would be required to be made in local currency.***

In the event that proceedings are brought against the Issuer or any of the Guarantors, either to enforce a judgment or as a result of an original action brought in the country of incorporation of the Issuer or such Guarantor, or if payment is otherwise claimed from the Issuer or any such Guarantor, the Issuer or such Guarantor may not be required to discharge those obligations in a currency other than its local currency. As a result, you may suffer a U.S. Dollar shortfall if you obtain a judgment or a payment in any currency other than U.S. Dollars.

***The obligations of the Mexican Guarantors under the notes would be converted in the event of bankruptcy.***

Under Mexico's Bankruptcy Law (*Ley de Concursos Mercantiles*), if any of the Mexican Guarantors is declared bankrupt (*en quiebra*) or becomes subject to a reorganization proceeding (*concurso mercantil*), such Mexican Guarantor's obligations under the notes, (i) would be converted into Mexican Pesos and then from Mexican Pesos into UDIs, (ii) would be satisfied at the time claims of all our creditors are satisfied, (iii) would be subject to the outcome of, and priorities recognized in, the relevant proceedings (including priorities resulting from applicable law, such as tax, social security and labor claims, and claims of secured creditors (up to the value of the collateral provided to such creditors)), (iv) would cease to accrue interest from the date the *concurso mercantil* is declared, and (v) would not be adjusted to take into account any depreciation of the Mexican Peso against the U.S. Dollar occurring after such declaration. As a result, upon the occurrence of any such events, payments under the notes may be affected and subordinated.

***We may not be able to make payments in U.S. Dollars.***

In the past, the Mexican economy has experienced balance of payments deficits and shortages in foreign exchange reserves. While the Mexican government does not currently restrict the ability of Mexican or foreign persons or entities to convert Mexican Pesos to foreign currencies, including U.S. Dollars, it has done so in the past and could do so again in the future. We cannot assure you that the Mexican government will not implement a restrictive exchange control policy in the future. Any such restrictive exchange control policy could prevent or restrict our access to U.S. Dollars to meet our U.S. Dollar obligations and could also have a material adverse effect on our business, financial condition and results of operations.

***We cannot assure you that the credit ratings for the notes will not be lowered, suspended or withdrawn by the rating agencies.***

The credit ratings of the notes may change after issuance. Such ratings are limited in scope, and do not address all material risks relating to an investment in the notes, but rather reflect only the views of the rating agencies at the time the ratings are issued. An explanation of the significance of such ratings may be obtained from the rating agencies. We cannot assure you that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price and marketability of the notes.

***The Issuer is a company incorporated under the laws of the Netherlands and it may be difficult for you to enforce judgments against it.***

The Issuer is incorporated under Dutch law and has its registered seat in the Netherlands. None of the directors of the Issuer reside in the United States.

The United States and the Netherlands currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. Consequently, a final judgment for payment given by any court in the United States, whether or not predicated solely upon U.S. securities laws, would not be enforceable in the Netherlands. In order to obtain a judgment which is enforceable in the Netherlands, the claim must be re-litigated before a competent Dutch court. A Dutch court will, under current practice, generally grant the same judgment without relitigation on the merits if (a) that judgment results from proceedings compatible with the Dutch concept of due process, (b) that judgment does not contravene public policy (*openbare orde*) of the Netherlands, (c) the jurisdiction of the court has been based on an internationally acceptable

ground and (d) the judgment by the court is not incompatible with a judgment rendered between the same parties by a Dutch court, or with an earlier judgment rendered between the same parties by a non-Dutch court in a dispute that concerns the same subject and is based on the same cause, provided that the earlier judgment qualifies for recognition in the Netherlands.

Subject to the foregoing and provided that service of process occurs in accordance with applicable treaties, investors may be able to enforce in the Netherlands, judgments in civil and commercial matters obtained from U.S. federal or state courts. However, no assurance can be given that such judgments will be enforceable. In addition, it is doubtful whether a Dutch court would accept jurisdiction and impose civil liability in an original action commenced in the Netherlands and predicated solely upon U.S. federal securities laws.

***The Parent Guarantor and most of the Subsidiary Guarantors are incorporated or formed under the laws of countries other than the United States and therefore it may be difficult to enforce civil liabilities against us or our directors, executive officers and controlling persons.***

A significant number of our directors, executive officers and controlling persons are non-residents of the United States and substantially all of the assets of such non-resident persons and a significant portion of all of our assets are located in Mexico or elsewhere outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or us or to enforce judgments against them or us in the United States predicated upon the civil liability provisions of the U.S. securities laws. For example, we have been advised that there is doubt as to the enforceability in Mexican courts, in original actions or in actions for enforcement of judgments obtained in courts of jurisdictions outside of Mexico, of civil liabilities arising under the laws of any jurisdiction outside of Mexico, including any judgment predicated solely upon United States federal or state securities laws. No treaty is currently in effect between the United States and Mexico that covers the reciprocal enforcement of foreign judgments. In the past, Mexican courts have enforced judgments rendered in the United States by virtue of principles of reciprocity and comity as well as the provisions of Mexican law relating to the enforcement of foreign judgments in Mexico, consisting of the review by Mexican courts of the United States judgment in order to ascertain whether Mexican legal principles of due process and public policy (*orden público*), among other requirements, have been duly complied with, without reviewing the merits of the subject matter of the case, provided that U.S. courts would grant reciprocal treatment to Mexican judgments issued in analogous cases. Therefore, holders of the notes may face greater difficulties in protecting their interests through actions against us, our directors, executive officers and controlling persons than would holders of notes of a corporation incorporated in the United States or in other jurisdictions outside of Mexico.

***The consolidated financial information included in this offering memorandum may be of limited use in assessing the financial position of the Guarantors.***

The consolidated financial information included in this offering memorandum includes the financial information for the Guarantors and the non-guarantor subsidiaries of the Parent Guarantor. As of December 31, 2017, the Issuer had not yet been formed, so it had no assets, liabilities or Adjusted EBITDA. As of December 31, 2017, the Guarantors had total assets of Ps. 52,535 million (accounting for 50% of our consolidated total assets), and total liabilities of Ps. 53,657 million (accounting for 61% of our consolidated total liabilities), and for the year ended December 31, 2017, the Guarantors had Adjusted EBITDA of Ps. 8,536 million (accounting for 67% of our consolidated Adjusted EBITDA). As a result, the non-guarantor subsidiaries of the Parent Guarantor accounted for over 25% of our consolidated total assets, total liabilities, and Adjusted EBITDA as of and for the year ended December 31, 2017, and therefore the consolidated financial information included in this offering memorandum may be of limited use in assessing the financial position of the Guarantors.

## EXCHANGE RATES

This offering memorandum contains translations of certain Mexican Peso amounts into U.S. Dollars at specified rates solely for the convenience of the reader. These convenience translations should not be construed as representations that the Mexican Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. Furthermore, the exchange rate for purposes of the convenience translation is not necessarily the same rate we used in preparing our financial statements, which means that U.S. Dollar-denominated items, including U.S. Dollar-denominated expenses and liabilities, may have been translated into Mexican Pesos using one exchange rate (or an average exchange rate) and have been re-translated into U.S. Dollars for the convenience of the reader using the convenience translation exchange rate.

Unless otherwise indicated, the exchange rate used for purposes of the convenience translations is:

- with respect to statement of financial position data, the Official Exchange Rate on December 31, 2017 (Ps. 19.7354 per US\$1.00); and
- with respect to financial information other than statement of financial position data, the average exchange rate for the year ended December 31, 2017, which consists of the average of the Official Exchange Rate on each day during the year ended December 31, 2017 (Ps. 18.9291 per US\$1.00).

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rates for the Official Exchange Rate, all expressed in nominal Mexican Pesos per U.S. Dollar.

	High	Low	Average <sup>(1)</sup>	Period End <sup>(2)</sup>
<b>Year</b>				
2013 .....	13.44	11.98	12.77	13.08
2014 .....	14.79	12.85	13.30	14.72
2015 .....	17.38	14.56	15.85	17.21
2016 .....	21.05	17.18	18.66	20.66
2017 .....	21.91	17.49	18.93	19.74
<b>Month</b>				
September 2017.....	18.20	17.64	17.81	18.20
October 2017.....	19.20	18.16	18.71	19.15
November 2017.....	19.23	18.52	18.99	18.58
December 2017.....	19.79	18.52	19.10	19.74
January 2018.....	19.74	18.47	19.01	18.62
February 2018.....	18.88	18.40	18.62	18.65
March 2018 (through March 22).....	18.89	18.56	18.74	18.76

(1) The average exchange rate means the average of the exchange rate on each day during the relevant period

(2) As published by the Mexican Central Bank as the rate for the payment of obligations denominated in foreign currency payable in Mexico in effect on the period end date.

Source: The Mexican Central Bank.

On March 22, 2018, the Official Exchange Rate in effect was Ps. 18.76 per US\$1.00.

## **USE OF PROCEEDS**

We estimate that the net proceeds to us from the sale of the notes will be approximately Ps. 9.7 billion (US\$493 million), after deducting the initial purchasers' discounts and commissions and payment of the estimated offering expenses.

We intend to use the net proceeds from this offering to redeem the Campofrío 2022 Notes and the remainder, if any, for general corporate purposes.



## CAPITALIZATION

The following table sets forth our cash and cash equivalents and consolidated capitalization as of December 31, 2017 (i) on a historical basis and (ii) as adjusted to reflect our receipt of the net proceeds from the sale of the notes and the application of the net proceeds in the manner described under “Use of Proceeds.”

This table should be read in conjunction with, and is qualified in its entirety by reference to, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Selected Historical Financial Data and Other Information,” “Use of Proceeds” and our Audited Financial Statements included elsewhere in this offering memorandum.

	As of December 31, 2017			
	Actual		As Adjusted	
	(Ps.)	(US\$) <sup>(1)</sup>	(Ps.)	(US\$) <sup>(1)</sup>
		(Unaudited) (in millions)		
Cash and cash equivalents .....	12,807	649	13,161	667
Current liabilities:				
Interest payable .....	643	33	643	33
Unsecured debt securities .....	1,737	88	1,737	88
Trade and other accounts payable .....	25,818	1,308	25,818	1,308
Other current liabilities .....	2,410	122	2,410	122
Total current liabilities .....	30,608	1,551	30,608	1,551
Non-current liabilities:				
International bonds:				
Sigma 2019 International Notes .....	4,899	248	4,899	248
Campofrio 2022 International Notes .....	9,385	476	-	-
Sigma 2024 Eurobonds .....	14,065	713	14,065	713
Sigma 2026 International Notes .....	19,547	990	19,547	990
Other non-current liabilities .....	8,793	446	8,793	446
Notes offered hereby <sup>(2)</sup> .....	-	-	9,739	493
Total non-current liabilities .....	56,689	2,872	57,043	2,890
Total liability .....	87,297	4,423	87,651	4,441
Stockholders’ equity:				
Capital stock .....	27	1	27	1
Share premium .....	667	34	667	34
Retained earnings <sup>(3)</sup> .....	14,225	721	14,133	716
Other reserves .....	2,678	136	2,678	136
Non-controlling interest .....	692	35	692	35
Total stockholders’ equity .....	18,289	927	18,197	922
Total capitalization (total debt and stockholders’ equity) .	105,586	5,350	105,848	5,363

- (1) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of Ps. 19.7354 per U.S. Dollar, the Official Exchange Rate in effect on December 31, 2017. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See “Exchange Rates.”
- (2) The notes offered hereby are presented net of issuance costs of Ps. 129 million (US\$7 million).
- (3) The "As Adjusted" amount reflects the recognition of the transaction costs pending to be amortized of the Campofrio 2022 Notes as of December 31, 2017 in the amount of Ps. 92 million (US\$5 million).

## SELECTED HISTORICAL FINANCIAL DATA AND OTHER INFORMATION

You should read the following selected historical financial data and other information in conjunction with our Annual Audited Financial Statements, and the information set forth in the sections “Presentation of Financial and Certain Other Information,” “Summary Historical Financial Data and Other Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this offering memorandum.

The consolidated financial information set forth below as of December 31, 2016 and 2017 and for the years ended December 31, 2015, 2016 and 2017 has been derived from our Annual Audited Financial Statements prepared in accordance with IFRS contained elsewhere in this offering memorandum.

	For the Year Ended December 31,			
	2015	2016	2017	2017 <sup>(1)</sup>
	(Ps.)	(Ps.)	(Ps.)	(US\$)
(in millions)				
<b>Income Statement Data:</b>				
Revenues .....	93,568	106,341	114,222	6,034
Cost of sales .....	(66,708)	(75,370)	(82,748)	(4,371)
Gross profit.....	26,860	30,971	31,474	1,663
Selling expenses.....	(15,330)	(17,398)	(18,266)	(965)
Administrative expenses .....	(4,132)	(4,579)	(4,781)	(253)
Other income (expenses), net <sup>(2)</sup> .....	3,506	(476)	164	9
Operating income .....	10,904	8,519	8,591	454
Financial income .....	93	133	297	16
Financial expenses .....	(1,716)	(2,393)	(3,047)	(161)
Gain due to exchange fluctuation .....	808	1,938	2,658	140
Loss due to exchange fluctuation .....	(1,791)	(2,434)	(4,297)	(227)
Financial cost, net .....	(2,606)	(2,757)	(4,389)	(232)
Equity in income of associates recognized using the equity method.....	(401)	50	16	1
Income before taxes .....	7,896	5,812	4,218	223
Income taxes.....	(1,586)	(860)	(2,144)	(113)
Net consolidated income.....	6,310	4,953	2,074	110
Earnings per share .....	4.91	3.81	1.57	0.08
Number of shares outstanding .....	1,291	1,291	1,291	1,291

	As of December 31,		
	2016	2017	2017 <sup>(1)</sup>
	(Ps.)	(Ps.)	(US\$)
(in millions)			
<b>Statement of Financial Position Data:</b>			
Current assets:			
Cash and cash equivalents .....	12,838	12,807	649
Restricted cash .....	124	85	4
Trade and other accounts receivable, net <sup>(3)</sup> .....	9,039	7,977	404
Recoverable income tax .....	846	819	42
Inventories .....	13,751	14,687	744
Other current assets.....	344	426	22
Total current assets .....	36,942	36,802	1,865
Non-current Assets:			
Property, plant and equipment, net.....	33,089	35,268	1,787
Goodwill and intangible assets, net.....	26,665	30,457	1,543
Deferred income taxes.....	2,995	2,792	141
Investments accounted for using the equity method and other non-current assets .....	1,069	220	11
Restricted cash .....	-	47	2
Total non-current assets .....	63,819	68,785	3,485
Total assets.....	100,761	105,586	5,350

As of December 31,			
	2016	2017	2017 <sup>(1)</sup>
	(Ps.)	(Ps.)	(US\$)
(in millions)			
Current liabilities:			
Debt <sup>(4)</sup> .....	442	2,380	121
Trade and other accounts payable .....	26,099	25,818	1,308
Income taxes payable .....	668	1,784	90
Provisions .....	211	324	16
Other current liabilities .....	967	303	15
Total current liabilities .....	27,719	30,608	1,551
Non-current liabilities:			
Debt .....	47,400	48,030	2,434
Provisions .....	348	110	6
Deferred income taxes .....	3,846	4,068	206
Income tax payable .....	2,460	2,342	119
Employees' benefits .....	1,118	1,339	68
Other non-current liabilities .....	821	800	41
Total non-current liabilities .....	55,994	56,689	2,872
Total liabilities .....	83,713	87,297	4,423
Total equity .....	17,048	18,289	927

For the Year Ended December 31,				
	2015	2016	2017	2017 <sup>(1)</sup>
	(Ps.)	(Ps.)	(Ps.)	(US\$)
(in millions)				
<b>Cash Flow Data:</b>				
Net cash generated from operating activities .....	11,773	14,578	9,334	493
Net cash used in investing activities .....	(4,928)	(6,156)	(4,899)	(259)
Net cash used in financing activities .....	(3,651)	(5,270)	(3,833)	(202)

	2015	2016	2017	2017 <sup>(1)</sup>
	(Ps.)	(Ps.)	(Ps.)	(US\$)
(in millions)				
<b>Other Financial Data:</b>				
Revenues by product line:				
Packaged meats .....	72,807	82,109	88,018	4,650
Dairy products .....	16,927	19,235	20,965	1,108
Other products .....	3,834	4,997	5,239	277
Revenues by geographic region <sup>(5)</sup> :				
Europe .....	33,892	40,002	40,456	2,137
United States .....	13,697	15,308	18,257	965
Mexico .....	39,915	43,433	47,079	2,487
Latin America <sup>(6)</sup> .....	6,064	7,598	8,429	445
Free Cash Flow <sup>(7)</sup> .....	7,958	8,053	6,284	332
Adjusted EBITDA by geographic region <sup>(5)</sup> :				
Europe .....	5,619	3,096	3,318	175
United States .....	2,126	2,492	2,638	139
Mexico .....	5,557	5,905	6,056	320
Latin America <sup>(6)</sup> .....	589	881	713	38
Adjusted EBITDA <sup>(8)</sup> .....	13,891	12,374	12,725	672

- (1) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps. 19.7354 per U.S. Dollar, the Official Exchange Rate in effect on December 31, 2017, with respect to statement of financial position data and (ii) Ps. 18.9291 per U.S. Dollar, the average of the Official Exchange Rate on each day during the year ended December 31, 2017, with respect to financial information other than statement of financial position data. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

- (2) Other income (expenses), net, for the years ended December 31, 2015, 2016 and 2017 consisted primarily of the following: (i) in 2015, an insurance reimbursement from the fire at the La Bureba facility, (ii) in 2016, impairment of fixed and intangible assets and (iii) in 2017, a gain due to the remeasurement of the acquisition of Caroli and the impairment of fixed and intangible assets. See Note 23 to the Annual Audited Financial Statements.
- (3) Allowance for doubtful accounts as of December 31, 2015, 2016 and 2017 consisted of Ps. 419 million, Ps. 481 million and Ps. 459 million, respectively.
- (4) Current debt includes interest payable.
- (5) Beginning in 2017, the results for the United States include the earnings of Campofrío's U.S. operations, which were previously included in the results for Europe. Prior periods have not been reclassified, as the effects in the operating segments are not significant.
- (6) Includes Guatemala, Honduras, El Salvador, Costa Rica, Nicaragua, the Dominican Republic, Peru and Ecuador.
- (7) Free Cash Flow has been included solely because we believe that it enhances the understanding of our financial performance and capabilities to generate cash from our operations. We define "Free Cash Flow" as the sum of Adjusted EBITDA, change in working capital, capital expenditures and taxes. Our calculation of Free Cash Flow may not be comparable to other companies' calculations of similarly titled measures. See "Presentation of Financial and Certain Other Information—Non-GAAP Financial Measures." The following table sets forth a reconciliation of Adjusted EBITDA to Free Cash Flow for each of the periods presented:

	Year Ended December 31,			
	2015	2016	2017	2017 <sup>(a)</sup>
	(Ps.)	(Ps.)	(Ps.)	(US\$)
	(in millions)			
Adjusted EBITDA <sup>(b)</sup> .....	13,891	12,374	12,725	672
Change in working capital <sup>(c)</sup> .....	(1,306)	2,211	(1,677)	(89)
Capital expenditures <sup>(d)</sup> .....	(3,638)	(6,298)	(3,542)	(187)
Taxes .....	(989)	(234)	(1,223)	(65)
Free Cash Flow (unaudited) .....	<u>7,958</u>	<u>8,053</u>	<u>6,284</u>	<u>332</u>

(a) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of Ps. 18.9291 per U.S. Dollar, the average of the Official Exchange Rate on each day during the year ended December 31, 2017. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

(b) 2015 includes a non-recurring gain of US\$71 million from business interruption and a non-recurring gain of US\$160 million from property damage insurance compensation related to a fire in one of our subsidiaries' plants.

(c) In 2015, we received non-recurring payments of US\$60 million from business interruption and US\$207 million from property damage insurance compensation, both related to a fire in one of our subsidiaries' plants.

(d) 2015 and 2016 include US\$24 million and US\$165 million, respectively, of expenditures made in connection with the construction of the Bureba facility.

- (8) Adjusted EBITDA has been included solely because we believe that Adjusted EBITDA enhances the understanding of our financial performance. We also believe Adjusted EBITDA is useful because it presents operating results on a basis unaffected by capital structure and taxes. Adjusted EBITDA, however, is not a measure of financial performance under IFRS and should not be considered as an alternative to net consolidated income or operating income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Adjusted EBITDA has material limitations that impair its value as a measure of our overall profitability since it does not address certain ongoing costs of our business that could significantly affect profitability such as financial expenses, income taxes, depreciation and amortization. For the years ended December 31, 2015, 2016 and 2017, we define "Adjusted EBITDA" as operating income after adding back or subtracting, as the case may be, depreciation and amortization and the impairment of fixed and intangible assets. Our calculation of Adjusted EBITDA may not be comparable to other companies' calculations of similarly titled measures. See "Presentation of Financial and Certain Other Information—Non-GAAP Financial Measures." The following table sets forth a reconciliation of Adjusted EBITDA to net profit (loss) for each of the periods presented:

	Year Ended December 31,			
	2015	2016	2017	2017 <sup>(a)</sup>
	(Ps.)	(Ps.)	(Ps.)	(US\$)
	(in millions)			
Operating income <sup>(b)</sup> .....	10,904	8,519	8,591	454
Depreciation and amortization .....	2,829	3,494	3,776	199
Impairment of fixed assets .....	158	177	278	15
Impairment of intangible assets .....	-	184	81	4
Adjusted EBITDA .....	<u>13,891</u>	<u>12,374</u>	<u>12,725</u>	<u>672</u>

(a) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of Ps. 18.9291 per U.S. Dollar, the average of the Official Exchange Rate on each day during the year ended December 31, 2017. These convenience translations should not be

construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See “Exchange Rates.”

(b) In November 2014 there was a fire in one of the Campofrio plants, located in the city of Burgos, Spain. The losses recorded as a consequence of the fire amounted to Ps. 1,858 million, affecting property, plant and equipment, inventory and other costs. These assets were covered by an insurance policy and based on the analysis and confirmations made by our management, it was concluded that such policy covered material damages, loss of benefits resulting from the reduction of revenues and additional costs that we may have incurred to recover sales for a period of twelve months from the date of the fire. During 2014, we recorded income from the insurance reimbursement of Ps. 1,766 million, of which Ps. 1,275 million was collected in cash. During 2015, we received insurance payments of Ps. 2,598 million and during the month of November 2015, the closing of the insurance indemnity was completed in a total amount of Ps. 3,913 million.

**Selected Financial Data for the Years Ended December 31, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017**

The consolidated financial information set forth below:

- (i) for the years ended December 31, 2015, 2016 and 2017 has been derived from our Audited Financial Statements;
- (ii) for the years ended December 31, 2011, 2012, 2013 and 2014 has been derived from our audited annual financial statements prepared in accordance with IFRS that have not been included in this offering memorandum; and
- (iii) for the years ended December 31, 2007, 2008, 2009 and 2010, has been derived from our audited annual financial statements prepared in accordance with Mexican Financial Reporting Standards (“MFRS”) that have not been included in this offering memorandum.

The financial data for the years ended December 31, 2007, 2008, 2009 and 2010, prepared in accordance with MFRS, is not comparable with the financial information for the years ended December 31, 2011, 2012, 2013, 2014, 2015, 2016 and 2017 prepared in accordance with IFRS, and you should use caution when comparing financial information prepared in accordance with MFRS to financial information prepared in accordance with IFRS.

U.S. Dollar amounts are translated, solely for the convenience of the reader, from Mexican Peso amounts using the exchange rates set forth in the table below, which represent the daily average of the Official Exchange Rates on each day during each of the periods presented. These convenience translations should not be construed as representations that the Mexican Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all.

**Furthermore, due to the use of different average exchange rates throughout the periods presented, changes and trends in the financial data presented in U.S. Dollars are different from those presented in Mexican Pesos. For this reason, the financial data in U.S. Dollars for a specified period are not comparable with other periods, and investors should take into account the fluctuations in the U.S. Dollar-Mexican Peso exchange rate when analyzing changes over periods.**

<b>Year</b>	<b>Average <sup>(1)</sup></b>
2007 .....	10.93
2008 .....	11.14
2009 .....	13.51
2010 .....	12.64
2011 .....	12.43
2012 .....	13.17
2013 .....	12.77
2014 .....	13.30
2015 .....	15.85
2016 .....	18.66
2017 .....	18.93

(1) Average exchange rate means the average of the exchange rate on each day during the relevant period.

The following table presents selected financial data for the years ended December 31, 2007, 2008, 2009 and 2010, prepared in accordance with MFRS:

	For the Years Ended December 31,							
	2007		2008		2009		2010	
	(Ps.)	(US\$)	(Ps.)	(US\$)	(Ps.)	(US\$)	(Ps.)	(US\$)
	(in millions)							
Revenues.....	23,082	2,112	26,101	2,343	29,664	2,196	33,091	2,618
Gross profit.....	8,983	822	9,664	867	10,992	814	11,502	910
Adjusted EBITDA <sup>(1)</sup> .....	2,364	216	2,600	233	3,603	267	3,645	288
Free Cash Flow (unaudited) <sup>(2)</sup> .....	(216)	(20)	545	49	2,075	154	1,714	136

- (1) We define “Adjusted EBITDA” for the years ended December 31, 2007, 2008, 2009 and 2010 as operating income after adding back or subtracting, as the case may be, other income (expenses), depreciation and amortization and the impairment of fixed and intangible assets. Our calculation of Adjusted EBITDA may not be comparable to other companies’ calculations of similarly titled measures. See “Presentation of Financial and Certain Other Information—Non-GAAP Financial Measures.”
- (2) We define “Free Cash Flow” as the sum of Adjusted EBITDA, change in working capital, capital expenditures and taxes. Our calculation of Free Cash Flow may not be comparable to other companies’ calculations of similarly titled measures. See “Presentation of Financial and Certain Other Information—Non-GAAP Financial Measures.”

The following table sets forth a reconciliation of Free Cash Flow to Adjusted EBITDA to operating income for each of the periods presented:

	For the Years Ended December 31,							
	2007		2008		2009		2010	
	(Ps.)	(US\$)	(Ps.)	(US\$)	(Ps.)	(US\$)	(Ps.)	(US\$)
	(in millions)							
Operating income .....	1,958	179	2,045	184	2,729	202	2,882	228
Other income (expenses) .....	(317)	(29)	(271)	(24)	(173)	(13)	(279)	(22)
Depreciation and amortization.....	715	65	828	74	976	72	1,017	80
Impairment of fixed and intangible assets .....	8	1	-	-	72	5	25	2
Adjusted EBITDA .....	2,364	216	2,600	233	3,603	267	3,645	288
Change in working capital .....	187	17	(826)	(74)	(214)	(16)	(175)	(14)
Capital expenditures .....	(2,360)	(216)	(742)	(67)	(742)	(55)	(813)	(64)
Taxes .....	(407)	(37)	(487)	(44)	(573)	(42)	(943)	(75)
Free Cash Flow (unaudited).....	(216)	(20)	545	49	2,075	154	1,714	136

The following table presents selected financial data for the years ended December 31, 2011, 2012, 2013, 2014, 2015, 2016 and 2017, prepared in accordance with IFRS:

	For the Years Ended December 31,													
	2011		2012		2013		2014		2015		2016 <sup>(1)</sup>		2017 <sup>(1)</sup>	
	(Ps.)	(US\$)	(Ps.)	(US\$)	(Ps.)	(US\$)	(Ps.)	(US\$)	(Ps.)	(US\$)	(Ps.)	(US\$)	(Ps.)	(US\$)
	(in millions)													
Revenues .....	41,078	3,305	45,476	3,453	48,989	3,836	71,465	5,373	93,568	5,902	106,341	5,700	114,222	6,034
Gross profit.....	13,140	1,058	15,267	1,159	16,358	1,281	21,030	1,581	26,860	1,694	30,971	1,660	31,474	1,663
Adjusted EBITDA <sup>(2)</sup> .....	4,846	390	6,215	472	6,710	525	8,495	639	13,891	876	12,374	663	12,725	672
Free Cash Flow (unaudited) <sup>(3)</sup> .....	3,064	247	3,401	259	3,329	261	6,231	469	7,958	502	8,053	432	6,284	332

- (1) During 2016 and 2017 the Company incurred non-recurring payments related to the Bureba facility of Ps. 1,090 million (US\$58 million) and Ps. 2,484 million (US\$131 million), respectively. If such payments were not taken in consideration, Free Cash Flow for the years ended December 31, 2016 and 2017 would have been Ps. 9,143 million (US\$490 million) and Ps. 8,768 million (US\$463 million), respectively.
- (2) We define “Adjusted EBITDA” for the years ended December 31, 2011, 2012, 2013, 2014, 2015, 2016 and 2017 as operating income after adding back or subtracting, as the case may be, depreciation and amortization and the impairment of fixed and intangible assets. Our calculation of Adjusted EBITDA may not be comparable to other companies’ calculations of similarly titled measures. See “Presentation of Financial and Certain Other Information—Non-GAAP Financial Measures.”
- (3) We define “Free Cash Flow” as the sum of Adjusted EBITDA, change in working capital, capital expenditures and taxes. Our calculation of Free Cash Flow may not be comparable to other companies’ calculations of similarly titled measures. See “Presentation of Financial and Certain Other Information—Non-GAAP Financial Measures.”

The following table sets forth a reconciliation of Free Cash Flow to Adjusted EBITDA to operating income for each of the periods presented:

	For the Years Ended December 31,													
	2011		2012		2013		2014		2015		2016		2017	
	(Ps.)	(US\$)	(Ps.)	(US\$)	(Ps.)	(US\$)	(Ps.)	(US\$)	(Ps.)	(US\$)	(Ps.)	(US\$)	(Ps.)	(US\$)
	(in millions)													
Operating income .....	3,395	273	4,782	363	5,277	413	6,436	484	10,904	688	8,519	457	8,591	454
Depreciation and amortization .....	1,397	112	1,423	108	1,354	106	1,931	145	2,829	179	3,494	187	3,776	199
Impairment of fixed and intangible assets ...	53	4	10	1	79	6	128	10	158	10	361	19	359	19
Adjusted EBITDA .....	4,846	390	6,215	472	6,710	525	8,495	639	13,891	876	12,374	663	12,725	672
Change in working capital .....	195	16	(400)	(30)	(775)	(61)	1,074	81	(1,306)	(82)	2,211	119	(1,677)	(89)
Capital expenditures .....	(931)	(75)	(1,418)	(107)	(1,522)	(119)	(1,871)	(141)	(3,638)	(229)	(6,298)	(338)	3,542	(187)
Taxes .....	(1,046)	(84)	(996)	(76)	(1,083)	(85)	(1,467)	(110)	(989)	(62)	(234)	(13)	(1,223)	(65)
Free Cash Flow (unaudited) .....	3,064	247	3,401	259	3,329	261	6,231	469	7,958	502	8,053	432	6,284	332



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

*You should read this discussion in conjunction with our Annual Audited Financial Statements and the other financial information included elsewhere in this offering memorandum. This section contains forward-looking statements that involve risks and uncertainties. Our actual results may vary materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth in "Risk Factors" and other matters set forth in this offering memorandum. See "Forward-Looking Statements."*

### Overview

The Issuer is a wholly-owned subsidiary of the Parent Guarantor. The Parent Guarantor is a wholly-owned indirect subsidiary of Alfa, one of the largest publicly traded companies in Mexico. The Issuer is incorporated under the laws of the Netherlands and was formed with the sole purpose of issuing the notes.

We are a leading global branded refrigerated food company focused on the development, production, marketing and distribution of quality value-added foods, primarily packaged meats, cheese, yogurt and other refrigerated and frozen foods. We have a diversified portfolio of leading brands, including Campofrío®, Aoste®, Bar-S®, FUD®, San Rafael®, Braedt®, La Villita® and Yoplait®. We operate facilities in 18 countries in four regions: Europe, the United States, Mexico and other Latin American countries. We distribute over 15,000 different products, through more than 100 brands, reaching over 640,000 points of sale (approximately 65,000 in Europe, 57,000 in the United States, 377,000 in Mexico and 145,000 in other Latin American countries) through an extensive refrigerated distribution network. Our company operates with more than 45,000 employees across 70 manufacturing facilities (48 packaged meats plants, 13 dairy product plants, five fresh meat plants, three pre-cooked meal plants and one beverage plant), 208 distribution centers and more than 7,900 vehicles.

We have established leading market positions for our products across Europe, the United States, Mexico and other Latin American countries by developing our brands in every country in which we operate, developing value-added products and adopting consumer-driven innovation processes. According to industry reports and our own market research, our brands are the number one or number two in their respective categories in most of our markets. According to Nielsen Scantrack ("Nielsen"), we were the largest packaged meats producer in both Europe and Mexico in 2017, and our brands Campofrío® in Spain and FUD® in Mexico had the highest revenue across all brands in their respective categories and countries. According to industry specialists, Campofrío® and FUD® are the most recognized packaged meats brands in Spain and Mexico, respectively. In the United States, Bar-S® has been the number one selling frank (hot dog) brand by volume for thirteen consecutive years, according to Nielsen, and was the second largest packaged meat brand by volume in 2017.

We believe we have one of the largest refrigerated distribution networks in the industry, reaching consumers through a number of different distribution channels, including modern retail (supermarkets, hypermarkets and convenience stores), traditional retail (mom & pop shops and wholesalers), exports and foodservice (hotels, restaurants, movie theaters and others). We do not depend significantly on any single client; our top 40 customers represented only 35.5% of our total revenues in 2017 while our largest single customer represented 9.2%. We have long-term relationships with our main customers in Europe, the United States, Mexico and other Latin American countries. We have a global raw material supplier network that we utilize to capture economies of scale across our geographies and to maintain a diversified supplier base. Furthermore, we do not depend on any single supplier; our top 10 suppliers represented less than 17.8% of our total raw material purchases in 2017 while our largest single supplier represented approximately 2%.

Since Alfa acquired Sigma in 1980, we have rapidly expanded in size and geography, through organic growth as well as through strategic acquisitions. We have also forged alliances with leading brands such as Oscar Mayer®, Yoplait®, Philadelphia®, Hershey's® and McCormick Grill Mates® to distribute their products in certain markets and regions where we operate. We reported revenues of Ps. 114,222 million (US\$6,034 million), Adjusted EBITDA of Ps. 12,725 million (US\$672 million) and net consolidated income of Ps. 2,074 million (US\$110 million) in 2017. In addition, from 2013 to 2017, our revenues and Adjusted EBITDA have grown at a CAGR of 23.6% and 17.4% (measured in Pesos) and 12.0% and 6.3% (measured in Dollars), respectively. We have been able to maximize our value creation through the realization of synergies arising from the integration of our acquisitions, improved market

position in attractive markets and the generation of strong cash flows on a sustained basis. Economic Environment and other Macroeconomic Factors

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

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

### **Burgos Incident – Non-Recurrent Proceeds from Insurance and the New La Bureba Plant**

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

In October 2015, a final settlement was reached with our insurers resulting in a total indemnity of €313 million (US\$355 million), of which €241 million (US\$267 million) was paid in 2015 and €72 million (US\$88 million) was paid in 2014. This total compensation is divided into fixed asset damages, inventory damages and business interruption.

On November 23, 2016, we began operations in a new state-of-the-art plant located in Burgos, Spain, replacing the one destroyed by the fire in late 2014. With a total investment of €213 million (US\$233 million) made as of December 31, 2017, this plant has annual production capacity of 100,000 metric tons of cooked and cured meats and is equipped with the latest technology, making its operations more efficient, safe and environmentally friendly. The new facility achieved its full capacity during the fourth quarter of 2017.

### **Factors Affecting Our Results of Operations**

#### ***Revenues***

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

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

- our ability to develop new products and product characteristics that meet consumers' changing needs and preferences.

The principal factors affecting the pricing of our products include:

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

### ***Cost of Sales***

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

- raw material prices, particularly for pork and poultry, which are closely related to the cost of grains, such as corn, that comprise the majority of the cost of raising such animals, as well as for fluid and dry milk;
- changes in the price of imported raw materials, due to changes in the exchange rate of the currencies of the countries in which we conduct our business;
- sales volumes;
- our product mix;
- our ability to streamline or create efficiencies in our production processes;
- energy costs; and
- investments in PP&E (CapEx).

### ***Gross Profit***

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

### ***Selling and Administrative Expenses***

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

### ***Financial Cost, Net***

The components of financial cost, net are comprised of:

- financial expense, including fixed and variable interest expense, which is primarily a function of the principal amount of debt outstanding and the interest rates in effect;
- financial income, which includes interest income earned on cash and cash equivalents;

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

We have in the past used derivative financial instruments to manage the risk profile associated with interest rates and currency exposure, reduce financing costs and hedge some of our commodity and financial market risks. We did not have any derivative financial instruments outstanding for the years ended December 31, 2015, 2016 and 2017. In order to mitigate foreign currency risk, we may hedge a portion of the foreign exchange exposure associated with the U.S. dollar-denominated notes offered hereby or other debt.

Our internal policy is not to enter into derivative financial instruments for speculative purposes; however, we may enter into derivative financial instruments as an economic hedge against certain business risks, even if these instruments do not qualify for hedge accounting under IFRS. In addition, we may be required to record fair value losses in the future that could be material. The mark-to-market accounting for derivative financial instruments is reflected in our statement of income and may result in volatility in our earnings. In addition, we may incur losses in the future in connection with our derivative financial instruments transactions, which could have a material adverse effect on our financial condition and results of operations. See “—Quantitative and Qualitative Disclosures about Market Risk—Derivative Financial Instruments.”

### ***Effect of Acquisitions, Capacity Expansion and Production Efficiencies***

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

In July 2015, we entered into a strategic alliance with Kinesis Food Service, S.A. de C.V. for the administration of Pacsa, a company engaged in the distribution of meat and dairy products in the foodservice market, mainly in the southeast part of Mexico.

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

In February 2016, we acquired RJ Trading, S.A. de C.V. (“RJ Trading”) a company engaged in the distribution of various products in the foodservice market, which we expect to enhance our foodservice business in North America.

In July 2017, we acquired Sociedad Suizo Peruana de Embutidos, S.A., a company engaged in the production of packaged meats and other meat products sold under the Otto Kunz® and La Segoviana® brands in Peru. The company is based in Chancay, Peru, where it has operated for more than 25 years.

On September 1, 2017, we acquired 51% of the shares of Caroli Foods Group, B.V., a company engaged in the production, marketing and distribution of packaged meats and prepared meals sold under the Caroli®, Sissi®, and Primo® brands in Romania. The company is based in Pitesti, Romania, and has more than 23 years of successful operations. Sigma already owned 49% of the shares of this company, and with this transaction we now own 100% of the shares of Caroli Foods Group, B.V.

### ***Foreign Currency Exchange Rate Fluctuations***

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

### ***Change in Functional Currency***

The amounts included in the financial statements of each of our subsidiaries should be measured using the currency of the primary economic environment in which each such entity operates (“the functional currency”).

As of July 1, 2015, we concluded that the most adequate functional currency for the Parent Guarantor was the U.S. Dollar based on the economic environment where the Parent Guarantor generates and uses cash. This is due primarily to the fact that revenues from dividends and revenues from brand use are collected in U.S. Dollars. The previous functional currency was the Mexican Peso and in accordance with the International Accounting Standard 21 “Effects of changes in foreign exchange rates” (“IAS 21”), the changes are made prospectively. At the date of the change in the functional currency, all assets, liabilities, capital and income statement items were translated into U.S. Dollars at the exchange rate at that date.

### ***Limited Seasonality***

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

### ***Key Drivers of Profitability***

The key drivers of our profitability include:

- ***Our ability to respond to economic conditions in our markets.*** In periods of recession when GDP declines in any or all of our markets, consumers may switch to lower-cost products. In order to maintain our profitability, we must continue to offer our broad portfolio of brands across the diverse consumer base we serve and appropriately target the production of our goods to shifting socioeconomic segments. In periods of economic growth, consumers are more willing to purchase premium or higher-end branded products and our challenge in such periods is to encourage consumers, through marketing and other initiatives, to switch to those products. Our broad product portfolio across consumer segments allows us to maintain our profitability despite shifting consumer trends and difficult economic situations.
- ***Our ability to maintain healthy profit margins in the event of commodity price volatility and FX fluctuations.*** Our technical production and reformulation expertise is a key component of our financial performance, as it allows us to rapidly react to changes in raw material prices and thereby effectively control our variable costs. This, together with our leading diversified brand portfolio across consumer segments, allows us to preserve our margins during periods of raw material price increases, exchange rate fluctuations and challenging economic cycles.
- ***Our ability to understand and attend to consumer needs through innovation.*** We believe that enlarging our sales volume is critical for leveraging our global scale and enhancing our profitability and therefore we must continue to innovate through the introduction of new products in attractive categories. By focusing our research and development activities on tailoring our products to the preferences and needs of consumers, we believe that we will increase sales volumes and improve profitability.
- ***Our ability to integrate acquisitions.*** Our expertise in carrying out M&A and post-merger integration in different markets has enabled us to successfully execute and integrate a number of acquisitions. Our due

diligence and post-merger integration process helps us identify and execute value generating strategies that result in significant synergies and efficiencies.

- ***Our ability to achieve efficiencies and economies of scale.*** The ability to grow our sales volume while maintaining our current cost structure is essential in order to achieve profitable results. In order to increase our productivity, we need to efficiently use our production and distribution facilities and control variable costs and expenses. In addition, within fixed costs and expenses we need to achieve economies of scale as we intend to increase our sales volumes without using proportionately more resources.

### **Critical Accounting Policies**

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

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

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

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

### ***Estimated impairment of goodwill 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. 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.

### ***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. Based on the projections of income and fiscal profits that the Company will generate in the following years through a structured and robust business plan, management has considered that the current fiscal losses will be used before they expire and for this reason it has been considered appropriate to recognize a deferred tax asset for such losses.

### ***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, unless its fair value is higher.

### **Changes in Accounting Policies and Disclosures**

A number of new accounting standards, amendments and interpretations have been published, some of which are effective for the reporting period ended December 31, 2017.

#### ***New standards and changes adopted by the Company***

The Company adopted all new standards and interpretations in effect as of January 1, 2017, including the annual improvements to IFRS; which had no significant effects on the Company's consolidated financial statements.

#### ***New standards and interpretations yet to be adopted by the Company***

Additionally, we have not applied in advance the following new and revised IFRS amendments, clarifications and interpretations to IFRS that were issued but are not yet effective as of December 31, 2017:

#### ***IFRS 9, Financial Instruments***

IFRS 9, *Financial Instruments* is mandatorily effective for periods beginning on or after January 1, 2018 and introduces a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or fair value through other comprehensive income (FVTOCI), lease receivables, contract assets and certain written loan commitments and financial guarantee contracts.

In regards of the expected loss impairment model, the initial adoption requirement of IFRS 9 is retrospective and establishes as an option to adopt it without modifying the financial statements of previous years by recognizing the initial effect on retained earnings at the date of adoption. In case of hedge accounting, IFRS 9 allows application with a prospective approach.

We did not have a material impact associated with the new measurement category of FVTOCI as we do not currently hold any instruments that qualify for this treatment; however, potential impacts could arise should we change our investment strategy in the future.

Lastly, regarding the new expected loss impairment model, the Company's management decided to adopt the standard retrospectively recognizing the effects on retained earnings as of January 1, 2018 and has determined the

impacts on its consolidated financial position are not material as of that date. The Company has estimated that the effects it will have on its results from operations are not significant.

### ***IFRS 15, Revenue from Contracts with Customers***

IFRS 15, *Revenues from contracts with customers*, was issued in May 2014 and is effective for periods beginning January 1, 2018, although early adoption is permitted. Under this standard, revenue recognition is based on the transfer of control, i.e. notion of control is used to determine when a good or service is transferred to the customer.

The standard also presents a single comprehensive model for the accounting for revenues from contracts with customers and replaces the most recent revenue recognition guidance, including the specific orientation of the industry. This comprehensive model introduces a five-step approach for revenue recognition: (1) identifying the contract; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when the Company satisfies a performance obligation. Furthermore, the amount of disclosures required in the financial statements, both annual and interim, is increased.

Management of the Company has evaluated the requirements of this new IFRS and has chosen to adopt it using the modified retrospective method applied to the contracts in force on the date of initial adoption of January 1, 2018. Based on its analysis, management of the Company does not anticipate impacts on the date of initial adoption of IFRS 15, nor significant changes in its revenue recognition policies, beyond the fact that the new IFRS requires a higher level of disclosures of contracts with customers.

### ***IFRS 16, Leases***

IFRS 16, *Leases*, supersedes IAS 17, *Leases*, and its related interpretations. This new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. IFRS 16 is effective for periods beginning on or after January 1, 2019.

Under IFRS 16, lessees will recognize the right-of-use of an asset and the corresponding lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. On the other hand, the financial liability will be measured at the initial recognition, in a similar way as required by IAS 17, and subsequently, it should be evaluated if a remeasurement is required, based on contractual modifications of the minimum lease payments.

Additionally, IFRS 16 establishes as exception to these requirements the leases with a term of 12 months or less and containing no purchase options, as well as for leases where the leased asset is low-valued, such as personal computers or small office furniture items.

Management has determined that IFRS 16 could have an impact on the accounting of its existing operating leases. As of December 31, 2017, the Company has non-cancellable operating lease commitments as follows:

	<b>As of December 31, 2017</b>
	<i>(In thousands of Ps)</i>
2018	\$ 580,525
2019	166,144
2020	145,989
2021	118,806
2022 and after	280,019
	<u>\$ 1,291,483</u>

However, it has not determined yet to what extent these commitments will result in the recognition of an asset or liability for future payments, and how this will affect the Company's capital structure, its results and cash flows. The Company will be applying a modified retrospective transition as of January 1, 2019, which implies that any transition impact will be recognized directly in stockholders' equity as of such date.



### ***IFRIC 22, Interpretation on Foreign Currency Transactions and Advance Consideration***

This new Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation is being issued to reduce diversity in practice related to the exchange rate used when an entity reports transactions that are denominated in a foreign currency in accordance with IAS 21 in circumstances in which consideration is received or paid before the related asset, expense, or income is recognized. Effective for annual reporting periods beginning after January 1, 2018 with earlier application permitted.

We translate advance considerations at the exchange rate on the date of the transaction, either received or paid, and recognize them as non-monetary items; therefore, we do not expect significant impacts in the adoption of this interpretation in our consolidated financial statements.

### ***IFRIC 23, Uncertainty over Income Tax Treatments***

This new Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 Income taxes when there is uncertainty over income tax treatments. Uncertain tax treatments is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

An entity shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted and the fact must be disclosed. On initial application, the Interpretation must be applied retrospectively under the requirements of IAS 8 or retrospectively with the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings.

The Company is evaluating and determining the potential impacts of the adoption of these standards and related modifications in its consolidated financial statements.

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

## **Results of Operations**

### ***Results of Operations for the Year Ended December 31, 2017 compared to the Year Ended December 31, 2016***

The following financial information has been derived from our Annual Audited Financial Statements appearing elsewhere in this offering memorandum.

	For the Year Ended December 31,				Percentage Change 2017 vs. 2016
	2016	Percent of Revenues	2017	Percent of Revenues	
		(in millions of Pesos, except percentages)			
Revenues.....	106,341	100.0%	114,222	100.0%	7.4%
Cost of sales.....	(75,370)	(70.9)	(82,748)	(72.4)	9.8
Gross profit.....	30,971	29.1	31,474	27.6	1.6
Selling expenses.....	(17,398)	(16.4)	(18,266)	(16.0)	5.0
Administrative expenses.....	(4,579)	(4.3)	(4,781)	(4.2)	4.4
Other expenses, net.....	(476)	(0.4)	164	0.1	(134.5)
Operating income .....	8,519	8.0	8,591	7.5	0.8
Financial income .....	133	0.1	297	0.3	123.3
Financial expenses .....	(2,393)	(2.3)	(3,047)	(2.7)	27.3
Gain due to exchange fluctuation.....	1,938	1.8	2,658	2.3	37.2
Loss due to exchange fluctuation.....	(2,434)	(2.3)	(4,297)	(3.8)	76.5
Financial cost, net .....	(2,757)	(2.6)	(4,389)	(3.8)	59.2
Equity in income of associates recognized using the equity method .....	50	0.0	16	0.0	(68.0)
Income before taxes .....	5,812	5.5	4,218	3.7	(27.4)

Income taxes .....	(860)	(0.8)	(2,144)	(1.9)	149.3
Net consolidated income .....	4,953	4.7	2,074	1.8	(58.1)
Adjusted EBITDA .....	12,374	11.6%	12,725	11.1%	2.8%

- (1) For a definition of Adjusted EBITDA, see “Presentation of Financial and Certain Other Information—Non-GAAP Financial Measures.”

The following table provides a breakdown of revenues by product line for 2016 and 2017:

	For the Year Ended December 31,				Percentage Change
	2016	Percent of Revenues	2017	Percent of Revenues	2017 vs. 2016
	(in millions of Pesos, except percentages)				
<u>Product lines:</u>					
Packaged meats.....	82,109	77.2%	88,018	77.1%	7.2%
Dairy products .....	19,235	18.1	20,965	18.4	9.0
Other products.....	4,997	4.7	5,239	4.6	4.8
Total .....	106,341	100.0%	114,222	100.0%	7.4%

The following table provides a breakdown of revenues by geographic region for 2016 and 2017:

	For the Year Ended December 31,				Percentage Change
	2016	Percent of Revenues	2017	Percent of Revenues	2017 vs. 2016
	(in millions of Pesos, except percentages)				
<u>Geographic region:</u>					
Europe .....	40,002	37.6%	40,456	35.4%	1.1%
United States .....	15,308	14.4	18,257	16.0	19.3
Mexico .....	43,433	40.8	47,079	41.2	8.4
Latin America .....	7,598	7.1	8,429	7.4	10.9
Total .....	106,341	100.0%	114,222	100.0%	7.4%

#### Revenues by Product Line

*Revenues of packaged meats* for the year ended December 31, 2017 were Ps. 88,018 million, an increase of 7.2% from the Ps. 82,109 million reported in 2016. This increase was primarily due to higher sales volume and higher average prices across all regions.

*Revenues of dairy products* for the year ended December 31, 2017 were Ps. 20,965 million, an increase of 9.0% from the Ps. 19,235 million reported in 2016. This increase was primarily due to higher sales volume and higher average prices in Mexico.

*Revenues of other products* for the year ended December 31, 2017 were Ps. 5,239 million, an increase of 4.8% from the Ps. 4,997 million reported in 2016. This increase was primarily due to the expansion of the foodservice business, which offers a broad portfolio of products.

#### Revenues by Geographic Region

*Revenues in Europe* for the year ended December 31, 2017 were Ps. 40,456 million, an increase of 1.1% from the Ps. 40,002 million reported in 2016. This increase was primarily due to higher revenues when converted into Pesos as a result of a Peso depreciation against the Euro. Results for the year ended December 31, 2017 exclude the results of Campofrío in the United States, which were previously included in this region.

*Revenues in the United States* for the year ended December 31, 2017 were Ps. 18,257 million, an increase of 19.3% from the Ps. 15,308 million reported in 2016. This increase was primarily due to the inclusion of the results of Campofrío operations in the United States for the year ended December 31, 2017 and higher revenues in the region.

*Revenues in Mexico* for the year ended December 31, 2017 were Ps. 47,079 million, an increase of 8.4% from the Ps. 43,433 million reported in 2016. This increase was primarily due to increases in sales volume from our principal product lines and higher average prices.

*Revenues in Latin America* for the year ended December 31, 2017 were Ps. 8,429 million, an increase of 10.9% from the Ps. 7,598 million reported in 2016. This increase was primarily due to increases in sales volume and higher average prices.

### *Consolidated Results*

*Revenues* for the year ended December 31, 2017 were Ps. 114,222 million, an increase of 7.4% from the Ps. 106,341 million reported in 2016. This increase was primarily due to higher revenues across all regions and the conversion effect of the European and U.S. revenues when converted into Pesos as a result of the Peso depreciation against the Euro and the U.S. Dollar. As a percentage of total sales, sales in Europe accounted for 35.4%, sales in the United States accounted for 16.0%, sales in Mexico accounted for 41.2% and sales in Latin America accounted for 7.4%.

*Cost of sales* for the year ended December 31, 2017 was Ps. 82,748 million, an increase of 9.8% from the Ps. 75,370 million reported in 2016. This increase was primarily driven by higher prices of raw materials when expressed in Peso terms as a result of the Peso depreciation against the Euro and the U.S. Dollar.

*Gross profit*, defined as the difference between revenues and cost of sales, for the year ended December 31, 2017 was Ps. 31,474 million, an increase of 1.6% from the Ps. 30,971 million reported in 2016. This increase was primarily due to the factors discussed above.

*Selling and administrative expenses* for the year ended December 31, 2017 were Ps. 23,047 million, an increase of 4.9% from the Ps. 21,977 million reported in 2016. This increase was primarily due to the Peso depreciation against the Euro and the U.S. Dollar.

*Other income (expenses), net* for the year ended December 31, 2017 was an income of Ps. 164 million, compared to an expense of Ps. 476 million in 2016. The difference was primarily due to an extraordinary gain due to the acquisition of Caroli in Romania in 2017.

*Operating income* for the year ended December 31, 2017 was Ps. 8,591 million, an increase of 0.8% from the Ps. 8,519 million reported in 2016. This increase was primarily due to the factors discussed above.

*Financial cost, net* for the year ended December 31, 2017 was an expense of Ps. 4,389 million, an increase of 59.2% from the expense of Ps. 2,757 million reported in 2016. This increase was primarily due to foreign exchange losses on our debt in Euros due to the appreciation of the Euro against the U.S. Dollar, from December 31, 2016 to December 31, 2017, as our functional currency is Dollars.

*Income taxes* for the year ended December 31, 2017 was a tax expense of Ps. 2,144 million, an increase of 149.3% from the tax expense of Ps. 860 million reported in 2016. This increase was primarily due to foreign exchange rate losses during 2016, due to the depreciation of the Peso against the U.S. Dollar, which reduced taxable income in 2016.

*Net consolidated income* for the year ended December 31, 2017 was Ps. 2,074 million, compared to the net consolidated income of Ps. 4,953 million reported for the same period in 2016. This change was primarily due to the factors discussed above.

## Results of Operations for the Year Ended December 31, 2016 compared to the Year Ended December 31, 2015

The following financial information has been derived from our Annual Audited Financial Statements appearing elsewhere in this offering memorandum.

	For the Year Ended December 31,				Percentage Change
	2015	Percent of Revenues	2016	Percent of Revenues	2016 vs. 2015
	(in millions of Pesos, except percentages)				
Revenues.....	93,568	100.0%	106,341	100.0%	13.7%
Cost of sales.....	(66,708)	(71.3)	(75,370)	(70.9)	13.0
Gross profit.....	26,860	28.7	30,971	29.1	15.3
Selling expenses.....	(15,330)	(16.4)	(17,398)	(16.4)	13.5
Administrative expenses.....	(4,132)	(4.4)	(4,579)	(4.3)	10.8
Other expenses, net.....	3,506	3.7	(476)	(0.4)	(113.6)
Operating income .....	10,904	11.7	8,519	8.0	(21.9)
Financial income .....	93	0.1	133	0.1	43.0
Financial expenses .....	(1,716)	(1.8)	(2,393)	(2.3)	39.5
Gain due to exchange fluctuation.....	808	0.9	1,938	1.8	139.9
Loss due to exchange fluctuation.....	(1,791)	(1.9)	(2,434)	(2.3)	35.9
Financial cost, net .....	(2,606)	(2.8)	(2,757)	(2.6)	5.8
Equity in income of associates recognized using the equity method .....	(401)	(0.4)	50	0.0	(112.5)
Income before taxes .....	7,896	8.4	5,812	5.5	(26.4)
Income taxes .....	(1,586)	(1.7)	(860)	(0.8)	(45.8)
Net consolidated income .....	6,310	6.7	4,953	4.7	(21.5)
Adjusted EBITDA .....	13,891	14.8%	12,374	11.6%	(10.9%)

- (1) For a definition of Adjusted EBITDA, see “Presentation of Financial and Certain Other Information—Non-GAAP Financial Measures.”

The following table provides a breakdown of revenues by product line for 2015 and 2016:

	For the Year Ended December 31,				Percentage Change
	2015	Percent of Revenues	2016	Percent of Revenues	2016 vs. 2015
	(in millions of Pesos, except percentages)				
<u>Product lines:</u>					
Packaged meats.....	72,807	77.8%	82,109	77.2%	12.8%
Dairy products .....	16,927	18.1	19,235	18.1	13.6
Other products.....	3,834	4.1	4,997	4.7	30.3
Total.....	93,568	100.0%	106,341	100.0%	13.7%

The following table provides a breakdown of revenues by geographic region for 2015 and 2016:

	For the Year Ended December 31,				Percentage Change
	2015	Percent of Revenues	2016	Percent of Revenues	2016 vs. 2015
	(in millions of Pesos, except percentages)				
<u>Geographic region:</u>					
Europe .....	33,892	36.2%	40,002	37.6%	18.0%
United States .....	13,697	14.6	15,308	14.4	11.8
Mexico .....	39,915	42.7	43,433	40.8	8.8
Latin America.....	6,064	6.5	7,598	7.1	25.3
Total.....	93,568	100.0%	106,341	100.0%	13.7%

### *Revenues by Product Line*

*Revenues of packaged meats* for the year ended December 31, 2016 were Ps. 82,109 million, an increase of 12.8% from the Ps. 72,807 million reported in 2015. This increase was primarily due to higher average prices in Mexico and higher revenues from U.S. and European operations when converted into Pesos as a result of a Peso depreciation against the U.S. Dollar and the Euro.

*Revenues of dairy products* for the year ended December 31, 2016 were Ps. 19,235 million, an increase of 13.6% from the Ps. 16,927 million reported in 2015. This increase was primarily due to higher sales volume.

*Revenues of other products* for the year ended December 31, 2016 were Ps. 4,997 million, an increase of 30.3% from the Ps. 3,834 million reported in 2015. This increase was primarily due to the expansion of the foodservice business, which offers a broad portfolio of products.

### *Revenues by Geographic Region*

*Revenues in Europe* for the year ended December 31, 2016 were Ps. 40,002 million, an increase of 18.0% from the Ps. 33,892 million reported in 2015. This increase was primarily due to higher revenues when converted into Pesos as a result of a Peso depreciation against the Euro.

*Revenues in the United States* for the year ended December 31, 2016 were Ps. 15,308 million, an increase of 11.8% from the Ps. 13,697 million reported in 2015. This increase was primarily due to higher revenues when converted into Pesos as a result of a Peso depreciation against the U.S. Dollar.

*Revenues in Mexico* for the year ended December 31, 2016 were Ps. 43,433 million, an increase of 8.8% from the Ps. 39,915 million reported in 2015. This increase was primarily due to increases in sales volume of our principal product lines and higher average prices.

*Revenues in Latin America* for the year ended December 31, 2016 were Ps. 7,598 million, an increase of 25.3% from the Ps. 6,064 million reported in 2015. This increase was primarily due to increases in sales volume.

### *Consolidated Results*

*Revenues* for the year ended December 31, 2016 were Ps. 106,341 million, an increase of 13.7% from the Ps. 93,568 million reported in 2015. This increase was primarily due to higher average prices and higher revenues from U.S. and European operations when converted into Pesos as a result of a Peso depreciation against the U.S. Dollar and the Euro.

*Cost of sales* for the year ended December 31, 2016 was Ps. 75,370 million, an increase of 13.0% from the Ps. 66,708 million reported in 2015. This increase was primarily driven by higher prices of raw materials when expressed in Peso terms as a result of the Peso depreciation against the Dollar and the Euro.

*Gross profit*, defined as the difference between revenues and cost of sales, for the year ended December 31, 2016 was Ps. 30,971 million, an increase of 15.3% from the Ps. 26,860 million reported in 2015. This increase was primarily due to the factors discussed above.

*Selling and administrative expenses* for the year ended December 31, 2016 were Ps. 21,977 million, an increase of 12.9% from the Ps. 19,462 million reported in 2015. This increase was primarily due to the effect of the exchange rate in operations outside Mexico.

*Other income (expenses), net* for the year ended December 31, 2016 was an expense of Ps. 476 million, compared to an income of Ps. 3,506 million in 2015. The difference was primarily due to insurance proceeds received in 2015 in connection with the fire at the La Bureba facility.

*Operating income* for the year ended December 31, 2016 was Ps. 8,519 million, a decrease of 21.9% from the Ps. 10,904 million reported in 2015. This decrease was due to the change in the other income (expenses), net account as a result of the insurance proceeds we received in 2015 in connection with the fire at the La Bureba facility.

*Financial cost, net* for the year ended December 31, 2016 was an expense of Ps. 2,757 million, an increase of 5.8% from the expense of Ps. 2,606 million reported in 2015. This increase was primarily due to higher interest expenses given higher average interest rates, offset in part by a lower foreign exchange loss, net, due to the change in functional currency effective in the third quarter of 2015.

*Income taxes* for the year ended December 31, 2016 was a tax expense of Ps. 860 million, a decrease of 45.8% from the tax expense of Ps. 1,586 million reported in 2015. This decrease was mainly due to a decrease in taxable income primarily caused by foreign exchange effects.

*Net consolidated income* for the year ended December 31, 2016 was Ps. 4,953 million, a decrease of 21.5% from the Ps. 6,310 million reported in 2015, primarily due to the factors discussed above.

## **Liquidity and Capital Resources**

### **Overview**

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

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

### **Liquidity**

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

The following table summarizes the cash flows from operating, investing and financing activities for the years ended December 31, 2015, 2016 and 2017.

	<b>For the Year Ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<b>(in millions of Pesos)</b>		
Net cash generated from operating activities .....	11,773	14,578	9,334
Net cash used in investing activities .....	(4,928)	(6,156)	(4,899)
Net cash used in financing activities .....	(3,651)	(5,270)	(3,833)
Cash and cash equivalents at period end .....	8,448	12,838	12,807

### **Operating Activities**

In the year ended December 31, 2017, net cash generated from operating activities were Ps. 9,334 million, primarily attributable to the net consolidated income and changes in working capital for the period.

In the year ended December 31, 2016, net cash generated from operating activities were Ps. 14,578 million, primarily attributable to the net consolidated income and changes in working capital for the period.

In the year ended December 31, 2015, net cash generated from operating activities were Ps. 11,773 million, primarily attributable to the net consolidated income for the period and a change in working capital.

### ***Investing Activities***

In the year ended December 31, 2017, net cash used in investing activities were Ps. 4,899 million, primarily attributable to investments in the new plant located in Burgos, Spain.

In the year ended December 31, 2016, net cash used in investing activities were Ps. 6,156 million, primarily attributable to the construction of our new plant located in Burgos, Spain.

In the year ended December 31, 2015, net cash used in investing activities were Ps. 4,928 million, primarily attributable to the acquisition of the remaining shares of Campofrio.

### ***Financing Activities***

In the year ended December 31, 2017, net cash used in financing activities were Ps. 3,833 million, primarily attributable to the payment of loans and other debt and interest paid.

In the year ended December 31, 2016, net cash used in financing activities were Ps. 5,270 million, primarily attributable to the payment of loans and other debt and interest paid.

In the year ended December 31, 2015, net cash used in financing activities were Ps. 3,651 million, primarily attributable to the payment of loans and other debt and interest paid.

In the three months ending March 31, 2018, we paid dividends of Ps. 1,398. In the years ended December 31, 2015, 2016 and 2017 we paid dividends of Ps. 1,080 million, Ps. 1,713 million and Ps. 2,978 million respectively.

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

### ***Indebtedness***

As of December 31, 2017, we had gross debt of Ps. 50,100 million (US\$2,539 million) with an average maturity of 6.1 years and an average interest rate of 3.97% (such amount does not include finance lease agreements of Ps. 133 million (US\$7 million)). As of December 31, 2017, we had total indebtedness (which also includes interest payable, issuance cost and amounts under finance lease agreements) of Ps. 50,409 million (US\$2,554 million), of which Ps. 1,804 million (US\$91 million) was denominated in Pesos (including UDIs), Ps. 24,589 million (US\$1,246 million) was denominated in U.S. Dollars, Ps. 24,001 million (US\$1,216 million) was denominated in Euros, and Ps. 15 million (US\$1 million) was denominated in other currencies. The primary use of our debt has been to fund acquisitions and capital expenditures.

As of December 31, 2017, of our total indebtedness, Ps. 2,380 million (US\$121 million) constituted short-term debt, including interest payable of Ps. 643 million (US\$33 million), and Ps. 48,030 million (US\$2,434 million) constituted long-term debt, including debt issuance costs of Ps. 360 million (US\$18 million).

The following description summarizes material terms of certain of our credit arrangements, including a description of certain covenants contained in such credit arrangements. We are currently in compliance with these covenants. The following description is only a summary and does not purport to describe all of the terms of the credit arrangements that may be important.

### ***Committed Credit Lines***

In December 2017, we entered into a revolving credit agreement with Sumitomo Mitsui Banking Corporation for an amount of US\$100 million for general corporate purposes. This credit line expires on December 22, 2020. This line can be borrowed in U.S. Dollars at the Libor rate plus an applicable margin. Such revolving credit agreement contains maintenance covenants that require us to maintain certain financial ratios. The failure to comply with such covenants, if not cured within a certain specified time period, could lead to the loan then outstanding becoming immediately due and payable.

In October 2015, we entered into a revolving credit agreement with Banco Inbursa, S.A., Institución de Banca Múltiple, Grupo Financiero Inbursa for an amount of US\$100 million for working capital and other requirements. This credit line expires in October 2020. This line can be borrowed either in Mexican Peso or U.S. Dollars at the TIE Rate or the Libor rate plus an applicable margin according to the market. Such revolving credit agreement contains maintenance covenants that require us to maintain certain financial ratios. The failure to comply with such covenants, if not cured within a certain specified time period, could lead to the loan then outstanding becoming immediately due and payable.

Campofrío has entered into revolving credit agreements with a number of lenders for a total amount of €92 million. These credit lines have a weighted average maturity of eight months and a weighted average commitment fee of 0.12%. These facilities are denominated in Euros.

As of December 31, 2017, we did not have any outstanding amounts under any of our committed credit lines.

### ***2018 Mexican Bonds (Certificados Bursátiles)***

In July 2008, we issued two tranches of local bonds under the local bonds program (the “2018 Mexican Bonds”). The first tranche consisted of local bonds of Ps. 1,000 million aggregate principal amount bearing interest at a 10.25% fixed rate. The second tranche consisted of local bonds of 124 million UDIs (equivalent, at the time to approximately Ps. 500 million) bearing interest at a 5.32% fixed rate per year. Both tranches will mature on July 12, 2018. The outstanding balance of the 2018 Mexican Bonds as of December 31, 2017 was Ps. 1,737 million (US\$88 million), of which Ps. 1,000 million (US\$51 million) corresponds to the first tranche and Ps. 737 million (US\$37 million) to the second tranche.

Our obligations under the 2018 Mexican Bonds are guaranteed by Sigma Alimentos Corporativo, S.A. de C.V., Sigma Alimentos Centro, S.A. de C.V., Sigma Alimentos Comercial, S.A. de C.V., Sigma Alimentos Lácteos, S.A. de C.V., Comercializadora de Embutidos ICO, S.A. de C.V., Alimentos Finos de Occidente, S.A. de C.V., Carnes Selectas Tangamanga, S.A. de C.V., Sigma Alimentos Congelados, S.A. de C.V., Sigma Alimentos Noreste, S.A. de C.V., Empacadora de Embutidos del Centro, S.A. de C.V., Grupo Chen, S. de R.L. de C.V., Sigma Alimentos Exterior, S.L., Sigma Processed Meats, LLC, Sigma Foods, LLC, Mexican Cheese Producers, Inc. and Bar-S Foods Co.

### ***International Notes***

#### ***Sigma 2019 International Notes***

In December 2009, we issued notes in the international capital markets in an offering exempt from registration in the United States (the “Sigma 2019 International Notes”) in an aggregate principal amount of US\$250 million. The Sigma 2019 International Notes bear interest at a fixed rate of 6.875% per annum, which is payable on June 16 and December 16 of each year. The Sigma 2019 International Notes mature and are payable in full on December 16, 2019. The outstanding balance of the Sigma 2019 International Notes as of December 31, 2017 was US\$250 million.

The Sigma 2019 International Notes contain certain restrictive covenants which, among other things, limit our and our subsidiaries’ ability to:

- effect a consolidation, merger or sale of our assets;



- create liens on assets; and
- enter into sale and leaseback transactions.

Our obligations under the Sigma 2019 International Notes are guaranteed by Sigma Alimentos Corporativo, S.A. de C.V., Sigma Alimentos Centro, S.A. de C.V., Sigma Alimentos Comercial, S.A. de C.V., Sigma Alimentos Lácteos, S.A. de C.V., Comercializadora de Embutidos ICO, S.A. de C.V., Alimentos Finos de Occidente, S.A. de C.V., Carnes Selectas Tangamanga, S.A. de C.V., Sigma Alimentos Congelados, S.A. de C.V., Sigma Alimentos Noreste, S.A. de C.V., Empacadora de Embutidos del Centro, S.A. de C.V., Grupo Chen, S. de R.L. de C.V., Sigma Alimentos Exterior, S.L., Sigma Processed Meats, LLC, Sigma Foods, LLC, Mexican Cheese Producers, Inc. and Bar-S Foods Co.

### ***Campofrío 2022 Notes***

In March 2015, Campofrío issued notes in the international capital markets (the “Campofrío 2022 Notes”) in an aggregate principal amount of €500 million. The Campofrío 2022 Notes bear interest at a fixed rate of 3.375% per annum, which is payable on March 15 and September 15 of each year. The Campofrío 2022 Notes mature and are payable in full on March 15, 2022. The outstanding balance of the Campofrío 2022 Notes as of December 31, 2017 was €400 million.

The Campofrío 2022 Notes contain certain restrictive covenants which, among other things, limit Campofrío and its subsidiaries’ ability to (i) incur additional debt, (ii) make certain dividend payments, redeem capital stock and make certain investments, (iii) transfer and sell assets, (iv) enter into any agreements that would limit the ability of Campofrío’s subsidiaries to pay dividends or make distributions, (v) create liens on assets, (vi) effect a consolidation, merger or sale of assets and (vii) enter into transactions with affiliates. The indenture governing the Campofrío 2022 Notes contains customary events of default. Campofrío’s obligations under the Campofrío 2022 Notes are guaranteed by certain subsidiaries of Campofrío.

We intend to redeem the Campofrío 2022 Notes with the proceeds of this offering.

### ***Sigma 2026 International Notes***

In May 2016, we issued notes in the international capital markets in an offering exempt from registration in the United States (the “Sigma 2026 International Notes”) in an aggregate principal amount of US\$1.0 billion. The Sigma 2026 International Notes bear interest at a fixed rate of 4.125% per annum, which is payable on November 2 and May 2 of each year. The Sigma 2026 International Notes mature and are payable in full on May 2, 2026. The outstanding balance of the Sigma 2026 International Notes as of December 31, 2017 was US\$1.0 billion.

The Sigma 2026 International Notes contain certain restrictive covenants which, among other things, limit our and our subsidiaries’ ability to:

- effect a consolidation, merger or sale of our assets;
- create liens on assets; and
- enter into sale and leaseback transactions.

Our obligations under the Sigma 2026 International Notes are guaranteed by Sigma Alimentos Corporativo, S.A. de C.V., Sigma Alimentos Centro, S.A. de C.V., Sigma Alimentos Comercial, S.A. de C.V., Sigma Alimentos Lácteos, S.A. de C.V., Comercializadora de Embutidos ICO, S.A. de C.V., Alimentos Finos de Occidente, S.A. de C.V., Carnes Selectas Tangamanga, S.A. de C.V., Sigma Alimentos Congelados, S.A. de C.V., Sigma Alimentos Noreste, S.A. de C.V., Empacadora de Embutidos del Centro, S.A. de C.V., Grupo Chen, S. de R.L. de C.V., Sigma Alimentos Exterior, S.L., Sigma Processed Meats, LLC, Sigma Foods, LLC, Mexican Cheese Producers, Inc., Bar-S Foods Co., Sigma Alimentos Costa Rica, S.A. and Comercial Norteamericana, S. de R.L. de C.V.

### ***Sigma 2024 Euronotes***

In February 2017, we issued notes in the international capital markets in an offering exempt from registration in the United States (the “Sigma 2024 Euronotes”) in an aggregate principal amount of €600 million. The Sigma 2024 Euronotes bear interest at a fixed rate of 2.625% per annum, which is payable on February 7 of each year. The Sigma 2024 Euronotes mature and are payable in full on February 7, 2024. The outstanding balance of the Sigma 2024 Euronotes as of December 31, 2017 was €600 million.

The Sigma 2024 Euronotes contain certain restrictive covenants which, among other things, limit our and our subsidiaries’ ability to:

- effect a consolidation, merger or sale of our assets;
- create liens on assets; and
- enter into sale and leaseback transactions.

Our obligations under the Sigma 2024 Euronotes are guaranteed by Sigma Alimentos Corporativo, S.A. de C.V., Sigma Alimentos Centro, S.A. de C.V., Sigma Alimentos Comercial, S.A. de C.V., Sigma Alimentos Lácteos, S.A. de C.V., Comercializadora de Embutidos ICO, S.A. de C.V., Alimentos Finos de Occidente, S.A. de C.V., Carnes Selectas Tangamanga, S.A. de C.V., Sigma Alimentos Congelados, S.A. de C.V., Sigma Alimentos Noreste, S.A. de C.V., Empacadora de Embutidos del Centro, S.A. de C.V., Grupo Chen, S. de R.L. de C.V., Comercial Norteamericana, S. de R.L. de C.V., Sigma Alimentos Exterior, S.L., Sigma Processed Meats, LLC, Sigma Foods, LLC., Mexican Cheese Producers, Inc., Bar-S Foods Co. and Sigma Alimentos Costa Rica, S.A.

### **Capital Expenditures**

In 2015, 2016 and 2017, we made capital expenditures of Ps. 3,638 million (US\$229 million), Ps. 6,298 million (US\$338 million) and Ps. 3,542 million (US\$187 million), respectively. These capital expenditures were primarily used for the maintenance and replacement of productive assets, such as maintenance of production facilities, replacement of delivery vehicles and strategic capital expenditures for organic growth.

We estimate that our capital expenditures for 2018 (excluding expenditures made in connection with any acquisitions) will be approximately Ps. 3,927 million (US\$204 million), primarily for maintenance and the replacement of productive assets.

### **Research and Development**

In 2015, 2016 and 2017, we spent Ps. 233 million (US\$15 million), Ps. 265 million (US\$14 million) and Ps. 323 million (US\$17 million), respectively on research and development. See “Business—Research and Development.”

### **Tabular Disclosure of Contractual Obligations**

The following is a summary of our contractual obligations (other than operating leases) as of December 31, 2017:

	<b>Total</b>	<b><u>Payments Due By Period</u></b>		
		<b>Less than 1 Year (in millions of Pesos)</b>	<b>1-5 Years</b>	<b>More than 5 Years</b>
<b>Contractual Obligations</b>				
Trade and other accounts payable .....	25,818	25,818	-	-
Senior Notes.....	48,256	-	14,387	33,869
Debt securities.....	1,737	1,737	-	-
Finance lease .....	133	-	120	13
Non-accrued future interest.....	12,087	1,922	6,213	3,952

Total .....	88,031	29,477	20,720	37,834
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## **Off Balance Sheet Arrangements**

As of December 31, 2017, we did not have any off balance sheet arrangements.

## **Quantitative and Qualitative Disclosures about Market Risk**

### ***Derivative Financial Instruments***

Because we operate in various countries and enter into credit agreements in U.S. Dollars, Euros and in Pesos, in the past we have entered into foreign exchange rate and interest rate derivatives when we considered necessary for purposes of reducing the overall cost of such financing and the volatility associated with interest rates. In order to mitigate foreign currency risk, we may hedge a portion of the foreign exchange exposure associated with the U.S. dollar-denominated notes offered hereby or other debt.

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

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

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

We did not have any derivative financial instruments for the year ended December 31, 2017.

### ***Credit Lines, Margins and Collateral Policies***

In order to manage the obligation to post collateral in connection with margin calls under derivative financial instruments, we have agreed to a credit limit with each counterparty that has a derivative transaction. In cases where the agreed threshold under a particular transaction is less than the absolute mark-to-market value of such transaction, we have the obligation, from time to time, to post the corresponding collateral to the counterparty. We typically satisfy this obligation by drawing on our cash reserves, cash flow generation or available credit lines. Additionally, if we fail to post such collateral, the counterparty has the right, but not the obligation, to declare such obligation as prematurely expired and to demand the corresponding reasonable value in accordance with the agreed terms. As of December 31, 2017, we did not have any derivative financial instrument outstanding.

### ***Risk Management Committee***

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

## BUSINESS

### Overview

The Issuer is a wholly-owned subsidiary of the Parent Guarantor. The Parent Guarantor is a wholly-owned indirect subsidiary of Alfa, one of the largest publicly traded companies in Mexico. The Issuer is incorporated under the laws of the Netherlands and was formed with the sole purpose of issuing the notes.

We are a leading global branded refrigerated food company focused on the development, production, marketing and distribution of quality value-added foods, primarily packaged meats, cheese, yogurt and other refrigerated and frozen foods. We have a diversified portfolio of leading brands, including Campofrío<sup>®</sup>, Aoste<sup>®</sup>, Bar-S<sup>®</sup>, FUD<sup>®</sup>, San Rafael<sup>®</sup>, Braedt<sup>®</sup>, La Villita<sup>®</sup> and Yoplait<sup>®</sup>. We operate facilities in 18 countries in four regions: Europe, the United States, Mexico and other Latin American countries. We distribute over 15,000 different products, through more than 100 brands, reaching over 640,000 points of sale (approximately 65,000 in Europe, 57,000 in the United States, 377,000 in Mexico and 145,000 in other Latin American countries) through an extensive refrigerated distribution network. Our company operates with more than 45,000 employees across 70 manufacturing facilities (48 packaged meats plants, 13 dairy product plants, five fresh meat plants, three pre-cooked meal plants and one beverage plant), 208 distribution centers and more than 7,900 vehicles.

We have established leading market positions for our products across Europe, the United States, Mexico and other Latin American countries by developing our brands in every country in which we operate, developing value-added products and adopting consumer-driven innovation processes. According to industry reports and our own market research, our brands are the number one or number two in their respective categories in most of our markets. According to Nielsen Scantrack (“Nielsen”), we were the largest packaged meats producer in both Europe and Mexico in 2017, and our brands Campofrío<sup>®</sup> in Spain and FUD<sup>®</sup> in Mexico had the highest revenue across all brands in their respective categories and countries. According to industry specialists, Campofrío<sup>®</sup> and FUD<sup>®</sup> are the most recognized packaged meats brands in Spain and Mexico, respectively. In the United States, Bar-S<sup>®</sup> has been the number one selling frank (hot dog) brand by volume for thirteen consecutive years, according to Nielsen, and was the second largest packaged meat brand by volume in 2017.

We believe we have one of the largest refrigerated distribution networks in the industry, reaching consumers through a number of different distribution channels, including modern retail (supermarkets, hypermarkets and convenience stores), traditional retail (mom & pop shops and wholesalers), exports and foodservice (hotels, restaurants, movie theaters and others). We do not depend significantly on any single client; our top 40 customers represented only 35.5% of our total revenues in 2017 while our largest single customer represented 9.2%. We have long-term relationships with our main customers in Europe, the United States, Mexico and other Latin American countries. We have a global raw material supplier network that we utilize to capture economies of scale across our geographies and to maintain a diversified supplier base. Furthermore, we do not depend on any single supplier; our top 10 suppliers represented less than 17.8% of our total raw material purchases in 2017 while our largest single supplier represented approximately 2%.

Since Alfa acquired Sigma in 1980, we have rapidly expanded in size and geography, through organic growth as well as through strategic acquisitions. We have also forged alliances with leading brands such as Oscar Mayer<sup>®</sup>, Yoplait<sup>®</sup>, Philadelphia<sup>®</sup>, Hershey’s<sup>®</sup> and McCormick Grill Mates<sup>®</sup> to distribute their products in certain markets and regions where we operate. We reported revenues of Ps. 114,222 million (US\$6,034 million), Adjusted EBITDA of Ps. 12,725 million (US\$672 million) and net consolidated income of Ps. 2,074 million (US\$110 million) in 2017. In addition, from 2013 to 2017, our revenues and Adjusted EBITDA have grown at a CAGR of 23.6% and 17.4% (measured in Pesos) and 12.0% and 6.3% (measured in Dollars), respectively. We have been able to maximize our value creation through the realization of synergies arising from the integration of our acquisitions, improved market position in attractive markets and the generation of strong cash flows on a sustained basis.

In 2017, our revenues accounted for 36% of Alfa’s US\$16,804 million of total revenues and 34% of its US\$2,018 million of Adjusted EBITDA. The chart below highlights our key operating metrics:

## Key Operating Metrics

**Operations in 18 Countries**

**+ 640,000 Points of Sale**

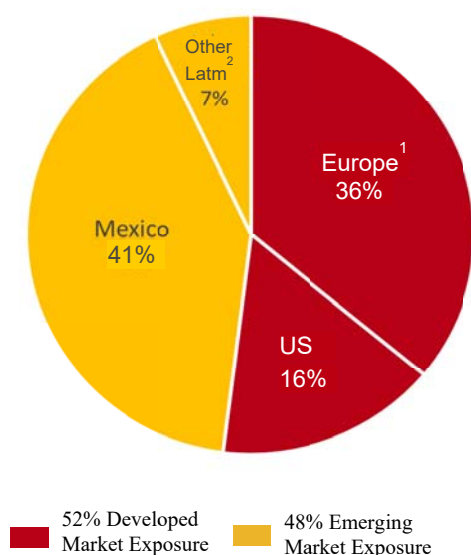
**2013 - 2017 Revenues CAGR: 12%**

**208 Distribution Centers**

**1.7 million Food Tons Produced in 2017**

**70 Manufacturing Facilities**

**2017 Geographic Sales Mix**  
**US\$6.0 bn**



**Market Leadership<sup>(4)</sup>**



- (1) Europe includes Belgium, France, Germany, Italy, Portugal, Romania, Spain and The Netherlands.
- (2) Other Latam includes Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, and Peru.
- (3) Number one in dry meats in France.
- (4) For the year ended December 31, 2016.

Source: Nielsen, IRI and our estimates.

## Competitive Strengths

We believe our competitive position as a leading producer, marketer and distributor of quality value-added branded food products is supported by the following strengths:

### ***Global Diversified Food Company with Leading Positions Across Markets***

We are one of the largest refrigerated packaged food companies and among the top five largest packaged meats companies in the world in terms of sales according to public information. With operations in 18 countries and sales generated in more than 110 countries worldwide (including sales through our independent distributors), we have diversified sales and cash flow streams. We have undergone a unique transformation process in which we have expanded our geographic footprint. In 2000, we had approximately 2% developed market exposure (principally in the United States). In 2010, our developed market exposure in the United States had grown to 15% and Latin America represented 9%. By 2017, our developed market exposure (Europe and the United States) had grown to 52%. Additionally, during this timeframe, we have also diversified our product categories significantly; our product mix has evolved from 74% cooked meats, 25% dairy products and 1% other products in 2000 to 63% cooked meats, 32% dairy products and 5% other products in 2010, while by 2017 our product mix was composed of 57% cooked meats, 20% dry meats, 18% dairy products and 5% other products. We believe our unique global footprint and our

highly recognized brands across refrigerated packaged food categories provide us with significant opportunities for both future growth and attractive returns.

Additionally, from 2000 to 2017, we increased our sales, measured in U.S. Dollars, by a multiple of approximately 6.8x, from Ps. 8,342 million (US\$882 million (based on an exchange rate of Ps. 9.4580 to US\$1.00)) to Ps. 114,222 million (US\$6,034 million) and our Adjusted EBITDA, measured in U.S. Dollars, by a multiple of approximately 5.4x, from Ps. 1,186 million (US\$125 million (based on an exchange rate of Ps. 9.4580 to US\$1.00)) to Ps. 12,725 million (US\$672 million). We believe our global network provides a platform to outperform our competitors, while maintaining a stable position as a refrigerated packaged food participant in the industry.

We have a leading position in most of the markets in which we participate. In 2017, we were the number one producer of packaged meat products in Europe and Mexico (by sales) and of franks (hot dogs) in the United States (by volume), and a leading producer of cheese and yogurt products in Mexico with the number one cheese brand and number two yogurt brand (by sales in 2016), according to Nielsen and internal estimates. We believe that our leading positions in these markets and our highly recognized brands provide us with a strong competitive advantage in serving our customers. As a result of our global platform, scale and operational excellence, we are able to achieve significant economies of scale in the sourcing, sale and distribution of our products and to identify relevant industry trends and shifting consumer habits, leading to strategic advantages compared to our competitors.

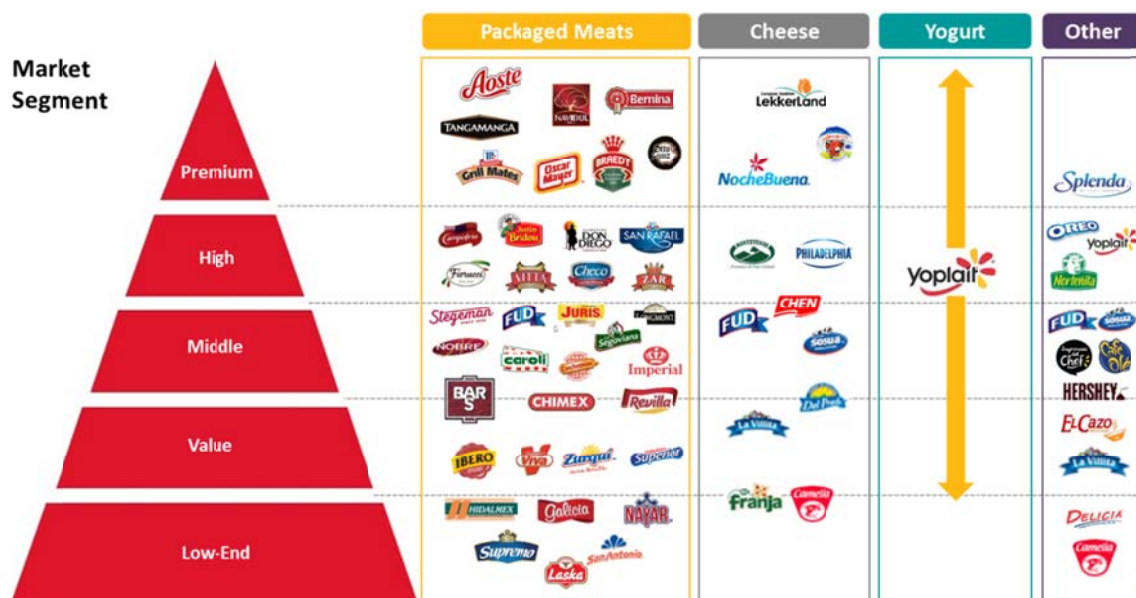
### ***Diverse Portfolio of Leading Brands Across Categories and Consumer Segments***

We have a broad portfolio of value-added food products with highly recognized brands that are consistently considered “top-of-mind” household names in the countries where we operate, according to both external industry reports and our internal findings. Eleven brands individually generated over Ps. 1,894 million (US\$100 million) in revenues in 2017. Our flagship brand FUD<sup>®</sup>, available in the United States, Mexico, Central America, the Dominican Republic and Peru, generated over Ps. 16,254 million (US\$858 million) in revenues in 2017 and captured over five times the “top-of-mind” brand recognition compared to its next two competitors in Mexico, according to our internal estimates. In Spain, Campofrío<sup>®</sup> is the most popular brand of packaged meats measured by “share of mind,” according to Kantar Millward Brown, and the best-selling brand of packaged meats by sales, generating over Ps. 7,273 million (US\$386 million) in revenues in 2017. In France and Portugal, we own Aoste<sup>®</sup> and Nobre<sup>®</sup>, which are the best-selling brands in their categories in terms of sales in those countries, respectively, according to Nielsen and Information Resources Incorporated (“IRI”). In the United States, Bar-S<sup>®</sup> was the number one selling frank (hot dog) brand by volume in 2017 according to Nielsen, and was the number two packaged meat brand overall by volume, generating over Ps. 11,724 million (US\$619 million) in revenues in 2017. We also own other strong and well-recognized brands, such as Justin Bridou<sup>®</sup>, Navidul<sup>®</sup>, Chimex<sup>®</sup>, San Rafael<sup>®</sup> and Sosua<sup>®</sup>, leading brands in their respective markets.

Our brands target a broad range of consumers, segmented by socioeconomic status, demographics, gender and consumer attitudes towards food, among other things. Targeting a broad range of segments allows us to capture consumer demand across economic cycles, while generating resilient and sustainable sales and cash flows and consistently posting double-digit top-line growth in eight of the last ten years, when measured in Pesos. In addition, our premium brands and presence in developed economies provide strong upside potential during expansive economic cycles, while our strong position in the value segment provides downside protection during economic downturns.

Besides our own brands, we complement our portfolio with highly recognized third-party brands. We produce, market and distribute yogurt under the Yoplait<sup>®</sup> brand throughout Mexico, Central America and the Dominican Republic, and packaged meats products under the Oscar Mayer<sup>®</sup> brand in Europe. In Mexico, we also distribute products under other world-renowned brands, such as Oscar Mayer<sup>®</sup>, Philadelphia<sup>®</sup>, Hershey’s<sup>®</sup> and La Vaca que rie<sup>®</sup>. During 2017, sales from licensed brands represented 7.3% of our revenues.

We believe that our portfolio of leading and highly recognized brands provides us with a competitive advantage by allowing us to launch new products more effectively.



### ***Consumer Driven Innovation Supported by Proprietary R&D Platform***

We give significant importance to our research and development and we base both our operational decisions and strategic actions on significant quantitative analysis. We utilize a rigorous consumer insight analytics process that provides us with unique information for the targeting, developing, marketing and pricing and other characteristics of our products. Through more than 260,000 consumer contacts every year, we are continuously evaluating consumer behavior, trends, product preferences and usage, as well as brand performance.

We have developed proprietary mathematical models that allow us to identify and design our products with the ideal attributes needed to fulfill consumer needs and preferences. We also use these models to segment markets by their demographic and socioeconomic profile, and by consumer attitudes towards food, cooking and convenience. This segmentation is used to guide specific sales and marketing efforts, adapt innovation to consumer needs and focus on the business areas with the most growth and profitability potential.

We promote a culture of innovation throughout our company with our Sigma Innovation System, which incorporates elements of Design Thinking and Lean Startup theories. Design Thinking enables us to develop superior products and ideas in line with consumer expectations, while Lean Startup allows us to visualize and focus our efforts on profitable, high impact projects, by following the philosophy of “fail often, early, and cheap”. We focus our innovation efforts through our seven innovation platforms for the different regions and product lines in which we operate. These platforms, which were chosen considering current and future consumer trends, include (i) Health and Nutrition, (ii) Indulgence, (iii) Convenience, (iv) Life Stages, (v) Sustainability, (vi) Affordability and (vii) Heritage.



We also follow consumer and health trends, and we continuously seek to engage with government and industry organizations to identify new trends. Some of our most recent products launches developed under this innovation methodology include Yogurt Yoplait® Placer, San Rafael® ham snacks, low-fat Campofrío® sausages and Paninos Fiorucci®.

Other recent examples of innovation include the addition of re-sealable and multi-pack packaging to our existing packaged meat and cheese offerings, as well as newly developed pre-cooked meals, pre-packaged snacks and a wide variety of yogurts and beverages. To address consumers' increasing focus on convenience, we have also redesigned some of our classic products in convenient formats including portable, sliced and snack-size options with highly differentiated re-sealable packaging. In addition, we have developed vegan meat-like products such as Vegalia®.

We support our innovation process by using cutting-edge technology to develop our products. We own research and development facilities and have a team of over 200 highly trained specialists who monitor and respond to changes in consumer preferences and technology, assisting us in the development of new products and processes. Our innovation initiatives have resulted in approximately 9% of sales originating from products that have been developed in the last 36 months.

### ***Extensive Supply Chain and Distribution Network with Scalable Operations and Go-to-Market Capabilities***

We own or operate 70 production facilities worldwide (26 in Europe, 6 in the United States, 25 in Mexico and 13 in other Latin American countries). Our global footprint enables us to share production plans and best practices among our facilities, optimizing our operations and productivity. Our strong manufacturing capabilities enable us to further innovate and optimize our distribution platform.

We own a new state-of-the-art production facility located in Burgos, Spain. With the support of our employees and experts in the design and technology fields, we designed a manufacturing facility with advanced technology to promote further efficiencies in our operations. We expect this new facility will help us capture additional synergies from the Campofrío acquisition and will expand our margins in Europe.

We leverage our large footprint with a global sourcing operation, which we believe conforms to the highest international food safety and quality standards in order to achieve economies of scale, and maintain a diversified supplier base in which our top 10 suppliers represent less than 20% of our raw material purchases.



Additionally, we have a least-cost production model based on commodity fundamental analysis and formulation expertise. This gives us the ability to offset raw materials cost increases and maintain consumer preference and EBITDA margins throughout economic cycles.

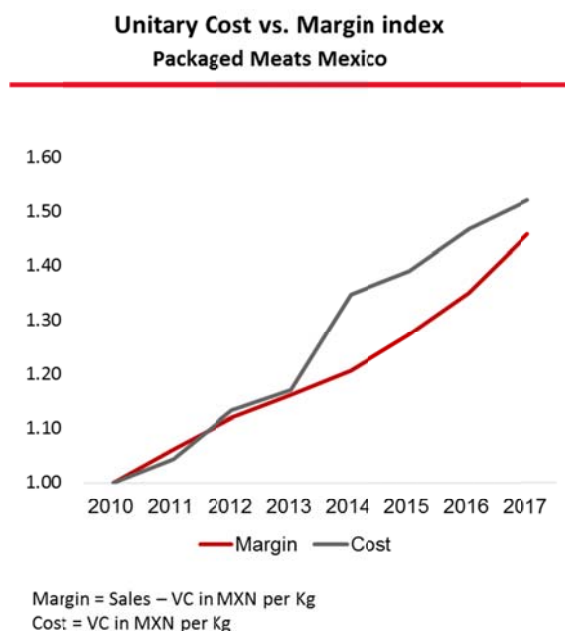
Our 208 distribution centers (18 in Europe, 14 in the United States, 137 in Mexico and 39 in other Latin American countries) are strategically located within the countries where we operate. Together with our 7,900 vehicles, our distribution centers and global sourcing operation support one of the world's largest refrigerated distribution networks in the segment, reaching more than 640,000 points of sale (65,000 in Europe, 57,000 in the United States, 377,000 in Mexico and 145,000 in the rest of Latin America).

We are highly focused on superior point of sale execution, with a sales force of over 18,000 collaborators, including those who serve consumers at the point of sale. To optimize point of sale execution, we utilize data-driven pricing analysis by sales channel, product and location to conduct a weekly market census, which we use to modify pricing and supply by sales channel, product and individual store. Furthermore, we support sales to mom & pop shops using regression analysis through handheld devices to best predict the ideal drop size at the point of sale. Our sales force personnel undergo internal certifications to guarantee correct execution at the point of sale.

### ***Consistent Cash Flow Generation and Growth***

We have achieved robust growth in the last ten years and have, at the same time, maintained solid and sustained free cash flow generation, with expansion being driven primarily by an increased distribution network, entrance into attractive new markets and categories, market share gains, disciplined acquisitions and improved efficiencies in our operating processes. From 2010 to 2017, we achieved revenues, Adjusted EBITDA and Free Cash Flow CAGR of 19.4%, 19.6% and 20.4% (measured in Pesos) and 12.7%, 12.8% and 13.6% (measured in Dollars), respectively.

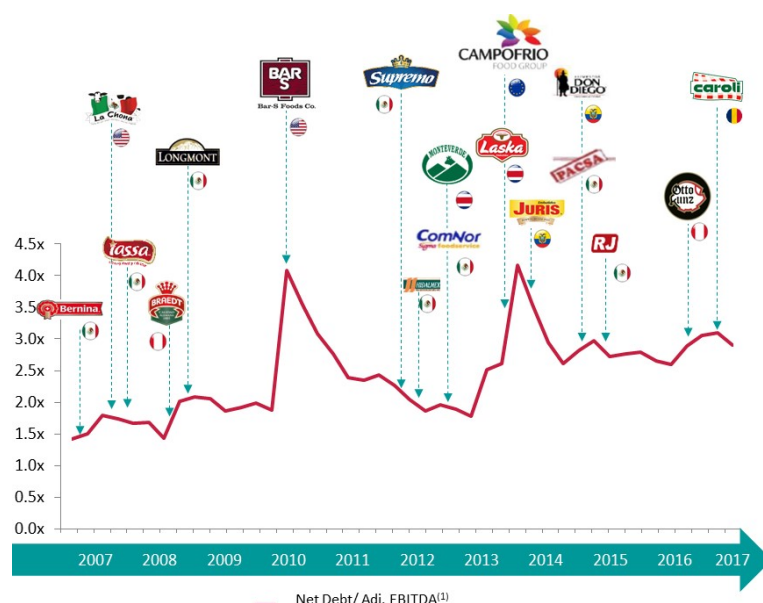
We have a resilient business position in all the regions in which we conduct and operate our business. Our European, U.S. and Latin American operations source their raw materials mainly from local suppliers. On the other hand, our Mexican operations source most of their raw materials from the United States. Nevertheless, our margins have remained stable even during periods of foreign exchange volatility, mainly because they are supported by our strong brands and price strategy. Additionally, contingency plans have been executed in Mexico and other geographic areas in which we conduct and operate our business against possible changes in trade agreements.



We have significant M&A and post-merger integration experience, which has enabled us to successfully execute and integrate 29 M&A transactions since 1997. Our due diligence and post-merger integration experience

help us identify and execute value generating strategies that result in significant synergies. Some examples include cost efficiencies, purchasing leverage, process improvements and technology sharing. We have particular expertise in acquiring and integrating family-owned businesses where, by leveraging our values and culture, we are able to present ourselves as an ideal transaction partner.

Our acquisitions, together with our integration and operational expertise, have been a key component of our annual cash flow generation. Our Adjusted EBITDA grew at a CAGR of 14.4% (measured in Pesos) during the four years ended December 31, 2017, propelled by acquisitions as well as organic growth. Acquisitions consummated during such four-year period contributed 32.6% of our total Adjusted EBITDA for 2017. Our cash flow from operations represents a significant portion of our Adjusted EBITDA (118% in 2016 and 73% in 2017), which enables us to utilize free cash flow to rapidly reduce leverage after each acquisition. For example, we reduced our Net Debt/Adjusted EBITDA ratio calculated in U.S. Dollars from 4.1x after the Bar-S acquisition in September 2010 to 2.5x as of December 31, 2013. After the consolidation of Campofrío in June 2014, our Net Debt/Adjusted EBITDA ratio calculated in U.S. Dollars was 4.2x, which we reduced to 2.2x as of December 31, 2015. From 2014 to 2017, our Net Debt/Adjusted EBITDA ratio calculated in U.S. Dollars was 2.9x, 2.7x (excluding US\$160 million in EBITDA related to property damage insurance compensation), 2.6x and 2.9x, respectively. During the same period, our Interest Coverage Ratio was 5.6x, 6.9x (excluding US\$160 million in EBITDA related to property damage insurance compensation), 5.5x and 4.7x, respectively.



- (2) Ratios calculated in U.S. Dollars. The 2015 period excludes a non-recurring gain of US\$160 million from property damage insurance compensation related to a fire in one of our subsidiaries' plants.

### ***Experienced Management Team and Diversified Workforce***

Our team of 7 senior executives has on average 28 years of experience in the industry across a wide range of areas that include finance, manufacturing, human resources, distribution, marketing and sales. We have a strong track record of promotion of in-house talent, bolstered by our robust succession management program and career path design. To support these programs and ensure we recruit and retain the best talent at all levels of the organization, we have several continuous development plans with leading global educational institutions (such as Stanford University, Harvard Business School, Wharton School of Management, Kellogg Business School, London Business School and IE Business School, among others). We believe investing in our people is a key pillar for long-term sustainable growth. We embrace diversity and have a highly diversified workforce, with more than 62 different nationalities represented and women accounting for 39% of our employees. Such diversity allows us to better

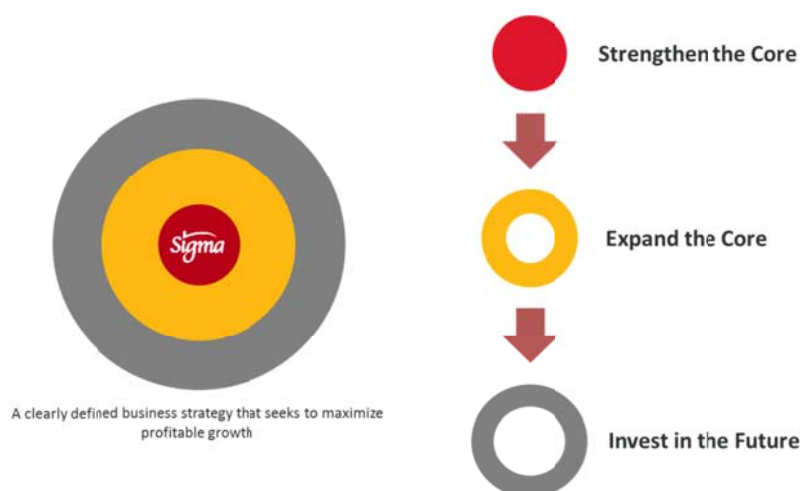
identify with our broad range of consumers. As of December 31, 2017, our workforce was allocated 40%, 39%, 20% and 1% to Sales, Operations and Logistics, Administrative and Research and Development roles, respectively.

We are organized in five different organizational units: Mexico, Europe, the United States, Central and South America and Foodservice, together with a central staff devoted to coordinate and support organizational units. Central staff is comprised of Finance and Central Marketing, Technology and Talent and Culture. This structure allows us to achieve global benchmarks and implement best practices throughout our operations.

## Business Strategy

Our strategy is founded on our differentiated capabilities and competitive advantages, through which we seek to strengthen and expand our current position while capitalizing on attractive market trends.

The main elements of our strategy are as follows:



### Strengthen our Core Business

**Consolidate and Optimize our Operations.** We intend to continue to consolidate acquisitions and implementing best practices and processes across our businesses. This will help us increase our sales and optimize our supply chain in a wide variety of aspects such as production efficiencies, raw material yields and global sourcing, which we expect will improve our profitability.

**Enhance our Brand Recognition.** We intend to further reinforce our brand equity through differentiated advertising and promotional activity. We also plan on increasing our presence in digital media as we believe this is an efficient and effective way to reach consumers.

**Drive Innovation Using Consumer Insights.** We plan to continue to invest in consumer analysis to further enhance our insights regarding consumer preferences. We intend to increase consumer appeal, brand loyalty and sales by enhancing our product offerings via innovation. For example, we intend to take advantage of the growing “health-conscious” consumer trend by expanding our health and wellness product offerings as we did with the launch of our Cuida-t+<sup>®</sup> line in Spain and Mexico and our low-fat Greek yogurt product line in Mexico.

**Further Improve Market Share through Enhanced Distribution.** We intend to continue to invest in and expand our distribution channels to improve market shares in attractive categories in our primary countries of operation. Our extensive knowledge of consumer preferences and spending habits allows us to expand our distribution capability in an intelligent and targeted manner, while working alongside our distribution partners to ensure success.

## ***Expand our Core Businesses***

***Expand our Foodservice Operations.*** The foodservice channel, which primarily includes sales to restaurants, hospitals, schools, hotels, movie theaters and catering businesses, represented approximately 11.2% of our revenues in 2017. We view this channel as a significant growth opportunity across all regions where we have a presence, and we expect to expand our foodservice operations by leveraging our brands, existing customer base, distribution network, supply chain and innovation platforms.

We have established a business unit dedicated to the expansion of the foodservice business in Mexico, as we consider this market to have solid growth potential given its highly fragmented nature, and to be a perfect fit for us given that we can support its growth on our existing infrastructure and distribution capabilities. According to Euromonitor International (“Euromonitor”), the top three players in the foodservice channel in Mexico account for only 8% of market share. In addition, it is a very attractive channel from a return on capital perspective given the highly cash generative characteristics of the business relative to the amount of capital investment required. We currently provide integrated foodservice solutions, including our own and third-party products (including non-food products), to more than 20,000 customers.

Our growth in this distribution channel in Mexico has been driven by key acquisitions. In 2013, we acquired Comercial Norteamericana, S. de R.L. de C.V. (“ComNor”), a producer, distributor and retailer of poultry, pork and beef. Similarly, in 2015 we entered into a strategic alliance with Kinesis Food Service, S.A. de C.V. for the administration of Proveedores de Alimentos de Cancun, S.A. de C.V. (“Pacsa”), a company engaged in the foodservice industry mainly in southeast Mexico. We intend to continue exploring acquisition targets in this industry, which will allow us to expand our customer base.

***Fully Leverage Assets through Distribution of Third-Party Leading Brands.*** We intend to leverage our geographic footprint and operating expertise to identify suitable partners with well-known branded products which we believe would complement our product portfolio and refrigerated distribution capabilities. As part of this strategy, we plan to leverage our existing asset base to expand our business by offering value-added distribution services to third-party producers similar to the agreements we currently have with Oscar Mayer®, Philadelphia® and Hershey’s®, among others. We expect our licensing strategy to continue to be an important part of our business and we believe there are significant growth opportunities through new agreements.

***Grow Prepared Meal and Snack Business.*** We believe our prepared meal and snack business is positioned to capitalize on the growing consumer trends of convenience and practicality. We intend to continue investing in R&D to offer products to consumers with increasingly shorter preparation time. Recent examples of this include Campofrío® mini-snacks and FUD® ham and cheese snacks.

***Achieve Larger Market Share in Relevant Markets / Categories.*** We foresee strong potential for growth in several European, U.S. and Latin American markets where we are currently present but have a relatively undersized market share. We intend to leverage our existing product portfolio and operational expertise to increase our market shares through both organic and inorganic expansion.

***Continue Exploring M&A Opportunities in Packaged Meats, Dairy and Other Refrigerated Foods.*** We believe there remains significant opportunity for consolidation in the packaged meats and dairy sectors, especially in Europe, Latin America and certain markets in the United States. We intend to leverage our operational expertise and experience in M&A integration to continue to analyze and pursue attractive consolidation opportunities.

***Grow Exports for Heritage Products to Current and New Geographies.*** We have a strong European heritage portfolio operating under the Campofrío® and Fiorucci® brands in Spain and Italy, respectively. Spanish and Italian cuisine are widely accepted all over the world, which has contributed to the success of this portfolio. In the United States, we have diversified our existing heritage portfolio with our Fiorucci® products. In Mexico, we recently introduced Spanish products such as Serrano ham (*jamón serrano*), *chorizo* and pork loin under the Campofrío® brand. We intend to further capitalize on consumers’ desires for high quality food associated with historic practices by entering new geographies and growing our market share in other attractive categories.

***Replicate our Successful Business Model in our Current Markets.*** We plan to leverage the success of our current business model to introduce new products within our existing product categories and regions. For example, we plan to leverage our experience in the United States and Mexican cheese markets to begin distributing cheese in Europe and other Latin American countries. In addition, we plan to continue targeting attractive companies within our existing markets and product categories, capturing synergies and leveraging our capabilities to continuously improve operational performance.

### ***Invest in the Future***

***Expand our Product Portfolio by Introducing New Product Categories.*** We intend to continue to meet our diverse consumers' needs as well as capitalize on evolving market trends by expanding our portfolio to other food categories through product innovation and continued value-creating acquisitions.

***Enter New Geographies.*** We plan to continue expanding our footprint through carefully evaluated value accretive acquisitions in attractive geographies where we believe we can attain a leading market position. We intend to replicate our successful business model to leverage our proven due diligence and post-merger integration capabilities to realize synergies and efficiencies from each of our acquisitions.

***Complement Innovation Capabilities through Open Innovation and a Corporate Capital Fund.*** In addition to our continuous innovation programs and our participation in global innovation forums, we are in the process of forming a corporate capital fund which we believe will allow us to participate in potentially highly innovative and technological projects. We believe that these types of early stage technologies have the potential to be key future differentiators.

***Continue Developing World Class Talent.*** We intend to continue investing in our people as we believe this is one of our key strengths. We have established relationships with a range of elite academic institutions and intend to develop similar relationships with other institutions. We expect that these investments in human capital at all levels of our organization will promote the development of highly trained and experienced professionals. Having a world-class diversified workforce will continue to allow us to capitalize on our strengths for the benefit of consumers and customers.

### ***Our History***

Sigma Alimentos, S.A. de C.V., commercially known as Sigma Alimentos, has its corporate offices in Ave. Gómez Morín No. 1111, Col. Carrizalejo, San Pedro Garza García in the state of Nuevo León, Mexico (+52 81 8748 9000). It is a wholly-owned subsidiary of Alfa, one of Mexico's largest publicly traded conglomerates in terms of market capitalization on the Mexican Stock Exchange. The Parent Guarantor was acquired by Alfa in 1980. By the year 2000, we operated eight plants in Mexico and exported products to the United States, Guatemala and El Salvador and had approximately 12,500 employees. Throughout the following decade, we continued our expansion into new markets, and by 2010, we had facilities in Costa Rica, El Salvador, Guatemala, Nicaragua, Honduras, the Dominican Republic, the United States and Peru, operating a total of 34 plants and employing approximately 29,000 persons. Since then, we have expanded into Italy, Germany, France, Portugal, Spain, the Netherlands, Belgium, Romania and Ecuador. We currently operate 70 plants in a total of 18 countries and employ approximately 45,000 people.

The following chart sets forth significant milestones in the development of our company and our current operations:



## Main Subsidiaries

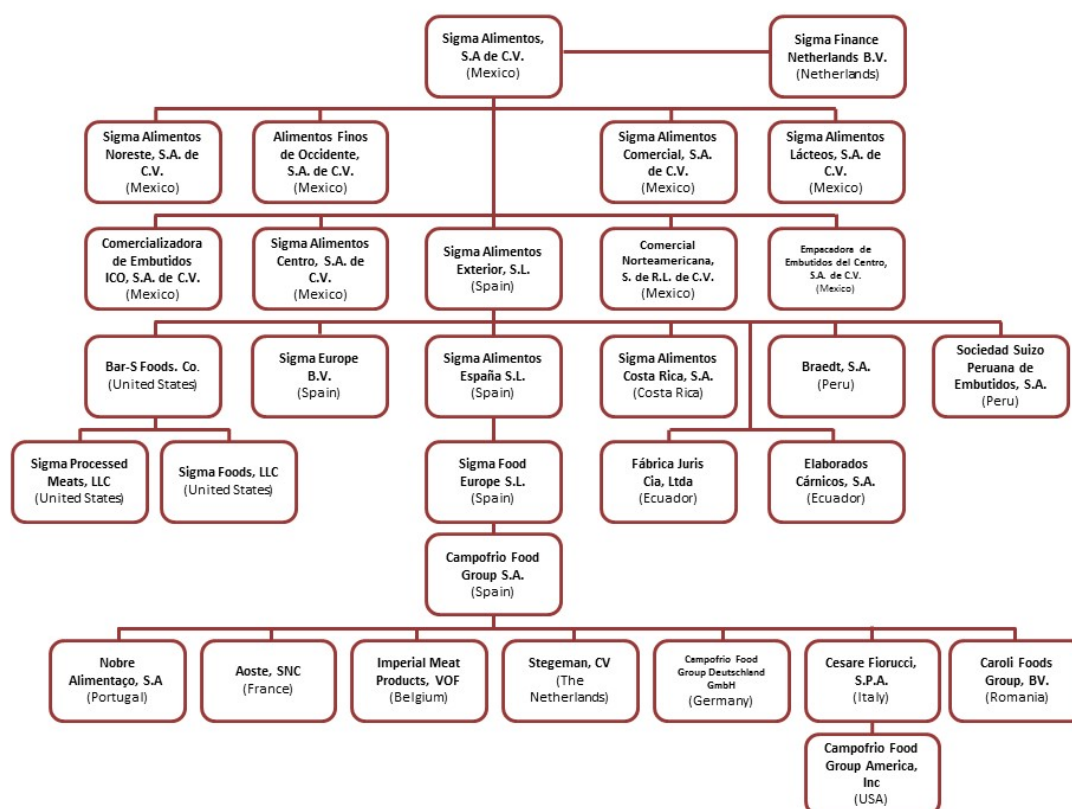
The table below presents information related to the main subsidiaries controlled directly or indirectly by Sigma as of the date of this offering memorandum:

Name	Region	Ownership Interest	Business
Aoste, SNC	Europe	95.49%	Packaged meat production and sales.
Campofrio Food Group Americas, Inc.	Europe	95.49%	Meat products productions and sales.
Campofrio Food Group, S.A. (Unipersonal)	Europe	95.49%	Holding company
Caroli Foods Group, B.V.	Europe	100%	Sale and production of packaged meats.
Cesare Fiorucci S.P.A.	Europe	95.49%	Sale and production of meat products.
Imperial Meat Products, VOF	Europe	95.49%	Sale and production of packaged meat products.
Nobre Alimentaço, S.A.	Europe	95.49%	Meat products production and sales.
SEC SNC	Europe	100%	Management of cured sausage plant and equipment / Sales through modern distribution channels.
Stegeman, CV	Europe	95.49%	Sale and production of packaged meat products
Bar-S Foods Co.	United States	100%	Preparation of meat products.
Mexican Cheese Producers, Inc.	United States	100%	Preparation of yogurt and cheese.
Sigma Alimentos Internacional, Inc.	United States	100%	Purchase of meat and other products in the United States and resale to its affiliates in Mexico.
Sigma Foods, LLC	United States	100%	Distribution and commercialization of cold cuts, yogurt and cheese.
Sigma Processed Meats, LLC	United States	100%	Preparation of cold cuts.
Alimentos Finos de Occidente, S.A. de C.V.	Mexico	100%	Preparation and distribution of beef, turkey and pork meat.
Bonanza Industrial, S.A. de C.V.	Mexico	100%	Trade and distribution of meat.
Carnes Selectas Tangamanga, S.A. de C.V.	Mexico	100%	Preparation and distribution of pork, turkey and beef sausage.
Comercial Norteamericana, S. de R.L. de C.V.	Mexico	100%	Meat products production and sales.
Comercializadora de Embutidos ICO, S.A. de C.V.	Mexico	100%	Preparation and distribution of pork, turkey and beef sausage.
Empacadora de Carnes Frías Hidalmex, S.A. de C.V.	Mexico	100%	Preparation of meat products.
Empacadora de Carnes Premium, S. de R.L.	Mexico	100%	Preparation and distribution of pork, turkey and beef sausage.
Empacadora de Embutidos del Centro, S.A. de C.V.	Mexico	100%	Commercialization of cattle and meat; processing and commercialization of meat and by-products.
Empacadora Supremo de Monterrey, S.A. de C.V.	Mexico	100%	Preparation of meat products.
Employee Services Unlimited, S. de R.L. de C.V.	Mexico	100%	Management.
Freedman Logistic, S. de R.L. de C.V.	Mexico	100%	Management.
Grupo Chen, S. de R.L. de C.V.	Mexico	100%	Real estate leasing company.
Industrias Alimentarias del Sureste, S.A. de C.V.	Mexico	100%	Preparation of meat products.
Servilac, S.A. de C.V.	Mexico	100%	Management, accounting, consultancy and technical assistance services.
Sigma Alimentos Centro, S.A. de C.V.	Mexico	100%	Production and distribution of refrigerated foods.
Sigma Alimentos Comercial, S.A. de C.V.	Mexico	100%	Distribution of meat, dairy, refrigerated and frozen foods.
Sigma Alimentos Congelados, S.A. de C.V.	Mexico	100%	Production, commercialization and distribution of frozen foods.
Sigma Alimentos Corporativo, S.A. de C.V.	Mexico	100%	Consultancy, management, leasing and other services.
Sigma Alimentos Lácteos, S.A. de C.V.	Mexico	100%	Trade, processing and distribution of dairy products.
Sigma Alimentos Noreste, S.A. de C.V.	Mexico	100%	Preparation of meat products.
Sigma Alimentos Prom S.A. de C.V.	Mexico	100%	Management, accounting, consultancy and technical assistance services to Sigma Alimentos Comercial, S.A. de C.V.
Braedt, S.A.	South America	100%	Preparation of meat products.
Elaborados Cárnicos, S.A.	South America	100%	Meat products production and sales.
Fábrica Juris Cia, Ltda	South America	100%	Meat products production and sales.
Sociedad Suizo Peruana de Embutidos, S.A.	South America	100%	Preparation of Meat Products
Productos Cárnicos, S.A. de C.V.	Central America	100%	Preparation and commercialization of sausage and other commercial, industrial and agro-industrial activities.

Productos de Importación, S.A. de C.V.	Central America	100%	Operation of commercial stores and commercialization of cold meat and food.
Savi San José de Alajuela, S.A.	Central America	100%	Meat products production and sales.
Sigma Alimentos Costa Rica, S.A.	Central America	100%	Processing and preparation of cold cuts.
Sigma Alimentos Dominicana, S.A.	Central America	100%	Processing and preparation of cold cuts.
Sigma Alimentos Guatemala, S.A.	Central America	100%	Trade, production, importing, exporting and distribution of packaged meat.
Sigma Alimentos Nicaragua, S.A.	Central America	100%	Commercialization of meat products.

## Corporate Organization

The following chart describes our corporate structure including our significant subsidiaries, which are all directly or indirectly controlled by us:



## Industry Overview

We operate in a highly competitive environment, primarily comprised of packaged meats and dairy operators who are engaged mainly in the production and commercialization of animal protein-based products for retail distribution in the countries and markets where we are present.

Based on industry data and our own estimates, we believe we have achieved a strong presence in each of our markets. We are currently one of the largest producers in the packaged refrigerated foods industry on a global basis, with a total production of 1.7 million tons of food during 2017. We are continuously monitoring consumption trends to capture growth opportunities, and we expect that protein consumption will become more relevant as GDP per capita expands.

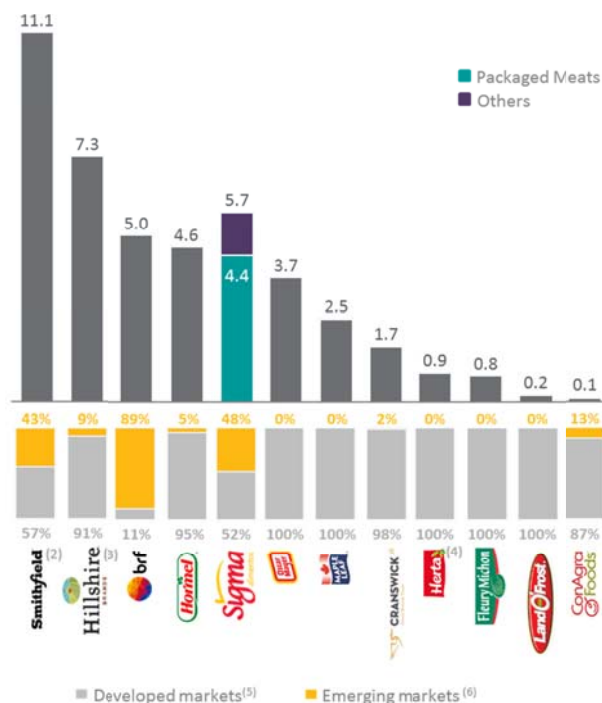


## Packaged Meats

The packaged meat category includes products such as cooked and dry ham, cooked and dry sausages, salami, bacon, cooked meat, sliced meat and meat snacks.

### Leading packaged meats companies<sup>(1)</sup>

Revenues US\$ bn



Source: Company filings and estimates

(1) For the year ended December 31, 2016.

(2) Reported by WH Group as "Packaged Meats".

(3) Reported by Tyson under the "Prepared Foods" segment.

(4) For the year ended December 31, 2014.

(5) Includes markets in the U.S., Canada, Europe and Australia.

(6) Includes markets in Latin America, Asia, the Middle East and Africa.

In Europe, there are many individual regional packaged meat companies, including El Pozo in Spain, Herta and Fleury Michon in France and Izidoro in Portugal, among others. In Western Europe, packaged meat consumption volume grew at an average annual rate of 1% from 2008 to 2017. Growth in packaged meat sales is mainly driven by consumers' focus on health, protein-based food, convenience and affordability.

In the United States, our main competitors in the packaged meat segment include Land O'Frost, Eckrich, Farmland, The Kraft Heinz Company and John Morrell. The U.S. packaged meats market has experienced a slight downturn in the past two years. From 2015 to 2017, sales volume decreased at a rate of 2% annually. We expect the industry to recover in the next few years.

The packaged meats market in Mexico is primarily comprised of products such as: ham, hot dogs, bologna, and bacon, which are produced from pork, turkey, and chicken. The presence of imported products in Mexico is relatively low and is concentrated in higher-priced, niche market segments. We estimate that the Mexican packaged meats market grew at an annual rate of 3% from 2014 through 2016. We expect future growth of this market to be in line with Mexican GDP growth. Significant competitors are Qualtia, Bafar, Celaya and Saljamex. The packaged meat market is highly fragmented, with more than 500 producers. In Mexico, the traditional channel is significant and the convenience channel has been growing rapidly.

In Latin America, there are regional competitors in each of the countries in which we operate, such as Cargill, Induveca, San Fernando and Pronaca. The market is mainly comprised of products such as ham and hot dogs, which are produced from pork, turkey, and chicken. We estimate that the packaged meats market grew at an annual rate of 6% from 2015 through 2017.

### ***Dairy Products***

The dairy category in which Sigma participates, includes branded products such as: cheese, yogurt, dessert, cream and butter. Our dairy products are marketed in the United States, Mexico and Latin America. Consumer consumption habits for these products vary from one region to the other due to economic conditions or simply as a result of regional preferences, among other factors.

In the United States, there are several players in the Hispanic dairy market. We consider the most relevant companies to be El Mexicano, Cacique, V&V Supremo and Los Altos. The most popular cheese types among Hispanic consumers in the United States include *Queso Fresco*, *Oaxaca*, *Quesadilla* and *Cotija*.

The Mexican cheese market is developed and highly fragmented, with over 3,500 producers participating in the formal or informal market. Significant national competitors include Chilchota Alimentos, S.A. de C.V., Distribuidora de Lácteos Algil, S.A. de C.V. (Esmeralda Brand), and Grupo Lala, S.A.B. de C.V. It is difficult for a single company to achieve full coverage in both geography and product offering due to a wide variety of regional preferences. Although difficult to quantify, we believe there is substantial additional cheese production coming from micro-producers across the country. We estimate that the formal cheese market in Mexico has grown approximately 5% annually from 2014 through 2016.

The Mexican yogurt market includes a wide variety of types and flavors, such as stirred, Greek, drinkable, natural, with whole fruit pieces, light and desserts, among others. It also includes different presentations that fit the varying economic needs and preferences of consumers. The yogurt market in Mexico is highly competitive and characterized by continuous innovation and extensive marketing efforts. Danone de Mexico, S.A. de C.V. is the market leader, and other market participants include Grupo Lala, S.A.B. de C.V. and Alpura, S.A. de C.V. According to the Mexican National Statistics and Geography Institute (*Instituto Nacional de Estadística y Geografía*, or “INEGI”), the yogurt market has contracted at an annual rate of approximately 0.86% from 2015 to 2017. Innovations have been focused on increasing the average price through value-added products.

In Latin America, there are a wide variety of players in the cheese market, including Dos Pinos, Lactolac, Petacones, Michel and Induveca. The most popular cheese types include *queso fresco*, *queso semiduro* and mozzarella. We estimate that the formal cheese market in Latin America has grown approximately 4% annually from 2015 through 2017.

### **Our Key Products and Positioning in the Industry**

We are one of the largest branded packaged foods companies in the world focused on the production, marketing and distribution of quality branded foods, including packaged meats, cheese, yogurt and other refrigerated and frozen foods. For the year ended December 31, 2017, our sales were comprised as follows: 57% from cooked meats, 20% from dry meats, 18% from dairy products and 5% from other products.

Consumers’ preference for our products is mainly driven by our branding as well as our products’ design, value, functionality, availability, and quality and food safety standards. Our product offering is designed to satisfy the needs of each market segment. We are focused on innovation and new product development in each of our markets to meet evolving consumer demands. Our diverse product portfolio covers a wide variety of categories and reflects consumer preferences in each of our key markets. Over the past five years, we have diversified our product portfolio across market segments and product categories.

### ***Packaged Meats***

We produce, market and distribute a wide range of quality branded packaged meat products in Europe, the United States, Mexico and Latin America including, cooked ham, franks, prosciutto, Serrano, other dry ham, cooked sausages, salami, other dry sausages, corn dogs, bologna, and bacon, among others.

Our wide product portfolio covers all of the primary packaged meat categories and reflects consumers' preferences in each of our key markets. We also offer innovative packaging options that address consumer demand for easier to use and store packaging, such as individual packaging and resealable containers. We classify our packaged meat products as either cooked products or dry products. Cooked products include products such as sliced cold cuts, hot dogs, franks, bologna and bacon. Dry products primarily consist of dry sausage and dry ham. Sales of cooked meats and dry meats accounted for 57% and 20% of our revenues for the year ended December 31, 2017, respectively.

### ***Dairy Products***

We produce high quality branded cheese products in the United States, Mexico and Latin America. We also produce quality branded yogurt, margarine and other dairy goods such as butter and cream in Mexico and Latin America. Sales of dairy products accounted for 18% of our revenues for the year ended December 31, 2017.

#### ***Cheese***

We produce, market and distribute several types of branded cheese products, such as fresh, string and aged cheeses designed to appeal to the different consumer tastes and preferences. We market fresh cheese in the United States under the FUD<sup>®</sup> and La Chona<sup>®</sup> brands. Due to the highly fragmented nature of the cheese market in Mexico, we offer customized products for each region and due to our high production standards and shelf life of our products we can distribute them nationally.

We also sell aged cheese under the premium brand Lekkerland<sup>®</sup> in Costa Rica and the Sosua<sup>®</sup> brand in the Dominican Republic, among other types of cheese in the rest of the countries in Central America. In addition, we customize our products based on the needs of our customers, for example, by offering single and small serving packaging to customers in our traditional distribution channel and grated cheese to our foodservice customers.

#### ***Yogurt***

We produce, market and distribute yogurt in a variety of types and flavors under the Yoplait<sup>®</sup> brand through our exclusive licensing arrangement with Sodima in Mexico, Central America and the Dominican Republic. We customize our yogurt products to the local consumer preferences in each of our markets. The yogurt market is characterized by extensive marketing efforts and constant product innovation. As a result, we have consolidated our Yoplait<sup>®</sup> brand offerings in order to optimize our marketing exposure, and have strengthened our product offerings in the dessert, health and indulgence segments with Disfruta<sup>®</sup>, Griego<sup>®</sup> and Placer<sup>®</sup>, respectively. We have also increased our product differentiation to fit the economic needs and preferences of consumers. We offer a wide variety of products with flavors and packaging targeted to specific audiences, such as kids and teens.

### ***Other Refrigerated Products***

Sales of other refrigerated products accounted for 5% of our revenues for the year ended December 31, 2017.

We also distribute fresh meat products that reach the foodservice and retail channels. Our consumer-targeted fresh meat products include steaks and minced meat in packaged and deli counter formats.

In Europe, we offer a range of other refrigerated products such as fresh meat and pizza.

In Mexico, we produce, market and distribute other products, including refrigerated pizzas, precooked meals, soy-based meats and ready-to-drink coffees. We entered this market in Mexico in 1995 with pre-cooked foods, and we currently produce, market and distribute our products primarily under the brands El Cazo Mexicano<sup>®</sup>, Sugerencias del Chef<sup>®</sup>, Café Olé<sup>®</sup>, and FUD<sup>®</sup>. We also sell other products such as fresh meat, fruits, vegetables, canned food and other dry products to foodservice customers. These products include steaks, fish, hamburgers, canned food and other dry products.

### ***Our Brands***

We are a global branded food company, with a broad portfolio of attractive, highly recognized brands in each of the markets in which we operate. Many of our brands are well-recognized by consumers, and brands such as

Campofrío® and FUD® hold the highest levels of consumer recognition in the packaged meat market. These brands have been in the market for more than 50 years and have continued to expand to other categories and regions. Campofrío® has expanded to other product categories, such as refrigerated pizza, and has a presence in several countries. FUD® has traditionally offered packaged meat products and has also recently expanded into the cheese and pizza categories, and can be found in the United States and several countries in the Latin America region such as: Costa Rica, the Dominican Republic, Guatemala, Honduras, Nicaragua, Peru and El Salvador. In 2017, the Campofrío®, Aoste®, Navidul®, Viva®, Bar-S®, Fiorucci®, FUD®, La Villita®, San Rafael®, Chimex® and Yoplait® brands each generated over US\$100 million in revenues.

Our most important brands in terms of sales are: FUD®, for which our trademark registration will expire in March 2019; Bar-S®, for which our trademark registration will expire in January 2021; Chimex®, for which our trademark registration will expire in September 2022; La Villita®, for which our trademark registration will expire in December 2027; and San Rafael®, for which our trademark registration will expire in March 2022. Each of the trademarks for these brands are renewable for 10-year terms. In the past, we have not faced any challenges renewing trademark registrations.

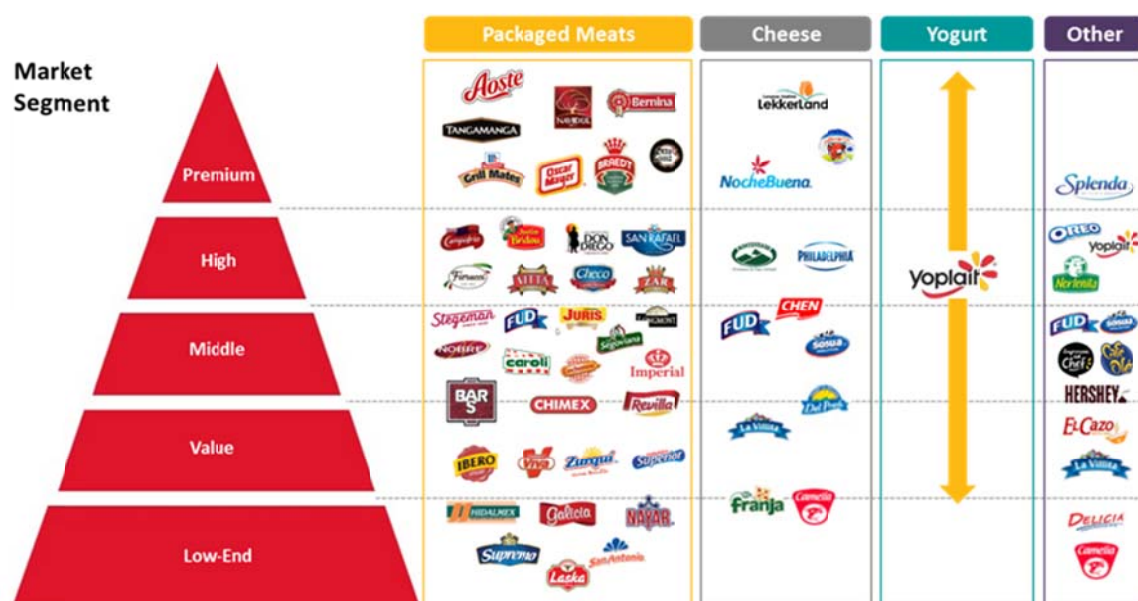
In Europe, we own a wide range of brands including Campofrío® and Navidul® in Spain, Aoste® and Justin Bridou® in France, Fiorucci® in Italy, Nobre® in Portugal, Imperial® in Belgium, Stegeman® in the Netherlands and Caroli®, Sissi®, and Primo® in Romania.

In the United States, we own Bar-S®, the leading brand in the packaged meat value segment. We also own brands such as FUD®, Norteñita®, and La Chona® which target the Hispanic market.

In Mexico, based on internal estimates, we own the leading packaged meat brands by sales, such as FUD®, Chimex® and San Rafael®. We also own the number one cheese brand by sales, La Villita®. We also produce and distribute under the Yoplait® brand, a leading brand in dairy products world-wide and the second best-selling brand in its category in Mexico. Some other trademarks that we own include Tangamanga®, Bernina®, Iberomex®, Nayar®, Viva®, San Antonio®, Galicia®, Noche Buena®, Chen®, La Villita®, Franja® and Bar-S®.

In Latin America, we also sell our products through well-known brands such as Zar®, Vitta®, Zurquí®, Lekkerland®, Del Prado®, Checo®, El Sabrocito®, Juris®, Laska® Braedt®, Don Diego®, and Otto Kunz®, and according to internal estimates we are the number one producer of cheese products in the Dominican Republic under our brand Sosua®, in terms of sales.

We seek to manage our exposure to macroeconomic downturns, and to take advantage of economic opportunities by targeting our brands in a full range of socioeconomic markets, as shown in the following chart:



## Intellectual Property

We have registered the “Sigma Alimentos” brand and its distinctive logo. Additionally, we have registered more than 3,500 brands, of which more than 1,350 were obtained in connection with the Campofrío acquisition, and we have registered 213 registered commercial advertisements. We also have 203 brands and 2 commercial advertisements pending registration. Some of these brands have been registered since 1958. All of them are up-to-date and each has a 10-year renewable term. We have commenced the renewal process for the brands that will expire soon. We also register certain of our brands in other jurisdictions, irrespective of whether we sell such brands in that jurisdiction.

As of December 31, 2017, we had 105 copyrights, 46 registered patents and 33 pending patent applications. We also have 44 registered industrial packaging designs, and 4 pending industrial design applications.

## License, Franchise and Distribution Contracts

In 1992, we developed a strategic alliance with the French company Sodima International S.A. through a franchise contract which gave us the exclusive right to manufacture and market Yoplait® in Mexico. In 2002, we signed a new franchise contract with Sodima (Sodima International S.A.’s successor) which gave us the right to use Sodima’s production and manufacturing processes, as well as the Yoplait® brand. In 2005 and 2006, we entered into new franchise contracts with Sodima that extended our exclusive franchise rights over the Yoplait® brands to the Dominican Republic, Haiti and Central America. In addition, we obtained the right to receive technical assistance from Sodima. Under our franchise agreements, we pay license fees to Sodima based on a percentage of our revenues of licensed products in Mexico, Central America, the Dominican Republic and Haiti. Our franchise agreement with Sodima with respect to Mexico became effective on July 1, 2012 for a period of 13 years. Our franchise agreement with Sodima with respect to Central America became effective on December 1, 2006 and with respect to the Dominican Republic and Haiti became effective on August 25, 2005. These agreements were subsequently renewed for a period of 10 years pursuant to a new franchise agreement executed on September 30, 2016.

In Europe, we sell products under the Oscar Mayer brand under a license and technical assistance agreement with Kraft Foods Group Inc., (currently The Kraft Heinz Company) dated as of January 1, 1994. In 2014, we entered into the fourth amendment to the license and technical assistance agreement and it now permits us to, subject to certain conditions, use the brand in Spain, Gibraltar, Andorra and Portugal through December 31, 2029. Royalties are calculated as a specified percentage of revenues of licensed products, subject to annual minimum payments. Upon the occurrence of certain events, The Kraft Heinz Company has the right to terminate the agreement at any time upon 60 days written notice.

Since 2008, we have regularly entered into annual or biannual licensing agreements with The Walt Disney Company to commercialize certain products targeted at the youth consumer segment. Under one of our current licensing agreements, dated December 15, 2014, we are permitted to sell products in packaging featuring certain licensed Disney characters in Belgium and Luxembourg and under another current licensing agreement effective as of January 1, 2015, in Spain, Andorra and Portugal. Both license agreements are currently under negotiations for renewal. Royalties under these license agreements are generally calculated as a specified percentage of revenues of licensed products, subject to annual minimum payments.

We sell products under the *Weight Watchers* brand under a trademark license agreement with *Weight Watchers*, dated November 2, 2009. The license, subject to certain conditions, permits us to use the brand in Belgium and Luxembourg. This contract is usually renewed on an annual or biannual basis.

During 2014, we started a relationship with McCormick & Company Inc., through which we produce and distribute seasoned sausage and beef franks products for sale in the United States.

In November 2015, Bar-S Foods obtained a license from General Mills which provides us with the exclusive right to distribute and sell within specified distribution channels in Texas certain Yoplait® yogurt-shakes produced in Mexico by Sigma. This agreement was recently amended to extend its term until December 31, 2019. We have also entered into distribution agreements with (i) Oscar Mayer Foods, a division of The Kraft Heinz Foods, Co., which grants us the exclusive right to distribute certain Oscar Mayer® products in Mexico, (ii) Mondelez Mexico, S. de

R.L. de C.V. and Mondelez International Holdings LLC, which grant us the exclusive right to sell and distribute Philadelphia® cream cheese through the traditional distribution channel in Mexico, Costa Rica, Nicaragua, Guatemala, Honduras and El Salvador and (iii) Hershey's Mexico, S.A. de C.V. to market and distribute products under the Hershey's® and Pelón Pelo Rico® brands in Mexico. The distribution agreement with Oscar Mayer Foods will expire on April 30, 2018. The distribution agreements with Mondelez Mexico, S. de R.L. de C.V. and Mondelez International Holdings LLC will terminate on March 31, 2018 and May 31, 2019, respectively. The distribution agreement with Hershey's Mexico, S.A. de C.V. will terminate on October 18, 2019. These distribution agreements allow for early termination.

We believe our relationships with all these counterparties to be strong, and we have no reason to believe that our agreements with any of them will not be renewed. See “Risk Factors—Risks Relating to Our Company—The loss of rights granted pursuant to any of our franchise or distribution agreements could harm our business and competitive position.”

## **Customers**

We distribute our products to more than 640,000 points of sale throughout the countries in which we have operations. We believe we have a healthy balance of customers across distribution channels. During the year ended December 31, 2017, our revenues were segmented as follows: 47.7% from small family-owned stores, wholesalers (traditional distribution channel), 52.3%, from supermarkets and convenience stores and foodservice customers (modern distribution channel).

We have established and maintain stable and long-term relationships with our customers, including the largest retailers in Europe, the United States and Mexico. During 2017 our top 10 customers accounted for approximately 23.1% of our consolidated revenues.

In the ordinary course of our business, we do not enter into long-term agreements with our customers for the sale of our branded products. Instead, our customers place purchase orders, use inventory replacement systems or purchase our products on a spot market basis. In certain cases, we enter into agreements for the sale of branded products for a term of up to one year.

## **Raw Materials and Suppliers**

We acquire our primary raw materials, such as pork, turkey, chicken, beef and milk from local and international suppliers. In some cases, we establish supply contracts to guaranty our supply. It is our policy to maintain at least two suppliers for any input in our production such as meat, dairy products, packaging materials or dry ingredients. Currently, we do not operate any farms, except for one strategic investment in Ecuador. We do not believe that the termination of a supply arrangement by any single supplier would have a material adverse effect on our business or financial performance. Our current procurement requirement costs for our raw materials and other items are 42.8% for meat, 14.1% for dairy products, 9.4% for ingredients, 12.7% for packaging materials and 21.1% for others.

Our suppliers include leading companies, both locally and internationally. These suppliers are certified by SAGARPA, the USDA or the relevant local food safety authorities and include companies such as Tyson Foods Inc., Farbest Foods, Inc. and Alimentos SBF de México, S. de R.L. de C.V. We receive competitive prices from our suppliers due to our high volume needs and global sourcing model. The primary raw materials we use in packaged meats manufacturing are pork, poultry and beef. These raw materials are priced through a commodities market and thus are subject to market fluctuations.

In Europe, packaged meat operators source their raw materials from slaughterhouses in the European Union and from other countries. The European Union pork sector is subject to European Union law and policies to protect the standards of living for farmers in the sector. Thus, non-European Union sourcing is marginal for further processing as the European Union limits imports of pork products through quotas.

In Mexico, in the last 20 years, we have made an effort to promote and develop regional milk producers to source our dairy business. Currently, we work with a group of over 170 local producers that supply fresh milk to our plants. In addition, we use other raw materials to manufacture dairy products, some of which are sourced from

international markets. Our primary international dairy products suppliers are Fonterra Limited, Schreiber Inc., Interfood PS International and Ecoval Dairy Trade. We are not dependent on any single dairy product supplier.

The prices of the packaging materials we use fluctuate in accordance with global prices, even though some of these materials are provided locally.

## **Manufacturing Processes**

### ***Packaged Meats***

Our packaged meats segment is comprised of three main product lines: cooked hams, which are manufactured from pork and turkey thighs; franks and other meats, which are primarily manufactured from pork and poultry; and dry products which are primarily manufactured from pork.

The cooked ham production process generally involves injecting and tumbling the raw material with brine to extract the protein contained in the meat. This mix is later shaped and cooked and some products also undergo a slicing process. In the case of franks and other products, the raw materials are mixed with dry ingredients which undergo a cooking process. Finally, products are packaged and sent to our distribution centers to be sold to our customers.

Regarding dry products, the drying process involves different time and conditions depending on the products, ranging from a few days for small dry sausages to a year or more for dry cured hams.

### ***Dairy Products***

Our dairy product line is comprised of two main categories: cheese and yogurt. We also produce and sell other spreadable dairy goods, such as margarine, butter and cream.

In the yogurt production process, we start by pasteurizing and skimming milk. Once the milk has been pasteurized and skimmed, it is mixed with lactic cultures to begin the fermentation process. Afterwards, it is mixed with fruit and other ingredients. The final product is packaged and sent to our distribution centers where it is shipped for sale to our customers.

Our cheese production process also starts with the pasteurization and skimming of milk. Once the milk has been pasteurized and skimmed, it is mixed with rennet and other ingredients. The product is then curdled and drained. Finally, the product is molded and in some cases aged, and then packaged and sent to the distribution centers where it is shipped for sale to our customers.

## **Sales and Distribution Network**

### ***Distribution Channels***

Our products reach consumers through a number of different distribution channels in each of the geographies where we are present. Conditions in these geographies vary due to several factors, including economic conditions, consumer consumption and purchasing habits, among others. Therefore, certain distribution channels may be more relevant than others with respect to revenues depending on the region and the strategy designed specifically for each of them.

In Europe, we conduct sales to the modern retail channel (supermarkets and hypermarkets) through a direct route-to-market, in which we outsource delivery activities to a third-party provider to deliver directly to the retailers' platform. In the traditional and foodservice channel, sales are predominantly conducted through an indirect route-to-market such as a wholesaler, partner distributor or cash and carry arrangement in which the customer arranges for the transport of the goods themselves. Additionally, in this region, we export to consumers in more than 110 countries.

Our manufacturing and distribution in the United States have two different distribution models. We have a distribution center strategically located in Oklahoma, which facilitates effective service of our national wholesale customer base. The production facilities operate within a 100-mile radius of the Elk City distribution center,

utilizing a “hub and spoke” concept. Bar-S’s finished products are shipped from Elk City to its customers. In several markets, the Bar-S sales team is supported by food brokers. We also have a direct distribution network which serves customers in Hispanic markets through distribution centers throughout the country.

The retail sector in Mexico and Latin America is highly fragmented between traditional and modern retail distribution channels. We consider the traditional distribution channel our most important distribution channel in these regions, which primarily includes small family-owned stores and distributors. During the year ended December 31, 2017, the traditional distribution channel represented 47.7% of our revenues. The modern distribution channel includes national, regional and convenience stores. During the year ended December 31, 2017, the modern distribution channel accounted for 52.3% of total revenues.

The underdeveloped transportation infrastructure in Mexico and Latin America affects our distribution operations. Moreover, retailers do not have sufficient space to store large inventories, especially in the case of products that require refrigeration. As a result, we invested in our own refrigerated vehicles network and deliver products frequently, visiting customers at least once a week. We have also installed over 68,000 refrigerators in small family-owned stores throughout Mexico. This investment allows us to enhance our brands in an attractive display with minimal competition and at the proper temperature. We invest considerable economic resources each year in our distribution network, primarily attributable to replacement and upkeep of the transportation fleet, enabling us to maintain our significant presence in the traditional distribution channel.

The belief that satisfying our customer needs is a key factor to our success has encouraged the development of our efficient distribution network comprised of 70 plants, 208 distribution centers and over 7,900 vehicles, reaching more than 640,000 points of sale.

### ***Foodservice***

The foodservice channel, which primarily includes sales to restaurants, hospitals, schools, hotels and movie theaters, represented over 11.2% of our revenues in the year ended December 31, 2017.

The foodservice channel in Europe includes sales to industrial businesses, restaurants, hotels, movie theatres, schools and hospitals. We view this channel as a significant growth opportunity as our market position in foodservice is well below our retail shares within our current product categories and geographies; moreover, the foodservice channel has an attractive cash conversion profile given its fast turnover and low capital requirements.

In the United States, the market size of the foodservice channel is larger than the market size of the retail channel. We view this channel as a significant growth opportunity as we currently have a low market share in packaged meats and we plan to leverage on our production capacity to capture market share in this channel.

In Mexico, we have a significant foodservice presence in more than 50 of the largest cities in the country with an active customer base of over 20,000 individual customer accounts. The foodservice market in Mexico is highly fragmented and competitive, and the top 10 players represent approximately 9% of the market.

### ***Sales Force***

We reach a diverse retail customer base in each of the geographies where we operate and focus on optimizing sales across distribution channels. Our strategy intends to minimize our dependence on any single customer and to ensure broad market penetration which in turn facilitates brand awareness.

We have approximately 18,000 salespeople in all of the regions in which we operate. We have salespeople who visit each of our customers in the traditional distribution channel, at least once a week in the regions where we perform delivery activities and own the refrigerated vehicles network. We also have salespeople and key account managers who focus on the modern distribution channel and are generally located at these points of sale. We also have a specialized sales force dedicated to serving foodservice customers, including hospitals, schools and fast food restaurants. Our sales force is comprised of both employees and independent contractors.



## **Marketing**

The food sector is one of the most saturated advertising markets in the countries in which we conduct business. We have diversified and enriched our media mix (national and cable TV, digital, radio, outdoor advertising, magazines and others) in search of greater efficiency when addressing the different segments to whom our products are directed (housewives, teenagers and children and other consumers of different socioeconomic levels). Our marketing activities are conducted in our local markets to better target consumer preferences; however, our corporate marketing organization works to ensure that the strategy of multi-country brands such as FUD® (the United States, Mexico and Latin America), Aoste® (France and Belgium) and Fiorucci® (U.S. and Italy) is aligned across countries with respect to the brand essence, values and image.

In Europe, we continued reinforcing our most recent growth product lines: Traditional, Healthy and Snacking. Product innovation and brand extension to other product categories have played an important role as a platform for growth and diversification of our portfolio. Recently, in the United States we introduced “Grill Mates Sausages” in partnership with McCormick® and in Mexico we introduced sliced panela cheese under the FUD® brand.

We continue to strengthen our brand equity in all our operating regions. In the past few years, digital marketing has become a more relevant platform to reach consumers. The success of our recent campaigns: “Tu mamá miente” for FUD®, and “Deliciosa Calma,” for Pavofrio® in Europe was due to a digital strategy that promotes consumer participation which strengthens our message and reinforces our brands’ equity.

## **Research and Development**

We continuously conduct research and development activities to develop new products and to improve our existing products and processes. We have established a multi-national knowledge management process to share key insights, best practices and research results to work on common business opportunities, which we believe leads to more efficient development, increased productivity and safety and allows us to achieve the greatest value from our raw materials while providing our customers with consistent high-quality products. Our research and development team, which consists of more than 200 highly trained specialists, also has research arrangements with educational and governmental institutions such as the Engineering and Industrial Development Center (CIDESI), National Polytechnic Institute (IPN), Food and Development Research Center (CIAD), Autonomous University of Barcelona, and Fundación Alicia which allow us to use their facilities and research capabilities. We also have a research and development center in Mexico that monitors and responds to changes in consumer trends and technology. In Europe, we have specialists who work on pilot production facilities and process development. In addition, under our franchise agreement with Sodima, we have the right to receive technical assistance from Sodima.

We have developed and launched a broad variety of products into the market, designed to respond to the preferences and needs of consumers. We recognize the value of innovation and know how important it is for the evolution of our brands, products and processes.

## Facilities

We maintain production facilities and operations in Europe, the United States, Mexico and other Latin American countries. We own or operate 70 refrigerated-foods manufacturing plants and own or lease 208 distribution centers.

The following table sets forth information on our distribution centers, plants in operation and product lines for the regions in which we conduct our business.

Country of Operation	Distribution Centers	Plants in Operation	Production Lines
Belgium	1	5	Dry and packaged meats
France	2	6	Dry ham and sausage, meat packaging
Germany	1	0	-
Italy	1	2	Dry and packaged meats
Portugal	1	1	Dry and packaged meats
Spain	2	9	Dry and packaged meats, pre-cooked meals, meat packaging
The Netherlands	1	2	Dry and packaged meats
Romania	9	1	Dry and packaged meats
United States	14	6	Packaged meats, dairy
Mexico	137	25	Packaged meats, dairy, pre-cooked meals, meat packaging, beverages
Costa Rica	10	5	Packaged meats, dairy
Dominican Republic	5	3	Packaged meats, dairy
Ecuador	7	2	Packaged meats
El Salvador	2	1	Packaged meats
Guatemala	3	0	-
Honduras	2	0	-
Nicaragua	1	0	-
Peru	9	2	Packaged meats
<b>Total</b>	<b>208</b>	<b>70</b>	

The following chart lists the locations of our 70 manufacturing plants:

Product Line	Site <sup>(1)</sup>	Products Manufactured	Age (years of operation) <sup>(2)</sup>	Square Footage
<b>Packaged Meats</b>	Burgos, Spain	Ham, hot dogs, and packaged meats	<2	710,408
	Burgos, Spain	Dry ham	19	215,052
	Trujillo, Spain	Dry ham	18	350,957
	Olvega 1, Spain	Dry sausages	59	385,972
	Villaverde, Spain	Dry ham and hot dogs	32	254,103
	Torrente, Spain	Packaged and dry meats, bacon, hot dogs and poultry products	40	132,235
	Torrijos, Spain	Dry ham and dry sausages	41	189,025
	Aoste, France	Dry ham, dry sausages and packaged meat	41	467,304
	Maclas, France	Dry sausages	37	355,413
	Vernoux, France	Dry sausages	38	187,938
	Moroni, France	Dry sausages	35	147,466
	Saint Symphorien, France	Dry sausages	27	260,691
	Monein, France	Dry ham	17	37,674
	Al Ponte, Italy	Dry ham	49	151,050
	St. Palomba, Italy	Packaged and dry meats, bacon, hot dogs, poultry products	48	1,693,163
	Wijhe, the Netherlands	Packaged meats	47	200,209

Product Line	Site <sup>(1)</sup>	Products Manufactured	Age (years of operation) <sup>(2)</sup>	Square Footage
	Deventer, the Netherlands	Dry sausages	37	217,625
	Lovendegem, Belgium	Dry ham and dry sausages	64	161,114
	Amando, Belgium	Packaged and dry meats	41	175,592
	Champlon, Belgium	Dry ham and dry sausages	51	140,878
	Dacor, Belgium	Packaged meats	41	164,247
	Comby, Belgium	Packaged meats and poultry products	37	104,367
	Rio, Portugal	Packaged meats	55	426,725
	Pitesti, Romania	Ham, hot dogs, and packaged meats	16	478,079
	Seminole, Oklahoma, United States	Ham, hot dogs, and packaged meats	9	111,503
	Altus, Oklahoma, United States	Ham, hot dogs, and packaged meats	26	190,995
	Clinton, Oklahoma, United States	Ham, hot dogs, and packaged meats	58	119,996
	Lawton, Oklahoma, United States	Ham, hot dogs, and packaged meats	22	83,000
	Richmond, Virginia, United States	Packaged meat	21	115,131
	Ecatepe de Morelos, Mexico	Ham, hot dogs, and packaged meats	64	86,197
	Atitalaquia, Mexico	Ham, hot dogs, and packaged meats	24	98,996
	Monterrey Noreste, Mexico	Ham, hot dogs, and packaged meats	34	25,327
	San Nicolás de los Garza, Mexico	Ham, hot dogs, and packaged meats	24	25,457
	Guadalajara facility 1, Mexico	Ham, hot dogs, and packaged meats	54	31,474
	Guadalajara, Nayar, Mexico	Ham, hot dogs, and packaged meats	35	112,009
	Guadalajara, CEISA, Mexico	Ham, hot dogs, and packaged meats	16	25,295
	Chihuahua, Mexico	Ham, hot dogs, and packaged meats	64	25,489
	San Luis Potosi, Mexico	Ham, hot dogs, and packaged meats	34	35,758
	Estado de Mexico Galicia,	Ham, hot dogs, and packaged meats	26	60,235
	Mérida, IASSA, Mexico	Ham, hot dogs, and packaged meats	16	51,742
	Costa Rica, facility 1	Ham, hot dogs, and packaged meats	35	66,951
	Costa Rica, facility 2	Ham, hot dogs, and packaged meats	16	12,615
	El Salvador	Ham, hot dogs, and packaged meats	34	35,844
	Dominican Republic	Ham, hot dogs, and packaged meats	35	105,863
	Sangolqui, Ecuador	Ham, hot dogs, and packaged meats	5	118,403
	Latacunga, Ecuador	Ham, hot dogs, and packaged meats	6	123,410
	Lima, Peru	Ham, hot dogs, and packaged meats	44	50,709
	Chancay, Peru	Packaged meats	32	97,672
<b>Dairy Products</b>	Darlington, Wisconsin, United States	Cheese, others	20	49,998
	Jalisco, Lagos, Mexico	Yogurt, cheese	23	226,139
	Jalisco, El Salto, Mexico	Butter and Cream	23	21,162
	Nuevo León, Sabinas, Mexico	Cheese, others	41	97,241
	Nuevo León, Apodaca, Mexico	Cheese	46	16,146
	Coahuila, Saltillo, Mexico	Cheese	39	59,524
	Estado de Mexico, Mexico	Cheese	18	32,346
	Guanajuato, Celaya, Mexico	Cheese, others	41	87,812
	Alajuela, Costa Rica	Cheese	22	29,364
	Alajuela, Costa Rica	Yogurt	10	26,372
	Monteverde, Costa Rica	Cheese, others	28	22,733
<b>Fresh Meat</b>	Sosúa, Dominican Republic	Cheese	19	38,787
	Sosúa, Dominican Republic	Yogurt	19	18,304
	Burgos, Spain	Packaged meat	14	649,710
	Nuevo León, Ciénega de Flores, Mexico	Packaged meat	<1	103,334
	Nuevo León, Monterrey, Mexico	Packaged meat	17	23,142
	Sonora, Hermosillo, Mexico	Packaged meat	11	14,521
	Guanajuato, Penjamo, Mexico	Packaged meat	3	275,454

<b>Product Line</b>	<b>Site<sup>(1)</sup></b>	<b>Products Manufactured</b>	<b>Age (years of operation)<sup>(2)</sup></b>	<b>Square Footage</b>
<b>Pre-cooked Foods</b>	Olvega 2, Spain	Pre-cooked foods, Pizza	4	209,976
	Nuevo León, Mexico	Refrigerated	21	132,450
	Hidalgo, Atitalaquia, Mexico	Pre-cooked foods, Pizza	14	70,967
<b>Beverages</b>	Jalisco, Lagos, Mexico	Coffee	14	12,917

(1) All the manufacturing plants above are owned by us and are insured as we consider necessary. Our facilities listed above are free of liens.

(2) Age reflects the year in which the manufacturing plant initiated operations.

### **Information Technology**

We use technology provided by SAP AG, Oracle, Microsoft Corporation, JDA, Meta4, Symantec Corporation and other firms for processing plant maintenance, distribution and determining central operations and sales force activities. Our systems integrate sales data, generate stock replenishment orders and design efficient sourcing and delivery routes. We believe that our systems infrastructure supports our various business operations and is secure and robust. We have back-up and disaster recovery plans in place, which are reviewed on a periodic basis. Our staff is highly trained and experienced, and many have been working with us for several years, providing a depth of system knowledge.

To better serve our traditional distribution channel efficiently, we have invested in route optimization programs, such as the Territory Planner used by Omnitracks. We also have access to satellite monitoring via GPRS which allows us to pinpoint our vehicles at any time, help our drivers locate customers and process orders in real time. Mobile devices and SAP-based software, such as Customer Relationship Management and Business Intelligence, are other technological tools we use to provide superior service to our customers.

We have outsourcing contracts with T-Systems, Axtel, Softek, British Telecom and Accenture, which provide for the following services:

- T-Systems – management of central and distributing computing, help desk, Basis and Soptec;
- Axtel – telecommunications (voice, data and video);
- Softek – Application Management Support; and
- Accenture (Europe) – our critical system servers are housed offsite in data centers.

### **Environmental and Other Government Regulation**

Like other participants in the industry, we are subject to various laws and regulations administered by municipal, local, state, federal and other governmental entities and agencies in the countries in which we operate, including regulations regarding the environment, health and safety, disclosure of ingredients, food and drugs, transportation, anti-corruption, customs, anti-trust, export controls and trade sanctions, employment and labor, government contracts and intellectual property. Failure to comply with these requirements may result in fines, penalties, criminal sanctions and liability for damages.

We believe that we are currently in substantial compliance with all material governmental laws and regulations affecting our business, including environmental and health and safety laws and regulations, and maintain all material registries, permits and licenses relating to our operations.

#### ***Environmental***

We perform our operations with additional focus on our surroundings and the optimal use of natural resources required to satisfy the production, distribution and marketing of refrigerated food products. We have implemented

programs aimed at adopting best practices to reduce our consumption of electricity, fuel, water and other materials and to enhance energy efficiency in an effort to reduce the environmental impact of our operations. We have issued an environmental corporate policy to guide our efforts across all of our business units and to create environmental awareness within and outside of the Company. Our operations are subject to the federal, state and local laws and regulations relating to the protection of the environment in the countries in which we operate.

In Europe, we are subject to extensive and increasingly stringent laws and regulations pertaining to the protection of the environment, including among others: the discharge of materials into the environment, the handling and disposition of waste (including solid and hazardous waste), remediation of contaminated sites, environmental stewardship, the emission of greenhouse gases, and climate change. Such laws and regulations require us to obtain regulatory licenses, permits and other approvals and to comply with them. Governmental authorities may not grant these regulatory licenses, permits and approvals, and such laws and regulations may change or be interpreted in a manner that increases our costs of compliance, materially or adversely affecting our operations, plants or plans to invest.

ISO 14001 specifies environmental management system requirements and applies to the environmental aspects over which an organization can be expected to exercise control. We use this standard to manage and maintain environmental performance, and our factories located in Burgos, Spain, St. Symphorien, France, Aoste, France and Al Ponte, Italy have achieved ISO 14001 certification. In addition the remainder of our factories in Spain and France and our factories in Santa Palomba, Italy, the Netherlands and Belgium obtained Integrated Environmental Authorization (“AAI”), which certifies that these factories and the operations performed therein comply with the guidelines and best practices (best available techniques) established in EU Directive 2010/75/EC on Industrial Emissions, Integrated Pollution Prevention and Control (“IPPC”). The goal of the IPPC is to minimize pollution for various industrial activities in the EU. Operators of industrial facilities falling under the scope of the IPPC are required to obtain an environmental permit from the relevant country authorities.

In the United States, we are subject to various federal, state, and local laws and regulations relating to the protection of the environment. These laws and regulations include the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act and Superfund, which imposes joint and severable liability on each responsible party. The U.S. federal authority with primary jurisdiction over environmental matters is the U.S. Environmental Protection Agency; however, other federal, state, and local agencies, as well as private parties, can use various legal means to enforce environmental laws.

The primary federal environmental law in Mexico is the Mexican Federal Law of Ecological Balance and Environmental Protection (*Ley General de Equilibrio Ecológico y Protección al Ambiente*) pursuant to which rules have been promulgated concerning environmental impact, water, air and noise pollution and hazardous substances. Other laws that apply or may apply to our operations are the General Law for Prevention and Integral Management of Residues (*Ley General para la Prevención y Gestión Integral de los Residuos*), which regulates the generation, handling, transportation, storage and final disposal of hazardous waste, as well as imports and exports of hazardous materials and hazardous waste and allocates the participation of the states and municipalities to regulate the generation, handling, transportation and final disposal of waste of special management and urban waste, respectively, and the National Water Law (*Ley de Aguas Nacionales*) and regulations thereunder, which govern the prevention and control of water pollution.

The Mexican federal authority in charge of overseeing compliance with the federal environmental laws is the Ministry of Environment and Natural Resources (*Secretaría del Medio Ambiente y Recursos Naturales* or “SEMARNAT”). We have fulfilled all environmental requirements necessary to obtain SEMARNAT’s Excellent Environmental Performance certification, which certifies our compliance with the Clean Transportation program with respect to our primary distribution network in Mexico. An agency of SEMARNAT, the Federal Attorney of Environmental Protection (*Procuraduría Federal de Protección al Ambiente* or “PROFEPA”), has the authority to enforce the Mexican federal environmental laws. As part of its enforcement authority, PROFEPA can bring civil, administrative and criminal proceedings against companies and individuals that violate environmental laws and has the power to close facilities not in compliance with federal environmental laws. PROFEPA can issue sanctions that include monetary fines, revocation of authorizations, concessions, licenses, permits or registries, administrative arrests, seizure of contaminating equipment and, in certain cases, temporary or permanent closure of facilities. Furthermore, in special situations or certain areas where federal jurisdiction is not applicable or appropriate, or in some cases concurrently applicable, the state and municipal authorities can regulate and enforce certain

environmental regulations, as long as they are consistent with federal law. We have fulfilled all environmental requirements necessary to obtain PROFEPA's Clean Industry certification (*Industria Limpia*), which certifies our compliance with certain environmental laws with respect to most of our production facilities.

Our environmental department, together with our technical officers and management, addresses the significant environmental aspects of our operations, provides employee training programs, facilitates engagement with local communities and regulators and designs action plans to implement preventive and corrective measures where necessary. The environmental department is engaged in the collection, analysis and reporting of relevant environmental data in the categories of atmosphere, waste, water and industrial safety. We also use external advisors to update us on relevant changes in regulations and laws and to periodically review our environmental goals. We believe that all of our operations are in substantial compliance with the applicable environmental regulations and hold the necessary permits to conduct our business.

### ***Safety and Quality Control***

Our operations are subject to the federal and state laws and regulations of the countries in which we conduct our business relating to the protection of our employees and contractors. We believe we are in compliance with all such laws and regulations. We are committed to promoting the health and safety of our workers and others involved in or affected by our operations and have developed and implemented an integrated health and safety management system. As part of this system, each of our Mexican facilities is equipped with a permit administration system, an accident prevention program, a comprehensive emergency response program with emergency equipment and trained safety crews and a risk analysis and management program. Regular external audits are conducted to assess the effectiveness of our internal health and safety practices. We have been in compliance in all material respects with such audits in the past. In addition, we are committed to protecting the environment and the health and safety of the communities in which we operate. Accordingly, we collaborate with local governments, advocacy organizations and industry and public interest groups to promote a culture of continuous improvement in environment, safety and health. Our quality procedures are internationally validated through several certifications such as ISO 9002, SQF (Safe Quality Food) and HACCP. Also, three of our Mexican facilities are USDA certified, enabling them to export product to the United States. Our Darlington, Wisconsin, facility is an FDA-registered establishment and our Seminole, Oklahoma, facility has on-site USDA inspectors.

Most European factories are BRC (British Retail Consortium) and IFS (International Food Standard) certified, which we believe are the most stringent quality certifications. All sites are Global Food Safety Initiative Certified ("GFSI"), two of them are approved by the USDA to export products to the United States, and most of them are also approved to export to other countries with high quality requirements such as Japan, Canada and China. In addition our Serrano ham (*jamón serrano*) is ETG (*Especialidades Tradicionales Garantizadas*) certified, and our Parma Ham is DOP (*Denominación de Origen Protegida*) certified.

We believe we are in compliance, in all material respects, with the food safety laws and regulations of the countries in which we operate. There are no outstanding fines or other economic sanctions which, individually or in the aggregate, would materially adversely affect our business or financial condition.

### **Exporting Fees**

As an exporting company, we are subject to a complex legal framework that regulates exporting, foreign trade, customs clearance, tax rules and incentives in the jurisdictions where we operate. In addition, we are required to comply with regulatory non-tariff measures, such as obtaining permits and licenses from the health authorities of the countries to which our products are exported.

### **Insurance**

We are insured with coverage against three key categories of risk: (i) assets and business interruption; (ii) cargo/marine; and (iii) general liability. Our insurance policies are negotiated on our behalf by Alfa and apply to our operations in every country in which we have production facilities.

Our all-risk policy insures assets and protects us against business interruptions caused by natural disasters, equipment malfunctions and other catastrophic events. Our cargo/marine policies provide coverage for all import

and export merchandise, such as raw materials, inventories and products, whether shipped by air, land or sea. We also maintain general liability policies that provide coverage for damage to third parties and insure properties, products and individuals, including our directors and officers. In addition, each subsidiary maintains other insurance policies as necessary to comply with local regulations or specific needs, such as commercial auto, workers compensation, environmental liability and employee practices.

We believe that our insurance coverage is reasonable in amount and consistent with industry standards, and do not anticipate having any difficulties in renewing any of our insurance policies.

## Legal Proceedings

In the ordinary course of our business, we are involved in disputes and litigation in several jurisdictions. While the outcomes of disputes cannot be predicted, nor the expense and time required to pursue or defend those disputes, we do not believe that there are any pending or threatened actions, suits or proceedings against or affecting us which, if determined adversely to us, would individually or in the aggregate, materially harm our business, results of operations or financial condition.

## Employees

As of December 31, 2017, we had 44,578 full-time employees and 865 part-time employees in 18 countries throughout the world. Our employees are well diversified geographically with approximately 18% located in Europe, 6% in the United States, 63% in Mexico, and 13% in other Latin American countries. Approximately 40% of our employees perform operations activities, 39% sales and distribution activities, 1% research and development activities, and 20% administrative activities.

Mexican employers, such as us, are required to make profit-sharing payments (“PTU”), to their employees in an aggregate amount equal to 10% of the employer’s profit (calculated in accordance with the applicable provisions of the Mexican Income Tax Law (*Ley del Impuesto sobre la Renta*) without reference to dividends, inflation adjustments or tax loss carry forwards, among other items). Employers are liable for PTU regardless of agreed compensation and benefits. Some of our employees in Mexico are employed by a services company, and we currently pay labor benefits based on the profit of the employee’s direct employer (our services company), without considering our profit or that of any other company within our group. As a result of amendments to the Mexican Federal Labor Law, there is a risk that we could be considered an employer of the employees of our services companies, and as such may be required to pay an increased PTU taking into account the profit of an operating company instead of the employees’ direct employer, which would impact our financial condition and results of operations. See “Risk Factors—Risks Relating to Our Business—Any deterioration of relations with our employees or increase in labor costs may have a negative impact on our business, financial condition, results of operations and prospects.”

The following table shows our employees by geographic location as of December 31, 2015, 2016 and 2017:

	Number of Employees		
	December 31,		
	2015	2016	2017
Europe .....	6,729	6,881	8,073
United States.....	2,493	2,753	2,858
Mexico.....	26,190	28,004	28,490
Latin America.....	4,636	5,006	6,022
Total employees.....	40,048	42,644	45,443

We have pension plan commitments to complete retirement benefit payments for certain employees in France, the Netherlands, Belgium and Italy. These commitments are fully covered by external funds or pension liability provisions recorded in our financial statements. All of our external funding complies with local minimum funding regulations.

We believe that we have satisfactory working relationships with our employees and have not experienced any significant labor disputes or work stoppages. We further believe that we comply with labor laws in the jurisdictions where we operate. Approximately 14% of our employees are covered by collective labor agreements or are members of labor unions. Our trade-union employees are affiliated with the main trade unions in Mexico, including the Mexican Workers' Confederation (*Confederación de Trabajadores de México*), the Revolutionary Confederation of Industrial and Agricultural Workers (*Confederación Revolucionaria de Obreros y Campesinos*), the Confederation of Industrial and Agricultural Workers (*Confederación de Trabajadores y Campesino*), the National Federation of Autonomous Unions (*Federación Nacional de Asociaciones Sindicales Autónomas*) and the Autonomous Federation of Independent Unionism in Mexico (*Federación Autónoma del Sindicalismo Independiente en México*). Generally, collective bargaining agreements with these trade unions are negotiated every two years, though salary increases are applied annually.

We are members of several industry organizations including, among others, the National Association of the Meat Industry (*Asociación Nacional de la Industria de la Carne*) in Spain, the Liaison Center for the Meat Processing Industry (*Centre de Liaison des Industries Transformatrices de Viandes*) and the National Association of Food Industries (*Association Nationale des Industries Alimentaires*) in France, the North American Meat Institute in the United States, the Mexican Meat Council (*Consejo Mexicano de la Carne*) in Mexico, the National Industrial Society (*Sociedad Nacional de Industrias*, "SNI") in Peru, and the Food Industry Chamber (*Cámara de la Industria Alimentaria*) in Costa Rica.



## MANAGEMENT

Our Board of Directors is responsible for the management of our business. The Board of Directors is comprised of a number of members, as determined from time to time at the shareholders' meeting. Directors serve in their positions for a term of one year and may be re-elected.

Our current Board of Directors was appointed or re-elected at the shareholders' meeting held on February 21, 2018. The address for each of our directors and executive officers is Ave. Gómez Morín No. 1111 Sur, Col. Carrizalejo, C.P. 66254, San Pedro Garza García, Nuevo León, Mexico.

### Directors and Executive Officers

#### *Board of Directors*

*Our Board of Directors is comprised as follows:*

<u>Name</u>	<u>Age</u>
Mario Humberto Páez González	67
Rodrigo Fernández Martínez	42
Ramón Alberto Leal Chapa	48
Paulino José Rodríguez Mendivil	66
Alejandro Miguel Elizondo Barragán	64
Carlos Jiménez Barrera	62

**Mario Humberto Páez González.** Mr. Páez is the President of the Board of Directors and President and Chief Executive Officer of Sigma. He joined Alfa in 1974 and has served as Sigma's Chief Executive Officer for a total of 15 years since 2002 and served as Alfa's Chief Financial Officer for a period of ten months. Mr. Páez has also served as CEO of Total Home, S.A. de C.V. and Empaques de Cartón Titán, S.A. de C.V. Mr. Páez holds a Bachelor's Degree in Public Accounting from ITESM and an MBA from Instituto Tecnológico de Estudios Superiores de Monterrey ("ITESM") and Tulane University.

**Rodrigo Fernández Martínez.** Mr. Fernández is the CEO of Sigma Americas. He joined Alfa in 1998. Prior to his current position he served as CEO Sigma Mexico and Latin America, CFO & Central Marketing Officer. Mr. Fernández holds a Bachelor of Arts in Economics from the University of Virginia and a Master's degree in Business Administration from the Wharton School of the University of Pennsylvania.

**Ramón Alberto Leal Chapa.** Mr. Leal is the Chief Financial Officer of Alfa. He joined Alfa in 2009. Prior to his current position he served as Alfa's Vice President of Treasury. He served in various executive positions in finance and strategic planning at Vitro. He previously held various executive positions at Pulsar, Vector Casa de Bolsa and Violy & Partners in New York. Mr. Leal is also a member of the Executive Council of Axtel, Universidad de Monterrey and of other companies and institutions. He holds degrees in Accounting from Universidad de Monterrey, a Master's degree in Operations Management from ITESM, and an MBA from Harvard Business School.

**Paulino José Rodríguez Mendivil.** Mr. Rodríguez is the Senior Vice President of Human Capital of Alfa. He joined Alfa in 2004. Prior to his current position, he served in various positions at Sigma, including Vice President of Human Resources, Vice President of Key Sales Accounts and Vice President of Institutional Sale. Mr. Rodríguez is also a member of the Boards of Axtel, Campofrío, Indelpro, the Confederación Patronal de la República Mexicana ("COPARMEX") and the Consejo Coordinador Empresarial. He studied Industrial Systems Engineering and obtained a Master's in Energy Technology from the University of the Basque Country, Spain. He also graduated from the School of Naval Academy officers in Spain and attended several graduate courses at the University of California at Berkeley, Instituto Panamericano de Alta Dirección de Empresas ("IPADE") and ITESM.

**Alejandro Miguel Elizondo Barragán.** Mr. Elizondo is Senior Vice President of Business Development of Alfa. He joined Alfa in 1976. Prior to his current position, he was President of Alpek. He also served as Senior Vice President of Finance of Alfa and President of Hylsamex. Currently, he is a Board member of Embotelladoras Arca

and Banco Regional de Monterrey. He studied Mechanical and Electrical Engineering at ITESM, and holds an MBA from Harvard Business School.

**Carlos Jiménez Barrera.** Mr. Jiménez is the Secretary of the Board of Directors and Senior Vice President of Legal and Corporate Affairs of Alfa. He joined Alfa in 1978. Prior to his current position, he was Legal Vice President of Alfa. He was also Legal Vice President of Corporate Affairs of Alfa, Legal Vice President of Hylsamex. He is a graduate of the School of Law of the Universidad de Monterrey and holds a Master's degree from the New York University School of Law.

## Executive Officers

Our current executive officers, their ages, principal positions and periods of service are as follows:

Name	Age	Position	Period of Service
Mario H. Páez González	67	President & CEO Sigma Alimentos Group	43
Rodrigo Fernández Martínez	42	CEO Sigma Americas	19
Ricardo J. Doehner Cobián	45	CEO Sigma Europe	21
Álvaro Madero Gómez	64	CEO Sigma Foodservice	41
Eugenio Caballero Sada	38	CFO & Central Marketing Officer	16
Gregorio de Haene Rosique	58	CTO (Chief Technology Officer)	35
Luis Iturralde Siller	57	Senior Vice President of Talent and Culture	24

*Mario Humberto Páez González.* See “—Directors and Executive Officers—Board of Directors.”

*Rodrigo Fernández Martínez.* See “—Directors and Executive Officers—Board of Directors.”

*Ricardo Joaquin Doehner Cobián* joined Alfa in 1996 and is the CEO of Sigma Europe. He previously held the position of Senior Vice President of Integration and Synergies at Sigma. Mr. Doehner holds a degree in mechanical engineering from ITESM and a Master's degree in Business Administration from the University of Michigan.

*Álvaro Madero Gómez* joined Alfa in 1976 and is the CEO of Sigma Foodservice. He previously held the position of Senior Vice President of Talent and Culture at Sigma. Mr. Madero holds a degree in chemical engineering from ITESM and a Master's degree in Business Administration from the Wharton School of the University of Pennsylvania.

*Eugenio Caballero Sada* joined Alfa in 2002 and is the CFO & Central Marketing Officer. He previously held the position of VP Strategy and Brands. Mr. Caballero holds a degree in mechanical and industrial engineering from ITESM and a Master's degree in Business Administration from Harvard Business School.

*Gregorio de Haene Rosique* joined Alfa in 1982 and is the Chief Technology Officer. He previously held the position of VP of Technology at Sigma. Mr. de Haene holds a Bachelor's degree in biochemical engineering from ITESM and holds a Master's degree in Business Administration from ITESM.

*Luis Iturralde Siller* joined Alfa in 1994 and is the Senior Vice President of Talent and Culture. He previously held the position of VP Innovation & Consumer Insight. Mr. Iturralde holds a degree in architecture from ITESM and holds a Master's degree in Business Administration from ITESM.

## Compensation of Directors and Executive Officers

Wages and benefits received by our top officials for the years ended December 31, 2015, 2016 and 2017 were Ps. 418 million, Ps. 419 million and Ps. 424 million, respectively, consisting of base salary, benefits and variable compensation programs. All of our Directors are current employees of us or Alfa. We currently have a stock plan in place for our Directors and Executive Officers under which awards are granted and are payable over a five-year period. The cash amounts payable during such period are based primarily on the financial results of Sigma and to a

lesser extent on the performance of Alfa's stock as compared to similar companies that are listed on the Mexican Stock Exchange (*Bolsa Mexicana de Valores*).

### **Internal Controls**

We have internal control policies and procedures designed to promote (i) the efficiency and effectiveness of our operations, (ii) the reliability of our financial information and (iii) the compliance with all applicable legislation, regulations, statutory rules and guidelines. Our Board of Directors is responsible for establishing and maintaining our internal controls with support from Alfa. This allows us to assure that our internal controls continuously function and are independent from our general management activities and internal audit.

### **Board of Directors of the Issuer**

The Issuer's current directors, titles, and principal positions are as follows:

<b>Title</b>	<b>Name</b>	<b>Position</b>
Director A	Fernando Avila Madrid	International Tax Director at Alfa Corporativo, S.A. de C.V.
Director A	Jacobus Johannes van Ginkel	Managing Director at Zedra Netherlands, B.V.
Director B	Bart Willem de Sonnaville	Executive Director at Zedra Netherlands, B.V.
Director B	Carlos Avila García	Exteriors Comptroller at Alfa Group

The business address of each of the members of the board of directors of the Issuer is Schiphol Boulevard 359, D-Tower, 11th floor, 1118BJ Schiphol, The Netherlands.

## **PRINCIPAL SHAREHOLDERS**

The Issuer is a wholly-owned subsidiary of the Parent Guarantor. The Parent Guarantor is a wholly-owned subsidiary of Alfa. Alfa is a public company and its shares are registered with the RNV maintained by the CNBV, and listed on the Mexican Stock Exchange under the trading symbol “ALFAA.” Alfa’s shares are also quoted on the Latibex, the exchange market for Latin American issuers on the Madrid Stock Exchange under the trading symbol “XALFA.”

There is no single person (corporate or individual) that holds or controls more than 10% of the equity securities issued by Alfa, exercises a significant influence, controls or has the power to control Alfa.

## RELATED PARTY TRANSACTIONS

From time to time, we may enter into transactions with parties that have relationships with Alfa and its affiliates.

Amounts representing significant related party transactions for the years ended December 31, 2015, 2016 and 2017 are as follows:

	For the Year Ended December 31,			
	2015	2016	2017	2017
	(Ps.)	(Ps.)	(Ps.)	(US\$) <sup>(1)</sup>
	(in millions)			
<b>Income:</b>				
Leases.....	6	8	8	0
Interest.....	10	5	-	-
<b>Expense:</b>				
Administrative services .....	164	159	160	8
Leases and other .....	214	262	189	10
<b>Dividends.....</b>	<b>1,080</b>	<b>1,713</b>	<b>2,978</b>	<b>157</b>

- (1) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of Ps. 18.9291 per U.S. Dollar, the average of the Official Exchange Rate on each day during the year ended December 31, 2017. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See “Exchange Rates.”

### Services Provided by Affiliates

In the ordinary course of our business, we obtain administrative and corporate services from Alfa and several of its subsidiaries, including, among others, Alliax, S.A. de C.V., Alfa Corporativo, S.A. de C.V. and Axtel. We have paid Alfa for the following administrative and support services, among others: government and institutional lobbying, human resources planning, financial and treasury planning, legal and tax advice, strategic planning, investor relations and communication. Such payments were made on market terms.

Through Alliax, S.A. de C.V., we outsource certain administrative services, including accounts payable, travel expense processing, payroll and other administrative services. We also lease office space for our headquarters from Alfa Corporativo, S.A. de C.V. and Axtel provides us with telecommunications services (voice, data and video). Additionally, some of our affiliates provide certain services to us and our subsidiaries such as air transportation, security services, leases and other corporate and administrative services. These transactions are made on market terms.

### Affiliates Outstanding Balances

As of December 31, 2015, 2016 and 2017, we had amounts due to affiliates of Ps. 49 million, Ps. 52 million and Ps. 38 million, respectively. As of December 31, 2015, 2016 and 2017 we had receivables due from affiliates for outstanding loans of Ps. 260 million, Ps. 0 million and Ps. 0 million, respectively and for outstanding services of Ps. 22 million, Ps. 34 million and Ps. 7 million, respectively.

## DESCRIPTION OF THE NOTES

The Issuer will issue US\$500,000,000 aggregate principal amount of 4.875% Senior Notes due 2028 under an indenture (the “indenture”) to be entered into by and among the Issuer (as defined below), the Guarantors (as defined below) and The Bank of New York Mellon, as trustee, paying agent, registrar and transfer agent. Physical copies of the indenture, including the form of notes and guarantee, will be available for inspection for the life of the notes during normal business hours at the offices of the trustee. The trustee will also act as transfer agent and registrar if the Issuer issues certificates for the notes in definitive registered form.

This Description of the Notes is a summary of the material provisions of the notes and the indenture. You should refer to the indenture for a complete description of the terms and conditions of the notes and the indenture, including our obligations and your rights.

You will find the definitions of capitalized terms used in this section under “—Certain Definitions.” For purposes of this section of this offering memorandum, when we refer to:

- the “Issuer,” we mean Sigma Finance Netherlands B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated under the laws of the Netherlands, which is a wholly-owned subsidiary of Sigma Alimentos, S.A. de C.V.;
- “we,” “us,” “our” or “the Company,” we mean Sigma Alimentos, S.A. de C.V. and not its Subsidiaries; and
- the “notes,” we mean the notes offered pursuant to this offering memorandum and, unless the context otherwise requires, any additional notes, as described below in “—General.”

### General

The notes:

- will be the Issuer’s senior unsecured obligations (junior to certain obligations that are preferred by statute and/or the laws of the Netherlands, such as tax, social security, workers’ housing fund and labor claims);
- will be fully and unconditionally guaranteed, on a joint and several basis and on a senior unsecured basis, by the Guarantors, subject to the guarantee release provisions described below;
- will not be convertible into any other security or have the benefit of a sinking fund;
- will initially be limited to an aggregate principal amount of US\$500,000,000;
- will mature at 100% of their principal amount then outstanding on March 27, 2028;
- will be issued in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof; and
- will be represented by one or more registered notes in global form and may be exchanged for notes in definitive form only in limited circumstances.

The Issuer will initially issue an aggregate of US\$500,000,000 of notes, but may, subject to the limitations set forth under “—Covenants,” issue an unlimited principal amount of the notes under the indenture. The Issuer may, without your consent, issue additional notes (together, the “additional notes”) in one or more transactions, which have substantially identical terms (other than issue price, issue date and date from which the interest will accrue) as the notes issued on the issue date. Such additional notes may be issued in one or more series and with the same or different CUSIP numbers; *provided, however*, that unless such additional notes are issued under a separate CUSIP number, such additional notes are issued either (i) pursuant to a “qualified reopening” for U.S. federal

income tax purposes, (ii) with no more than a de minimis amount of original issue discount or (iii) otherwise as part of the same “issue” for U.S. federal income tax purposes. Any additional notes will be consolidated and form a single class with the other notes issued on the issue date, so that, among other things, holders of any additional notes will have the right to vote together with holders of notes issued on the issue date as one class.

Interest on the notes:

- will accrue at the rate of 4.875% per annum;
- will accrue from the date of issuance or from the most recent interest payment date;
- will be payable in cash, semi-annually in arrears on March 27 and September 27 of each year, commencing on September 27, 2018;
- will be payable to the Persons in whose name the notes are registered at the close of business on March 12 and September 12 immediately preceding each interest payment date; and
- will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Principal of, and interest, including any Additional Amounts on, the notes will be payable, and the transfer of notes will be registrable, at the office of the trustee, and at the offices of the paying agents and transfer agents, respectively.

### **Ranking of the Notes and the Guarantees**

The notes will constitute the Issuer’s direct senior unsecured obligations, and if the Issuer were to incur any indebtedness other than the notes, the notes would rank at least *pari passu* in priority of payment with all its other existing and future senior unsecured indebtedness.

The guarantees will constitute each Guarantor’s direct senior unsecured obligations, and if such Guarantor were to incur any indebtedness other than with respect to its guarantee of the notes, the guarantees would rank at least *pari passu* in priority of payment with such Guarantor’s other existing and future senior unsecured indebtedness.

In the event of a bankruptcy, *concurso mercantil*, *quiebra*, liquidation or other similar proceeding by or against the Issuer or any of the Guarantors, obligations under the notes and the guarantees would be:

- equal in right of payment to all other of the Issuer’s and the Guarantors’ existing and future senior unsecured indebtedness;
- junior to certain obligations given preference under applicable law, including tax, social security, workers’ housing fund and labor claims;
- effectively subordinated to all of the Issuer’s and the Guarantors’ existing and future indebtedness secured by the Issuer’s and the Guarantors’ assets, to the extent of the value of the assets securing such indebtedness; and
- structurally subordinated to claims of creditors (including trade creditors and preferred stockholders, if any) of each of our Subsidiaries (other than the Subsidiaries that are Guarantors).

As of December 31, 2017, we and our Subsidiaries had total consolidated indebtedness of Ps. 50,409 million (US\$2,554 million), of which Ps. 9,612 million (US\$487 million) was indebtedness of our Subsidiaries (other than the Issuer and the Subsidiaries that are Guarantors) to which the notes will be structurally subordinated, and none of which was secured indebtedness. As of December 31, 2017, on an unconsolidated basis the Company had Ps. 40,797 million (US\$2,067 million) of outstanding indebtedness.

## Guarantees

Each Guarantor will unconditionally guarantee the full and prompt payment of all of the Issuer's obligations under the indenture and the notes. The obligations of each Guarantor in respect of its guarantee will be limited to the maximum amount as will result in its obligations not constituting a fraudulent conveyance, fraudulent transfer or similar illegal transfer, to the extent specified under applicable law. See "Risk Factors—Risks Relating to the Notes—The guarantees may not be enforceable under applicable laws."

Initially, the Guarantors will be: the Company, Sigma Alimentos Corporativo, S.A. de C.V., Sigma Alimentos Centro, S.A. de C.V., Sigma Alimentos Comercial, S.A. de C.V., Sigma Alimentos Lacteos, S.A. de C.V., Comercializadora de Embutidos ICO, S.A. de C.V., Alimentos Finos de Occidente, S.A. de C.V., Carnes Selectas Tangamanga, S.A. de C.V., Sigma Alimentos Congelados, S.A. de C.V., Sigma Alimentos Noreste, S.A. de C.V., Empacadora de Embutidos del Centro, S.A. de C.V., Grupo Chen, S. de R.L. de C.V., Comercial Norteamericana, S. de R.L. de C.V., Sigma Alimentos Exterior, S.L., Sigma Processed Meats, LLC, Sigma Foods, LLC., Mexican Cheese Producers, Inc., Bar-S Foods Co. and Sigma Alimentos Costa Rica, S.A. When we refer to the "Guarantors" throughout this offering memorandum, we mean each of the above entities and not their subsidiaries.

The Issuer, the Company (on a stand-alone basis) and the Guarantors that are Subsidiaries of the Company accounted for 50% of our consolidated assets and 67% of our consolidated Adjusted EBITDA as of and for the year ended December 31, 2017.

Each Guarantor that is a Subsidiary of the Company will be released and relieved of its obligations under its respective guarantee in the event that:

- (1) there is a sale or other disposition of such Guarantor that is a Subsidiary of the Company (whether by merger, consolidation, the sale of all or a majority of its Capital Stock or the sale of all or substantially all of its assets), following which such Subsidiary is no longer a direct or indirect Subsidiary of the Company; or
- (2) there is a defeasance of the notes or upon satisfaction and discharge of the indenture; or
- (3) at the Company's option, if the notes have Investment Grade Ratings from at least two Rating Agencies, and such two Rating Agencies issue a Ratings Affirmation;

*provided* that such transaction is carried out pursuant to, and in accordance with, the applicable provisions of the indenture. Following such release, such guarantee shall no longer be in effect.

Not all of the Company's Subsidiaries will guarantee the notes. In the event of a bankruptcy, *concurso mercantil*, *quiebra*, liquidation or similar proceeding by or against a non-Guarantor Subsidiary, such non-Guarantor Subsidiary will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Company and the Subsidiaries that are Guarantors. See "Risk Factors—Risk Factors Relating to the Notes—Payments on the notes and the guarantees will be effectively junior to any secured indebtedness of the Issuer and the Guarantors; payments on the notes and the parent guarantee will be structurally junior to the debt obligations of each non-guarantor subsidiary of the Parent Guarantor and payments on the subsidiary guarantees will be structurally junior to the debt obligations of the non-guarantor subsidiaries of each respective Subsidiary Guarantor."

## Payments

The Issuer will make all payments on the notes exclusively in such coin or currency of the United States as at the time of payment will be legal tender for the payment of public and private debts.

The Issuer will make payments of principal and interest on the notes to the trustee (as identified on the inside back cover page of this offering memorandum), which will pass such funds to the paying agents or to the holders. Initially, the trustee will act as registrar, transfer agent and paying agent for the notes.



The Issuer will make payments of principal upon surrender of the relevant notes at the specified office of the trustee or any of the paying agents. The Issuer will pay interest on the notes to the Persons in whose name the notes are registered at the close of business on the fifteenth day immediately preceding the due date for payment. Payments of principal and interest in respect of each global note will be paid by wire transfer of immediately available funds to DTC. Payments of principal and interest in respect of any certificated notes will be made by U.S. dollar check drawn on a bank in the City of New York and mailed to the holder of such note at its registered address. Upon application by the holder of at least US\$1.0 million in aggregate principal amount of notes to the specified office of the trustee or any paying agent not less than 15 days before the due date for any payment in respect of a note, such payment may be made by transfer to a U.S. dollar account maintained by the payee with a bank in The City of New York.

All payments will be subject in all cases to any applicable tax or other laws and regulations, but without prejudice to the provisions of “—Additional Amounts.” No commissions or expenses will be charged to the holders in respect of such payments.

Subject to any applicable abandoned property law, the trustee and the paying agents will pay to the Issuer upon its request any monies held by them for the payment of principal or interest that remains unclaimed for two years, and, thereafter, holders entitled to such monies must look to the Issuer for payment as its general creditors. After the return of such monies by the trustee or the paying agents to the Issuer, neither the trustee nor the paying agents shall be liable to the holders in respect of such monies.

### **Form, Denomination and Title**

The notes will be in registered form without coupons attached in amounts of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

Notes sold in offshore transactions in reliance on Regulation S will be represented by one or more permanent global notes in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of DTC. Notes sold in reliance on Rule 144A will be represented by one or more permanent global notes in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of DTC. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream. Except in certain limited circumstances, definitive registered notes will not be issued in exchange for beneficial interests in the global notes.

Title to the notes will pass by registration in the register. The registered holder of any note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, writing on, or theft or loss of, the definitive note issued in respect of it) and no Person will be liable for so treating the holder.

### **Redemption**

No sinking fund is provided for the notes.

The Issuer will give not less than 30 days’ nor more than 60 days’ notice of any optional redemption to holders of the notes, which notice will be irrevocable and will be given to the registered holder of notes and published in Ireland as described in “—Notices” below.

On and after the redemption date, interest on the notes or any portion of the notes called for redemption will cease to accrue (unless the Issuer defaults in the payment of the redemption price and accrued interest). By 11:00 a.m. (New York time) on the business day prior to the redemption date, the Issuer will deposit with the trustee funds sufficient to pay the redemption price and accrued interest, through the redemption date, on the notes subject to redemption. If the redemption date falls after a record date but on or prior to the corresponding interest payment date, the Issuer will pay accrued interest to the holder of record of notes on the corresponding record date, which may or may not be the Person who will receive payment of the redemption price (which will exclude such accrued interest). If less than all of the notes are to be redeemed, the notes to be redeemed will be selected by the trustee by lot or by such method in accordance with DTC procedures.

### ***Optional Make-Whole Redemption***

The notes will be redeemable, in whole or in part, at the Issuer's option at any time and from time to time, prior to December 27, 2027 (three months prior to the scheduled maturity of the notes) (the "Par Call Date"), at a redemption price, as calculated by the Issuer, equal to the greater of (i) 100% of the then-outstanding principal amount of the notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon as if redeemed on the Par Call Date (exclusive of interest accrued to the date of redemption), discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 30 basis points, plus in each case accrued and unpaid interest thereon to, but excluding, the date of redemption and any Additional Amounts payable with respect thereto.

### ***Optional Redemption without a Make-Whole Premium***

The notes will be redeemable, in whole or in part, at the Issuer's option at any time and from time to time, commencing on December 27, 2027 (three months prior to the scheduled maturity of the notes), at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest thereon to the date of redemption and any Additional Amounts payable with respect thereto.

### ***Optional Redemption upon Tax Event***

The Issuer may at any time redeem the notes at its option, in whole, but not in part, at a redemption price equal to 100% of the then-outstanding principal amount of the notes, plus accrued and unpaid interest thereon to, but excluding, the date of redemption and any Additional Amounts payable with respect thereto, if the Issuer certifies to the trustee (in the manner prescribed below) that:

- (a) the Issuer, or a Guarantor, if a Guarantor is required to make payments, has or will become obligated to pay Additional Amounts in connection with payments of interest, or amounts deemed interest, on the notes in respect of withholding taxes in excess of a rate of zero with respect to the Issuer or a 35% rate with respect to any Guarantor (the "Excess Additional Amounts") as a result of any generally applicable change in or amendment to the laws or regulations of a Relevant Jurisdiction or any political subdivision or governmental authority thereof or therein having power to tax, or any generally applicable change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective or, in the case of a change in official position, is announced on or after the later of the date of issuance of the notes and the date that a Relevant Jurisdiction becomes a Relevant Jurisdiction; provided that, any change or amendment to Dutch law reflecting principles similar to those described in the Dutch Coalition Agreement (as defined under "—Additional Amounts") shall not be deemed to be such a change, amendment or change in application or official interpretation of Dutch laws or regulations; provided, further, that if Mexican withholding taxes are imposed on payments of interest, or deemed payments of interest, as a result of the Company being treated as the issuer of the notes for Mexican tax purposes, then any Mexican withholding taxes in excess of 4.9% imposed on such payments of interest, or deemed payments of interest, shall be treated as Excess Additional Amounts; and
- (b) such obligation cannot be avoided by taking reasonable measures available to the Issuer;

*provided, however*, that the notice of redemption, which will specify the date of redemption and redemption price, will not be given earlier than 60 days before the earliest date on which the Issuer would be obligated to pay such Excess Additional Amounts if a payment in respect of the notes were then due.

No later than 15 days (unless a shorter period is acceptable to the trustee) before giving any notice of redemption as described in the preceding clauses, the Issuer will deliver an officer's certificate to the trustee stating that it is entitled to effect such redemption in accordance with the terms of the indenture and setting forth in reasonable detail a statement of facts relating thereto. The officer's certificate will be accompanied by a written opinion of recognized independent counsel experienced in tax and other related matters in the Relevant Jurisdiction to the effect that:

- (a) the Issuer, or a Guarantor, if a Guarantor is required to make payments, has or will become obligated to pay the Excess Additional Amounts as a result of such change or amendment; and
- (b) all governmental approvals necessary for the Issuer to effect the redemption have been obtained and are in full force and effect or specifying any such necessary approvals that as of the date of such opinion have not been obtained.

### **Change of Control Triggering Event**

Upon the occurrence of a Change of Control Triggering Event, the holders of the notes will have the right to require the Issuer to purchase all or a portion of such holders' notes (in integral multiples of US\$1,000) pursuant to a Change of Control Offer (as defined below) at a purchase price equal to 101% of the then-outstanding principal amount thereof, plus accrued and unpaid interest thereon to, but excluding, the date of purchase and any Additional Amounts payable with respect thereto (the "Change of Control Payment" and the date of such purchase, the "Change of Control Payment Date"), in accordance with the procedures set forth below. If the date of purchase is on a date that is after a record date and on or prior to the corresponding interest payment date, the Issuer will pay such interest to the holder of record on the corresponding record date, which may or may not be the same Person to whom the Issuer will pay the purchase price.

Within 30 days following the consummation of any transaction constituting a Change of Control Triggering Event, the Issuer will send, in accordance with "—Notices" below, a notice to each holder of notes with a copy to the trustee (the "Change of Control Offer") and publish the notice in a newspaper having a general circulation in Mexico, the Netherlands, the United States of America and, as long as the notes are listed on the Official List of Euronext Dublin and trading on the Global Exchange Market and the rules of such exchange so require, Ireland. The Issuer's failure to give notice in the manner described herein will not affect the rights of the holders to require it to purchase the notes. The notice of the Change of Control Offer will state, among other things:

- (a) that a Change of Control Triggering Event has occurred and that such holder has the right to require the Issuer to purchase all or a portion of such holder's notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest thereon to, but excluding, the date of purchase (subject to the right of holders of record on the relevant record date to receive interest on the relevant interest payment date) and any Additional Amounts payable with respect thereto;
- (b) the circumstances and relevant facts regarding such Change of Control Triggering Event;
- (c) the Change of Control Payment Date, which will be no earlier than 30 days nor later than 60 days from the date such notice is mailed, other than as may be required by law;
- (d) the jurisdiction of incorporation of the successor controlling entity; and
- (e) the instructions, as determined by the Issuer, consistent with the covenant described hereunder, that a holder of notes must follow in order to have its notes purchased.

By 11:00 a.m. (New York time) on the business day prior to the Change of Control Payment Date, the Issuer will deposit with the trustee or a paying agent funds in an amount equal to the Change of Control Payment in respect of all notes or portion thereof so tendered.

On the Change of Control Payment Date, the Issuer will, to the extent lawful:

- (a) accept for payment all notes or portions thereof properly tendered pursuant to the Change of Control Offer; and
- (b) deliver or cause to be delivered for cancellation to the trustee the notes so accepted together with an officer's certificate stating the aggregate principal amount of notes or portions thereof the Issuer is purchasing.

If only a portion of a note is purchased pursuant to a Change of Control Offer, a new note in a principal amount equal to the portion not purchased will be issued in the name of the holder of such note upon cancellation of the original note, or appropriate adjustments to the amount and beneficial interests in a global note will be made, as appropriate. The minimum amount of such new note will be US\$200,000.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other applicable securities laws or regulations in connection with the repurchase of the notes in connection with a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the covenant described hereunder by virtue of its compliance with such securities laws or regulations.

The Issuer will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes a Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer and purchases all notes validly tendered and not withdrawn under such Change of Control Offer.

### **Open Market Purchases**

The Issuer may at any time purchase notes in the open market or otherwise at any price.

### **Transfer of Notes**

A holder may transfer or exchange notes in definitive form, in whole or in part, in an authorized denomination upon the surrender of the note to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the registrar or the specified office of any transfer agent. Each new note to be issued upon exchange of notes or transfer of notes will, within three business days of the receipt of a request for exchange or form of transfer, be mailed or otherwise provided to, at the risk of, the holder entitled to the note to such address as may be specified in such request or form of transfer.

The notes will be subject to certain restrictions on transfer as more fully set out in the indenture. See “Transfer Restrictions.” Transfer of beneficial interests in the global notes will be effected only through records maintained by DTC and its participants, including Euroclear and Clearstream.

Transfers will be effected, on the Issuer’s behalf, without charge by the registrar or the transfer agents, but upon payment, or the giving of such indemnity or security as the registrar or the relevant transfer agent may require, in respect of any tax or other governmental charges which may be imposed in relation to it. The Issuer is not required to transfer or exchange any note selected for redemption.

No holder may require the transfer of a note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that note.

### **Additional Amounts**

All payments by the Issuer in respect of the notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments, fees or other governmental charges of whatever nature, including any fines, penalties or interest related thereto (“Taxes”), imposed or levied by or on behalf of a Relevant Jurisdiction, or any political subdivision or authority of or in such jurisdiction having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer will pay to each holder of a note such additional amounts (“Additional Amounts”) as may be necessary in order that every net payment made to the holder on each note after deduction or withholding for or on account of any Tax imposed upon or as a result of such payment by such Relevant Jurisdiction will not be less than the amount then due and payable on such note; it being understood that the payment of such Additional Amounts will be deemed and construed by the Issuer as additional interest for tax purposes in the applicable Relevant Jurisdiction. The foregoing obligation to pay Additional Amounts to any holder of notes, however, will not apply to or in respect of:

- (a) any Tax which would not have been imposed but for the existence of any present or former connection between such holder or beneficial owner of the note (or between a fiduciary, settlor, beneficiary or member of such holder, if such holder is an estate, a trust or a partnership), on the one hand, and the applicable Relevant Jurisdiction, on the other hand (including, without limitation, such holder or beneficial owner (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident thereof or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment for tax purposes therein), other than the mere receipt of such payment or the ownership or holding of such note;
- (b) any Tax which would not have been so imposed but for the presentation of a note for payment on a date more than 20 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later, except to the extent that the holder would have been entitled to such Additional Amounts on presenting such note for payment on any date during such 20-day period (and no Additional Amounts shall be paid for or on account of any additional withholdings or deductions that arise as a result of such presentment after such 20-day period);
- (c) any Taxes which would not have been imposed but for the failure of such holder or other person having a beneficial interest in the notes to comply with any certification, identification or other reporting requirements concerning the nationality, residence, identity or connection with the applicable Relevant Jurisdiction of the holder or beneficial owner of the note if (i) such compliance is required or imposed by law as a precondition to exemption or reduction from all or a part of such tax, duty, assessment or other governmental charge and (ii) at least 30 days prior to the date on which the Issuer will apply this clause (c), the Issuer shall have notified all holders of notes that some or all holders and beneficial owners of notes will be required to comply with any such requirement;
- (d) any estate, inheritance, gift, sales, transfer, excise or personal property or similar Tax imposed with respect to the notes;
- (e) any Tax which is payable other than by deduction or withholding from payments on the note;
- (f) any Tax imposed with respect to a payment on any note to a holder that is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent a beneficiary or settlor with respect to such fiduciary or a member of such partnership or beneficial owner would not have been entitled to receive payment of the Additional Amounts had the beneficiary, settlor, member or beneficial owner been the holder of the note;
- (g) any Tax imposed (i) with respect to a payment on a note required to be made pursuant to any law enacted by the Netherlands resulting from and contemplated by the proposal made by the Dutch coalition government on October 10, 2017 (the “Dutch Coalition Agreement”) or (ii) as a result of a payment being made to a holder or beneficial owner of a note that is a citizen or resident of a jurisdiction identified as a non-cooperative jurisdiction by the European Union;
- (h) any Tax imposed under Section 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”) as of the issue date (or any amended or successor version that is substantively comparable) and any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b)(1) of the Internal Revenue Code, any intergovernmental agreement between a non-U.S. jurisdiction and the United States with respect to the foregoing or any law, regulation or practice adopted pursuant to any such intergovernmental agreement; or
- (i) any combination of the above.

The limitations on the Issuer’s obligations to pay Additional Amounts set forth in clause (c) above shall not apply if the provision of information, documentation or other evidence described in such clause (c) would be materially more onerous, in form, in procedure or in the substance of information disclosed, to comply with for a holder or beneficial owner of a note, than comparable information or other reporting requirements imposed under

U.S. tax law (including the United States-Mexico income tax treaty), regulations (including temporary or proposed regulations) and administrative practice.

The Issuer will also pay when due any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies, and any penalties, additions to tax or interest due with respect thereto, which arise in the Netherlands (or any other jurisdiction in which the Issuer or a Guarantor is organized or resident for tax purposes) from the initial execution, delivery or registration of the notes, or the indenture or any document or instrument required under the notes or the indenture, including taxes, charges or similar levies imposed by any jurisdiction resulting from, or required to be paid in connection with, the enforcement of the notes following the occurrence of any Default or Event of Default.

The Issuer will provide the trustee with the official acknowledgment of the relevant taxing authority (or, if such acknowledgment is not available, a certified copy thereof) evidencing any payment of taxes in respect of which we have paid any Additional Amounts. Copies of such documentation will be made available to the holders of the notes or the paying agents, as applicable, upon request therefor.

In the event that Additional Amounts actually paid with respect to the notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder or beneficial owner of such notes, and as a result thereof such holder or beneficial owner is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, then such holder shall, by accepting such notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to us. However, by making such assignment, the holder makes no representation or warranty that we will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto, including taking any action for such refund to be repaid.

For the avoidance of doubt, in the event of any merger or other transaction described and permitted under “—Covenants—Limitation on Consolidation, Merger and Transfer of Assets,” then all references to a Relevant Jurisdiction under this section and under “—Redemption—Optional Redemption upon Tax Event” shall include references to the applicable jurisdiction of the Successor Company (as defined below).

All references in this offering memorandum to principal (and premium, if any) payable on the maturity date of the notes, or upon any optional redemption upon a tax event, or to interest payable on the notes will include any Additional Amounts payable by the Issuer in respect of such principal (and premium, if any) and such interest.

## **Covenants**

The indenture will contain the following covenants in addition to customary covenants regarding maintenance of office or agency, maintenance of corporate existence and payments of taxes and claims:

### ***Limitation on Liens***

We will not, and will not permit any Subsidiary to, create or suffer to exist any Lien upon any of our Specified Property now owned or hereafter acquired by us or such Subsidiary securing any Debt, unless contemporaneously therewith effective provision is made to secure the notes equally and ratably with such Debt for so long as such Debt is so secured. The preceding sentence will not require us or any Subsidiary to equally and ratably secure the notes if the Lien consists of the following:

- (a) any Lien existing on the date of the indenture, and any extension, renewal or replacement thereof or of any Lien in clause (b), (c), (d) or (n) below; provided, however, that the total amount of Debt so secured is not increased;
- (b) any Lien on any property or assets securing Debt incurred solely for purposes of financing the acquisition, construction or improvement of such property or assets after the date of the indenture; provided that (i) the aggregate principal amount of Debt secured by the Lien will not exceed (but may be less than) the cost (i.e., purchase price) of the property or assets so acquired, constructed or improved and (ii) the Lien is incurred before, or within 180 days after the completion of, such acquisition, construction or improvement and does not encumber any other property or assets (other

- than any of the property or assets acquired in connection with any such acquisition, construction or improvement) owned by us or any Subsidiary; and provided, further, that to the extent that the property or asset acquired is Capital Stock, the Lien also may encumber other property or assets of the Person so acquired;
- (c) any Lien securing Debt for the purpose of financing all or part of the cost of the acquisition, construction or development of a project; provided that the lenders of such Debt expressly agree to limit their collateral in respect of such Debt to assets (including Capital Stock of the project entity) and/or revenues of such project; and provided, further, that the Lien is incurred before, or within 180 days after the completion of, that acquisition, construction or development and does not apply to any other property or assets owned by us or any Subsidiary;
  - (d) any Lien existing on any property or assets of any Person before that Person's acquisition by, merger into or consolidation with us or any Subsidiary after the date of the indenture; provided that (i) the Lien is not created in contemplation of or in connection with such acquisition, merger or consolidation, (ii) the Debt secured by the Liens may not exceed the Debt secured on the date of such acquisition, merger or consolidation, (iii) the Lien will not apply to any other property or assets (other than any of the property or assets in connection with any such acquisition, merger or consolidation) owned by us or any of our Subsidiaries and (iv) the Lien will secure only the Debt that it secures on the date of such acquisition, merger or consolidation;
  - (e) any Lien imposed by law that was incurred in the ordinary course of business, including, without limitation, carriers', suppliers', materialmen's, repairmen's, warehousemen's and mechanics' liens and other similar encumbrances arising in the ordinary course of business, in each case for sums not yet due or being contested in good faith by appropriate proceedings;
  - (f) any pledge or deposit made in connection with workers' compensation, unemployment insurance or other similar social security legislation, any deposit to secure appeal notes in proceedings being contested in good faith to which we or any Subsidiary is a party, good faith deposits in connection with bids, tenders, contracts (other than for the payment of Debt) or leases to which we or any Subsidiary is a party or deposits for the payment of rent, in each case made in the ordinary course of business;
  - (g) any Lien in the nature of title retention arrangements (including extended retention of title arrangements) with sellers in connection with purchases incurred by us or any Subsidiary in the ordinary course of business;
  - (h) any Lien in favor of issuers of surety notes or letters of credit issued pursuant to the request of and for the account of the Company or any Subsidiary in the ordinary course of business;
  - (i) any Lien securing taxes, assessments or other governmental charges, the payment of which is not yet due or that are being contested in good faith by appropriate proceedings and for which reserves or other appropriate provisions, if any, have been established as required by IFRS;
  - (j) minor defects, easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business and encumbrances consisting of zoning restrictions, licenses, restrictions on the use of property or assets or minor imperfections in title that do not materially impair the value or use of the property or assets affected thereby, and any leases and subleases of real property that do not interfere with the ordinary conduct of the business of the Company or any Subsidiary, and which are made on customary and usual terms applicable to similar properties;
  - (k) any liens or rights of set-off of any Person with respect to any deposit account of the Company or any Subsidiary arising in the ordinary course of business and not constituting a financing transaction, including liens or rights of set-off that arise from general banking conditions (*algemene bankvoorwaarden*);

- (l) any Liens granted, directly or indirectly, to secure borrowings from (i) *Banco Nacional de Obras y Servicios Públicos, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo* (BANOBRAS), *Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo* (NAFIN), or any other Mexican governmental development bank or government credit institution or (ii) any international or multilateral development bank, government-sponsored agency, export-import bank or official, export-import credit insurer;
- (m) any Lien which secures any Hedging Obligations;
- (n) any Lien which secures Debt owing by any Subsidiary to us or any other Subsidiary;
- (o) any Lien which secures Debt of any Joint Venture Company; and
- (p) in addition to the foregoing Liens set forth in clauses (a) through (o) above, Liens securing Debt of the Company or any Subsidiary (including, without limitation, guarantees of the Company or any Subsidiary) which do not in aggregate principal amount (without duplication), together with the aggregate amount of the Attributable Value of sale and leaseback transactions entered into (without duplication) pursuant to the third paragraph under “Limitation on Sale and Leaseback Transactions,” at any time of determination, exceed 15% of the Company’s Consolidated Tangible Assets.

#### ***Limitation on Sale and Leaseback Transactions***

We will not, nor will we permit any of our Subsidiaries to, enter into any sale and leaseback transaction with respect to any Specified Property of ours or of any of our Subsidiaries, unless, concurrently with such sale and leaseback transaction, the notes are secured equally and ratably with (or prior to) such sale and leaseback transaction, unless after giving effect thereto:

- (a) we or such Subsidiary would be entitled pursuant to the provisions of the indenture described under “—Limitation on Liens” (other than paragraph (p)) to issue or assume Debt (in an amount equal to the Attributable Value with respect to such sale and leaseback transactions) secured by a Lien on such Specified Property without equally and ratably securing the notes; or
- (b) we or such Subsidiary apply or cause to be applied, in the case of a sale or transfer for cash, an amount equal to the net cash proceeds thereof and, in the case of a sale or transfer otherwise than for cash, an amount equal to the fair market value of the Specified Property so leased (as determined in good faith by our Board of Directors), (a) to the retirement, within 12 months after the effective date of such sale and leaseback transaction, of (i) the Issuer’s and the Guarantors’ Debt ranking at least on a parity with the notes and the guarantees or (ii) Debt of any Subsidiary (other than the Issuer or a Subsidiary that is a Guarantor), in each case owing to a Person other than us or any of our affiliates, or (b) to the acquisition, purchase, construction, development, extension or improvement of any of our or our Subsidiaries’ fixed or capital assets or other real and tangible property, plant or equipment to be used by or for the benefit of us or any of our Subsidiaries, in each case, in the ordinary course of business.

These restrictions will not apply to (i) transactions providing for a lease term, including any renewal, of not more than three years and (ii) transactions between us and any of our Subsidiaries or between any of our Subsidiaries.

Notwithstanding the foregoing, the Company or any Subsidiary may enter into a sale and leaseback transaction which would otherwise be prohibited under the provisions of the indenture described in this “Limitation on Sale and Leaseback Transactions” section provided that the Attributable Value of such sale and leaseback transaction (without duplication) of the Company and its Subsidiaries measured at the closing date of such sale and leaseback transaction together with the Attributable Value of sale and leaseback transactions previously incurred (without duplication) pursuant to this paragraph by the Company and its Subsidiaries and the aggregate amount (without duplication) of Debt (including, without limitation, guarantees of the Company or any Subsidiary) incurred under “—Limitation on Liens” outstanding at such time, will not exceed 15% of the Company’s Consolidated Tangible Assets.



### ***Limitation on Consolidation, Merger and Transfer of Assets***

Neither the Issuer nor any Guarantor will consolidate with or merge with or into, or convey, transfer or lease all or substantially all of our or its assets to, any Person, unless:

- (a) the resulting, surviving or transferee Person (if not the Issuer, the Company or the relevant Subsidiary of the Company that is a Guarantor) (the “Successor Company”) will be, in the case of a Successor Company for any of the Guarantors, a Person organized and existing under the laws of Mexico, the United States of America, any State thereof or the District of Columbia, any other country that is a member country of the European Union or of the Organization for Economic Cooperation and Development or, in the case of a Successor Company for the Issuer, a Person organized and existing under the laws of a member country of the European Economic Area, and such Person expressly assumes, by supplemental indenture to the indenture, executed and delivered to the trustee, all of our obligations under the notes and the indenture;
- (b) immediately prior to such transaction and immediately after giving effect to such transaction, no Default or Event of Default will have occurred and be continuing; and
- (c) the Issuer will have delivered to the trustee an officers’ certificate and an opinion of legal counsel (which may be in-house counsel to the Company or to a direct or indirect parent of the Company), each stating that such consolidation, merger or transfer and such supplemental indenture, if any, comply with the indenture.

The restrictions in paragraph (b) above will not apply to transactions between the Issuer and any of the Guarantors or between any of the Guarantors; provided, however, that if the guarantees are released in accordance with the applicable provisions of the indenture, the restrictions in paragraph (b) above will not apply to transactions between the Issuer, the Company and any of the Company’s Subsidiaries or between any of the Company’s Subsidiaries.

The trustee will accept such certificates and opinions as sufficient evidence of the satisfaction of the conditions precedent set forth in this covenant, in which event it will be conclusive and binding on the holders.

### **Reporting Requirements**

The Issuer will provide the trustee and, upon request, the holders of the notes, with the following reports:

- (a) an English language version in electronic format of the Company’s annual audited consolidated financial statements prepared in accordance with IFRS promptly upon such financial statements becoming available but not later than 135 days after the close of each fiscal year;
- (b) an English language version in electronic format of the Company’s unaudited consolidated quarterly financial statements prepared in accordance with IAS 34, promptly upon such financial statements becoming available but not later than 60 days after the close of each fiscal quarter (other than the last fiscal quarter of each fiscal year);
- (c) without duplication, upon request, English language versions or summaries in electronic format of such other reports or notices as may be filed or submitted by (and within 10 days after filing or submission by) the Company with (i) the CNBV and (ii) the Global Exchange Market of Euronext Dublin, or any other stock exchange on which the notes may be listed, in each case, to the extent that any such report or notice is generally available to our security holders or the public in Mexico or elsewhere, provided, however, that we shall not be required to furnish such information to the extent such information is available on our website or to the extent that the information contained therein is not materially different than the information provided pursuant to clause (a) and (b) above; and
- (d) so long as the Company is not subject to Section 13 or Section 15(d) of the Exchange Act and exempt from reporting pursuant to Rule 12g3-2(b) of the Exchange Act, upon request, to any holder and any

prospective purchaser of the notes, the information required pursuant to Rule 144A(d)(4) under the Securities Act.

We will maintain a public website or, at our option, a non-public website or other electronic distribution system to which the beneficial owners of the notes, prospective investors and security analysts will be given access and on which the reports and information referred to in clauses (a), (b), (c) and (d) above are posted, provided, however, that we may, in our sole discretion, exclude direct competitors, customers and suppliers from access to such website or electronic distribution system.

Simultaneously with the delivery of each set of financial statements referred to in clause (a) above, the Issuer will provide the trustee with an officers' certificate stating whether a Default or Event of Default exists on the date of such certificate and, if a Default or Event of Default exists, setting forth the details thereof and the action which it is taking or proposes to take with respect thereto. Upon any of our directors or executive officers becoming aware of the existence of a Default or Event of Default or any event by reason of which payments of either principal or interest on the notes are prohibited, the Issuer will provide the trustee with an officers' certificate setting forth the details thereof and the action it is taking or proposes to take with respect thereto.

Delivery of the above reports to the trustee is for informational purposes only and the trustee's receipt of such reports will not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's or our compliance with any covenant in the indenture (as to which the trustee is entitled to rely exclusively on officers' certificates).

#### **Events of Default**

An "Event of Default" under the notes will occur if:

- (a) the Issuer fails to pay interest (including any related Additional Amounts) on the notes within 30 days from the due date;
- (b) the Issuer defaults in the payment of principal (including any related Additional Amounts) on the notes on the due date;
- (c) the Issuer or the Company fails to comply with any of the covenants described under "—Covenants—Limitation on Liens," "—Limitation on Consolidation, Merger and Transfer of Assets," and such failure continues for 30 days after the notice specified below;
- (d) the Issuer or the Company fails to comply with any of the covenants or agreements in the notes or the indenture applicable to it (other than those referred to in clauses (a), (b) and (c) above), and such failure continues for 60 days after the notice specified below;
- (e) the Issuer, the Company or any Significant Subsidiary defaults under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Debt for money borrowed by the Issuer, the Company or any such Significant Subsidiary (or the payment of which is guaranteed by the Issuer, the Company or any such Significant Subsidiary) whether such Debt or guarantee now exists, or is created after the date of the indenture (provided that for purposes of this clause (e), Debt will not be deemed to include any Non-Recourse Debt or Joint Venture Company Debt), which default (i) is caused by a failure to pay principal of or premium, if any, or interest on such Debt prior to the expiration of any applicable grace period provided in such Debt ("Payment Default") or (ii) results in the acceleration of such Debt prior to its stated maturity and, in each case, the principal amount of any such Debt, together with the principal amount of any other Debt under which there has been a Payment Default or the maturity of which has been so accelerated, totals US\$50 million (or the equivalent thereof at the time of determination) or more in the aggregate;
- (f) one or more final judgments or decrees for the payment of money of US\$50 million (or the equivalent thereof at the time of determination) or more in the aggregate are rendered against the Issuer, the Company or any Significant Subsidiary and are not paid (whether in full or in installments in

accordance with the terms of the judgment) or otherwise discharged and, in the case of each such judgment or decree, either (i) an enforcement proceeding has been commenced by any creditor upon such judgment or decree and is not dismissed within 30 days following commencement of such enforcement proceedings or (ii) there is a period of 60 days following such judgment during which such judgment or decree is not discharged, waived or the execution thereof stayed;

- (g) certain events of bankruptcy, insolvency or liquidation relating to the Issuer, the Company or any Significant Subsidiary; or
- (h) except as permitted by the indenture, any guarantee is held to be unenforceable or invalid in a judicial proceeding or ceases for any reason to be in full force and effect or any Guarantor, or any Person acting on behalf of any Guarantor, denies or disaffirms such Guarantor's obligations under its guarantee.

A Default under clause (c) or (d) above will not constitute an Event of Default under the notes until the trustee or the holders of at least 25% in principal amount of the notes then outstanding, as the case may be, notify us of the Default and the Issuer does not cure such Default within the time specified after receipt of such notice.

The trustee is not to be charged with knowledge of any Default or Event of Default (other than a payment default) or knowledge of any cure of any Default or Event of Default (other than a payment default) with respect to the notes unless written notice of such Default or Event of Default has been given to an authorized officer of the trustee with direct responsibility for administration of the indenture by the Issuer or any holder in the manner specified in the indenture.

If an Event of Default (other than an Event of Default specified in clause (g) above) with respect to the notes occurs and is continuing, the trustee or the holders of not less than 25% in principal amount of notes then outstanding, as the case may be, may declare all unpaid principal of and accrued interest on the notes to be due and payable immediately, by a notice in writing to the Issuer, and upon any such declaration such amounts will become due and payable immediately. If an Event of Default specified in clause (g) above with respect to any note occurs and is continuing, then the principal of and accrued interest on all notes will become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

The trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders, unless such holders will have offered to the trustee indemnity and/or security reasonably satisfactory to the trustee. Subject to such provision for the indemnification of and security to the trustee, the holders of a majority in aggregate principal amount of the outstanding notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee in respect of the notes or exercising any trust or power conferred on the trustee in respect of the notes.

## **Defeasance**

The Issuer may at any time terminate all of its obligations with respect to the notes ("defeasance"), except for certain obligations, including those to the trustee and the agents appointed under the indenture, those regarding any trust established for a defeasance and obligations to register the transfer or exchange of the notes, to replace mutilated, destroyed, lost or stolen notes and to maintain agencies in respect of notes. The Issuer may at any time terminate its obligations under certain covenants set forth in the indenture with respect to the notes, and any omission to comply with such obligations will not constitute a Default or an Event of Default with respect to the notes ("covenant defeasance"). In order to exercise either defeasance or covenant defeasance, the Issuer must irrevocably deposit in trust, for the benefit of the holders of the notes, with the trustee money in U.S. dollars or U.S. government obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants expressed in a written certificate delivered to the trustee, without consideration of any reinvestment, to pay the principal of, premium (if any) and interest on the notes to redemption or maturity and comply with certain other conditions, including the delivery of an opinion of legal counsel of recognized standing to the effect that the holders of the notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the defeasance and will be subject to U.S. federal income tax on the same amount and in the same manner and at the same time as would otherwise have been the case (and in the case of

a defeasance that is not a covenant defeasance, such opinion shall be based on a change in law or a ruling of the U.S. Internal Revenue Service).

### **Satisfaction and Discharge**

The indenture will be discharged and will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the notes and the rights of the trustee, as expressly provided for in the indenture) as to all outstanding notes when:

- (a) either:
  - (i) all of the notes previously authenticated and delivered (except lost, stolen or destroyed notes which have been replaced or paid and notes for whose payment money has previously been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from such trust) have been delivered to the trustee for cancellation; or
  - (ii) all notes not previously delivered to the trustee for cancellation (i) have become due and payable or will become due and payable within one year or (ii) are to be called for redemption within one year under irrevocable arrangements satisfactory to the trustee for the giving of notice of redemption by the trustee in the name, and at the Issuer's expense, and, in each case, the Issuer has irrevocably deposited or caused to be deposited with the trustee funds or certain direct, non-callable obligations of, or guaranteed by, the United States sufficient without reinvestment to pay and discharge the entire indebtedness on the notes not previously delivered to the trustee for cancellation, for principal of, premium, if any, and interest on the notes to the date of deposit (in the case of notes that have become due and payable) or to the maturity or redemption date, as the case may be, and any Additional Amounts payable with respect thereto, together with irrevocable instructions from the Issuer directing the trustee to apply such funds to the payment;
- (b) the Issuer has paid all other sums payable by the Issuer under the indenture and the notes; and
- (c) the Issuer has delivered to the trustee an officers' certificate stating that all conditions precedent under the indenture relating to the satisfaction and discharge of the indenture have been complied with.

### **Amendment, Supplement, Waiver**

Subject to certain exceptions, the indenture may be amended or supplemented with the consent of the holders of at least a majority in principal amount of the notes then outstanding, and any past Default or compliance with any provision may be waived with the consent of the holders of at least a majority in principal amount of notes then outstanding. However, without the consent of each holder of notes affected thereby, no amendment may:

- (a) reduce the rate of or extend the time for payment of interest on the notes;
- (b) reduce the principal, or change the Stated Maturity, of the notes;
- (c) reduce the amount payable upon redemption or repurchase of the notes or change the time at which the notes may be redeemed or repurchased;
- (d) make any change in the provisions of the indenture described under "— Additional Amounts" that adversely affects the rights of any holder;
- (e) change the currency for, or place of payment of, principal or interest on the notes;
- (f) impair the right to institute suit for the enforcement of any payment on or with respect to the notes;
- (g) waive certain payment defaults with respect to the notes;

- (h) reduce the principal amount of notes whose holders must consent to any amendment or waiver; or
- (i) make any change in the amendment or waiver provisions which require each holder's consent.

The holders of notes will receive prior notice as described under “—Notices” of any proposed amendment to the notes or the indenture described in this paragraph. After an amendment described in the preceding paragraph becomes effective, the Issuer is required to deliver to the holders a notice briefly describing such amendment. However, the failure to give such notice to all holders of notes, or any defect therein, will not impair or affect the validity of the amendment.

The consent of the holders of notes is not necessary to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

The Issuer and the trustee may, without the consent or vote of any holder of notes, amend or supplement the indenture or the notes for the following purposes:

- (a) to cure any ambiguity, omission, defect or inconsistency; *provided* that such amendment or supplement does not materially adversely affect the rights of any holder;
- (b) to comply with the covenant described under “—Covenants—Limitation on Consolidation, Merger and Transfer of Assets”;
- (c) to add guarantees or collateral with respect to the notes;
- (d) to release a Guarantor in accordance with the terms of the indenture;
- (e) to add to the covenants of the Issuer or the Company for the benefit of holders of the notes;
- (f) to surrender any right conferred upon the Issuer;
- (g) to evidence and provide for the acceptance of an appointment by a successor trustee;
- (h) to provide for the issuance of additional notes;
- (i) to conform the text of the indenture or the notes to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision of the indenture or the notes; or
- (j) to make any other change that does not materially adversely affect the rights of any holder of the notes.

In executing any amendment, waiver or supplemental indenture to the indenture or the notes, the trustee will be entitled to receive an officers' certificate and an opinion of legal counsel of recognized standing, each stating that such amendment, waiver or supplemental indenture is authorized or permitted by the indenture, that it is not inconsistent with the terms of the indenture, and that it shall be valid and binding upon the Issuer and the Guarantors in accordance with its terms.

## Notices

For so long as notes in global form are outstanding, notices to be given to holders will be given to the depositary, in accordance with its applicable policies as in effect from time to time. If notes are issued in individual definitive form, notices to be given to holders will be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to holders of the notes at their registered addresses as they appear in the registrar's records. For so long as the notes are listed on the Official List of Euronext Dublin and trading on the Global Exchange Market and the rules of such exchange so require, publication of such notice to the holders of the notes will be in English in a leading newspaper having general circulation in Ireland (which is expected to be the Irish Times) or on the website of Euronext Dublin ([www.ise.ie](http://www.ise.ie)). Neither the failure to give any notice to a particular

holder of the notes, nor any defect in a notice given to a particular holder of the notes, will affect the sufficiency of any notice given to another holder of the notes.

## **Trustee**

The Bank of New York Mellon is the trustee under the indenture. Its address is 101 Barclay Street, Floor 7E, New York, New York, 10286.

Except during the continuance of an Event of Default, the trustee will perform only such duties as are specifically set forth in the indenture. During the existence of an Event of Default of which a responsible officer of the trustee has actual knowledge, the trustee will exercise such rights and powers vested in it by the indenture, and use the same degree of care and skill in its exercise as a prudent Person would exercise or use under the circumstances in the conduct of his or her own affairs.

The trustee may resign at any time by so notifying the Issuer and the Company. In addition, the holders of a majority in aggregate principal amount of the notes then outstanding may remove the trustee by so notifying the trustee and may appoint a successor trustee. The Issuer will remove the trustee if (i) the trustee is no longer eligible; (ii) the trustee is adjudged bankrupt or insolvent; (iii) a receiver or other public officer takes charge of the trustee or its property; or (iv) the trustee otherwise becomes incapable of acting under the indenture.

If the trustee resigns, is removed by the Issuer or by the holders of a majority in aggregate principal amount of the notes then outstanding and such holders do not reasonably promptly appoint a successor trustee, or if a vacancy exists in the office of trustee for any reason, the Issuer will promptly appoint a successor trustee. The successor trustee will give notice of its succession to the holders of the notes and, as long as the notes are listed on Euronext Dublin for trading on the Global Exchange Market and the rules of the exchange so require, the successor trustee will also publish notice as described under “— Notices.”

We and our affiliates may from time to time enter into normal banking and trustee relationships with the trustee and its affiliates.

## **Governing Law and Submission to Jurisdiction**

The notes and the indenture will be governed by, and construed in accordance with, the laws of the State of New York.

Each of the parties to the indenture will irrevocably submit to the jurisdiction of the U.S. federal and New York State courts located in the Borough of Manhattan, City and State of New York and to the courts of its own corporate domicile in respect of actions brought against it as a defendant for purposes of all legal actions and proceedings instituted in connection with the notes and the indenture. The Issuer and each of the non-U.S. Guarantors have appointed CT Corporation System at 111 Eighth Avenue, New York, New York 10011, as their authorized agent upon which process may be served in any such action.

## **Currency Indemnity**

U.S. dollars are the sole currency of account and payment for all sums payable by us under or in connection with the notes and the indenture, including damages. To the greatest extent permitted under applicable law, any amount received or recovered in a currency other than U.S. dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer or otherwise) by any holder of a note in respect of any sum expressed to be due to it from the Issuer will only constitute a discharge to the Issuer to the extent of the U.S. dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any note, the Issuer will indemnify such holder against any loss sustained by it as a result; and if the amount of U.S. dollars so purchased is greater than the sum originally due to such holder, such holder will, by accepting a note, be deemed to have agreed to repay such excess. In any event, the Issuer will indemnify the recipient against the cost of making any such purchase.

For the purposes of the preceding paragraph, it will be sufficient for the holder of a note to certify in a satisfactory manner (indicating the sources of information used) that it would have suffered a loss had an actual purchase of U.S. dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of U.S. dollars on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above). These indemnities will constitute a separate and independent obligation from the other obligations of the Issuer, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any holder of a note and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any note.

## **Certain Definitions**

The following is a summary of certain defined terms used in the indenture. Reference is made to the indenture for the full definition of all such terms as well as other capitalized terms used herein for which no definition is provided.

“Additional Amounts” has the meaning set forth under “—Additional Amounts” above.

“Alfa” means Alfa, S.A.B. de C.V. and not its subsidiaries.

“Attributable Value” means as to any particular lease under which the Issuer, the Company or any Subsidiary is at any time liable as lessee and any date as of which the amount thereof is to be determined, the total net obligation of the lessee for rental payments during the remaining term of the lease (including any period for which such lease has been extended or may, at the option of the lessor, be extended) discounted from the respective due dates thereof to such date at a rate per annum equivalent to the interest rate inherent in such lease (as determined in good faith by the Company in accordance with generally accepted financial practice).

“Board of Directors” means, with respect to any Person, the board of directors or similar governing body of such Person.

“business day” means any day, other than a Saturday or Sunday, which is not a day on which banking institutions in New York City, Amsterdam or Mexico City are authorized or required by law or executive order to close.

“Capital Lease Obligation” means, at the time any determination is to be made, with respect to any Person, the obligations of such Person to pay rent or other amounts under any lease of, or other arrangement conveying the right to use, real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet in accordance with IFRS.

“Capital Stock” means, with respect to any Person, any and all shares of stock, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated, whether voting or non-voting), such Person’s equity including any preferred stock, but excluding any debt securities convertible into or exchangeable for such equity.

“Change of Control” means the occurrence of one or more of the following events:

- (a) prior to an Initial Public Offering, (i) Alfa and its affiliates cease to collectively beneficially own more than 50% of the Voting Stock of the Company, unless as a result of such transaction, the ultimate direct or indirect ownership of the Company is substantially the same immediately after such transaction as it was immediately prior to such transaction, (ii) individuals appointed by Alfa cease for any reason to constitute a majority of the members of the Board of Directors of the Company, (iii) the Company and its affiliates cease to collectively beneficially own more than 50% of the Voting Stock of the Issuer, unless as a result of such transaction, the ultimate direct or indirect ownership of the Issuer is substantially the same immediately after such transaction as it was immediately prior to such transaction or (iv) individuals appointed by the Company cease for any reason to constitute a majority of the members of the Board of Directors of the Issuer;

- (b) after an Initial Public Offering, (i) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any “person” or “group” (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act), other than Alfa and its affiliates, becomes the “beneficial owner” (as such term is used in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 35% of the Voting Stock of the Company, (ii) Alfa and its affiliates beneficially own, directly or indirectly, in the aggregate, a lesser percentage of the total Voting Stock of the Company than such other person and do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the Board of Directors of the Company, unless, as a result of such transaction, the ultimate direct or indirect ownership of the Company is substantially the same immediately after such transaction as it was immediately prior to such transaction, (iii) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any “person” or “group” (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act), other than the Company and its affiliates, becomes the “beneficial owner” (as such term is used in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 35% of the Voting Stock of the Issuer and (iv) the Company and its affiliates beneficially own, directly or indirectly, in the aggregate, a lesser percentage of the total Voting Stock of the Issuer than such other person and do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the Board of Directors of the Issuer, unless, as a result of such transaction, the ultimate direct or indirect ownership of the Issuer is substantially the same immediately after such transaction as it was immediately prior to such transaction;
- (c) the sale, conveyance, assignment, transfer, lease or other disposition of all or substantially all of the assets of the Company, determined on a consolidated basis, to any “person” or “group” (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act) other than (i) Alfa, (ii) any subsidiary of Alfa that is a holding company for Alfa’s interest in the Company or (iii) one or more of the Subsidiaries of the Company, whether or not otherwise in compliance with the indenture;
- (d) the sale, conveyance, assignment, transfer, lease or other disposition of all or substantially all of the assets of the Issuer, determined on a consolidated basis, to any “person” or “group” (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act) other than the Company, its Subsidiaries or its affiliates, whether or not otherwise in compliance with the indenture; or
- (e) the adoption of any plan or proposal for the liquidation or dissolution of the Company or the Issuer.

Notwithstanding the foregoing, a transaction will not be deemed to involve a Change of Control if (i)(A) the Company becomes a wholly-owned subsidiary of a holding company and (B) the holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Company’s Voting Stock immediately prior to that transaction, (ii)(A) the Issuer becomes a wholly-owned subsidiary of a holding company and (B) the holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Issuer’s Voting Stock immediately prior to that transaction, (iii) it is a transaction pursuant to which the shares of the Company’s Voting Stock outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the Voting Stock of the surviving person immediately after giving effect to such transaction, (iv) it is a transaction pursuant to which the shares of the Issuer’s Voting Stock outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the Voting Stock of the surviving person immediately after giving effect to such transaction or (v) the “person” or “group” referenced in clause (b), (c) or (d) of the preceding paragraph previously became the beneficial owner of the Company’s Voting Stock or the Issuer’s Voting Stock, as applicable, so as to have constituted a Change of Control in respect of which a Change of Control Offer was made (or otherwise would have required a Change of Control Offer in the absence of the waiver of such requirement by the holders of the notes).

“Change of Control Triggering Event” means the occurrence of a Change of Control that results in a Ratings Decline.

“Clearstream” means Clearstream Banking S.A., Luxembourg.



“CNBV” means the Mexican National Banking and Securities Commission, or *Comisión Nacional Bancaria y de Valores*.

“Comparable Treasury Issue” means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the Par Call Date.

“Comparable Treasury Price” means, with respect to any redemption date for the notes, (i) the arithmetic average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, as determined by the Company, or (ii) if the Company obtains fewer than four such Reference Treasury Dealer Quotations, the arithmetic average of all such quotations.

“Consolidated Tangible Assets” means, as of any date of determination, the total amount of assets of the Company and its Subsidiaries less Intangible Assets of the Company and its Subsidiaries, on a consolidated basis and according to IFRS, as of the end of the fiscal year immediately preceding such date.

“Debt” means, with respect to any Person, without duplication:

- (a) the principal of and premium, if any, in respect of (i) indebtedness of such Person for money borrowed and (ii) indebtedness evidenced by notes, debentures or other similar instruments for the payment of which such Person is responsible or liable;
- (b) all Capital Lease Obligations of such Person;
- (c) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding trade accounts payable or other short-term obligations to suppliers payable within 180 days, in each case arising in the ordinary course of business);
- (d) all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker’s acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in clauses (a) through (c) above) entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth business day following receipt by such Person of a demand for reimbursement following payment on the letter of credit);
- (e) all Hedging Obligations;
- (f) all obligations of the type referred to in clauses (a) through (d) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any guarantee (other than obligations of other Persons that are customers or suppliers of such Person for which such Person is or becomes so responsible or liable in the ordinary course of business to (but only to) the extent that such Person does not, or is not required to, make payment in respect thereof);
- (g) all obligations of the type referred to in clauses (a) through (e) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the value of such property or assets or the amount of the obligation so secured; and
- (h) any other obligations of such Person which are required to be, or are in such Person’s financial statements, recorded or treated as debt under IFRS.

“Default” means any event which is, or after notice or passage of time or both would be, an Event of Default.

“DTC” means The Depository Trust Company.

“Euroclear” means Euroclear Bank S.A./N.V.

“European Economic Area” means all the Member States of the European Union, regardless of whether or not they have formally acceded to the European Economic Area, together with Iceland, Liechtenstein and Norway or any future state that becomes a member of the European Economic Area.

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended.

“Fitch” means Fitch Ratings, Inc., or any successor thereto.

“guarantee” means any obligation of any Person directly or indirectly guaranteeing any Debt or other obligation of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person, including an *aval* (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation of such Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term “guarantee” will not include (i) endorsements for collection or deposit in the ordinary course of business, (ii) any liability pursuant to or in connection with a declaration of joint and several liability as referred to in section 2:403 Dutch Civil Code (and any residual liability under such declaration, as referred to in section 2:404 (2) of the Dutch Civil Code), and (iii) any joint and several liability or any netting or set off arrangement arising in each case by operation of law as a result of the existence or establishment of a fiscal unity (*fiscale eenheid*) for Dutch corporate income tax or value added tax purposes or any analogous arrangement in any other jurisdiction of which the Issuer, the Company or any Significant Subsidiary is or becomes a member. The term “guarantee” used as a verb has a corresponding meaning.

“Hedging Obligations” means, with respect to any specified Person, the obligations of such Person under:

- (a) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements, cross currency swaps and interest rate collar agreements;
- (b) other agreements or arrangements designed to manage interest rates or interest rate risk; and
- (c) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates or commodity prices;

*provided, however*, that the amount of Debt with respect to any Hedging Obligation is the new amount payable if such Hedging Obligation terminated at that time due to a default by such Person.

“holder” means the Person in whose name a note is registered in the register.

“IFRS” means the International Financial Reporting Standards as issued by the International Accounting Standards Board as in effect from time to time, or any financial reporting standards required for public companies by the CNBV.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Company.

“Initial Public Offering” means the issuance and sale for cash of Capital Stock of (x) the Company to any Person other than an affiliate of the Company or (y) the Issuer to any Person other than an affiliate of the Issuer, in either case, pursuant to (i) a public offering in accordance with U.S., Mexican or Dutch laws, rules or regulations, or (ii) a private offering in accordance with Rule 144A and Regulation S under the Securities Act.

“Intangible Assets” means, with respect to the Company and its Subsidiaries, unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights, write-ups of assets over their carrying value at the end of each fiscal year, and all other items which would be treated as intangibles on the balance sheet of the Company and its Subsidiaries (except unamortized debt discount and expense), according to IFRS.

“Investment Grade Rating” means a rating equal to or higher than BBB- (or the equivalent) by Fitch, Baa3 (or the equivalent) by Moody’s and BBB- (or the equivalent) by S&P and the equivalent investment grade credit rating from any other Rating Agency.

“Joint Venture Company” means any Subsidiary of the Company, other than a Subsidiary that is a Guarantor, or a Person in which the Company or any of its Subsidiaries participates or holds, directly or indirectly, an equity interest of at least 20%, in each case substantially all of whose activities are governed by a joint venture agreement or similar arrangement set forth in the joint venture entity’s charter documents, bylaws or similar entity level documentation, with a third party that is not an affiliate of the Company.

“Joint Venture Company Debt” means Debt (or any portion thereof) of a Joint Venture Company provided that (i) the recourse of the lender thereof (including any agent, trustee, receiver or other Person acting on behalf of such entity) in respect of such Debt is limited to the Joint Venture Company, any debt securities issued by the Joint Venture Company, the Capital Stock of the Joint Venture Company, and any assets, receivables, inventory, equipment, chattels, contracts, intangibles, rights and any other assets of such Joint Venture Company and its Subsidiaries, and (ii) a default with respect to such Debt of a Joint Venture Company would not cause a default on any outstanding Debt of the Issuer, the Company or any Significant Subsidiary (or the payment of which is guaranteed by the Company or any such Significant Subsidiary) whether such Debt or guarantee now exists, or is created after the date of the indenture.

“Lien” means any mortgage, pledge, security interest, conditional sale or other similar lien.

“Mexico” means the United Mexican States.

“Moody’s” means Moody’s Investors Service, Inc., or any successor thereto.

“Non-Recourse Debt” means Debt (or any portion thereof) of a Subsidiary of the Company (the “Non-Recourse Debtor”) used to finance (i) the creation, development, construction, improvement or acquisition of projects, properties or assets and any increases in or extensions, renewals or refinancings of such Debt or (ii) the operations of projects, properties or assets of such Non-Recourse Debtor or its Subsidiaries; provided that the recourse of the lender thereof (including any agent, trustee, receiver or other Person acting on behalf of such entity) in respect of such Debt is limited to the Non-Recourse Debtor, any debt securities issued by the Non-Recourse Debtor, the Capital Stock of the Non-Recourse Debtor, and any assets, receivables, inventory, equipment, chattels, contracts, intangibles, rights and any other assets of such Non-Recourse Debtor and its Subsidiaries connected with the projects, properties or assets created, developed, constructed, improved, acquired or operated, as the case may be, in respect of which such Debt has been incurred.

“Person” means an individual, partnership, limited partnership, corporation, company, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

“Rating Agencies” means Moody’s, S&P or Fitch (or any other nationally recognized United States rating agency).

“Ratings Affirmation” means, with respect to a guarantee release, a letter issued by a Rating Agency confirming that, after giving effect to such release and taking into account our consolidated indebtedness, the then-applicable rating of the notes would not decrease.

“Ratings Decline” means that at any time within 90 days (which period shall be extended so long as the rating of the notes is under publicly announced consideration for possible downgrade by Moody’s, S&P or Fitch or a substitute or successor of any thereof) after the date of public notice of a Change of Control, of an arrangement that could result in a Change of Control, or of the Company’s intention or that of any other Person to effect a Change of

Control, (i) in the event the notes are assigned an Investment Grade Rating by at least two of the Rating Agencies prior to such public notice, the rating of the notes by at least two of the Rating Agencies shall be below an Investment Grade Rating; or (ii) in the event the notes are rated below an Investment Grade Rating by at least two of the Rating Agencies prior to such public notice, the rating of the notes by at least two of the Rating Agencies shall be decreased by one or more categories; provided that, in each case, any such rating decline is in whole or in part in connection with a Change of Control.

“Reference Treasury Dealer” means each of Citigroup Global Markets Inc., HSBC Securities (USA) Inc. and J.P. Morgan Securities LLC, or their respective affiliates or successors which are primary U.S. Government securities dealers, and no less than two other leading primary U.S. Government securities dealers in The City of New York reasonably designated by the Company; provided, however, that if any of the foregoing or their affiliates shall cease to be a primary U.S. Government securities dealer in The City of New York (a “Primary Treasury Dealer”), the Company shall substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Company, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Company by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

“Relevant Jurisdiction” means the Netherlands, Mexico or any other jurisdiction in which the Issuer or a Guarantor is organized or resident for tax purposes or through or from which payment on the notes is made, or any political subdivision or governmental authority thereof or therein.

“S&P” means Standard and Poor’s Ratings Services, or any successor thereto.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Significant Subsidiary” means any Subsidiary of the Company that at the time of determination (a) was a Guarantor, (b) had assets which, as of the date of the Company’s most recent quarterly consolidated balance sheet, constituted at least 10% of the Company’s total assets on a consolidated basis as of such date or (c) had operating income for the 12-month period ending on the date of the Company’s most recent quarterly consolidated statement of income which constituted at least 10% of the Company’s total operating income, on a consolidated basis for such period.

“Specified Property” means, as of any date of determination, any real and tangible property owned by us or any Subsidiary that constitutes all or any part of any plant, processing facility or manufacturing facility, and is used in the ordinary course of its business, the gross book value (without duplication of any depreciation reserves) of which real or tangible property exceeds US\$25,000,000.

“Stated Maturity” means, with respect to any security, the date specified in such security as the fixed date on which the principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“Subsidiary” means any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (a) the Company, (b) the Company and one or more Subsidiaries or (c) one or more Subsidiaries.

“Treasury Rate” means, with respect to any redemption date, the rate per annum, as determined by an Independent Investment Banker, to be equal to the semi-annual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“U.S. dollars” or “US\$” means such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

“Voting Stock” means, with respect to any Person, securities of any class of Capital Stock of such Person entitling the holders thereof (whether at all times or only so long as no senior class of stock has voting power by reason of any contingency) to vote in the election of members of the Board of Directors (or equivalent governing body) of such Person.

## **BOOK-ENTRY, DELIVERY AND FORM**

The notes will be issued in the form of fully registered global notes which will be deposited with, or on behalf of, DTC and registered in the name of Cede & Co., which is DTC's nominee. The notes will be accepted for clearance by DTC. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected only through, book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the global notes through either DTC in the United States, or Clearstream or Euroclear, if they are participants in those systems, or, indirectly, through organizations that are participants in those systems. Owners of beneficial interests in the notes will receive all payments relating to their notes in U.S. Dollars. One or more fully registered global notes, representing the aggregate principal amount of notes issued, will be issued and will be deposited with DTC and will bear a legend regarding the restrictions on exchanges and registration of transfer referred to below.

The laws of some jurisdictions may require that some purchasers of securities take physical delivery of securities in definitive form. These laws may impair the ability to transfer beneficial interests in the notes, so long as the notes are represented by global notes.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments that DTC's direct participants deposit with DTC. DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between direct participants' accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others, who we refer to as indirect participants, such as U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a direct or indirect custodial relationship with a direct participant. The rules applicable to DTC and its participants are on file with the SEC.

Purchases of the notes under the DTC system must be made by or through direct participants, who will receive a credit for the notes on DTC's records. The ownership interest of each actual purchaser of notes, (a "beneficial owner") is in turn to be recorded on the direct or indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the notes are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in notes, except as described below. Under a book-entry format, holders may experience some delay in their receipt of payments, as such payments will be forwarded by the trustee to Cede & Co., as nominee for DTC. DTC will forward the payments to its participants, who will then forward them to indirect participants or holders. Beneficial owners of the notes other than DTC or its nominees will not be recognized by the registrar and transfer agent as registered holders of the notes entitled to the rights of holders thereof. Beneficial owners that are not participants will be permitted to exercise their rights only indirectly through and according to the procedures of participants and, if applicable, indirect participants.

To facilitate subsequent transfers, all notes deposited by direct participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual

beneficial owners of the notes; DTC's records reflect only the identity of the direct participants to whose accounts the notes are credited, which may or may not be the beneficial owners. The direct and indirect participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in the notes to be redeemed.

The global notes are exchangeable for certificated securities in definitive, fully registered form without interest coupons only in the following limited circumstances:

- DTC notifies us that it is unwilling or unable to continue as depositary for the global notes or DTC ceases to be a clearing agency registered under the Exchange Act, at a time when DTC is required to be so registered in order to act as depositary, and in each case the Issuer fails to appoint a successor depositary within 90 days of such notice;
- the Issuer notifies the trustee in writing that the global notes will be so exchangeable; or
- if an Event of Default with respect to the notes has occurred and is continuing.

In all cases, certificated securities delivered in exchange for any global note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by or on behalf of DTC (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in "Transfer Restrictions" unless we determine otherwise in accordance with the indenture and in compliance with applicable law.

As long as DTC or its nominee is the registered owner of the global notes, DTC or its nominee, as the case may be, will be considered the sole owner and holder of the global notes and all notes represented by the global notes for all purposes under the indenture. Except in the limited circumstances referred to above, owners of beneficial interests in global notes:

- will not be entitled to have such global notes or the notes represented by the global notes registered in their names;
- will not receive or be entitled to receive delivery of physical certificates in exchange for beneficial interests in global notes; and
- will not be considered to be owners or holders of the global notes or the notes represented by the global notes for any purpose under the indenture.

Payments with respect to the notes represented by the global notes and all transfers and deliveries of the notes will be made to DTC or its nominee, as the case may be, as the registered holder of the notes. DTC's practice is to credit direct participants' accounts upon DTC's receipt of funds and corresponding detail information from us or our agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of that participant and not of us, any of our agents, DTC or the trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC are the responsibility of us or our agent, disbursement of such payments to direct participants will be the responsibility of DTC, and disbursement of such payments to the beneficial owners will be the responsibility of direct and indirect participants.

Ownership of beneficial interests in the global notes will be limited to participants or persons that may hold beneficial interests through institutions that have accounts with DTC or its nominee. Ownership of beneficial interests in global notes will be shown only on, and the transfer of those ownership interests will be effected only through, records maintained by DTC or its nominee, with respect to participants' interests, or any participant, with respect to interests of persons held by the participant on their behalf. Payments, transfers, deliveries, exchanges, and other matters relating to beneficial interests in global notes may be subject to various policies and procedures adopted by DTC from time to time. Neither we nor any of our agents will have any responsibility or liability for any aspect of DTC's or any direct or indirect participant's records relating to, or for payments made on account of, beneficial interests in global notes, or for maintaining, supervising or reviewing any of DTC's records or any direct or indirect participant's records relating to these beneficial ownership interests.

Although DTC has agreed to the foregoing procedures in order to facilitate transfer of interests in the global notes among participants, DTC is under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time. We will not have any responsibility for the performance by DTC or its direct or indirect participants under the rules and procedures governing DTC.

Because DTC can act only on behalf of direct participants, who in turn act only on behalf of direct or indirect participants, and certain banks, trust companies and other persons approved by it, the ability of a beneficial owner of notes to pledge the notes to persons or entities that do not participate in the DTC system may be limited due to the unavailability of physical certificates for the notes.

DTC has advised us that it will take any action permitted to be taken by a registered holder of any notes under the indenture only at the direction of one or more participants to whose accounts with DTC the notes are credited.

Clearstream and Euroclear will hold interests on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories, which in turn will hold interests in customers' securities accounts in the depositories' names on the books of DTC.

Clearstream holds securities for its participating organizations, ("Clearstream Participants") and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries.

Clearstream is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier and the Banque Centrale du Luxembourg, which supervise and oversee the activities of Luxembourg banks. Clearstream Participants are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations, and may include the initial purchasers or their affiliates. Indirect access to Clearstream is available to other institutions that clear through or maintain a custodial relationship with a Clearstream Participant. Clearstream has established an electronic bridge with Euroclear as the operator of the Euroclear System (the "Euroclear Operator") in Brussels to facilitate settlement of trades between Clearstream and the Euroclear Operator.

Euroclear holds securities and book-entry interests in securities for participating organizations, (the "Euroclear Participants") and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and participants of certain other securities intermediaries through electronic book-entry changes in accounts of such participants or other securities intermediaries. Euroclear provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing and related services. Euroclear Participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations, and may include the initial purchasers or their affiliates. Non-participants in Euroclear may hold and transfer beneficial interests in a global note through accounts with a Euroclear Participant or any



other securities intermediary that holds a book-entry interest in a global note through one or more securities intermediaries standing between such other securities intermediary and Euroclear.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law, which we collectively refer to as the “Terms and Conditions.” The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants, and has no record of or relationship with persons holding through Euroclear Participants.

Distributions with respect to notes held beneficially through Clearstream or Euroclear will be credited to the cash accounts of Clearstream Participants or Euroclear Participants, as the case may be, in accordance with their respective procedures, to the extent received by the U.S. depository for Clearstream or Euroclear, as the case may be. Transfers between Euroclear Participants and Clearstream Participants will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Cross-market transfers between DTC’s participating organizations (“DTC Participants”), on the one hand, and Euroclear Participants or Clearstream Participants, on the other hand, will be effected through DTC in accordance with DTC’s rules on behalf of Euroclear or Clearstream, as the case may be, by its U.S. depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depository to take action to effect final settlement on its behalf by delivering or receiving interests in the global note in DTC, and making or receiving payment in accordance with normal procedures for same-day fund settlement applicable to DTC. Euroclear Participants and Clearstream Participants may not deliver instructions directly to their respective U.S. depositories. Due to time zone differences, the securities accounts of a Euroclear Participant or Clearstream Participant purchasing an interest in a global note from a DTC Participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear Participant or Clearstream Participant, during the securities settlement processing day, which must be a business day for Euroclear or Clearstream, immediately following the settlement date of DTC. Cash received in Euroclear or Clearstream as a result of sales of interests in a global note by or through a Euroclear Participant or Clearstream Participant to a DTC Participant will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC’s settlement date.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of securities among participants of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures and they may discontinue the procedures at any time. None of us, any of the initial purchasers or the trustee will have any responsibility for the performance by Clearstream or Euroclear or their respective participants of their respective obligations under the rules and procedures governing their operations. In addition, the information in this section concerning DTC and its book-entry system has been obtained from sources that we believe to be accurate, but we assume no responsibility for the accuracy thereof.

## TRANSFER RESTRICTIONS

The notes and the guarantees have not been, and will not be, registered under the Securities Act, or the securities laws of any other jurisdiction and may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S), except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, we are offering the notes only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) pursuant to Rule 144A; and
- outside the United States to non-U.S. persons in offshore transactions meeting the requirements of Rule 903 of Regulation S.

As used herein, the terms “offshore transaction,” “United States” and “U.S. person” have the respective meanings given to them in Regulation S.

### **Purchasers’ Representations and Restrictions on Resale and Transfer**

Each purchaser of notes (other than the initial purchasers in connection with the initial issuance and sale of notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- it is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made pursuant to Rule 144A or (b) a non-U.S. person that is outside the United States;
- it acknowledges that the notes have not been registered under the Securities Act or with any securities regulatory authority of any state, that the notes are being offered in a transaction that does not involve any public offering in the United States within the meaning of the Securities Act and that the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- it understands and agrees that notes initially offered in the United States to qualified institutional buyers will be represented by a global note and that notes offered outside the United States pursuant to Regulation S will also be represented by a global note;
- it will not resell or otherwise transfer any of such notes except (a) to us, (b) within the United States to a qualified institutional buyer in a transaction in compliance with Rule 144A, (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to an exemption from registration under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act;
- it agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes;
- it acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement or in respect of notes sold or transferred either in compliance with (a) Rule 144A or (b) Regulation S) the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture;
- it acknowledges that the trustee, registrar or transfer agent for the notes will not be required to accept for registration transfer of any notes acquired by it, except upon presentation of evidence satisfactory to us that the restrictions set forth herein have been complied with;
- if it is a non-U.S. purchaser acquiring a beneficial interest in a Regulation S global note offered pursuant to this offering memorandum, it acknowledges and agrees that, until the expiration of the 40 day

“distribution compliance period” within the meaning of Regulation S, any offer, sale, pledge or other transfer shall not be made by it in the United States or to, or for the account or benefit of, a U.S. person, except pursuant to Rule 144A to a qualified institutional buyer taking delivery thereof in the form of a beneficial interest in a U.S. global note;

- it acknowledges that we, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it will promptly notify us and the initial purchasers; and
- if it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

## Legends

The following is the form of restrictive legend which will appear on the face of the Rule 144A global note and which will be used to notify transferees of the foregoing restrictions on transfer:

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES FOR THE BENEFIT OF SIGMA FINANCE NETHERLANDS B.V. (THE “COMPANY”) THAT THIS NOTE OR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE COMPANY, (2) SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”), TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) IN ACCORDANCE WITH RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER APPLICABLE JURISDICTION. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, REPRESENTS AND AGREES THAT IT SHALL NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ONLY AT THE OPTION OF THE ISSUER.”

The following is the form of restrictive legend which will appear on the face of the Regulation S global note and which will be used to notify transferees of the foregoing restrictions on transfer:

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES THAT, PRIOR TO THE EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S (“REGULATION S”) UNDER THE SECURITIES ACT), NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN

COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE REFERRED TO HEREIN.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE AFTER 40 DAYS BEGINNING ON AND INCLUDING THE LATER OF (A) THE DATE ON WHICH THE NOTES ARE OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) AND (B) THE ORIGINAL ISSUE DATE OF THE NOTES.”

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in global notes and certificated notes, see “Description of the Notes.”

#### **Other Jurisdictions**

The distribution of this offering memorandum and the offer and sale or resale of the notes may be restricted by law in certain jurisdictions. Persons into whose possession this offering memorandum comes are required by us and the initial purchasers to inform themselves about and to observe any such restrictions.

## TAXATION

### General

The following summary contains a description of certain United States federal and Dutch income tax consequences of the purchase, ownership and disposition of the notes.

This summary is based upon federal tax laws of the United States and the Netherlands as in effect on the date of this offering memorandum, all of which are subject to change, including changes with retroactive effects. This summary does not purport to be a comprehensive description of all the United States or Dutch tax considerations that may be relevant to a decision to purchase, hold or dispose of the notes. The summary does not address any tax consequences under the laws of any state, municipality or locality of the Netherlands or the United States or the laws of any taxing jurisdiction other than the federal tax laws of the Netherlands and the United States.

Prospective investors should consult their own tax advisors as to the Dutch and United States tax consequences of the purchase, ownership and disposition of notes, including, in particular, the effect of any foreign, national, state, municipal or other non-national tax laws.

### Netherlands Tax Considerations

This summary solely addresses the principal Dutch tax consequences of the acquisition, ownership and disposal of the notes and does not purport to describe every aspect of taxation that may be relevant to a particular holder. Tax matters are complex, and the tax consequences of the issuance to a particular holder of notes will depend in part on such holder's circumstances. Accordingly, a holder is urged to consult his own tax advisor for a full understanding of the tax consequences of the issuance to him, including the applicability and effect of Dutch tax laws.

Where in this summary English terms and expressions are used to refer to Dutch concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Dutch concepts under Dutch tax law. Where in this summary the terms "the Netherlands" and "Dutch" are used, these refer solely to the European part of the Kingdom of the Netherlands. This summary assumes that the Issuer is organised, and that its business will be conducted, in the manner outlined in this offering memorandum. A change to such organisational structure or to the manner in which the Issuer conducts its business may invalidate the contents of this summary, which will not be updated to reflect any such change.

This summary is based on the tax law of the Netherlands (unpublished case law not included) as it stands at the date of this offering memorandum. The tax law upon which this summary is based, is subject to changes, possibly with retroactive effect. Any such change may invalidate the contents of this summary, which will not be updated to reflect such change.

The summary in this Netherlands Tax Considerations paragraph (except as described below under "Withholding Tax") does not address the Dutch tax consequences for a holder of notes who:

- (i) is a person who may be deemed an owner of notes for Dutch tax purposes pursuant to specific statutory attribution rules in Dutch tax law;
- (ii) is, although in principle subject to Dutch corporation tax, in whole or in part, specifically exempt from that tax in connection with income from notes;
- (iii) is an investment institution as defined in the Dutch Corporation Tax Act 1969;
- (iv) owns notes in connection with a membership of a management board or a supervisory board, an employment relationship, a deemed employment relationship or management role; or
- (v) has a substantial interest in the Issuer or a deemed substantial interest in the Issuer for Dutch tax purposes. Generally, a person holds a substantial interest if (a) such person – either alone or, in the case of an individual, together with his partner or any of his relatives by blood or by marriage in the direct line (including foster-children) or of those of his partner for Dutch tax purposes – owns or is deemed to own,

directly or indirectly, 5% or more of the shares or of any class of shares of the Issuer, or rights to acquire, directly or indirectly, such an interest in the shares of the Issuer or profit participating certificates relating to 5% or more of the annual profits or to 5% or more of the liquidation proceeds of the Issuer, or (b) such person's shares, rights to acquire shares or profit participating certificates in the Issuer are held by him following the application of a non-recognition provision; or

(vi) is a corporate entity or taxable as a corporate entity and who is resident or deemed to be resident of Aruba, Curaçao or Sint Maarten for tax purposes.

### ***Withholding Tax***

All payments under the notes may be made free from withholding or deduction of or for any taxes of whatever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority of or in the Netherlands.

### ***Taxes on Income and Capital Gains***

#### ***Non-Resident Holders of Notes***

##### *Individuals*

If a holder of notes is an individual who is neither resident nor deemed to be resident in the Netherlands for purposes of Dutch income tax, he will not be subject to Dutch income tax in respect of any benefits derived or deemed to be derived from or in connection with notes, except if:

- (i) he derives profits from an enterprise, whether as an entrepreneur or pursuant to a co-entitlement to the net value of such enterprise, other than as a shareholder, and such enterprise is carried on, in whole or in part, through a permanent establishment or a permanent representative in the Netherlands, and his notes are attributable to such permanent establishment or permanent representative; or
- (ii) he derives benefits or is deemed to derive benefits from or in connection with notes that are taxable as benefits from miscellaneous activities performed in the Netherlands.

##### *Corporate Entities*

If a holder of notes is a corporate entity, or an entity, including an association, a partnership and a mutual fund, taxable as a corporate entity, which is neither resident nor deemed to be resident in the Netherlands for purposes of Dutch corporation tax, it will not be subject to Dutch corporation tax in respect of any benefits derived or deemed to be derived from or in connection with notes, except if:

- (i) it derives profits from an enterprise directly which is carried on, in whole or in part, through a permanent establishment or a permanent representative in the Netherlands, and to which permanent establishment or permanent representative its notes are attributable; or
- (ii) it derives profits pursuant to a co-entitlement to the net value of an enterprise which is managed in the Netherlands, other than as a holder of securities, and to which enterprise its notes are attributable.

##### *General*

A holder of notes will not be deemed to be resident in the Netherlands for Dutch tax purposes by reason only of the execution and/or enforcement of the documents relating to the issue of notes or the performance by the Issuer of its obligations under such documents or under the notes.

If a holder of notes is neither resident nor deemed to be resident in the Netherlands, such holder will for Dutch tax purposes not carry on or be deemed to carry on an enterprise, in whole or in part, through a permanent establishment or a permanent representative in the Netherlands by reason only of the execution and/or enforcement

of the documents relating to the issue of notes or the performance by the Issuer of its obligations under such documents or under the notes.

### ***Gift and Inheritance Taxes***

No Dutch gift tax or Dutch inheritance tax will arise with respect to an acquisition or deemed acquisition of notes by way of gift by, or upon the death of, a holder of notes who is neither resident nor deemed to be resident in the Netherlands for purposes of Dutch gift tax or Dutch inheritance tax except if, in the event of a gift whilst not being a resident nor being a deemed resident in the Netherlands for purposes of Dutch gift tax or Dutch inheritance tax, the holder of notes becomes a resident or a deemed resident in the Netherlands and dies within 180 days after the date of the gift.

For purposes of Dutch gift tax and Dutch inheritance tax, a gift of notes made under a condition precedent is deemed to be made at the time the condition precedent is satisfied.

### ***Registration Taxes and Duties***

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, is payable in the Netherlands in respect of or in connection with the execution and/or enforcement (including by legal proceedings and including the enforcement of any foreign judgment in the courts of the Netherlands) of the documents relating to the issue of notes, the performance by the Issuer of its obligations under such documents or under notes, or the transfer of notes, except that Dutch real property transfer tax may be due upon an acquisition, in connection with notes, of real property situated in the Netherlands, (an interest in) an asset that qualifies as real property situated in the Netherlands, or (an interest in) a right over real property situated in the Netherlands, for the purposes of Dutch real property transfer tax.

## **U.S. Federal Income Tax Considerations**

The following is a general summary of certain U.S. federal income tax consequences of the ownership and disposition of the notes. This summary is limited to holders of the notes that purchase the notes at the original issuance, at their “issue price” (as defined below) and who hold the notes as capital assets (within the meaning of the Code). This summary is based upon provisions of the Code and U.S. Treasury regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those summarized below. This summary does not address all aspects of U.S. federal income taxation that may be relevant to a particular holder or to certain types of holders subject to special treatment, such as persons subject to certain U.S. federal income tax laws regarding expatriates, dealers in securities or foreign currency, banks or other financial institutions, insurance companies, tax-exempt organizations, real estate investment trusts, regulated investment companies, partnerships, pass-through entities or persons that hold the notes through partnerships or pass through entities, “U.S. Holders” (as defined below) whose functional currency is not the U.S. Dollar, or persons who hold the notes as part of a “straddle,” “hedge,” “conversion transaction,” “synthetic security” or other integrated investment. In addition, this summary does not address the U.S. federal estate and gift tax or alternative minimum tax consequences or the indirect effects on holders of interests in a beneficial owner of the notes. This summary also does not describe any tax consequences arising under the laws of any taxing jurisdiction other than the U.S. federal government.

This summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), existing and proposed U.S. Treasury regulations promulgated thereunder, administrative pronouncements and judicial decisions, each as announced and in effect on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein. No ruling from the Internal Revenue Service (the “IRS”) has been sought with respect to the statements made and the conclusions reached in this discussion, and there can be no assurance that the IRS will agree with such statements and conclusions.

As used in this section, the term “U.S. Holder” means a beneficial owner of the notes that is for U.S. federal income tax purposes: (i) a citizen or individual resident of the United States; (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) any estate the income of which is subject to U.S.

federal income tax regardless of its source; or (iv) any trust if (A) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust or (B) the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds notes, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner in a partnership that acquires or holds the notes should consult its own tax advisors.

Under recently enacted legislation, U.S. Holders that use an accrual method of accounting for tax purposes generally will be required to include certain amounts in income no later than the time such amounts are reflected on certain financial statements. The application of this rule thus may require the accrual of income earlier than would be the case under the general tax rules described below, although the precise application of this rule is unclear at this time. This rule generally will be effective for tax years beginning after December 31, 2017 or, for debt instruments issued with original issue discount, for tax years beginning after December 31, 2018. U.S. Holders that use an accrual method of accounting should consult with their tax advisors regarding the potential applicability of this legislation to their particular situation.

If you are considering the purchase of notes, you should consult your own tax advisors concerning the particular United States federal, state and local tax consequences to you regarding purchase, ownership and disposition of the notes, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

### ***U.S. Holders***

The following summary applies to you if you are a holder of notes that is a U.S. Holder.

#### ***Contingent Payment Debt Obligations***

Certain debt instruments that provide for one or more contingent payments are subject to U.S. Treasury regulations governing contingent payment debt instruments. A payment is not treated as a contingent payment under these regulations if, as of the issue date of the debt instrument, the likelihood that such payment will be made is remote and/or the payments are incidental. In certain circumstances as set forth in the Description of the Notes, we may be required to redeem the notes in advance of their stated maturity, in which case we may pay amounts on the notes that are in excess of the stated interest or principal of the notes. For example, in the event of a Change of Control (as defined in the indenture), we must offer to repurchase the notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the repurchase date (see “Description of the Notes—Change of Control Triggering Event”). We intend to take the position that the possibility that any such payment will be made is remote and/or the payments are incidental and therefore the notes are not subject to the rules governing contingent debt instruments. Our determination that these contingencies are remote and/or incidental is binding on you unless you disclose your contrary position to the IRS in the manner that is required by applicable U.S. Treasury regulations. Our determination is not, however, binding on the IRS. It is possible that the IRS might take a different position from that described above, in which case the timing, character and amount of taxable income in respect of the notes may differ adversely from that described herein. The remainder of this discussion assumes that the notes will not be treated as contingent payment debt instruments.

#### ***Stated Interest***

The amount of stated interest payments on a note will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for tax purposes.

In addition to interest on the notes, you will be required to include in income any Additional Amounts and any tax withheld from the interest payments you receive, even if you do not in fact receive this withheld tax. You may be entitled to deduct or credit this tax, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of your foreign taxes for a particular tax year). Interest income (including Dutch or Mexican taxes withheld, if any, from the interest payments and any Additional Amounts) on a note generally will be considered foreign source income and generally should constitute “passive category income” for foreign tax credit



purposes. You may be denied a foreign tax credit for foreign taxes imposed with respect to the notes where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

### ***Sale, Exchange and Retirement of Notes***

Unless a non-recognition provision of U.S. federal income tax law applies, upon the sale, exchange, retirement or other disposition of a note, you will generally recognize gain or loss equal to the difference between the amount you realize upon the sale, exchange, retirement or other disposition (i.e. the sum of cash plus the fair market value of all other property received, including any make-whole amount, but less an amount equal to any accrued interest that you did not previously include in income, which will be taxable as ordinary interest income) and the adjusted tax basis of the note. Your adjusted tax basis in a note will, in general, be your cost for that note increased by any OID previously included in gross income, if applicable, and reduced (but not below zero) by payments, if any, you have previously received (other than payments of qualified stated interest) on such note. Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holding period for such note is more than one year. Long-term capital gains recognized by individuals and certain other non-corporate U.S. Holders generally are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Such gain or loss will generally be treated as U.S. source income or loss for foreign tax credit purposes, unless an applicable tax treaty provides otherwise. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

### ***Net Investment Income Tax***

Certain U.S. Holders who are individuals, estates or trusts with income that exceeds certain thresholds generally will be subject to a 3.8% tax on “net investment income”, including interest on, and capital gains from the sale or other taxable disposition of the notes, subject to certain limitations and exceptions. U.S. Holders should consult their tax advisors regarding the effect, if any, of the net investment income tax on their ownership and disposition of the notes.

### ***Foreign Financial Asset Reporting***

You may be required to file Form 8938 (Statement of Specified Foreign Financial Assets) along with your tax return if you own “specified foreign financial assets” with an aggregate value in excess of US\$50,000. U.S. Treasury regulations provide that “specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as investment in a note not held through an account with a financial institution. U.S. Holders who fail to report required information for any year could become subject to substantial penalties and a significant extension of the statute of limitations with respect to their tax return.

Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of these rules on their investment in notes.

### ***Backup Withholding and Information Reporting***

Generally, information reporting requirements will apply to all payments we make to a U.S. Holder on the notes and payments of the proceeds from a sale or other taxable disposition of a note to a U.S. Holder unless such U.S. Holder is an exempt recipient (such as a corporation) and demonstrates this fact when so required. Backup withholding will also generally apply to such payments unless such U.S. Holder (i) provides its taxpayer identification number, (ii) certifies that it is not subject to backup withholding, and (iii) otherwise complies with the applicable requirements of the backup withholding rules.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against such holder’s United States federal income tax liability, provided the required information is timely furnished to the IRS.

### ***Foreign Account Tax Compliance***

Under Sections 1471 through 1474 of the Code (“FATCA”) and the U.S. Treasury regulations promulgated thereunder, payments on the notes after December 31, 2018 may be subject to 30% U.S. withholding tax under to the extent the payment is considered to be a “foreign pass thru payment,” but only if such payment is made to a payee that does not comply or is not otherwise deemed to comply with FATCA. Under the current regulations, the term “foreign pass thru payment” is not defined and it is not yet clear whether or to what extent payments on our notes will be treated as foreign pass thru payments.

In the event any withholding under FATCA is imposed with respect to any payments on the notes, there will be no Additional Amounts payable to compensate for the withheld amount. Holders of the notes should consult their own tax advisors on how the FATCA rules, including any intergovernmental agreement entered into between the United States and any other jurisdiction implementing FATCA, may apply to their investment in the notes.

## PLAN OF DISTRIBUTION

Citigroup Global Markets Inc., HSBC Securities (USA) Inc. and J.P. Morgan Securities LLC are acting as joint bookrunners of the offering and initial purchasers.

Subject to the terms and conditions contained in a purchase agreement among us and the initial purchasers, we have agreed to sell to the initial purchasers, and each of the initial purchasers has, severally and not jointly, agreed to purchase from us, the principal amount of the notes that appears opposite its name in the table below:

<b>Initial Purchaser</b>	<b>Principal Amount</b>
Citigroup Global Markets Inc. ....	US\$166,667,000
HSBC Securities (USA) Inc. ....	US\$166,667,000
J.P. Morgan Securities LLC.....	US\$166,666,000
Total .....	US\$500,000,000

The initial purchasers may offer and sell the notes through any of their affiliates. The notes will be offered in the United States by the initial purchasers or their affiliates that are registered to offer and sell the notes for sale in the United States. Subject to applicable law, the initial purchasers or their affiliates will offer and sell the notes outside of the United States.

Subject to the terms and conditions set forth in the purchase agreement, the initial purchasers have agreed to purchase all of the notes sold under the purchase agreement if any notes are purchased. If an initial purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting initial purchasers may be increased or the purchase agreement may be terminated.

We have agreed to indemnify the initial purchasers and their controlling persons against certain liabilities in connection with this offering, including liabilities under the Securities Act, or to contribute to payments the initial purchasers may be required to make in respect of those liabilities.

The initial purchasers are offering the notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the notes, and other conditions contained in the purchase agreement, such as the receipt by the initial purchasers of officer's certificates and legal opinions. The initial purchasers reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The initial purchasers have advised us that they propose initially to offer the notes at the offering price set forth on the cover page of this offering memorandum and to certain dealers at that price less a selling concession. After the initial offering, the offering price, concession or any other term of the offering may be changed.

We expect that delivery of the notes will be made to investors on or about March 27, 2018, which will be the third business day following the date of pricing of the notes (such settlement being referred to as "T+3"). Under Rule 15c6-1 under the U.S. Securities Exchange Act of 1934, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes prior to the delivery of the notes will be required, by virtue of the fact that the notes will initially settle in T+3, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes prior to their date of delivery should consult their advisors.

### Notes Are Not Being Registered

The notes have not been registered under the Securities Act, or the securities law of any other jurisdiction, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Each purchaser of the notes will be deemed to have made acknowledgements, representations and agreements as described under "Transfer Restrictions." In connection with sales outside the United States, each of the initial purchasers has agreed that it will not offer, sell or deliver the notes to, or for the account of, U.S. persons (unless in reliance on Rule 144A) (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, and it will send to each dealer to whom it sells such notes

during such period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United States or to, or for the account or benefit of, U.S. persons. Resales of the notes are restricted as described under “Transfer Restrictions.”

Further, until 40 days after the commencement of the offering, an offer or sale of the notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

### **New Issue of Notes**

The notes will constitute a new issue of securities with no established trading market. Application has been made to Euronext Dublin for the notes to be admitted to the Official List and trading on the Global Exchange Market. However, we cannot assure you that the listing application will be approved. We have been advised by the initial purchasers that they presently intend to make a market in the notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the notes. If an active trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected. If the notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

### **No Sales of Similar Securities**

The Issuer and the Guarantors have agreed that for a period of 30 days after the date of this offering memorandum, neither the Issuer nor the Guarantors will, without first obtaining the prior written consent of the initial purchasers, directly or indirectly, offer, sell or announce the offering of, or file any registration statements under the Securities Act in respect of, any long-term, U.S. Dollar-denominated debt securities of the Issuer or any of the Guarantors offered or sold in the international capital markets, except for the notes sold to the initial purchasers pursuant to the purchase agreement.

### **Short Positions**

In connection with the offering, the initial purchasers may purchase and sell the notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the initial purchasers of a greater principal amount of notes than they are required to purchase in the offering. The initial purchasers must close out any short position by purchasing notes in the open market.

Similar to other purchase transactions, purchases by the initial purchasers to cover the syndicate short sales may have the effect of raising or maintaining the market price of the notes or preventing or retarding a decline in the market price of the notes. As a result, the price of the notes may be higher than the price that might otherwise exist in the open market.

Neither we nor the initial purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither we nor the initial purchasers make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

### **Other Relationships**

Some of the initial purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the initial purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our

affiliates. Certain initial purchasers may hold, for their own account or for the account of their customers, Campofrío 2022 Notes, which are expected to be redeemed with the proceeds of the notes. If any of the initial purchasers or their affiliates have a lending relationship with us, certain of those initial purchasers or their affiliates routinely hedge, and certain other of those initial purchasers may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the notes offered hereby. The initial purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## **Sales Outside the United States**

Neither we nor the initial purchasers are making an offer to sell, or seeking offers to buy, the notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the initial purchasers will have any responsibility therefor.

## **Selling Restrictions**

### ***European Economic Area***

In relation to each member state of the European Economic Area, an offer of securities described in this offering memorandum may not be made to the public in that member state other than:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant dealer or dealers nominated by us for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of securities shall require us or any initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For purposes of this provision, the expression an “offer of securities to the public” in any member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression “Prospectus Directive” means Directive 2003/71/EC (and any amendments thereto, to the extent implemented in the relevant member state) and includes any relevant implementing measure in that relevant member state.

The European Economic Area selling restriction is in addition to any other selling restriction set out in this offering memorandum.

The sellers of the securities have not authorized and do not authorize the making of any offer of securities through any financial intermediary on their behalf, other than offers made by the initial purchasers with a view to the final placement of the securities as contemplated in this offering memorandum. Accordingly, no purchaser of the securities, other than the initial purchasers, is authorized to make any further offer of the securities on behalf of the sellers or the initial purchasers.

### ***Prohibition of Sales to EEA retail investors***

The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "Prospectus Directive"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

#### ***Italy***

The offering of the notes has not been cleared by the Italian Securities and Exchange Commission (*Commissione Nazionale per la Società e la Borsa* or "CONSOB") pursuant to Italian securities legislation. Accordingly, no notes may be offered, sold or delivered, directly or indirectly, nor may copies of this offering memorandum or any other document relating to the notes be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined under Article 100 of the Legislative Decree No. 58 of February 24, 1998, as amended (the "Italian Securities Act"), as implemented by Article 26, paragraph 1, letter (d) of CONSOB Regulation No. 16190 of October 29, 2007, as amended ("Regulation No. 16190"), pursuant to Article 34-ter, paragraph 1, letter (b), of CONSOB Regulation No. 11971 of May 14, 1999, as amended ("Regulation No. 11971"); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Securities Act and its implementing CONSOB regulations, including Regulation No. 11971.

Any such offer, sale or delivery of the notes or distribution of copies of this offering memorandum or any other document relating to the notes in the Republic of Italy must be in compliance with the selling restriction under (i) and (ii) above and:

(a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with the relevant provisions of the Italian Securities Act, Regulation No. 16190 and Legislative Decree No. 385 of September 1, 1993, as amended (the "Italian Banking Act");

(b) in compliance with Article 129 of the Italian Banking Act and the implementing guidelines of the Bank of Italy, as amended, pursuant to which the Bank of Italy may request information on the offering or issue of securities in Italy or by Italian persons outside of Italy; and

(c) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or the Bank of Italy or any other Italian authority.

Any investor purchasing the notes is solely responsible for ensuring that any offer, sale, delivery or resale of the notes by such investor occurs in compliance with the applicable Italian laws and regulations.

*Please note that in accordance with Article 100-bis of the Italian Securities Act, either the subsequent resale on the secondary market in Italy of the notes (which were part of a public offer made pursuant to an exemption from the obligation to publish a prospectus) or the subsequent systematic resale on the secondary market in Italy to investors that are not qualified investors within 12 months of completion of the offer reserved to qualified investors only, constitutes a distinct and autonomous offer that must be made in compliance with the public offer and the prospectus requirement rules provided under the Italian Securities Act and Regulation No. 11971, unless an exemption applies. Failure to comply with such rules may result in the subsequent resale of such notes being declared null and void and in the liability of the intermediary transferring the notes for any damages suffered by the investors.*

### ***Notice to Prospective Investors in the Netherlands***

The securities described in this offering memorandum have not been and shall not be offered, sold, transferred or delivered in the Netherlands other than to qualified investors within the meaning of Article 1:1 Dutch Financial Supervision Act (*Wet op het financieel toezicht*).

### ***Switzerland***

The notes may not and will not be publicly offered, distributed or re-distributed in or from Switzerland and neither this document nor any other solicitation for investments in the notes may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of Articles 1156 or 652a of the Swiss Code of Obligations. The notes are not a collective investment within the meaning of the Federal Collective Investment Schemes Act of June 23, 2006 (*Bundesgesetz über die kollektiven Kapitalanlagen, KAG*). This document may not be copied, reproduced, distributed or passed on to others without the Global Coordinator's prior written consent. This document is not a prospectus within the meaning of Articles 1156 and 652a of the Swiss Code of Obligations or a listing prospectus according to articles 27 et seq. of the Listing Rules of SIX Exchange Regulation, the regulator of SIX Swiss Exchange AG, and may not comply with the information standards required thereunder. We will not apply for a listing of the notes on any Swiss stock exchange or other Swiss regulated market and this document may not comply with the information required under the relevant listing rules. The notes offered hereby have not been and will not be registered with the Swiss Federal Financial Market Supervisory Authority (FINMA) and have not been and will not be authorized under the Federal Collective Investment Schemes Act of June 23, 2006 (*Bundesgesetz über die kollektiven Kapitalanlagen, KAG*). The investor protection afforded by the Federal Collective Investment Schemes Act (*Bundesgesetz über die kollektiven Kapitalanlagen, KAG*) does not extend to acquirers of the notes.

### ***United Kingdom***

This offering memorandum is only being distributed to, and is only directed at, persons who are outside the United Kingdom or persons in the United Kingdom that are (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a "relevant person"). This offering memorandum and its contents should not be distributed, published, or reproduced (in whole or in part) or disclosed by the recipients to any other person in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

### ***Canada***

The notes may be sold only to purchasers in the provinces of Alberta, British Columbia, New Brunswick, Nova Scotia, Ontario, Prince Edward Island and Quebec purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

## **Brazil**

The notes have not been, and will not be, registered with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*, or “CVM”). The notes may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or distribution under Brazilian laws and regulations.

## **Chile**

Pursuant to Law No. 18,045 of Chile (the securities market law of Chile) and Rule (*Norma de Carácter General*) No. 336, dated June 27, 2012, issued by the Superintendency of Securities and Insurance of Chile (*Superintendencia de Valores y Seguros de Chile*, or “SVS”), the notes may be privately offered in Chile to certain “qualified investors” identified as such by Rule No. 336 (which in turn are further described in Rule No. 216, dated June 12, 2008, of the SVS).

Rule No. 336 requires the following information to be provided to prospective investors in Chile:

(1) Date of commencement of the offer: March 22, 2018. The offer of the notes is subject to Rule No. 336, dated June 27, 2012, issued by the SVS;

(2) The notes and the offering memorandum are not registered with the Securities Registry (*Registro de Valores*) of the SVS, nor with the foreign securities registry (*Registro de Valores Extranjeros*) of the SVS and as such as not subject to the oversight of the SVS;

(3) Since the notes are not registered in Chile, there is no obligation by the Issuer to make publicly available information about the notes in Chile; and

(4) The notes shall not be subject to a public offering in Chile unless registered with the relevant Securities Registry of the SVS.

## **Colombia**

The notes will not be authorized by the Colombian Superintendency of Finance (*Superintendencia Financiera de Colombia*) and will not be registered under the National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*), and, accordingly, the notes will not be offered or sold to persons in Colombia except in circumstances which do not result in a public offering under Colombian law.

## **Mexico**

The notes have not been and will not be registered with the RNV maintained by the CNBV, and may not be offered or sold publicly, or otherwise be the subject of brokerage activities in Mexico, except that the notes may be sold, on a private placement basis, to investors that qualify as institutional or qualified investors under the laws of Mexico, pursuant to the private placement exemption set forth in the Mexican Securities Market Law and regulations thereunder.

## **Peru**

Neither the notes nor the offering have been or will be registered or approved by the Peruvian Superintendency of the Securities Market (*Superintendencia del Mercado de Valores* or the “SMV”), the Lima Stock Exchange (*Bolsa de Valores de Lima*) or the Peruvian Superintendency of Banks, Insurance and Private Pension Fund Administrators (*Superintendencia de Banca, Seguros y AFPs* or the “SBS”).

## **Hong Kong**

The notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and



no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case, whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

### ***Japan***

The notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”), and the notes have not, directly or indirectly, been offered or sold and will not be, directly or indirectly, offered or sold in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws and regulations of Japan.

### ***Singapore***

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case, subject to compliance with conditions set forth in the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interests (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes, pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interests in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

- (2) where no consideration is or will be given for the transfer; or

- (3) where the transfer is by operation of law.

## GENERAL INFORMATION

The Bank of New York Mellon SA/NV, Dublin Branch is acting solely in its capacity as listing agent for the Issuer (and not on its own behalf) in connection with the application for admission of the notes to the Official List of Euronext Dublin and trading on the Global Exchange Market.

The Issuer accepts responsibility for the information contained in this listing particulars and to the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and contains no omission likely to affect the import of such information.

The legal and commercial name of the Issuer is Sigma Finance Netherlands B.V. The Issuer is registered in the Dutch trade register under number 70876398 with its official seat (*statutaire zetel*) in Amsterdam, the Netherlands. The Issuer was incorporated on February 12, 2018 and is a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) organized under the laws of the Netherlands, operating under the Dutch Civil Code (*Burgerlijk Wetboek*). The address of the registered office of the Issuer is Schiphol Boulevard 359, D-Tower, 11<sup>th</sup> Floor, 1118 BJ Schiphol, Amsterdam, the Netherlands and the main phone number at such office is +52 (81) 8748-9000. The Issuer's financial year end is December 31 of each year.

This listing particulars contains certain information which has been sourced from third parties, in each case as identified by a note or statement identifying such third party. The Issuer accepts responsibility for accurately reproducing the information and as far as the Issuer is aware and is able to ascertain from information published by such third parties, no facts have been omitted which would render such reproduced information inaccurate or misleading.

For information regarding potential conflicts of interest and risks resulting from our corporate structure, see “Risk Factors—Risks Relating to Our Company—The Parent Guarantor is controlled by Alfa, whose interests may not be aligned with ours or yours,” “Principal Shareholders” and “Related Party Transactions.” There are no specific measures in place regarding abuse of control over our business by our parent corporation. We are not aware of any potential conflicts of interest between any duties to the Issuer of the members of its board of directors and their private interests and/or other duties.

The audited consolidated financial statements as of December 31, 2016 and for the years ended December 31, 2015 and 2016, together with the notes thereto, included in this offering memorandum have been audited by PricewaterhouseCoopers, S.C., independent auditors of the Parent Guarantor, as stated in their report appearing herein. They are a member of numerous associations, including the Mexican Institute of Public Accountants (Instituto Mexicano de Contadores Públicos, A.C.) and the National Association of Tax Specialists (Asociación Nacional de Especialistas Fiscales, A.C.).

The audited consolidated financial statements as of and for the year ended December 31, 2017, together with the notes thereto, included in this offering memorandum have been audited by Galaz Yamazaki Ruiz Urquiza S.C., Member of Deloitte Touche Tohmatsu Limited, independent auditors of the Parent Guarantor, as stated in their report appearing herein. They are a member of numerous associations, including the Mexican Institute of Public Accountants (Instituto Mexicano de Contadores Públicos, A.C.) and the National Association of Tax Specialists (Asociación Nacional de Especialistas Fiscales, A.C.).

There has been no material adverse change in our prospects since December 31, 2017 and no significant change in our financial or trading position since December 31, 2017.

The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) over the past 12 months, which may have, or have had in the recent past, significant effects on the Issuer's financial position or profitability.

For the duration of the listing of the notes on the Official List of Euronext Dublin, physical copies of the following documents may be inspected at the Parent Guarantor's main office located at Ave. Gómez Morín 1111 Sur Colonia Carrizalejo, 66254 San Pedro Garza García, Nuevo León, México:

- (a) the memorandum and articles of association of the Issuer;

(b) all reports, letters, and other documents, historical financial information, valuations and statements prepared by any expert at the Issuer's request, any part of which is included or referred to in this listing particulars; and

(c) our historical financial information for each of the two financial years preceding the publication of this listing particulars.

The notes issued in reliance on Rule 144A have a CUSIP of 8265QNAA0 and an ISIN of US8265QNAA04. The notes issued in reliance on Regulation S have a CUSIP of N8133NAA5 and an ISIN of USN8133NAA56.

The notes will be fully and unconditionally guaranteed by the Parent Guarantors and certain of its subsidiaries, as described elsewhere in this listing particulars, on a joint and several basis. The Annual Audited Financial Statements included in this listing particulars include consolidated financial information for both guarantor and non-guarantor subsidiaries of the Parent Guarantor.

The board of managing directors of the Issuer authorized the issuance of the notes on February 15, 2018. The board of directors of the Parent Guarantor authorized the issuance of the notes on February 6, 2018. The board of directors of Sigma Alimentos Exterior, S.L. and the shareholders of Sigma Alimentos Costa Rica S.A. each authorized its respective guarantee on February 5, 2018. The board of directors of each of Alimentos Finos de Occidente, S.A. de C.V., Bar-S Foods Co., Carnes Selectas Tangamanga, S.A. de C.V., Comercial Norteamericana, S. de R.L. de C.V., Comercializadora de Embutidos ICO, S.A. de C.V., Empacadora de Embutidos del Centro, S.A. de C.V., Grupo Chen, S. de R.L. de C.V., Sigma Alimentos Centro, S.A. de C.V., Sigma Alimentos Comercial, S.A. de C.V., Sigma Alimentos Congelados, S.A. de C.V., Sigma Alimentos Corporativo, S.A. de C.V., Sigma Alimentos Lácteos, S.A. de C.V., and Sigma Alimentos Noreste, S.A. de C.V., the board of managers of each of Sigma Processed Meats, LLC and Sigma Foods, LLC, and the sole shareholder and the board of directors of Mexican Cheese Producers, Inc. each authorized its respective guarantee on February 6, 2018.

As of December 31, 2017, the Issuer had not yet been formed, so it had no assets, liabilities or Adjusted EBITDA. As of December 31, 2017, the Guarantors had total assets of Ps. 52,535 million (accounting for 50% of our consolidated total assets), and total liabilities of Ps. 53,657 million (accounting for 61% of our consolidated total liabilities), and for the year ended December 31, 2017, the Guarantors had Adjusted EBITDA of Ps. 8,536 million (accounting for 67% of our consolidated Adjusted EBITDA). As of December 31, 2017, the non-guarantor subsidiaries of the Parent Guarantor had total assets of Ps. 53,051 million (accounting for 50% of our consolidated total assets), and total liabilities of Ps. 33,640 million (accounting for 39% of our consolidated total liabilities), and for the year ended December 31, 2017, the non-guarantor subsidiaries of the Parent Guarantor had Adjusted EBITDA of Ps. 4,189 million (accounting for 33% of our consolidated Adjusted EBITDA).

As of December 31, 2017, the Parent Guarantor had total assets of Ps. 7,991 million (accounting for 8% of our consolidated total assets), and total liabilities of Ps. 40,776 million (accounting for 47% of our consolidated total liabilities), and for the year ended December 31, 2017, the Parent Guarantor had Adjusted EBITDA of Ps. 1,903 million (accounting for 15% of our consolidated Adjusted EBITDA). The Parent Guarantor was incorporated on December 18, 1971 and is registered in the Public Registry of Property and Commerce (*Registro Público de la Propiedad y del Comercio*) of Monterrey, Nuevo Leon under registration number 9380\*9. The registered office of the Parent Guarantor is Ave. Gómez Morín 1111 Sur, Col. Carrizalejo, San Pedro Garza García, Nuevo Leon, Mexico. The Parent Guarantor is primarily a holding company.

## **LEGAL MATTERS**

The validity of the notes will be passed upon for us by Paul Hastings LLP, our United States counsel, and for the initial purchasers by Cleary Gottlieb Steen & Hamilton LLP, United States counsel to the initial purchasers. Certain legal matters related to Dutch law will be passed upon for us by Loyens & Loeff N.V. Certain matters of Mexican law relating to the notes will be passed upon for the initial purchasers by Ritch, Mueller, Heather y Nicolau, S.C., special Mexican counsel to the initial purchasers.

## **INDEPENDENT AUDITORS**

The audited consolidated financial statements as of December 31, 2016 and for the years ended December 31, 2015 and 2016, together with the notes thereto, included in this offering memorandum have been audited by PricewaterhouseCoopers, S.C., independent auditors, as stated in their report appearing herein.

The audited consolidated financial statements as of and for the year ended December 31, 2017, together with the notes thereto, included in this offering memorandum have been audited by Galaz Yamazaki Ruiz Urquiza S.C., Member of Deloitte Touche Tohmatsu Limited, independent auditors, as stated in their report appearing herein.

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

### ***Opinion***

We have audited the consolidated financial statements of Sigma Alimentos, S. A. de C. V. and Subsidiaries (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and its consolidated financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

### ***Basis of the Opinion***

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's 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") 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 Company's consolidated financial statements for the year ended December 31, 2016 and 2015, have been audited by other independent auditors, who expressed an unqualified opinion on February 17, 2017 and February 9, 2016, respectively.

The consolidated financial statements as of and for the year ended December 31, 2017 include the translation of Mexican peso amounts into U.S. dollar amounts, entitled "Convenience translation" and are presented solely for the convenience of the readers. These amounts are presented for informational purposes only and do not represent amounts in accordance with International Financial Reporting Standards or the equivalent in U.S. dollars in which transactions were conducted or in which the amounts presented in Mexican pesos could be translated or realized (Note 3.b).

Additionally, the accompanying consolidated financial statements have been translated into English for the convenience of readers.



## **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit matters which should be communicated in our report:

### ***Assessment of impairment of intangible assets***

As described in Notes 3.k.i, 3.k.ii, 3.l and 11 to the consolidated financial statements, the Company performs impairment tests on its intangible assets with indefinite useful lives on an annual basis and for intangible assets with finite useful lives when an impairment indicator exists.

We have been focused on the review of intangible assets, due to the significance of their balance in the consolidated financial statements of the Company, which consists of goodwill of \$14,742,248 thousand, trademarks of \$13,234,428 thousand, development costs of \$132,433 thousand, customers relationships of \$1,299,709 thousand, software, licenses and other intangibles assets with finite useful lives of \$952,512 thousand, and other intangibles assets with indefinite useful lives of \$95,513 thousand. Impairment tests involve the application of significant judgments by the Company's management in determining the assumptions related to the estimation of the recoverable value of intangible assets allocated to its cash generating units ("CGUs").

As part of our audit, we focused on the following significant assumptions that the Company considered when estimating future projections to assess the recoverability of intangible assets: growth rate of the industry, new projects and significant customers, estimated revenues, discount rates, expected gross profit margin and projected cash flows. With support from our expert appraisers, our procedures, among others, included:

- Review the models applied to determine the recoverable value of the intangible assets and methods used for valuing assets with similar characteristics.
- Review the financial projections by comparing them to the business performance and historical trends, verifying the explanations of the variations with management. In addition, we assessed the internal processes used by management to make projections, including timely monitoring and analysis by the Board of Directors, and if the projections are consistent with the budgets approved by the Board.
- Analyze the assumptions used in the impairment model, specifically including the cash flow projections, EBITDA (earnings before interests, taxes, depreciation and amortization) multiple and long-term growth plans. The key assumptions used to estimate cash flows in impairment tests of the Company are those related to revenue growth and operating margin.
- Evaluate on an independent basis the discount rates used and the methodology used in the preparation of the model of the impairment test. In addition, we tested the integrity and accuracy of the impairment model.
- To determine the CGUs, we considered the Company's analysis of operating cash flows and indebtedness policies, analysis of the legal structure, allocation of resources and understanding of the performance of the department of sales.
- Discuss with management the sensitivity calculations for all the CGUs, calculating the degree to which the assumptions used will need to be changed, and the likeliness these changes may arise.

The results of our procedures were satisfactory, and we believe the assumptions used, including the discount rate, are reasonable.

### ***Assessment of the recoverability of deferred income tax assets***

The Company records deferred income tax assets derived from tax losses. Management performs an assessment of the probability of recovering tax losses carryforwards to support the deferred tax assets recognized in its consolidated financial statements.



Due to the significance of the deferred income tax asset balance as of December 31, 2017 amounting to \$4,992,214 thousand, and the significant judgments and estimates to determine future projections of the Company's taxable income, we focused on this line item and performed the following procedures:

- We verified the reasonableness of the projections used to determine future taxable income.
- We challenged the projections used by comparing them to the business performance and historical trends, verifying the explanations of the variations with management.
- With the support of internal experts, we assessed the processes used to determine the projected taxable income, and the assumptions used by management in preparing tax projections.
- We discussed with management the sensitivity analysis and assessed the degree to which the changes in key assumptions used could impact the probability of recovery.

The results of our audit procedures were satisfactory. The Company's accounting policy for the recording of deferred taxes, as well as the detail of their disclosure, are included in Notes 3.m and 16, respectively, to the accompanying consolidated financial statements.

#### ***Information other than the financial statements and Auditor's Report thereon***

Management of the Company is responsible for the other information presented. The other information includes two documents, the Annual Stock Exchange Filing and the information that will be incorporated in the Annual Report that the Company must prepare pursuant to the General Provisions Applicable to Issuers and other Participants in the Mexican Stock Exchange and file it with the National Banking and Securities Commission ("CNBV" for its acronym in Spanish). The Annual Stock Exchange Filing and the Annual Report are expected to be made available to us after the date of this audit report.

Our opinion of the consolidated financial statements does not cover the other information and we do not express any form of assurance over it.

In connection with our audit of the consolidated financial statements, our responsibility will be to read the other information, when available, and in doing so, consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or with our knowledge obtained in the audit, or otherwise appears to contain a material error. If based on the work we have performed, we conclude that there is a material misstatement therein, we are required to communicate the matter in a statement in the Annual Report required by the CNBV and those responsible of governance in the Company.

#### ***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.

#### ***Auditor's 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.



# Deloitte.

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

- Identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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.
- Obtained 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.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded 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 audit 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 audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- Obtained sufficient appropriate audit evidence regarding the financial information of the subsidiaries 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 Company. We remain solely responsible for our audit opinion.

We communicate with those charged with governance of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.

From the matters communicated with those charged with governance of the Company, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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, 2018



## **Report of independent auditors**

To the Shareholders and Directors of  
Sigma Alimentos, S. A. de C. V. and subsidiaries

Monterrey, N.L., February 17, 2017

### **Opinion**

We have audited the consolidated financial statements of Sigma Alimentos, S. A. de C. V. and subsidiaries (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of income, of other comprehensive income, of changes in stockholders' equity and of cash flows for the years ended December 2016 and 2015, as well as the explanatory notes to the consolidated financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the years ended December 31, 2016 and 2015 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent from the Company in accordance with the Ethics Code of the Mexican Institute of Public Accountants, A.C., and with other requirements applicable to our audits of consolidated financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with those requirements and that Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements taken as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="240 453 564 484"><i>Business combinations</i></p> <p data-bbox="240 493 775 621">As mentioned in Note 2 a to the consolidated financial statements, in the year ended on December 31, 2016 the Company finalized the following business combinations:</p> <ul data-bbox="240 654 847 1456" style="list-style-type: none"> <li data-bbox="240 654 847 1069">• On July 31, 2015, a strategic alliance was signed by Sigma Alimentos, S. A. de C. V. ("Sigma") and Kinesis Food Service, S. A. de C. V. ("Kinesis"), whereby Sigma acquires control of the operations of a group of subsidiaries collectively identified as "PACSA", with the subscription of all PACSA voting shares. The total consideration was \$494 million and the fair value of acquired assets, assumed liabilities and goodwill determined and recognized at the acquisition date amounted to \$689 million, \$269 million and \$74 million, respectively.</li> <li data-bbox="240 1102 847 1456">• On August 31, 2015, Sigma acquired the totality of the shares of Elaborados Carnicos, S. A. ("ECARNI"), a company in Ecuador engaged in the raising, buying and selling cattle, pigs and sheep, and industrializing and selling the related byproducts. The total consideration of those operations was \$883 million and the fair value of acquired assets, assumed liabilities and goodwill determined and recognized at the acquisition date amounted to \$877 million, \$233 million and \$239 million, respectively.</li> </ul> <p data-bbox="240 1493 831 1794">We focused on the recognition of those acquisitions in our audit, mainly because of the importance of the fair value of the acquired assets and assumed liabilities and because the determination of those items requires applying significant judgments based on a wide range of complex variables, such as negative factors, EBITDA multiples, sales multiples and determination of the useful lives of assets.</p> <p data-bbox="240 1804 770 1871">We particularly focused on the most relevant identified assets, specifically:</p>	<p data-bbox="863 484 1466 806">Because of the significant judgments applied by Management in the valuation models for determining the consideration, the fair values of the acquired assets and assumed liabilities, particularly in the case of property, plant and equipment, as well as the intangible assets, we involved our valuation experts to selectively evaluate the assumptions and criteria used by Management and its independent expert in these models. Namely:</p> <ul data-bbox="863 851 1466 1889" style="list-style-type: none"> <li data-bbox="863 851 1466 917">• We assessed the capability and independence of the independent expert.</li> <li data-bbox="863 928 1466 1176">• With the help of our valuation experts, we matched the models used by Management in determining fair values to those used and recognized in assessing assets of a similar nature in the industry. Likewise, we verified that equally recognized methods were used in calculating the terminal value, which is based on a normalized cash flow.</li> <li data-bbox="863 1187 1466 1415">• We challenged Management's financial projections, including the terminal value, by comparing it to the performance and historical trends of the Company's businesses, for which purpose we obtained Management's explanations, where available, of any differences, as well as the related supporting evidence.</li> <li data-bbox="863 1425 1466 1518">• We assessed that Management's projections were consistent with the budgets approved by the Company's Board.</li> <li data-bbox="863 1529 1466 1653">• We compared the budgeted figures to actual results to identify if any of the assumptions contemplated in the projections could be considered to be very optimistic.</li> <li data-bbox="863 1663 1466 1889">• We compared the most relevant valuation assumptions (applied discount rate, betas, negative factors, EBITDA multiples, and sales multiples, as well as the assessment of the useful life of assets) against independent market sources for the industry in which each entity of the Company develops.</li> </ul>





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(i) property, plant and equipment of \$105 million, and intangible assets composed of brands of \$3 million, non-compete agreements of \$49 million and customer relationships of \$326 million for PACSA; and

(ii) property, plant and equipment of \$160 million, and intangible assets composed of brands of \$62 million, non-compete agreements of \$72 million and customer relationships of \$336 million for ECARNI.

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#### *Intangible asset impairment assessment*

As described in Note 12 to the consolidated financial statements, the Company performs annual impairment tests to the balance of intangible assets with indefinite useful lives.

We have focused on this matter due to the importance of the balance of intangible assets for the Company's consolidated financial statements, which is comprised of goodwill of \$10,911 million, brands of \$12,690 million, development costs of \$125 million, customer relationships of \$1,660 million, software and licenses of \$1,195 million and others of \$83 million, and because impairment testing requires applying significant judgment by the Company's Management in determining the assumptions and premises related to the estimation of the recoverable value of the cash generating units ("CGUs").

In particular, we focused on the following significant assumptions that the Company considered when estimating future projections to assess the recoverability of intangible assets: industry growth rate, significant new projects and customers, estimated revenue, expected gross profit margin and projected EBITDA. Certain intangible assets require an impairment assessment only if there are indicators.

As part of our audit, we assessed future cash flow projections prepared by Management and the processes followed to prepare them. Specifically, we assessed whether all relevant CGUs were identified and whether internal processes were carried out by Management to prepare its projections, including timely oversight and analysis by the Board of Directors, and whether the projections are consistent with budgets approved by the Board.

Due to the significant judgments used in the valuation models for determining recovery values, our valuation experts assisted us in questioning the premises and criteria used by Management and its independent expert in such models, which include the procedures set down below.

- We assessed the capability and objectivity of the independent expert.
- We verified that the methods applied in determining the recovery values of assets correspond to those used and recognized in valuing similar assets.
- We challenged the financial projections, including terminal value, matching them to the performance and historical trends of the Company, and obtained and verified Management's explanations of any variations.

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- We compared actual results for the current year with the figures budgeted for prior year to determine whether any of the assumptions included in those projections could be considered very optimistic.
  - We compared the most relevant valuation assumptions (industry growth rate, new projects and significant customers, expected gross income margin and projected) and verified that they are consistent with those commonly used and accepted for assets of these characteristics for the industry in which the Company operates.

We discussed with Management the sensitivity calculations for all CGUs and evaluated the extent to which the assumptions would need to be modified for impairment to be required. Moreover, we discussed with Management the probability of those changes being made.

With respect to the significant judgment required to group CGUs, we analyzed and considered the following aspects:

- Understanding of the workings of the commercial and sales strategy area
- Understanding of the production allocation
- Analysis of the operating cash flows and indebtedness policies
- Analysis of the legal structure

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*Assessment of the estimation and recoverability of deferred income tax*

As described in Note 17 to the consolidated financial statements, the Company recorded deferred an income tax asset as a result of tax losses; therefore, Management performed an assessment of its recoverability before recognizing it in its financial statements.

We have focused on this item in our audit due to the importance of the deferred income tax asset balance arising from tax losses as of December 31, 2016 (\$2,995 million) and because the estimation

As part of our audit, we evaluated the projections used to determine the recovery of the deferred income tax asset arising from tax losses. We compared these projections to those used to determine the recoverable value of the aforementioned intangible assets, to which we applied procedures similar to those indicated above.



of its recoverable value requires applying significant judgments by Company Management; specifically, in determining the Company's future expected income, future projections, as well as future tax results.

Specifically, we focused our audit efforts on the projections and the items mentioned in the preceding paragraph.

With the support of experts, we also evaluated and considered the projected tax results prepared by Management, as well as the processes used to prepare them, by applying the above procedures to them.

We also challenged, with the support of our tax experts, the assumptions used by Management in preparing the tax projections.

We compared the actual results of the current year to the budgeted figures of the previous year for the current year, to consider whether any assumptions included in the projections could be considered very optimistic.

Likewise, as discussed above, we discussed sensitivity calculations with Management and assessed the extent to which assumptions would need to be modified to require an adjustment.

### **Additional Information**

Management is responsible for the additional information presented. The additional information comprises the Annual Report presented to Comisión Nacional Bancaria y de Valores ("CNBV") and the Annual Information presented to shareholders (but does not include the consolidated financial statements and our auditor's report thereon), which are expected to be made available to us after the date of this report.

Our opinion on the consolidated financial statements does not cover the additional information and we will not express any form of assurance conclusion thereon.

However, in connection with our audit of the Company's financial statements, our responsibility is to read the additional information identified above when it becomes available and, in doing so, consider whether said information is materially inconsistent with the consolidated financial statements or our knowledge obtained from the audit, or otherwise appears to be materially misstated.

When we read the additional information not yet received, we will issue the report required by the CNBV and if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if required, describe the issue in our report.

### **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 International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements taken as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 the aggregate, they could reasonably be expected to influence the economic decisions of users made 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, determine whether 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 auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.





- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities comprising the economic group 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. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters reported to those charged with governance, we determine those matters that were of most significance during the audit of the consolidated financial statements for the current period and that are therefore the key audit matters. We describe those matters in our auditor's report unless the laws or regulations precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Miguel Angel Puente Buentello.

PricewaterhouseCoopers, S.C.

A handwritten signature in black ink, appearing to read "Miguel Angel Puente Buentello", written over a horizontal line.

C.P.C. Miguel Angel Puente Buentello  
Audit Partner

# Sigma Alimentos, S. A. de C. V. and Subsidiaries

## Consolidated Statements of Financial Position

As of December 31, 2017 and 2016

In thousands of Mexican pesos

	Note	Convenience translation 2017 (US\$)	2017	2016
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	6	\$ 648,939	\$ 12,807,070	\$ 12,837,614
Restricted cash	7	4,300	84,855	123,973
Trade and other accounts receivable, net	8	404,208	7,977,213	9,039,428
Recoverable income tax		41,523	819,476	846,056
Inventories	9	744,198	14,687,050	13,751,274
Other current assets		<u>21,578</u>	<u>425,841</u>	<u>343,884</u>
Total current assets		<u>1,864,746</u>	<u>36,801,505</u>	<u>36,942,229</u>
Non-current assets:				
Property, plant and equipment, net	10	1,787,063	35,268,405	33,089,282
Goodwill and intangible assets, net	11	1,543,259	30,456,843	26,664,845
Deferred income taxes	16	141,495	2,792,463	2,995,464
Investments accounted for using the equity method and other non-current assets	12	11,129	219,634	1,068,949
Restricted cash	7	<u>2,400</u>	<u>47,367</u>	<u>-</u>
Total non-current assets		<u>3,485,346</u>	<u>68,784,712</u>	<u>63,818,540</u>
Total assets		<u>\$5,350,092</u>	<u>\$105,586,217</u>	<u>\$100,760,769</u>
<b>Liabilities and Stockholders' Equity</b>				
Current liabilities:				
Debt	15	\$ 120,576	\$ 2,379,616	\$ 442,237

Trade and other accounts payable	14	1,308,188	25,817,604	26,098,551
Income taxes payable	16	90,387	1,783,816	667,648
Provisions	17	16,395	323,566	211,005
Other current liabilities	18	<u>15,366</u>	<u>303,246</u>	<u>299,624</u>
Total current liabilities		<u>\$1,550,912</u>	<u>\$30,607,848</u>	<u>27,719,065</u>
Non-current liabilities:				
Debt	15	2,433,673	48,029,505	47,400,372
Provisions	17	5,580	110,133	348,473
Deferred income taxes	16	206,133	4,068,122	3,846,026
Income taxes payable	16	118,665	2,341,907	2,460,047
Employee benefits	19	67,851	1,339,070	1,117,998
Other non-current liabilities	18	<u>40,548</u>	<u>800,236</u>	<u>821,219</u>
Total non-current liabilities		<u>2,872,450</u>	<u>56,688,973</u>	<u>55,994,135</u>
Total liabilities		<u>4,423,362</u>	<u>87,296,821</u>	<u>83,713,200</u>
Stockholders' equity:				
Controlling interest:				
Capital stock		1,372	27,081	27,081
Share premium		33,797	666,988	666,988
Retained earnings		720,780	14,224,876	15,522,200
Other reserves	20	<u>135,715</u>	<u>2,678,386</u>	<u>213,317</u>
Controlling interest		891,664	17,597,331	16,429,586
Non-controlling interest	13	<u>35,066</u>	<u>692,065</u>	<u>617,983</u>
Total stockholders' equity		<u>926,730</u>	<u>18,289,396</u>	<u>17,047,569</u>
Total liabilities and stockholders' equity		<u><u>\$5,350,092</u></u>	<u><u>\$105,586,217</u></u>	<u><u>\$100,760,769</u></u>

See accompanying notes to consolidated financial statements.

# Sigma Alimentos, S. A. de C. V. and Subsidiaries

## Consolidated Statements of Income

For the years ended December 31, 2017, 2016 and 2015

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

	Note	Convenience translation 2017 (US\$)	2017	2016	2015
Revenues	27	\$ 6,034,203	\$ 114,222,039	\$ 106,340,864	\$ 93,567,683
Cost of sales		<u>(4,371,482)</u>	<u>(82,748,224)</u>	<u>(75,369,775)</u>	<u>(66,707,923)</u>
Gross profit		1,662,721	31,473,815	30,971,089	26,859,760
Selling expenses		(964,989)	(18,266,369)	(17,397,744)	(15,329,767)
Administrative expenses		(252,562)	(4,780,769)	(4,578,817)	(4,132,152)
Other income (expenses), net	23	<u>8,667</u>	<u>164,064</u>	<u>(475,656)</u>	<u>3,506,215</u>
Operating income		<u>453,837</u>	<u>8,590,741</u>	<u>8,518,872</u>	<u>10,904,056</u>
Financial income	24	15,684	296,887	132,769	93,240
Financial expenses	24	(160,961)	(3,046,854)	(2,393,479)	(1,716,120)
Gain due to exchange fluctuation	24	140,432	2,658,259	1,937,953	807,658
Loss due to exchange fluctuation	24	<u>(227,016)</u>	<u>(4,297,201)</u>	<u>(2,434,212)</u>	<u>(1,791,262)</u>
Financial cost, net		(231,861)	(4,388,909)	(2,756,969)	(2,606,484)
Equity in income of associates recognized using the equity method	12	<u>844</u>	<u>15,976</u>	<u>50,236</u>	<u>(401,413)</u>
Income before taxes		222,820	4,217,808	5,812,139	7,896,159
Income taxes	16	<u>(113,263)</u>	<u>(2,143,965)</u>	<u>(859,554)</u>	<u>(1,586,017)</u>
Net consolidated income		<u>\$ 109,557</u>	<u>\$ 2,073,843</u>	<u>\$ 4,952,585</u>	<u>\$ 6,310,142</u>
Income attributable to:					
Controlling interest		107,342	2,031,891	4,919,166	6,335,145
Non-controlling interest	13	<u>2,215</u>	<u>41,952</u>	<u>33,419</u>	<u>(25,003)</u>
		<u>\$ 109,557</u>	<u>\$ 2,073,843</u>	<u>\$ 4,952,585</u>	<u>\$ 6,310,142</u>

Earnings per basic and diluted share, in Mexican pesos		<u>\$ 0.08</u>	<u>\$ 1.57</u>	<u>\$ 3.81</u>	<u>\$ 4.91</u>
Weighted average outstanding shares	20	<u>1,290,654,555</u>	<u>1,290,654,555</u>	<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

### Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017, 2016 and 2015

In thousands of Mexican pesos

	Note	Convenience translation 2017 (US\$)	2017	2016	2015
Net consolidated income		<u>\$ 109,558</u>	<u>\$2,073,843</u>	<u>\$4,952,585</u>	<u>\$6,310,142</u>
Other comprehensive income 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	16	(1,898)	(35,936)	37,095	(7,178)
<i>Items that will be reclassified to the consolidated statement of income</i>					
Effect of translation of foreign entities	16	<u>132,595</u>	<u>2,509,904</u>	<u>605,766</u>	<u>(1,082,583)</u>
Total comprehensive income of the year		<u>130,697</u>	<u>2,473,968</u>	<u>642,861</u>	<u>(1,089,761)</u>
Consolidated comprehensive income		<u>\$ 240,255</u>	<u>\$4,547,811</u>	<u>\$5,595,446</u>	<u>\$5,220,381</u>
Attributable to:					
Controlling interest		\$ 235,670	\$4,461,024	\$5,477,088	\$5,481,800
Non-controlling interest		<u>4,585</u>	<u>86,787</u>	<u>118,358</u>	<u>(261,419)</u>
Comprehensive income for the year		<u>\$ 240,255</u>	<u>\$4,547,811</u>	<u>\$5,595,446</u>	<u>\$5,220,381</u>

See accompanying notes to consolidated financial statements.

# **Sigma Alimentos, S. A. de C. V. and Subsidiaries**

## Statements of Changes in Stockholders' Equity

**For the years ended December 31, 2017, 2016 and 2015**

**In thousands of Mexican pesos**

	Capital stock	Share premium	Retained earnings	Other reserves	Total controlling interest	Non- controlling interest	Total stockholders' equity
Balances as of January 1, 2015	\$27,081	\$666,988	\$11,030,837	\$746,622	\$12,471,528	\$3,470,657	\$15,942,185
Transactions with stockholders:							
Change in functional currency of controlling entity				(363,767)	(363,767)	-	(363,767)
Dividends declared			(1,922,105)	-	(1,922,105)	-	(1,922,105)
Dividends cancelled			842,922	-	842,922	-	842,922
Changes in the non-controlling interest			(2,656,803)	-	(2,656,803)	(2,709,613)	(5,366,416)
Total transactions with stockholders			(3,735,986)	(363,767)	(4,099,753)	(2,709,613)	(6,809,366)
Net income			6,335,145	-	6,335,145	(25,003)	6,310,142
Total other comprehensive income			(125,885)	(727,460)	(853,345)	(236,416)	(1,089,761)
Comprehensive income			6,209,260	(727,460)	5,481,800	(261,419)	5,220,381
Balances as of December 31, 2015	\$27,081	\$666,988	\$13,504,111	\$ (344,605)	\$13,853,575	\$ 499,625	\$14,353,200
Transactions with stockholders:							
Put option held by non-controlling interest			(1,187,996)	-	(1,187,996)	-	(1,187,996)

Dividends declared			<u>(1,713,081)</u>	<u>-</u>	<u>(1,713,081)</u>	<u>-</u>	<u>(1,713,081)</u>
Total transactions with stockholders			<u>(2,901,077)</u>	<u>-</u>	<u>(2,901,077)</u>	<u>-</u>	<u>(2,901,077)</u>
Net income			4,919,166	-	4,919,166	33,419	4,952,585
Total other comprehensive income			-	557,922	557,922	84,939	642,861
Comprehensive income			<u>4,919,166</u>	<u>557,922</u>	<u>5,477,088</u>	<u>118,358</u>	<u>5,595,446</u>
Balances as of December 31, 2016	27,081	666,988	15,522,200	213,317	16,429,586	617,983	17,047,569
Transactions with stockholders:							
Dividends declared			(3,024,284)	-	(3,024,284)	-	(3,024,284)
Others			<u>(268,995)</u>	<u>-</u>	<u>(268,995)</u>	<u>(12,705)</u>	<u>(281,700)</u>
Total transactions with stockholders			<u>(3,293,279)</u>	<u>-</u>	<u>(3,293,279)</u>	<u>(12,705)</u>	<u>(3,305,984)</u>
Net income			2,031,891	-	2,031,891	41,952	2,073,843
Total other comprehensive income			(35,936)	2,465,069	2,429,133	44,835	2,473,968
Comprehensive income			<u>1,995,955</u>	<u>2,465,069</u>	<u>4,461,024</u>	<u>86,787</u>	<u>4,547,811</u>
Balances as of December 31, 2017	\$27,081	\$666,988	<u>\$14,224,876</u>	<u>\$2,678,386</u>	<u>\$17,597,331</u>	<u>\$ 692,065</u>	<u>\$18,289,396</u>

See accompanying notes to consolidated financial statements.



## **Sigma Alimentos, S. A. de C. V. and Subsidiaries**

### **Consolidated Statements of Cash Flows**

**For the years ended December 31, 2017, 2016 and 2015**

**In thousands of Mexican pesos**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>			
Income before income taxes	\$ 4,217,808	\$ 5,812,139	\$7,896,159
Depreciation and amortization	3,775,832	3,494,252	2,829,566
Impairment of fixed assets and intangible assets	358,621	360,998	157,917
Costs associated with seniority premiums and pension plans	140,632	118,823	105,620
Equity in income of associates recognized using the equity method	(15,976)	(50,236)	(401,413)
Gain on remeasurement of business acquisition	(410,448)	-	-
Loss (gain) due to exchange fluctuation, net	1,638,942	496,259	983,604
Financial cost, net	2,753,052	2,228,969	1,588,757
Expenses not requiring cash	(224,266)	138,999	907,444
Changes in working capital:			
(Increase) decrease in trade and other accounts receivable	1,158,831	(237,402)	(840,841)
Increase in inventories	(657,980)	(363,402)	(949,602)
Increase (decrease) in suppliers and other accounts payable	(2,177,956)	2,812,060	484,516
Income taxes paid	<u>(1,222,804)</u>	<u>(233,927)</u>	<u>(989,220)</u>
Net cash flows generated by operating activities	<u>9,334,288</u>	<u>14,577,532</u>	<u>11,772,507</u>
<b>Cash flows from investing activities</b>			
Cash flows from business acquisition, net of cash acquired	(1,557,426)	(84,919)	(1,320,417)
Interest received	190,040	101,224	58,658
Cash flows from acquisition of intangible assets	(93,878)	(100,564)	(163,077)
Cash flows from acquisition of property, plant and equipment	(3,447,826)	(6,071,968)	(3,503,092)
Restricted cash and other assets	<u>9,742</u>	<u>-</u>	<u>-</u>

Net cash flows used in investing activities	<u>(4,899,348)</u>	<u>(6,156,227)</u>	<u>(4,927,928)</u>
<b>Cash flow from financing activities</b>			
Proceeds from borrowings and debt	12,841,384	17,693,462	7,149,185
Payments of borrowings and debt	(10,944,472)	(18,987,768)	(2,656,075)
Interest paid	(2,751,573)	(2,262,368)	(1,697,641)
Dividends paid	(2,978,031)	(1,713,081)	(1,080,300)
Changes in non-controlling interest	<u>-</u>	<u>-</u>	<u>(5,366,416)</u>
Net cash flows used in financing activities	<u>(3,832,692)</u>	<u>(5,269,755)</u>	<u>(3,651,247)</u>
Net increase in cash and cash equivalents	602,248	3,151,550	3,193,332
Effects of changes in exchange rate	(632,792)	1,237,970	342,750
Cash and cash equivalents at the beginning of the year	<u>12,837,614</u>	<u>8,448,094</u>	<u>4,912,012</u>
Cash and cash equivalents at the end of the year	<u><u>\$12,807,070</u></u>	<u><u>\$12,837,614</u></u>	<u><u>\$8,448,094</u></u>

See accompanying notes to consolidated financial statements.

## **Sigma Alimentos, S. A. de C. V. and Subsidiaries**

### Notes to Consolidated Financial Statements

**As of December 31 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015**

**In thousands of Mexican pesos, except where otherwise indicated**

#### Activities

Sigma Alimentos, S. A. de C. V. and subsidiaries (“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 manufacturing operations in Mexico, the U.S.A., Costa Rica, El Salvador, the Dominican Republic, Peru, Ecuador, Honduras, Nicaragua, Guatemala, Spain, France, Italy, the Netherlands, Romania, Belgium and Portugal. The Company sells its products to more than 590,000 customers through different distribution channels in those countries as well as in Germany, Honduras, Nicaragua, Guatemala and 80 more countries through independent distributors. 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.

#### Significant events and business acquisitions

##### **2017**

##### ***a. Debt issuance***

On February 2, 2017, Sigma Alimentos, S. A. de C. V. issued Senior Notes on the Irish Stock Exchange through a private offering under Rule 144A and Regulation S, in the amount of €600 million, gross from issuance costs of €5.4 million and discounts of €2.2 million. The Senior Notes mature in seven years at a coupon of 2.625%. The transaction resources were mainly used to pay debt (Note 15.a).

##### ***b. Prepayment of debt***

On March 9, 2017, the Company prepaid the Senior Notes maturing on December 14, 2018, in the amount of US\$450 million, incurring a cost for the prepayment of US\$20 million recognized as a financial expense in the consolidated statement of income. The

Notes were issued in 2011 under Rule 144A and Regulation S at an annual coupon of 5.625%. All transaction costs to be amortized previously presented net of debt were recognized in the consolidated statement of income for the year ended December 31, 2017 for US\$1.9 million (Note 15.b).

**c. *Acquisition of Sociedad Suizo Peruana de Embutidos, S. A.***

On July 1, 2017, SIGMA acquired 100% of the common shares of Sociedad Suizo Peruana de Embutidos, S.A. (“SUPEMSA”) for US\$38 million. The acquired entity is engaged in the production of processed meat and marketing of dairy products in Peru, and is included in the LATAM segment (Note 27). In 2016, SUPEMSA generated sales of \$1,020.

At the issuance date of the consolidated financial statements, SIGMA is in the process of assigning the purchase price to the identifiable assets acquired and liabilities assumed within the twelve-month period following the acquisition date, as established by IFRS 3, *Business Combinations*.

**d. *Acquisition of Caroli Foods Group B. V.***

On September 1, 2017, the Company acquired the remaining 51% of the shares of Caroli Foods Group B.V. (“Caroli”) for \$1,054 million, whereby SIGMA became the sole owner. Caroli is an entity engaged in the production and marketing of processed meat and prepared meals in Pitesti, Romania, where it has operated for over 23 years, and it is included in the Europe sector (Note 27). In 2016, Caroli generated sales of \$1,812 million.

SIGMA already owned 49% of the shares and, with this transaction, it acquired the entire shares of Caroli; therefore, under IFRS 3, the transaction is deemed an acquisition in stages. According to this standard, the Company remeasured the previously held interest in 49% of the shares of Caroli at fair value at the acquisition date of the remaining 51% of the shares of this entity; therefore, it recognized a gain in the consolidated statement of income of \$410 million (equivalent to €18.5 million).

At the issuance date of the consolidated financial statements, SIGMA is in the process of assigning the purchase price to the identifiable assets acquired and liabilities assumed within the twelve-month period following the acquisition date, as established by IFRS 3, *Business Combinations*.

**2016**

**e. *Acquisition of RJ Trading, S. A. de C. V.***

On January 8, 2016, SIGMA acquired the totality of the shares of RJ Trading, S. A. de C. V., a company of the food industry engaged in distributing dry goods for the Foodservice area in the Northern region. This transaction supplements SIGMA’s strategy to expand its interest in the distribution of dry goods in the Northern region and broaden its knowledge of the Foodservice market of the Industrial and Tourism areas together with the acquisitions made in prior years. The business acquisition is included in the Mexico segment (Note 27).

The total consideration paid was \$83,364 in cash, including a gain of \$2,822.

The final purchase price allocation carried out in accordance with the fair value was as follows:

Current assets	\$74,562
Property, plant and equipment	6,285
Intangible assets	70,272
Current liabilities	(62,528)
Employee benefits	(70)
Deferred income taxes	(2,335)
Goodwill	<u>(2,822)</u>
Consideration paid	<u>\$83,364</u>

No contingent liabilities have arisen from this acquisition that require recognition. Neither are there contingent consideration agreements in place.

Costs related to the acquisition amounted to \$111 and were recorded in the consolidated statement of income under the other expenses caption.

The income contributed by the assets of RJ Trading, included in the consolidated statement of income from the date of signing the agreement through December 31, 2016 was \$159,082 and a net loss of \$4,471.

***f. Debt Refinancing***

In May 2016, SIGMA refinanced its debt through the issuance of bonds for US\$1,000 million. The notes were sold in the U.S. to qualified institutional investors in accordance with Rule 144A and to certain investors outside the U.S. under Regulation S. The proceeds from this issuance were used to repay outstanding debt (Note 15.b).

The following is a summary of the comparative conditions of the debt prior and subsequent to the aforementioned refinancing:

	<b>Conditions subsequent to refinancing</b>	<b>Conditions prior to refinancing</b>
Debt level	US\$997,970	US\$1,041,469
Maturity dates	2026	2018
Interest rate	4.125%	1.77%
	Guarantee and guarantees	Guarantee and guarantees
General conditions	Guarantee and endorsements of some subsidiaries	Guarantee and endorsements of some subsidiaries

## **2015**

### ***g. Acquisition of additional shares of Campofrio from WH Group***

On June 18, 2015, the Company, through its subsidiary Sigma Alimentos Exterior, S. L., acquired 37% additional shares of Campofrio Food Group, S.A.U. (Campofrio). The shares that as of June 3, 2015 were owned by WH Group were acquired firstly by ALFA for a consideration of \$5,366,416 (US\$354,000), and were subsequently transferred to SIGMA. Prior to the acquisition date, the accounting value of the 37% was \$2,709,613, consequently, a decrease in retained earnings of \$2,656,803 was recorded.

After this acquisition, equity in this subsidiary is as shown below:

Indirect equity of SIGMA as of December 31, 2014	57.52%
Repurchase of shares <sup>(i)</sup>	0.97%
Acquisition of shares from WH Group on June 18, 2015	<u>37.00%</u>
Indirect equity of SIGMA as of December 31, 2015	<u>95.49%</u>

(i) Previously, on May 14, 2015, Campofrio had repurchased own shares that were held among the investing public and represented 0.97% of the stock ownership at the acquisition date. This repurchase amounted to \$18,350 and was considered jointly with the aforementioned effects.

On June 9, 2014, SIGMA obtained control over Campofrio as a result of the following: i) the end of the public offer of shares of Campofrio in the Spanish Stock Market and ii) the coming into force of the agreement signed on January 1, 2014 between SIGMA and WH Group Ltd. (WH). The aforementioned agreement was concluded on June 3, 2015 as a result of the acquisition by SIGMA of the equity of WH Group Ltd. in Campofrio.

This agreement established several rights and obligations of the parties involved in relation to the corporate governance and the transfer of shares of Campofrio, which conferred SIGMA the capacity to steer relevant activities. The purpose of the agreement was to fairly anticipate probable events in the future of the subsidiary and its stockholders during the

effective term of the agreement and to anticipate the way in which they would be treated. Examples include: the approval of the business plan, the approval of ordinary and extraordinary corporate events; changes in the ownership of Campofrio; the need for additional capital contributions of the existing stockholders or new investors and the resolution of claims between stockholders. It also provided the flexibility required to face unforeseen events, such as maintaining the capacity to make decisions quickly and effectively; establishing termination conditions when a shareholder wishes to terminate the relationship for any reason; and bases for the resolution of disputes among stockholders or to resolve an agreement interpretation issue. The agreement created incentives for the parties to resolve controversies through consensus, so that they be determined as efficiently as possible in order for Campofrio operations to continue with a minimum of interruptions.

The indirect equity of SIGMA in Campofrio at the date the agreement became effective, accounted for using the equity method, was 45% as shown below:

Equity of SIGMA in Campofrio as of December 31, 2013	46.31%
Acquisitions as of June 9, 2014	3.29%
Sales at June 9, 2014	<u>(4.60)%</u>
Equity of ALFA in Campofrio as of June 9, 2014	<u>45.00%</u>

Since its acquisition and until June 9, 2014, the net income of Campofrio was not significant.

For business combinations made in stages, International Financial Reporting Standards (IFRS) require that any previous equity of the acquiring party in an acquired party be adjusted at fair value at the acquisition date and that any resulting gain (or loss) be reported in the consolidated statement of income. IFRS also require all amounts previously recorded in the consolidated comprehensive statement of income in relation to such investments be reclassified to the consolidated income account, as though such investment had been sold. SIGMA has estimated the fair value of 45% of equity in Campofrio at \$5,499,087 at June 9, 2014, on which date control was obtained. The effect of measuring the 45% equity ownership of Campofrio at fair value before the date on which control was obtained was immaterial to the consolidated statements of income for the year ended on December 31, 2014.

Since no additional consideration was incurred by SIGMA to obtain control (June 9, 2014), the 45% fair value is considered the acquisition price of Campofrio.

The consideration incurred by Campofrio at the date on which control was obtained was \$5,499,087.

Assets and liabilities recorded as a result of the business combination at June 9, 2014 are as follows:

Fair value	
Cash and cash equivalents	\$ 1,576,000

Trade and other accounts receivable, net	2,830,184
Inventory	6,949,237
Property, plant and equipment	14,269,824
Intangible assets	8,484,004
Investment recorded by the equity method	693,197
Deferred income tax asset	3,007,717
Other assets	191,564
Suppliers and other accounts payable	(11,830,714)
Debt	(10,820,822)
Deferred income tax liability	(5,343,151)
Provisions and other liabilities	(1,329,089)
Employee benefits	<u>(1,144,224)</u>
Total identifiable net assets	7,533,727
Non-controlling equity	(4,143,090)
Goodwill	<u>2,108,450</u>
Total	<u><u>\$ 5,499,087</u></u>

As a result of the transactions conducted, goodwill in the amount of \$2,108,450 was recorded at June 9, 2014, which was assigned to the Europe operating segment (Note 27). The factors contributing to the recognition of goodwill include economies of scale through combined opportunities, obtaining better operating margins on packaging material and the exchange of better practices. Goodwill associated to this business combination is not deductible for income tax purposes.

No contingent liabilities have arisen from this acquisition that should be recorded. Neither are there any contingent consideration agreements in place.

The consolidated statement of income includes revenues from Campofrio in the amount of \$17,571,889 for the period from June 9 to December 31, 2014. Campofrio contributed to the net income by \$222,852, in the same period. If the acquisition had occurred on January 1, 2014, the contribution of Campofrio to consolidated income for the year ended on December 31, 2014 would have amounted to \$33,971,734 and the net profit to \$225,651. Information on combined revenues and net profit for the period does not include any savings in costs or other effects of the integration of Campofrio into SIGMA.



Consequently, those amounts do not necessarily indicate the results had the acquisition occurred on January 1, 2014, or those that might result in the future.

After taking control of Campofrio, SIGMA acquired the additional indirect equity mentioned below:

Indirect equity of SIGMA as of June 9, 2014	45.00%
Acquisitions after June 9 to December 31, 2014	<u>12.52%</u>
Indirect equity of SIGMA as of December 31, 2014	<u>57.52%</u>

The acquisitions line item at December 31, 2014 corresponds mainly to the purchase of shares of Campofrio after the Public Offering of the non-controlling equity. Since control over Campofrio was obtained as a result of the agreement signed with WH, those transactions have been accounted for as acquisitions of the non-controlling equity. The difference between the accounting value of the non-controlling equity acquired and the price paid was recorded in retained earnings. Additionally, expenses were incurred with regard to transaction costs related to the acquisition in the amount of \$83,669.

The shares of Campofrio were listed in the Spanish stock market until September 19, 2014, on which date they were delisted.

***h. Strategic alliance between Sigma Alimentos, S. A. de C. V. and Kinesis Food Service, S. A. de C. V.***

On July 31, 2015, a strategic alliance framework agreement was signed by Sigma Alimentos, S. A. de C. V. and Kinesis Food Service, S.A. de C.V. (“Kinesis”), a company that through its subsidiaries (collectively identified as “PACSA”) is the leading distributor of meat and dairy products by means of a food service channel in certain regions of Mexico, mainly in the Southeast of Mexico. This transaction complements SIGMA’s expansion strategy in Mexico through the food service channel. Under the agreement, SIGMA acquired total control over PACSA’s operations, subscribing substantially all of PACSA’s voting shares. In accordance with IFRS 3, *Business Combinations*, this alliance represents a business combination; therefore, it has been recorded by the acquisition method established in IFRS 3. This alliance is included in the Mexico segment (Note 27).

SIGMA’s contribution to this alliance was \$494,223, which was paid in cash. At the agreement signature date, the Company had determined goodwill of \$73,873 (difference between the amount of SIGMA’s contribution and PACSA’s net assets).

After the aforementioned purchase, the equity in that subsidiary is as follows:

Current assets <sup>(1)</sup>	\$204,673
Property, plant, and equipment	105,144
Intangible assets <sup>(2)</sup>	379,153
Current liabilities <sup>(3)</sup>	(120,153)
Employee benefits	(7,618)
Long-term debt	(9,759)

Deferred income tax	(131,090)
Goodwill	<u>73,873</u>
Consideration paid	<u>\$494,223</u>

<sup>(1)</sup> Current assets consist of cash \$12,744, accounts receivable \$77,398, inventories of \$107,224 and sundry debtors and other current assets \$7,307.

<sup>(2)</sup> Intangible assets consist of brands \$3,428, non-compete agreements \$49,026, market development \$325,844 and others \$855.

<sup>(3)</sup> Current liabilities consist of suppliers and accounts payable \$81,623, taxes payable \$2,985, short-term debt \$33,948 and personnel benefits \$1,597.

Certain prior year balances related to the allocation of the purchase price were modified in 2016 to recognize the final fair values of the acquired assets and assumed liabilities. As of December 31, 2016, the Company reclassified certain items of the statement of financial position that had previously been presented as part of goodwill. The reclassified amounts were adjusted by increasing the value of intangible assets with finite useful lives by \$206,523; increasing the balance of deferred income tax by \$61,350; decreasing the value of goodwill by \$139,339 and the value of property, plant and equipment by \$5,834.

For comparative purposes, the Company did not perform those reclassifications retrospectively considering that the aforementioned adjustments do not significantly modify the value of total assets, short and long-term liabilities and stockholders' equity as of December 31, 2015. The aforementioned reclassification had no significant effects on the consolidated financial statements of income, of stockholders' equity and of cash flows.

Goodwill is comprised mainly of the market share obtained through expanded capacities of the Company's asset basis. The goodwill recorded is not deductible for tax purposes.

No contingent liability has arisen from this alliance that requires recognition. Neither are there contingent payment agreements in place.

Costs related to the alliance amounted to \$2,846 and were recorded in the statement of income under other expenses.

Revenues contributed by PACSA's assets included in the consolidated statement of income as of the agreement signing date through December 31, 2015 amounted to \$355,535 and net income to \$27,223. Had the acquisition taken place on January 1, 2015, revenues would have increased by \$533,976 and net income by \$11,349, approximately.

***i. Acquisition of Elaborados Cárnicos, S. A. (ECARNI)***

On August 31, 2015, SIGMA acquired the totality of the shares of Elaborados Cárnicos, S. A., a company engaged in breeding, purchasing and selling cattle, swine, sheep, as well as industrializing and marketing byproducts of the aforementioned livestock in Ecuador. This transaction complements SIGMA's expansion strategy in Latin America. The business acquisition is included in the LATAM segment (Note 27).

The total consideration paid amounted to \$882,991 (US\$52,658) in cash, including restricted cash as guarantee payable to SIGMA of \$77,429. At the acquisition date, the Company had determined goodwill of \$239,070.

The final purchase price allocation carried out in accordance with fair value was as follows.

Current assets <sup>(1)</sup>	\$246,503
Property, plant, and equipment	159,769
Intangible assets <sup>(2)</sup>	469,702
Current liabilities <sup>(3)</sup>	(66,594)
Employee benefits	(50,685)
Long-term debt	(23,105)
Deferred income taxes	(91,669)
Goodwill	<u>239,070</u>
Consideration paid	<u><u>\$882,991</u></u>

<sup>(1)</sup> Current assets consist of cash \$19,559, accounts receivable \$94,721, inventories \$98,193, notes receivable \$26,651 and other current items \$7,379.

<sup>(2)</sup> Intangible assets consist of brands \$61,779, non-compete agreements \$72,104 and customer relations \$335,819.

<sup>(3)</sup> Current liabilities consist of suppliers and accounts payable \$52,728, taxes payable \$10,934 and short-term debt \$2,932.

Certain previous year balances related to the distribution of the purchase price were modified in 2016 to recognize the final fair values of acquired assets and assumed liabilities. As of December 31, 2016, the Company reclassified certain items of the statement of financial position that had previously been presented as part of goodwill. The reclassified amounts were adjusted by increasing the value of intangible assets with finite useful lives by \$275,156; increasing the deferred income tax balance by \$36,489; decreasing the value of goodwill by \$110,328 and decreasing the value of property, plant and equipment by \$99,022. For comparative purposes, the Company did not perform those reclassifications retrospectively considering that the aforementioned adjustments do not significantly modify the value of total assets, of short- and long-term liabilities and stockholders' equity as of December 31, 2015. The aforementioned reclassification had no significant impact on the consolidated financial statements of income, of stockholders' equity and of cash flows.

Goodwill is mainly comprised of market participation obtained through expanded capacities of the Company's asset basis. The recorded goodwill is not deductible for tax purposes.

No contingent liabilities have arisen from this acquisition that require recognition. Neither are there contingent consideration agreements in place.

Costs related to the acquisition amounted to \$6,038 and were recorded in the statement of income under other expenses.

Revenues contributed by ECARNI's assets included in the consolidated statement of income from the acquisition date through December 31, 2015 totaled \$220,320 and net income totaled \$12,427. Had the acquisition taken place on January 1, 2015, revenues would have increased by \$380,474 and net income by \$29,095 approximately.

#### 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. Convenience translation**

The consolidated financial statements as of and for the year ended December 31, 2017 include in the presentation of each line item of the consolidated statement of financial position, statement of income and statement of comprehensive income amounts denominated in U.S. dollars under the heading "Convenience translation", which are presented solely for the readers' convenience. With respect to the consolidated statement of financial position, the amounts were translated using the exchange rate of \$19.7354 per U.S. dollar, using the exchange rate to settle obligations denominated in foreign currency payable in Mexico, published by the Mexican Central Bank in the Federal Official Gazette at December 31, 2017. With respect to the consolidated statements of income and comprehensive income, the amounts were translated using the exchange rate of \$18.9291 per U.S. dollar, using the average exchange rate for the year ended December 31, 2017, which consists of the average of the official exchange rate on each day during the year ended December 31, 2017, published by the Mexican Central Bank in the Federal Official Gazette.

The referred information in U.S. dollars is solely for informational purposes and does not represent amounts in accordance with IFRS or the equivalent in U.S. dollars in which the transactions were conducted or in which the amounts presented in Mexican pesos could be translated or realized.

##### **c. 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, 2017 and 2016, the principal subsidiaries of SIGMA were:

<u>Subsidiary</u>	<u>Country</u> <sup>(ii)</sup>	<u>Percentage of ownership</u>	<u>Functional currency</u>
Aoste, SNC <sup>(a and c)</sup>	France	95.49	Euro
Campofrio Food Group Americas, Inc. <sup>(a and c)</sup>	U.S.A.	95.49	Euro
Campofrio Food Group, S.A.U. ("Campofrio") <sup>(v) (a and c)</sup>	Spain	95.49	Euro
Caroli Food Group, B.V. <sup>(iii) (a and c)</sup>	Romania	95.49	Euro
Cesare Fiorucci, S.P.A. <sup>(a and c)</sup>	Italy	95.49	Euro
Imperial Meat Products, VOF <sup>(a and c)</sup>	Belgium	95.49	Euro

Nobre Alimentacao, S.A. <sup>(d)</sup>	Portugal	95.49	Euro
SEC, SNC <sup>(a and c)</sup>	France	95.49	Euro
Stegeman, CV <sup>(a and c)</sup>	The Netherlands	95.49	Euro
Bar-S Foods Co. <sup>(a and c)</sup>	U.S.A.	100	U.S. Dollar
Mexican Cheese Producers, Inc. <sup>(a)</sup>	U.S.A.	100	U.S. Dollar
Sigma Alimentos International, Inc. <sup>(c)</sup>	U.S.A.	100	U.S. Dollar
Sigma Foods, LLC. <sup>(c)</sup>	U.S.A.	100	U.S. Dollar
Sigma Processed Meats, LLC. <sup>(a)</sup>	U.S.A.	100	U.S. Dollar
Alimentos Finos de Occidente, S. A. de C. V. <sup>(a)</sup>		100	Mexican Peso
Bonanza Industrial, S. A. de C. V. <sup>(d)</sup>		100	Mexican Peso
Carnes Selectas Tangamanga, S. A. de C. V. <sup>(a)</sup>		100	Mexican Peso
Comercial Norteamericana, S. de R. L. de C. V. <sup>(d)</sup>		100	Mexican Peso
Comercializadora de Embutidos ICO, S. A. de C. V. <sup>(a and c)</sup>		100	Mexican Peso
Empacadora de Carnes Frías Hidalmex, S. A. de C. V. <sup>(a and c)</sup>		100	Mexican Peso
Empacadora de Carnes Premium, S. de R. L. de C. V. <sup>(a and c)</sup>		100	Mexican Peso
Empacadora de Embutidos del Centro, S. A. de C. V. <sup>(a and c)</sup>		100	Mexican Peso
Empacadora Supremo de Monterrey, S. A. de C. V. <sup>(a and c)</sup>		100	Mexican Peso
Sigma Food Service S. de R.L. de C. V. <sup>(b)</sup>		100	Mexican Peso
Freedman Logistic S. de R.L. de C. V. <sup>(b)</sup>		100	Mexican Peso
Grupo Chen, S. de R. L. de C. V. y Subsidiarias <sup>(b)</sup>		100	Mexican Peso
Industrias Alimentarias del Sureste, S. A. de C. V. <sup>(a y c)</sup>		100	Mexican Peso
Servilac, S. A. de C. V. <sup>(b)</sup>		100	Mexican Peso
Sigma Alimentos Centro, S. A. de C. V. <sup>(a)</sup>		100	Mexican Peso
Sigma Alimentos Comercial, S. A. de C. V. <sup>(c)</sup>		100	Mexican Peso
Sigma Alimentos Congelados, S. A. de C. V. <sup>(a)</sup>		100	Mexican Peso
Sigma Alimentos Corporativo, S. A. de C. V. <sup>(b)</sup>		100	Mexican Peso
Sigma Alimentos Lácteos, S. A. de C. V. <sup>(a)</sup>		100	Mexican Peso
Sigma Alimentos Noreste, S. A. de C. V. <sup>(a)</sup>		100	Mexican Peso
Sigma Alimentos Prom, S. A. de C. V. <sup>(b)</sup>		100	Mexican Peso
Braedt, S. A. <sup>(a and c)</sup>	Peru	100	Peruvian Nuevo Sol

Elaborados Cárnicos, S. A. <sup>(iv)</sup> (a and c)	Ecuador	100	U.S. Dollar
Fabrica Juris CIA, LTDA <sup>(a and c)</sup>	Ecuador	100	U.S. Dollar
Sociedad Suizo Peruana Embutidos, S. A. <sup>(ii)</sup> (a and c)	Peru	100	Peruvian Nuevo Sol
Productos Cárnicos, S. A. de C. V. <sup>(a)</sup>	El Salvador	100	U.S. Dollar
Productos de Importación, S. A. de C. V. <sup>(c)</sup>	Honduras	100	Lempira
Savi San José de Alajuela, S. A. <sup>(a)</sup>	Costa Rica	100	Colon
Sigma Alimentos Costa Rica, S. A. <sup>(a)</sup>	Costa Rica	100	Colon
Sigma Alimentos Dominicana, S. A. <sup>(a and c)</sup>	Dominican Rep.	100	Dominican Peso
Sigma Alimentos Guatemala, S. A. <sup>(a)</sup>	Guatemala	100	Quetzal
Sigma Alimentos Nicaragua, S. A. <sup>(c)</sup>	Nicaragua	100	Cordoba

- i. Companies incorporated in Mexico, except as mentioned.
- ii. Subsidiary acquired during 2017, see Note 2.c.
- iii. In 2017, the Company acquired 100% of the shares, see Note 2.d.
- iv. Subsidiary acquired during 2015, see Note 2.i.
- v. In 2015, the Company acquired 37% additional shares, see Note 2.g.
- 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, 2017 and 2016, 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 income.

When the Company issues a call option on certain non-controlling interests in a consolidated subsidiary and the non-controlling shareholders retain the risks and benefits of said interests in the consolidated subsidiary, they are recognized as financial liabilities at the present value of the amount to be reimbursed of the options, initially recorded with the



respective reduction in stockholders' equity and subsequently accrued through financial charges to income during the contractual period.

iii. Sale or disposal of subsidiaries

When the Company ceases to have control any retained interest in the entity is 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 applied to an investment in associates.

### d. *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.c.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.

As of July 1, 2015, the Company concluded that the most adequate functional currency of Sigma Alimentos S. A. de C. V. is the US dollar based on the economic environment in which the entity generates and uses cash. This is due primarily to the fact that revenues from dividends and revenues from brand use, as of the aforementioned date, are collected in US dollars. The previous functional currency was the Mexican peso.

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:

Local currency to Mexican pesos						
Country	Local currency	Closing exchange rate as of December 31,		Average exchange rate		
		2017	2016	2017	2016	2015
Germany	Euro	\$23.693	\$21.800	\$22.924	\$20.586	17.518
Belgium	Euro	23.693	21.800	22.924	20.586	17.518
Costa Rica	Colon	0.035	0.037	0.034	0.034	0.029
Ecuador	U.S. Dollar	19.735	20.664	19.101	18.657	15.848
El Salvador	U.S. Dollar	19.735	20.664	19.101	18.657	15.848
Spain	Euro	23.693	21.800	22.924	20.586	17.518
The United States	U.S. Dollar	19.735	20.664	19.101	18.657	15.848
France	Euro	23.693	21.800	22.924	20.586	17.518
Guatemala	Quetzal	2.688	2.746	2.610	2.450	2.070
Honduras	Lempira	0.837	0.880	0.812	0.816	0.725
Italy	Euro	23.693	21.800	22.924	20.586	17.518
Nicaragua	Córdoba	0.641	0.704	0.624	0.651	0.582
Netherlands	Euro	23.693	21.800	22.924	20.586	17.518
Peru	Peruvian Nuevo Sol	6.090	6.160	5.918	5.519	4.967
Dominican Rep.	Dominican Peso	0.408	0.446	0.397	0.405	0.352
Romania	Euro	23.693	21.800	22.924	20.586	17.518

***e. 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.

***f. 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.

***g. Financial instruments***

*Financial assets*

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and investments held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets upon initial recognition. Purchases and sales of financial assets are recognized on the settlement date.

Financial assets are written off in full when the right to receive the related cash flows expires or is transferred and the Company has also transferred substantially all risks and rewards of ownership, as well as control of the financial asset.

***i. Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for sale in the short term. As of December 31, 2017 and 2016, the Company had no derivative financial instruments held for trading purposes or for hedging purposes.

Financial assets recorded at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated statement of income. Gains or losses from changes in fair value of these assets are presented in income for the period in which they are incurred.

## ii. Loans and receivables

Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Accounts receivable are classified as current assets, except for those settled after 12 months of the date of the consolidated statement of financial position. These are classified as non-current assets.

Loans and receivables are measured initially at fair value plus directly attributable transaction costs, and subsequently at amortized cost by the effective interest method. When circumstances occur that indicate that the amounts receivable will not be collected at the amounts originally agreed or will be collected in a different period, accounts receivable are impaired.

### *Financial liabilities*

Financial liabilities that are not financial derivatives are initially recognized at fair value and are subsequently valued at amortized cost by the effective interest method. Liabilities in this category are classified as current liabilities if expected to be settled within the next 12 months; otherwise they are classified as non-current.

Accounts payable are obligations to pay for goods or services that have been acquired 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 carried at amortized cost; any difference between the funds received (net of transaction costs) and the settlement value is recognized in the consolidated statement of income over the term of the loan by the effective interest method.

### *Offsetting financial assets and liabilities*

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

### *Impairment of financial instruments*

#### a. Financial assets carried at amortized cost

At the end of each year, the Company assesses whether there is objective evidence of impairment of each financial asset or group of financial assets. An impairment loss is recognized if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and provided that the loss event (or events) has an impact on the estimated future cash flows arising from the financial asset or group of financial assets that can be reliably estimated.

Aspects evaluated by the Company to determine whether there is objective evidence of impairment are:

- Significant financial difficulty of the issuer or debtor.
- Breach of contract, such as late payments of interest or principal
- Granting a concession to the issuer or debtor by the Company, as a result of financial difficulties of the issuer or debtor and that would not otherwise be considered.



- It is likely that the issuer or debtor will file for bankruptcy or conduct other financial reorganization.
- Disappearance of an active market for that financial asset due to financial difficulties.
- Verifiable information that indicates that there is a measurable decrease in the estimated future cash flows related to a group of financial assets after initial recognition, although the decrease cannot yet be related to the individual financial assets of the Company, including:
  - i. Adverse changes in the payment status of borrowers in the group of assets
  - ii. National or local conditions that correlate to breaches by the issuers of the group of assets.

Based on the items listed above, the Company assesses whether there is objective evidence of impairment. Subsequently, for the purpose of the category of loans and receivables, when impairment is identified, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future loan losses not yet incurred) discounted at the original effective interest rate. The carrying amount of the asset is reduced by that amount, which is recognized in the consolidated statement of income.

If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment losses is the current effective interest rate determined under the contract. Alternatively, the Company could determine impairment of the asset considering its fair value determined on the basis of a current observable market price.

If in the subsequent years, the impairment loss decreases and the decrease can be related objectively to an event occurring after the date on which such impairment was recognized (such as an improvement in the debtor's credit rating), reversal of the impairment loss is recognized in the consolidated statement of income.

**b. Financial assets available for sale**

In the case of debt financial instruments, the Company also uses the above-listed criteria to identify whether there is objective evidence of impairment. In the case of equity financial instruments, a significant reduction of at least to 30% of the cost of the investment versus its fair value or a reduction of the fair value against the cost for a period longer than 12 months is considered objective evidence of impairment.

As of December 31, 2017 and 2016, the Company only had loans and accounts receivable.

***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. Costs of inventories include any gain or loss transferred from equity corresponding to raw material purchases that qualify as cash flow hedges.

***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 15 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 classification of leases as financial or operating depends on the substance of the transaction rather than on the form of the contract.

Leases whereby a significant portion of the risks and rewards relating to the leased property are retained by the lessor are classified as operating leases. Payments made under operating leases (net of incentives received by the lessor) are recognized in the consolidated statement of income by the straight-line method over the lease period.

Leases whereby the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the beginning of the lease, at the lower of the fair value of the leased property and the present value of the minimum lease payments. If its determination is practical for the purpose of discounting the minimum lease payments to present value, the interest rate implicit in the lease is used; otherwise, the incremental borrowing rate of the lessee should be used. Any initial direct costs of the leases are added to the original amount recognized as an asset.

Each lease payment is allocated between the liability and financial charges to achieve a constant rate on the outstanding balance. The corresponding rental obligations are proportionally included in non-current debt, net of finance charges. Interest on the financial cost is an expense for the year during the period of the lease, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

***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, 2017 and 2016, 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	10 to 22 years
Relationships with customers	14 years
Software and licenses	15 to 22 years
Other (market developments, non-compete and rights-of-use agreements)	to 10 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. Trademarks acquired 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***

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the normal course of operations. Revenue is recognized net of estimated customer returns, rebates and similar discounts. The Company grants discounts and incentives to customers, which are recognized as a deduction from income or as selling expenses depending on their nature. These programs include customer discounts for sales of products based on: i) sales volume (usually recognized as a reduction of revenue) and ii) promotions in retail products (usually recognized as selling expenses) mainly.

Revenue from the sale of goods and products is recognized when all and each of the following conditions are met:

- The risks and rewards of ownership have been transferred

- The amount of revenue can be reliably measured
- It is likely that future economic benefits will flow to the Company
- The company retains no involvement associated with ownership nor effective control of the sold goods
- The costs incurred or to be incurred in relation to the transaction can be measured reasonably.

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

Interest income is recognized when it is likely that the economic benefits will flow to the Company and the amount of revenue can be reliably valued by applying the effective interest rate.

**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. If the number of outstanding shares is increased as a result of a capitalization or share split, or is decreased as a result of a reserve stock split, the calculation of the basic and diluted earnings per share for all the periods presented is retrospectively adjusted. For the years ended December 31, 2017, 2016 and 2015, 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**

The Company adopted all new standards and interpretations in effect as of January 1, 2017, including the annual improvements to IFRS; which had no significant effects on the Company's consolidated financial statements.

**ii. New standards and interpretations yet to be adopted by the Company**

A series of new standards, amendments and interpretations have been issued, which are not yet effective for reporting periods ended in December 31, 2017, and have not been early adopted by the Company.

Below is a summary of these new standards and interpretations as well as the Company's assessment as to the potential impacts on the consolidated financial statements:

*IFRS 9, Financial instruments*

IFRS 9, *Financial instruments*, replaces IAS 39, *Financial instruments: recognition and measurement*. This standard is mandatorily effective for periods beginning on or after January 1, 2018 and introduces a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or fair value through other comprehensive income (FVTOCI), lease receivables, contract assets and certain written loan commitments and financial guarantee contracts.

In regards of the expected loss impairment model, the initial adoption requirement of IFRS 9 is retrospective and establishes as an option to adopt it without modifying the financial

statements of previous years by recognizing the initial effect on retained earnings at the date of adoption. In case of hedge accounting, IFRS 9 allows application with a prospective approach.

The Company did not have a material impact associated with the new measurement category of FVTOCI as it does not currently hold any instruments that qualify for this treatment; however, potential impacts could arise should it change its investment strategy in the future.

Lastly, regarding the new expected loss impairment model, the Company's management decided to adopt the standard retrospectively recognizing the effects on retained earnings as of January 1, 2018 and has determined the impacts on its consolidated financial position are not material as of that date. The Company has estimated that the effects it will have on its results from operations are not significant.

#### *IFRS 15, Revenue from contracts with customers*

IFRS 15, *Revenues from contracts with customers*, was issued in May 2014 and is effective for periods beginning January 1, 2018, although early adoption is permitted. Under this standard, revenue recognition is based on the transfer of control, i.e. notion of control is used to determine when a good or service is transferred to the customer.

The standard also presents a single comprehensive model for the accounting for revenues from contracts with customers and replaces the most recent revenue recognition guidance, including the specific orientation of the industry. This comprehensive model introduces a five-step approach for revenue recognition: (1) identifying the contract; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when the Company satisfies a performance obligation. Furthermore, the amount of disclosures required in the financial statements, both annual and interim, is increased.

Management of the Company has evaluated the requirements of this new IFRS and has chosen to adopt it using the modified retrospective method applied to the contracts in force on the date of initial adoption of January 1, 2018. Based on its analysis, management of the Company does not anticipate impacts on the date of initial adoption of IFRS 15, nor significant changes in its revenue recognition policies, beyond the fact that the new IFRS requires a higher level of disclosures of contracts with customers.

#### *IFRS 16, Leases*

IFRS 16, *Leases*, supersedes IAS 17, *Leases*, and its related interpretations. This new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. IFRS 16 is effective for periods beginning on or after January 1, 2019.

Under IFRS 16, lessees will recognize the right of use of an asset and the corresponding lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. On the other hand, the financial liability will be measured at the initial recognition, in a similar way as required by IAS 17, and subsequently, it should be evaluated if a remeasurement is required, based on contractual modifications of the minimum lease payments.

Additionally, IFRS 16 establishes as exception to these requirements the leases with a term of 12 months or less and containing no purchase options, as well as for leases where the leased asset is low-valued, such as personal computers or small office furniture items.

Management has determined that IFRS 16 could have an impact on the accounting of its existing operating leases. As of December 31, 2017, the Company has non-cancellable operating lease commitments as follows:

#### **As of December 31, 2017**

	\$
2018	580,525
2019	166,144
2020	145,989
2021	118,806
2022 and after	<u>280,019</u>

\$

However, it has not determined yet to what extent these commitments will result in the recognition of an asset or liability for future payments, and how this will affect the Company's capital structure, its results and cash flows. The Company will be applying a modified retrospective transition as of January 1, 2019, which implies that any transition impact will be recognized directly in stockholders' equity as of such date.

***IFRIC 22, Interpretation on Foreign Currency Transactions and Advance Consideration***

This new Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation is being issued to reduce diversity in practice related to the exchange rate used when an entity reports transactions that are denominated in a foreign currency in accordance with IAS 21 in circumstances in which consideration is received or paid before the related asset, expense, or income is recognized. Effective for annual reporting periods beginning after January 1, 2018 with earlier application permitted.

The Company translates advance considerations at the exchange rate on the date of the transaction, either received or paid, and recognizes them as non-monetary items; therefore, it does not visualize significant impacts in the adoption of this interpretation in its consolidated financial statements.

***IFRIC 23, Uncertainty over Income Tax Treatments***

This new Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 Income taxes when there is uncertainty over income tax treatments. Uncertain tax treatments is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

An entity shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted and the fact must be disclosed. On initial application, the Interpretation must be applied retrospectively under the requirements of IAS 8 or retrospectively with the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings.

The Company is evaluating and determining the potential impacts of the adoption of these standards and related modifications in their consolidated financial statements.

**Financial instruments and financial risk management**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk on cash flows, and interest rate risk on fair values), credit risk and liquidity risk and input and product 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:

<b>Maximum possible loss of US\$ million</b>	
<b>Individual</b>	<b>Annual cumulative</b>

	<b>transaction</b>	<b>transactions</b>
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, 2017 and 2016, the Company did not have derivative financial instruments.

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 Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure so as to reduce the cost of capital.

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 4.77 and 4.91 as of December 31, 2017 and 2016, respectively, resulting in a leverage ratio that meets the Company's management and risk policies.

#### *Financial instruments by category*

As of December 31, 2017 and 2016, financial assets and liabilities consist of the following:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Financial assets measured at amortized cost:		
Cash and cash equivalents	\$12,807,070	\$12,837,614
Restricted cash	132,222	123,973
Trade and other accounts receivable	<u>5,864,599</u>	<u>7,223,089</u>
	<u>\$18,803,891</u>	<u>\$20,184,676</u>



Financial liabilities measured at amortized cost:

Debt	\$50,409,121	\$47,842,609
Trade and other accounts payable	<u>25,817,604</u>	<u>26,098,551</u>
	<u>\$76,226,725</u>	<u>\$73,941,160</u>

*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, 2017 and 2016.

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

	As of December 31, 2017 <sup>(1)</sup>		As of December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
	\$50,126,72			
Debt	9	\$52,127,644	\$47,429,000	\$48,203,000

(1) 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 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.

As of December 31, 2017 and 2016, 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.

The behavior of the exchange rates among the Mexican peso, the U.S. dollar and the euro represents a significant factor for the Company for the effect that such currencies have on its results and because, in addition, SIGMA has no influence in its determination. Furthermore, SIGMA estimates that most of 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 participates in derivative financial instruments transactions on exchange rates in order to keep the comprehensive total cost of their funding and the volatility associated with exchange rates under control. 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 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, 2017:

	<b>MXP</b>	<b>USD</b>	<b>EUR</b>
Monetary assets	\$ 250	\$2,107,440	\$ 1,500
Monetary liabilities	<u>1,737,090</u>	<u>2,820,820</u>	<u>14,283,760</u>
Foreign exchange monetary position	<u>\$(1,736,840)</u>	<u>\$ (713,380)</u>	<u>\$(14,282,260)</u>

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

Based on the monetary 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 \$1,673,248 in the consolidated statement of income and stockholders' equity.

## ii. Price risk

To carry out its activities, the Company depends on the supply of raw materials provided by its suppliers, both in Mexico and abroad, including cattle, swine and poultry meat products and dairy products, mainly. In the past few years, the price of some food supplies has been volatile, such as meat, cereals and milk. In order to set the selling prices of its products, the Company modifies prices based on fluctuations in the market of certain inputs.

The Company acquires inputs for its manufacturing process; therefore, its costs are exposed to variations in the prices of such inputs and services. Considerable increases in those prices would negatively affect the operating margin and/or sales. On the one hand, if the increase is absorbed by the production cost, the operating margin would decrease; on the other hand, if this increase is transferred to the final price, sales would suffer a negative impact.

Prices of the most important inputs, such as chicken, turkey, pork pastes, powdered milk and fuel, are subject to international prices. Meat paste prices depend on the price of cereals, since these are used as food for the animals. When the price of cereals increases, the price of meat increases; therefore, the Company's inputs do too.

### iii. Interest risk rate

Exposure to interest rate depends on the variations that may arise in interest rates; however, as of December 31, 2017 and 2016, the Company was not significantly exposed to an interest rate risk, since its financial debt was at fixed interest rates (Note 15).

### *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 managed on a group basis, except for the credit risk related to accounts receivable balances. Each subsidiary is responsible for managing and analyzing credit risk for each of its new customers before setting the terms and conditions of payment, and for ongoing evaluations of its customers' credit, and adjusting credit limits based upon payment history and the customer's current creditworthiness.

Credit risk is generated from cash and cash equivalents and deposits in banks and financial institutions, as well as credit exposure to customers, including accounts receivable and committed transactions. 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 2017, 2016 and 2015, credit limits were not exceeded and management does not expect losses greater than the impairment recognized in the corresponding periods.

The provision for impairment of doubtful accounts represents estimated losses resulting from the inability of customers to make required payments. In determining the allowance for doubtful accounts, significant estimates have to be made. The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by a review of their current credit information. In addition, the Company considers a number of factors to determine the size and appropriate timing for the recognition of allowances, including historical collection experience, customer base, current economic trends and the aging of the accounts receivable portfolio.

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.

The Company's Treasury department invests those funds in term deposits whose maturities or liquidity allow flexibility to meet the Company's cash needs. As of December 31, 2017 and 2016, the Company has term deposits of \$6,676,117 and \$5,962,442, 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.

	<b>Less than 1 year</b>	<b>Between 1 and 5 years</b>	<b>Over 5 years</b>
As of December 31, 2017			
Trade and other accounts payable	\$25,817,604	\$ -	\$ -
Senior Notes	-	14,386,953	33,869,488
Debt securities	1,737,020	-	-
Finance leases	-	119,905	13,363
Non accrued future interest	1,922,288	6,213,004	3,951,547
As of December 31, 2016			
Trade and other accounts payable	\$26,098,551	\$ -	\$ -
Senior Notes	-	14,382,024	31,207,169
Debt securities	-	1,690,862	-
Finance leases	-	72,061	48,256
Non accrued future interest	2,683,619	5,817,415	4,587,834

SIGMA expects to meet its obligations with cash flows generated by operations. Additionally, SIGMA has access to credit lines with various banks to meet possible requirements (Note 15).

#### *Fair value estimation*

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, 2017 and 2016, SIGMA does not have assets nor liabilities measured at fair value.

#### 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 11). 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 16). Based on the projections of income and fiscal profits that SIGMA will generate in the following years through a structured and robust business plan, management has considered that the current fiscal losses will be used before they expire and for this reason it has been considered appropriate to recognize a deferred tax asset for such losses.

*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, unless its fair value is higher.

Cash and cash equivalents

Cash and cash equivalents shown in the consolidated statement of financial position are comprised as follows:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Cash at bank and on hand	\$ 6,130,953	\$ 6,875,172
Short-term bank deposits	<u>6,676,117</u>	<u>5,962,442</u>
Total cash and cash equivalents	<u>\$12,807,070</u>	<u>\$12,837,614</u>



## Restricted cash

The restricted cash balance is composed as follows

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Current	\$ 84,855	\$ 61,992
Non-current	<u>47,367</u>	<u>61,981</u>
Restricted cash	<u><u>\$132,222</u></u>	<u><u>\$123,973</u></u>

As of December 31, 2017 and 2016, restricted cash includes warranty deposits in favor of SIGMA, which are derived from the acquisitions of SUPEMSA (in 2017), JURIS and ECARNI. Restricted cash will be fully released in accordance with various contractual requirements within two to four years after the acquisition date of such entities.

## Trade and other accounts receivable, net

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Trade accounts receivable	\$6,235,418	\$7,144,013
Allowance for impairment of trade receivables	<u>(459,059)</u>	<u>(481,484)</u>
Trade accounts receivable, net	5,776,359	6,662,529
Due from related parties (Note 26)	6,632	33,554
Recoverable value added tax ("VAT")	1,786,452	1,816,339
Interest receivable	844	2,032
Other debtors:		
Short-term notes receivable	80,764	153,684
Sundry debtors	<u>326,162</u>	<u>371,290</u>
	<u><u>\$7,977,213</u></u>	<u><u>\$9,039,428</u></u>

The aging analysis of balances due from trade accounts receivable not impaired is as follows:

**As of December 31,**

	<b>2017</b>	<b>2016</b>
1 to 30 days	\$1,251,647	\$ 930,675
30 to 90 days	143,271	261,958
90 to 180 days	48,937	106,574
Over 180 days	<u>34,127</u>	<u>45,637</u>
	<u><u>\$1,477,982</u></u>	<u><u>\$1,344,844</u></u>

As of December 31, 2017 and 2016, the allowance for impairment of trade accounts receivable amounted to \$459,059 and \$481,484, respectively. The balance of trade accounts receivable impaired corresponds mainly to subsidiaries going through difficult economic situations.

Movements in the allowance for impairment of trade accounts receivable are as follows:

	<b>For the years ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Opening balance (January 1)	\$481,484	\$419,214	\$389,865
Allowance for impairment of trade accounts receivable	119,754	105,376	75,982
Increase resulting from acquisitions	-	-	2,079
Accounts receivable written off during the year	<u>(142,179)</u>	<u>(43,106)</u>	<u>(48,712)</u>
Ending balance (December 31)	<u><u>\$459,059</u></u>	<u><u>\$481,484</u></u>	<u><u>\$419,214</u></u>

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

#### Inventories

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Finished goods	\$ 3,800,786	\$ 3,803,678
Raw materials and other consumable goods	5,245,759	4,944,926
Production in progress	<u>5,640,505</u>	<u>5,002,670</u>

\$14,687,050      \$13,751,274

The cost of inventories recognized in cost of sales amounted to \$65,081,888, \$58,919,080 and \$52,631,532 for 2017, 2016 and 2015, respectively.

In the years ended on December 31, 2017, 2016 and 2015, damaged, slow-moving and obsolete inventory was recognized in the amount of \$16,740, \$15,810 and \$24,542, respectively.

As of December 31, 2017 and 2016, there were no pledged inventories.

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
<b>Opening balance as of January 1, 2015</b>	\$2,673,163	\$8,089,585	\$10,709,433	\$1,034,993	\$375,477	\$59,887	\$ 987,206	\$ 190,329	\$ 56	\$24,120,129
Exchange differences	117,145	396,687	559,880	18,953	25,676	1,535	60,374	378	41	1,180,669
Additions	41,828	109,061	1,393,714	471,976	79,031	5,994	1,746,087	22,536	9	3,870,236
Additions from business acquisitions	62,640	77,294	123,451	23,773	18,505	-	53,560	10,546	-	369,769
Disposals	(4,074)	(296,879)	(117,066)	(12,895)	(15,176)	(4,274)	(145,138)	(2,473)	274	(597,701)
Transfers	(35,517)	187,117	657,094	50,152	116,086	-	(971,741)	(3,291)	100	-
Depreciation charges of the year	-	(395,464)	(1,529,027)	(266,632)	(138,807)	1	-	(15,048)	(69)	(2,345,046)
<b>Ending balance as of December 31, 2015</b>	2,855,185	8,167,401	11,797,479	1,320,320	460,792	63,143	1,730,348	202,977	411	26,598,056
Cost	2,855,185	11,972,258	25,689,317	3,140,603	1,726,827	63,143	1,730,348	377,560	1,201	47,556,442
Accumulated depreciation	-	(3,804,857)	(13,891,838)	(1,820,283)	(1,266,035)	-	-	(174,583)	(790)	(20,958,386)
<b>Net carrying amount as of December 31, 2015</b>	2,855,185	8,167,401	11,797,479	1,320,320	460,792	63,143	1,730,348	202,977	411	26,598,056
Exchange differences	310,258	1,060,688	1,397,810	30,501	57,477	2,441	262,179	3,499	80	3,124,933
Additions	61,279	700,610	1,938,940	474,645	62,489	39,918	3,121,592	29,063	1,605	6,430,141
Additions from business acquisitions	-	-	2,551	3,320	414	-	-	-	-	6,285

Disposals	(2,436)	(26,745)	(132,340)	(31,915)	(3,466)	(12,450)	(84,309)	(1,421)	(8)	(295,090)
Transfers	(222)	213,118	1,230,295	54,431	42,090	-	(1,566,806)	27,093	1	-
Depreciation charges of the year	-	(468,037)	(1,797,674)	(337,188)	(153,802)	-	-	(18,320)	(22)	(2,775,043)
<b>Ending balance as of December 31, 2016</b>	<u>\$3,224,064</u>	<u>\$9,647,035</u>	<u>\$14,437,061</u>	<u>\$1,514,114</u>	<u>\$465,994</u>	<u>\$93,052</u>	<u>\$3,463,004</u>	<u>\$242,891</u>	<u>\$2,067</u>	<u>\$33,089,282</u>
Cost	3,224,064	14,423,676	31,663,619	3,643,633	2,003,602	93,052	3,463,004	412,987	2,591	58,930,228
Accumulated depreciation	-	(4,776,641)	(17,226,558)	(2,129,519)	(1,537,608)	-	-	(170,096)	(524)	(25,840,946)
<b>Net carrying amount as of December 31, 2016</b>	<u><u>\$3,224,064</u></u>	<u><u>\$9,647,035</u></u>	<u><u>\$14,437,061</u></u>	<u><u>\$1,514,114</u></u>	<u><u>\$465,994</u></u>	<u><u>\$93,052</u></u>	<u><u>\$3,463,004</u></u>	<u><u>\$ 242,891</u></u>	<u><u>\$2,067</u></u>	<u><u>\$33,089,282</u></u>

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Furniture and lab and IT equipment	Tooling	Constructions in progress	Leasehold improvements	Other fixed assets	Total
<b>Net carrying amount as of December 31, 2016</b>	\$3,224,064	\$9,647,035	\$14,437,061	\$1,514,114	\$465,994	\$ 93,052	\$3,463,004	\$ 242,891	\$2,067	\$33,089,282
Exchange differences	124,151	459,752	793,158	8,925	20,014	(2,487)	(11,741)	(1,780)	(20)	1,389,972
Additions	188,773	617,781	1,513,840	397,111	239,814	11,808	1,837,329	34,183	-	4,840,639
Additions due to business acquisitions	(1,348)	17,714	24,182	2,014	380	-	-	-	-	42,942
Disposals	(151,883)	(100,595)	(252,665)	(24,869)	(3,982)	(76,140)	(417,095)	(6,051)	-	(1,033,280)
Transfers	62,983	421,621	2,162,976	88,997	37,497	3,124	(2,832,069)	54,871	-	-
Depreciation charges of the year	-	(509,348)	(1,997,796)	(370,554)	(159,027)	(2,917)	-	(21,111)	(397)	(3,061,150)
<b>Ending balance as of December 31, 2017</b>	<u>\$3,446,740</u>	<u>\$10,553,960</u>	<u>\$16,680,756</u>	<u>\$1,615,738</u>	<u>\$600,690</u>	<u>\$26,440</u>	<u>\$2,039,428</u>	<u>\$303,003</u>	<u>\$1,650</u>	<u>\$35,268,405</u>
Cost	3,446,740	16,052,832	36,803,729	3,917,743	2,336,655	29,506	2,039,428	490,860	1,622	65,119,115
Accumulated depreciation	-	(5,498,872)	(20,122,867)	(2,302,005)	(1,735,965)	(3,066)	-	(187,857)	(78)	(29,850,710)
<b>Net carrying amount as of December 31, 2017</b>	<u>\$3,446,740</u>	<u>\$10,553,960</u>	<u>\$16,680,862</u>	<u>\$1,615,738</u>	<u>\$600,690</u>	<u>\$ 26,440</u>	<u>\$2,039,428</u>	<u>\$ 303,003</u>	<u>\$1,544</u>	<u>\$35,268,405</u>

In the years ended December 31, 2017, 2016 and 2015, the Company recognized an impairment in the amount of \$278,049, \$150,051 and \$120,884, respectively.

Of the total depreciation expense in the amount of \$3,061,150, \$2,775,043 and \$2,345,046: \$2,193,377, \$2,005,742 and \$1,697,678 were recorded in cost of sales, \$696,673, \$602,209 and \$488,585 in selling expenses, and \$171,100, \$167,092 and \$158,783 in administrative expenses, in 2017, 2016, and 2015, respectively.

As of December 31, 2017 and 2016, there are no significant liabilities guaranteed with property, plant and equipment.

As of December 31, 2017 and 2016, the Company has no qualifying assets to capitalize borrowing costs.

As of December 31, 2017 and 2016, the Company has entered into non-cancellable finance lease agreements as lessee. The terms of the lease are between 2 and 3 years, and the Company has control over the assets during the lease term. During the years ended December 31, 2017, 2016 and 2015, acquisitions of property, plant and equipment associated with finance leases that did not represent the use of cash flows were \$8,991, \$9,271 and \$13,901.

As of December 31, 2017 and 2016, assets under finance leases comprise the following amounts in which the Company is the lessee:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Cost – capitalized finance leases	\$241,443	\$204,419
Accumulated depreciation	<u>(105,699)</u>	<u>(84,102)</u>
	<u><b>\$135,744</b></u>	<u><b>\$120,317</b></u>

#### Goodwill and intangible assets, net

	<b>Finite life</b>			<b>Indefinite life</b>			
	<b>Development cost</b>	<b>Customer relationships</b>	<b>Software, licenses and other</b>	<b>Goodwill</b>	<b>Trademarks</b>	<b>Other <sup>(2)</sup></b>	<b>Total</b>
<u>Cost</u>							
As of January 1, 2015	\$478,184	\$1,351,946	\$1,521,932	\$ 8,674,404	\$10,217,871	\$82,681	\$22,327,018
Exchange differences	67	244,884	117,800	483,250	679,009	-	1,525,010
Additions due to business acquisitions	855	167,524	140,063	562,610	58,734	-	929,786
Additions	149	-	136,959	-	-	-	137,108
Disposals	-	-	(24,110)	-	-	-	(24,110)
Reclassification Juris <sup>(1)</sup>	<u>-</u>	<u>61,107</u>	<u>61,423</u>	<u>(181,442)</u>	<u>49,246</u>	<u>-</u>	<u>(9,666)</u>

As of December 31, 2015	479,255	1,825,461	1,954,067	9,538,822	11,004,860	82,681	24,885,146
Exchange differences	3,137	320,819	445,270	1,622,688	1,887,183	-	4,279,097
Additions due to business acquisitions	-	70,678	10,117	-	1,130	-	81,925
Additions	3,374	-	94,570	-	-	-	97,944
Disposals	-	-	-	-	(25,787)	-	(25,787)
Impairment	-	-	-	-	(183,831)	-	(183,831)
Reclassification PACSA and ECARNI <sup>(1)</sup>	-	494,139	(18,933)	(249,667)	6,473	-	232,012
As of December 31, 2016	485,766	2,711,097	2,485,091	10,911,843	12,690,028	82,681	29,366,506
Exchange changes	5,184	(85,896)	280,299	645,543	621,564	-	1,466,694
Additions due to business acquisitions	8,878	-	19,287	3,184,862	-	12,832	3,225,859
Additions	2,021	-	102,671	-	-	-	104,692
Disposals	(23)	-	34	-	-	-	11
Impairment	-	-	(3,408)	-	(77,164)	-	(80,572)
As of December 31, 2017	<u>\$501,826</u>	<u>\$2,625,201</u>	<u>\$2,883,974</u>	<u>\$14,742,248</u>	<u>\$13,234,428</u>	<u>\$95,513</u>	<u>\$34,083,190</u>

	Finite life			Indefinite life			
	Development cost	Customer relationships	Software, licenses and other	Goodwill	Trademarks	Other <sup>(2)</sup>	Total
<u>Accumulated amortization</u>							
As of January 1, 2015	\$ (351,305)	\$ (420,908)	\$ (176,773)	\$ -	\$ -	\$ -	\$ (948,986)
Amortizations	(2,250)	(145,924)	(336,347)	-	-	-	(484,521)
Exchange differences	<u>(906)</u>	<u>(107,189)</u>	<u>(100,222)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(208,317)</u>
As of December 31, 2015	(354,461)	(674,021)	(613,342)	-	-	-	(1,641,824)
Amortizations	(3,200)	(293,751)	(409,557)	-	-	-	(706,508)
Exchange differences	<u>(3,119)</u>	<u>(83,485)</u>	<u>(266,725)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(353,329)</u>
As of December 31, 2016	(360,780)	(1,051,257)	(1,289,624)	-	-	-	(2,701,661)
Amortizations	(4,494)	(287,053)	(423,135)	-	-	-	(714,682)
Exchange differences	<u>(4,119)</u>	<u>12,818</u>	<u>(218,703)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(210,004)</u>



As of December 31, 2017	<u>\$ (369,393)</u>	<u>\$ (1,325,492)</u>	<u>\$ (1,931,462)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,626,347)</u>
<u>Net carrying amount</u>							
Cost	\$ 479,255	\$ 1,825,461	\$ 1,954,067	\$ 9,538,822	\$ 11,004,860	\$ 82,681	\$ 24,885,146
Accumulated amortization and impairment	<u>(354,461)</u>	<u>(674,021)</u>	<u>(613,342)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,641,824)</u>
As of December 31, 2015	<u>\$ 124,794</u>	<u>\$ 1,151,440</u>	<u>\$ 1,340,725</u>	<u>\$ 9,538,822</u>	<u>\$ 11,004,860</u>	<u>\$ 82,681</u>	<u>\$ 23,243,322</u>
Cost	485,766	2,711,097	2,485,091	10,911,843	12,690,028	82,681	29,366,506
Accumulated amortization and impairment	<u>(360,780)</u>	<u>(1,051,257)</u>	<u>(1,289,624)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,701,661)</u>
As of December 31, 2016	<u>\$ 124,986</u>	<u>\$ 1,659,840</u>	<u>\$ 1,195,467</u>	<u>\$ 10,911,843</u>	<u>\$ 12,690,028</u>	<u>\$ 82,681</u>	<u>\$ 26,664,845</u>
Cost	\$ 501,826	2,625,201	2,883,974	14,742,248	13,234,428	95,513	34,083,190
Accumulated amortization and impairment	<u>(369,393)</u>	<u>(1,325,492)</u>	<u>(1,931,462)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,626,347)</u>
As of December 31, 2017	<u>\$ 132,433</u>	<u>\$ 1,299,709</u>	<u>\$ 952,512</u>	<u>\$ 14,742,248</u>	<u>\$ 13,234,428</u>	<u>\$ 95,513</u>	<u>\$ 30,456,843</u>

<sup>(1)</sup> See notes 2.h and 2.i.

<sup>(2)</sup> Other intangible assets consist of: use rights, market development and non-compete agreements.

From the total amortization expense of \$714,682, \$718,889 and \$484,521: \$12,649, \$7,726 and \$16,192 have been recorded in cost of sales, \$385,164, \$395,710 and \$193,847 in selling expenses, and \$316,869, \$315,453 and \$274,482 in administrative expenses, in 2017, 2016 and 2015, respectively.

For the year ended December 31, 2017, the Company recognized an impairment in the amount of \$80,572 related to intangible assets generated by trade permits in Latin America.

In 2016, the Italian Stock Exchange fell 4.1% as a result of the economic situation of the country and the measures imposed by the World Health Organization, which are significantly more severe on this market in comparison to the other markets where the Company operates. As a result of these factors, management recalculated the recoverable value of the cash generating unit in Italy, recognizing an impairment of \$183,831 for the year ended December 31, 2016. The recoverable amount of the CGU was determined based on the calculations of the value in use. The following table shows the key assumptions of the CGU when the impairment calculations were prepared as of December 31, 2016:

Sales growth (annual growth rate %)	4.51%
EBITDA/sales budget	7.54%
Long-term growth rate	1.00%
Discount rate	7.18%

The Company did not recognized an impairment of intangible assets for the year ended December 31, 2015.

## Goodwill impairment tests

As disclosed in Note 5.a, goodwill is allocated to groups of cash generating units that are associated with the 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:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Mexico	\$ 1,942,249	\$ 2,032,465
USA	5,289,432	4,866,872
Europe	5,235,268	2,576,242
LATAM	<u>2,275,299</u>	<u>1,436,264</u>
	<u>\$14,742,248</u>	<u>\$10,911,843</u>

The recoverable value of each group of CGU 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 2017 and 2016 are as follows:

	<b>2017</b>			
	<b>Mexico</b>	<b>USA</b>	<b>Europe</b>	<b>LATAM</b>
Long-term growth rate	3.2%	2.0%	1.0%	2.3%
Discount rate	9.4%	6.2%	7.26%	10.2%

	<b>2016</b>			
	<b>Mexico</b>	<b>USA</b>	<b>Europe</b>	<b>LATAM</b>
Long-term growth rate	8.8%	11.8%	0.7%	6.6%
Discount rate	8.8%	6.3%	6.9%	10.0%

The Company carried out a sensitivity analysis considering an increase in the discount rate of 100 basis points, and a similar decrease in the long-term growth rate, which did not resulted in an impairment loss of goodwill.

Investments accounted for using the equity method and other non-current assets

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Long-term notes receivable	\$ 83,777	\$ 82,578
Investment in shares of associates	1,135	945,968
Other non-current assets	<u>134,722</u>	<u>40,403</u>
Total other non-current assets	<u>\$219,634</u>	<u>\$1,068,949</u>

The change in investment in associates for the years ended on December 31, 2017, 2016 and 2015 is as follows:

	<b>For the years ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Opening balance (January 1)	\$ 945,968	\$808,650	\$755,812
Equity method	15,976	50,236	(401,413)
Acquisition of control over associate	(1,309,089)	-	-
Payment of commitments <sup>(i)</sup>	-	-	426,364
Exchange differences and dividends received, net	<u>348,280</u>	<u>87,082</u>	<u>27,887</u>
Ending balance (December 31)	<u>\$ 1,135</u>	<u>\$945,968</u>	<u>\$808,650</u>

(i) Campofrio decided to divest in its associate Jean Caby through the transfer of its equity at the price of one euro to Foxlease Food, an unrelated entity holding 51% of the rest of Grupo Jean Caby's capital. The operation has led to giving up the net debit position that grupo Campofrio held before Grupo Jean Caby and that had been fully provisioned in prior years, as well as the to contribution of additional resources of \$454,251. Additionally, Campofrio reserves the right to receive 33% of the net benefits from the possible sale of fixed assets owned by Grupo Jean Caby.

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

**For the years ended December  
31,**

	2017	2016	2015
Net income (loss)	\$(584)	\$77,893	\$(604,239)
Comprehensive income (loss)	(584)	77,893	(604,239)

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

#### Subsidiaries with significant non-controlling interest

The non-controlling interest for the year ended December 31, 2017, 2016 and 2015 is comprised as follows:

	Non-controlling ownership percentage	Non-controlling interest income for the period			Non-controlling interest as of December 31,	
		2017	2016	2015	2017	2016
Campofrio	4.51%	\$41,952	\$33,419	\$(25,003)	\$692,065	\$617,983

The summarized consolidated financial information as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015, corresponding to Campofrio, a subsidiary with a significant non-controlling interest, is shown below:

	As of December 31,	
	2017	2016
Current assets	\$15,369,607	\$17,503,794
Non-current assets	33,900,222	29,850,604
Current liabilities	18,585,441	19,039,663
Non-current liabilities	15,339,269	14,612,222
Stockholders' equity	15,345,118	13,702,514

	For the years ended December 31,		
	2017	2016	2015
Income	\$42,844,03	\$40,071,48	\$33,891,85

	3	6	0
Net income	930,192	741,002	2,580,835
Comprehensive income of the year	718,851	490,729	2,615,040
Net cash generated from operating activities	900,590	4,456,363	6,100,477
Net cash used in investing activities	(2,790,331)	(3,564,567)	(1,901,988)
Net cash used in financing activities	<u>(780,625)</u>	<u>(121,812)</u>	<u>(1,496,130)</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ (2,670,366)</u>	<u>\$ 105,503</u>	<u>\$ 2,702,359</u>

The information above does not include the elimination of intercompany balances and transactions.

#### Trade and other accounts payable

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Trade accounts payable	\$20,866,955	\$21,376,345
Taxes and withholdings payable	1,350,750	1,211,227
Annual performance bonus	86,300	94,720
Short-term employee benefits	1,337,405	1,361,195
Other accounts and accrued expenses payable	<u>2,176,194</u>	<u>2,055,064</u>
	<u>\$25,817,604</u>	<u>\$26,098,551</u>

#### Debt

The carrying amounts of debt are as follows:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Current:		
Unsecured debt securities	\$ 1,737,020	\$ -
Interest payable	<u>642,596</u>	<u>442,237</u>

Current debt	\$ <u>2,379,616</u>	\$ <u>442,237</u>
Non-current:		
In U.S. dollars:		
Senior Notes	\$ 24,588,856	\$ 35,085,761
In euros:		
Senior Notes	23,882,665	10,879,911
Finance leases	133,268	120,316
In Mexican pesos:		
Unsecured debt securities	-	1,756,621
	48,604,789	47,842,609
Less: current portion of non-current debt	<u>(575,284)</u>	<u>(442,237)</u>
Non-current debt	\$ <u>48,029,505</u>	\$ <u>47,400,372</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, 2017	As of December 31, 2016 <sup>(1)</sup>	Maturity date MM/DD/YYYY	Interest rate at maturity
Senior Notes 144A fixed rate <sup>(b)</sup>	USD	\$ -	\$ -	\$ -	\$ -	\$ 9,381,593	04/14/2018	5.625%
Senior Notes 144A fixed rate <sup>(b)</sup>	USD	4,909,633	10,543	14,133	4,913,223	5,128,558	12/16/2019	6.875%
Senior Notes 144A fixed rate <sup>(b)</sup>	USD	19,700,610	153,874	128,897	19,675,633	20,575,610	05/02/2026	4.125%
Senior Notes 144A fixed rate <sup>(d)</sup>	EUR	9,477,320	92,204	93,292	9,478,408	10,879,911	03/13/2022	3.375%
Senior Notes 144A fixed rate <sup>(a)</sup>	EUR	<u>14,168,878</u>	<u>103,583</u>	<u>338,962</u>	<u>14,404,257</u>	<u>-</u>	02/07/2024	2.625%
<b>Total Senior Notes</b>		<u>48,256,441</u>	<u>360,204</u>	<u>575,284</u>	<u>48,471,521</u>	<u>45,965,672</u>		
SIGMA 08 fixed rate <sup>(e)</sup>	MXN	1,000,000	-	48,688	1,048,688	1,048,403	07/12/2018	10.25%
SIGMA 08U fixed rate <sup>(e)</sup>	MXN	<u>737,020</u>	<u>-</u>	<u>18,624</u>	<u>755,644</u>	<u>708,218</u>	07/12/2018	5.32%

<b>Total unsecured debt securities</b>		<u>1,737,020</u>	<u>-</u>	<u>67,312</u>	<u>1,804,332</u>	<u>1,756,621</u>
Finance leases	EUR	<u>133,268</u>	<u>-</u>	<u>-</u>	<u>133,268</u>	<u>120,316</u>
<b>Total</b>		<u>\$50,126,729</u>	<u>\$360,204</u>	<u>\$642,596</u>	<u>\$50,409,121</u>	<u>\$47,842,609</u>

<sup>(1)</sup> As of December 31, 2016, debt is disclosed net of debt issuance costs of \$344,682. Interest payable amounted to \$442,237.

As of December 31, 2017 and 2016, the Company has unused contractual credit lines for a total of \$6,126,756 (US\$200,000 y €92,000) and \$2,066,400 (US\$100,000), respectively.

The relevant debt transactions are described as follows:

- a. 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.

- b. 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 guaranteed by certain of the Company’s subsidiaries.

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 Senior Notes can be paid in advance at the Company’s option, total or partially at any time, at an amortization price equal to the greatest of any of the following: (i) 100% of the principal amount; or (ii) the sum of the net present value of each payment of principal and interest payable (excluding interest accrued at the amortization date) discounted at the amortization date half-yearly at a rate equal to the sum of the rate of the US treasury plus 0.45% plus the accrued unpaid interest at the amortization date. In case of a change in the control structure of the Company together with a reduction in the international credit rating under the investment level, the holders of the Senior Notes will have the right to demand from the Company the repurchase of obligations at a price equal to 101% of the principal amount plus unpaid interest accrued.

The characteristics of the first and second issuance are as follows:



	<b>First issuance</b>	<b>Second issuance</b>
Issuance year	2009	2011
Nominal amount	US\$250 million	US\$450 million
Maturity	December 16, 2019	December 14, 2018
Annual interest rate	6.875%	5.625%
Interest payment	Semi-annually	Semi-annually

Costs and expenses, including the discounts from the placement of the Company's Senior Notes are amortized over the contractual maturity of the loan by the effective interest method.

Notwithstanding, the second issuance was prepaid by the Company on March 9, 2017, whose issuance costs to be amortized were recognized in the consolidated statement of income for the year ended on December 31, 2017 (Note 2.b).

- c. On June 15, 2015, SIGMA signed a loan agreement with The Bank of Tokyo-Mitsubishi UFJ, LTD in the amount of US\$355,000 to acquire 37% of the remaining shares of Campofrio (Note 2.g). The loan bears quarterly interest. For the first year, the rate is LIBOR plus 0.50%, for the second year the rate is LIBOR plus 0.90% and from the third year onwards the rate is LIBOR plus 1.25% with three amortizations in December 2016 (US\$55,000), September 2017 (US\$150,000) and June 2018 (US\$150,000). The loan was fully paid in May 2016.
- d. On March 3, 2015, Campofrio issued debt in the amount of €500,000 through a private offering under Rule 144A and Regulation S to qualified institutional investors. The bond has a 7 year maturity with an annual interest rate of 3.375%. The debt was used to refinance the bond issued in 2009. Interest is paid semi-annually in March and September. Costs and expenses of this issuance are amortized over the contractual maturity of the loan based on the effective interest rate method.
- e. On July 24, 2008, SIGMA issued debt securities of \$1,000,000 (SIGMA 08) and 500,000 UDIs ("Investment Units") (SIGMA 08U) maturing in 2018, at the fixed interest rates of 10.25% and 5.32%, respectively.

The Company's contractual credit lines are conditioned to the compliance of certain financial ratios, which include the following:

- a) Interest coverage ratio: which is defined as adjusted EBITDA (Note 27) for the period of the last four complete quarters, divided by financial expenses, net or gross as appropriate, for the last four quarters, which shall not be less than 3.0 times.
- b) Leverage ratio: which is defined as consolidated debt 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 of the subsidiaries 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 are 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, 2017 and 2016 and at the date of issuance of these financial statements, the Company and its subsidiaries complied satisfactorily with such covenants and restrictions.

#### 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:

	2017	2016	2015
Costa Rica	30.0%	30.0%	30.0%
Germany	32.3%	30.0%	30.0%
Belgium	33.9%	33.9%	34.0%
Dominican Republic	27.0%	27.0%	27.0%
El Salvador	30.0%	30.0%	30.0%

Honduras	25.0%	25.0%	25.0%
Guatemala	25.0%	25.0%	25.0%
Nicaragua	30.0%	30.0%	30.0%
Peru	29.5%	28.0%	28.0%
The United States <sup>(1)</sup>	35.0%	35.0%	35.0%
Spain	25.0%	25.0%	28.0%
Netherlands	25.0%	25.0%	25.0%
Italy	24.0%	27.5%	27.5%
France <sup>(1)</sup>	33.3%	33.3%	33.3%
Portugal	22.3%	21.0%	23.0%
Ecuador	22.0%	22.0%	22.0%
Romania	16.0%	16.0%	16.0%

(1) Starting January 1, 2018, the statutory outstanding tax rate corresponds to 21.0% in the United States and 34.4% in France.

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 2017, 2016 and 2015, respectively.

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

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Current tax:			
Current tax on income of the year	\$(2,355,732)	\$(2,034,855)	\$(1,972,026)
Adjustment with respect to prior years	<u>8,683</u>	<u>(41,044)</u>	<u>(28,076)</u>
Total current tax	<u>(2,347,049)</u>	<u>(2,075,899)</u>	<u>(2,000,102)</u>
Deferred tax:			
Origin and reversal of temporary differences	<u>203,084</u>	<u>1,216,345</u>	<u>414,085</u>
Total deferred tax	<u>203,084</u>	<u>1,216,345</u>	<u>414,085</u>
Income tax expensed	<u><u>\$(2,143,965)</u></u>	<u><u>\$ (859,554)</u></u>	<u><u>\$(1,586,017)</u></u>

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

	<b>For the years ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Income before income tax	<u>\$ 4,217,808</u>	<u>\$5,812,139</u>	<u>\$ 7,896,159</u>
Statutory rate	<u>30%</u>	<u>30%</u>	<u>30%</u>
Income tax at statutory rate	(1,265,342)	(1,743,641)	(2,368,847)
Effect of changes and due to differences in tax rates with other countries <sup>(1)</sup>	(87,181)	(96,368)	(59,527)
Plus (less) income tax effect on:			

Inflationary adjustment	(719,925)	(324,631)	(183,329)
Non-deductible expenses	(362,815)	(343,137)	(212,214)
Exchange rate differences and other items	<u>282,615</u>	<u>1,689,267</u>	<u>1,265,976</u>
Provision related to transactions of the year	(2,152,648)	(818,510)	(1,557,941)
True-up with respect to prior years	<u>\$ 8,683</u>	<u>\$ (41,044)</u>	<u>\$ (28,076)</u>
Total provision for income taxes expensed	<u>\$(2,143,965)</u>	<u>\$ (859,554)</u>	<u>\$(1,586,017)</u>
Effective rate	<u>51%</u>	<u>15%</u>	<u>20%</u>

<sup>(1)</sup> In 2017, the effect of changes in tax rates corresponds to new statutory income tax rates enacted in the following countries: Germany, Peru, The United States, Italy, France and Portugal.

c) The detail of the deferred income tax asset and liability is as follows:

	<b>Asset (liability)</b>	
	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
	\$	
Inventories	41,663	\$ 48,910
Property, plant and equipment	(33,514)	-
Intangible assets	(908,376)	-
Trade accounts receivable	-	32,727
Advances from customers	-	182,241
Post-retirement benefit liabilities	-	335,399
Provisions, liabilities and accrued expenses payable	318,207	375,683
Tax loss carryforwards	3,258,103	5,021,793
Other temporary differences, net	<u>116,380</u>	<u>11,102</u>
	\$	\$
Deferred tax asset	<u>2,792,463</u>	<u>6,007,855</u>

	<b>Asset (liability)</b>	
	<b>As of December 31,</b>	
	<b>2017</b>	<b>2017</b>
	\$	\$
Advanced payments	-	(29,835)
Intangible assets	(3,582,077)	(4,122,447)
Property, plant and equipment	(2,512,533)	(2,578,007)
Provisions, liabilities and accrued expenses payable	429,109	-
Tax loss carryforwards	1,734,111	-
Other temporary differences, net	<u>(136,732)</u>	<u>(128,128)</u>
	\$	\$
Deferred tax liability	<u>(4,068,122)</u>	<u>(6,858,417)</u>

To calculate deferred taxes, an average of the tax rates of the different jurisdictions in which the Company has items that generate deferred taxes was used.

Deferred income tax asset is recognized on the tax-loss carryforwards to the extent the realization of the tax benefit related through future tax income is likely. Tax losses are in the amount of \$16,777,822, \$17,480,638 and \$11,162,676 in 2017, 2016 and 2015, respectively.

Tax losses as of December 31, 2017 expire in the following years:

<b>Year of the loss</b>	<b>2017</b>	<b>Expiration year</b>
2008	\$ 19,381	2018
2009	62,565	2019
2010	28,825	2020
2011	41,310	2021
2012	17,023	2022
2013	84,996	2023
2014	769	2024

2015	4,682,057	2025
2016	5,924,041	2026
2017	322,601	2027
2014	<u>5,594,254</u>	No expiration <sup>(*)</sup>
	<u>\$16,777,822</u>	

<sup>(\*)</sup> 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 year ended December 31, 2017**

	<b>Before tax</b>	<b>Tax payable/ (receivable)</b>	<b>After tax</b>
Remeasurement of employee benefit liabilities	\$ (52,315)	\$ 16,379	\$ (35,936)
Effect of translation of foreign entities	<u>2,509,904</u>	<u>-</u>	<u>2,509,904</u>
Other comprehensive income items	<u>\$2,457,589</u>	<u>\$ 16,379</u>	<u>\$2,473,968</u>

**For the year ended December 31, 2016**

	<b>Before tax</b>	<b>Tax payable/ (receivable)</b>	<b>After tax</b>
Remeasurement of employee benefit liabilities	\$ 53,256	\$ (16,161)	\$ 37,095
Effect of translation of foreign entities	<u>605,766</u>	<u>-</u>	<u>605,766</u>
Other comprehensive income items	<u>\$659,022</u>	<u>\$ (16,161)</u>	<u>\$642,861</u>

**For the year ended December 31, 2015**

	<b>Before tax</b>	<b>Tax payable/ (receivable)</b>	<b>After tax</b>
Remeasurement of employee benefit liabilities	\$ (10,768)	\$ 3,590	\$ (7,178)
Effect of translation of foreign entities	<u>(1,082,583)</u>	<u>-</u>	<u>(1,082,583)</u>
Other comprehensive income items	<u>\$(1,093,351)</u>	<u>\$ 3,590</u>	<u>\$(1,089,761)</u>

e) Income tax payable consists of the following:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
	\$	
Current income tax	1,783,816	\$667,648
Income tax on optional regime for group of entities in Mexico	<u>2,341,907</u>	<u>2,460,047</u>
	\$	
Total income tax payable	<u><u>4,125,723</u></u>	<u><u>\$3,127,695</u></u>
	\$	
Current portion	1,783,816	\$ 667,648
Non-current portion	<u>2,341,907</u>	<u>2,460,047</u>
	\$	
Total income tax payable	<u><u>4,125,723</u></u>	<u><u>\$3,127,695</u></u>

Provisions

	<b>Disputes</b>	<b>Restructuring (1)</b>	<b>Severance payments and other employee benefits</b>	<b>Total</b>
		\$	\$	
As of January 1, 2015	\$ 37,989	577,866	224,481	\$840,336
Additions	9,408	10,979	321,738	342,125
Translation effect	2,195	26,459	13,531	42,185
Payments	<u>(8,473)</u>	<u>(126,380)</u>	<u>(305,784)</u>	<u>(440,637)</u>
As of December 31, 2015	41,119	488,924	253,966	784,009
Additions	29,191	49,095	35,812	114,098



Translation effect	6,471	83,946	39,404	129,821
Payments	<u>(13,669)</u>	<u>(322,844)</u>	<u>(131,937)</u>	<u>(468,450)</u>
As of December 31, 2016	63,112	299,121	197,245	559,478
Additions	37,856	-	137,558	175,414
Translation effect	9,250	8,725	18,733	36,708
Payments	<u>(3,760)</u>	<u>(207,338)</u>	<u>(126,803)</u>	<u>(337,901)</u>
		\$	\$	\$
As of December 31, 2017	<u>\$106,458</u>	<u>100,508</u>	<u>226,733</u>	<u>433,699</u>

- (1) This provision relates 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. As of December 31, 2017 and 2016, the processes are open and are expected to conclude in 2018.

#### Other liabilities

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Current portion:		
PTU (Mexican statutory employee profit sharing)	\$ 160,808	\$ 147,555
Bank overdrafts	18,748	22,807
Share-based payments (Note 21)	14,400	19,792
Notes payable	71,392	57,415
Accounts payable to affiliates (Note 26)	<u>37,898</u>	<u>52,055</u>
Total other current liabilities	<u>\$ 303,246</u>	<u>\$ 299,624</u>
Non-current portion:		
Notes payable and others	\$ 763,531	\$ 784,514
Share-based payments (Note 21)	<u>36,705</u>	<u>36,705</u>
Total other non-current liabilities	<u>800,236</u>	<u>821,219</u>

Total other liabilities	<u>\$1,103,482</u>	<u>\$1,120,843</u>
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#### 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:

<b>Region</b>	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Mexico	\$ 655,031	\$ 496,290
Europe	558,152	509,465
LATAM	<u>125,887</u>	<u>112,243</u>
Total	<u>\$1,339,070</u>	<u>\$1,117,998</u>

The following summarizes key financial data of such employee benefits:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Pension benefits	\$1,331,727	\$1,112,436
Post-employment medical benefits	<u>7,343</u>	<u>5,562</u>
Liability in the consolidated statement of financial position	<u>\$1,339,070</u>	<u>\$1,117,998</u>

	<b>For the years ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Expense in the consolidated statement of income:			
Pension benefits	\$(140,141)	\$(118,247)	\$(105,052)
Post-employment medical benefits	<u>(491)</u>	<u>(576)</u>	<u>(568)</u>

	<u>\$(140,632)</u>	<u>\$(118,823)</u>	<u>\$(105,620)</u>
Remeasurements due to employee benefit obligations recognized in other comprehensive income for the period	<u>\$ (52,315)</u>	<u>\$ 53,256</u>	<u>\$ (10,768)</u>
Remeasurements due to accrued employee benefit obligations recognized in other comprehensive income	<u>\$ 137,803</u>	<u>\$ 190,118</u>	<u>\$ 136,862</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:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Present value of funded obligations	\$3,687,126	\$3,348,986
Fair value of plan assets	<u>(2,348,056)</u>	<u>(2,230,988)</u>
Net liability in the consolidated statement of financial position	<u>\$1,339,070</u>	<u>\$1,117,998</u>

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

	<b>For the years ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Opening balance (January 1)	\$3,348,986	\$2,842,063	\$2,688,023
Current service cost	115,049	101,996	89,302
Interest cost	107,681	108,443	90,998
Contributions to the plan	52,232	110,113	51,313
Remeasurements for changes in financial assumptions	23,378	43,339	(133,939)
Past service costs	(2,929)	-	912
Exchange differences	158,538	269,536	80,570
Benefits paid	(113,527)	(114,673)	(82,959)
Liabilities acquired in business combinations	(431)	70	61,654
Settlement costs	<u>(1,851)</u>	<u>(11,901)</u>	<u>(3,811)</u>
Ending balance (December 31)	<u><u>\$3,687,126</u></u>	<u><u>\$3,348,986</u></u>	<u><u>\$2,842,063</u></u>

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

	<b>For the years ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Opening balance (January 1)	\$(2,230,988)	\$(1,890,887)	\$(1,926,139)
Return on plan assets	(80,247)	(79,715)	(70,869)
Employee contributions	(3,938)	(28,664)	(20,953)
Benefits paid	62,057	49,878	37,532
Exchange differences	(123,878)	(185,005)	(55,165)
Actuarial remeasurements	<u>28,938</u>	<u>(96,595)</u>	<u>144,707</u>
Ending balance (December 31)	<u><u>\$(2,348,056)</u></u>	<u><u>\$(2,230,988)</u></u>	<u><u>\$(1,890,887)</u></u>

The main actuarial assumptions were as follows:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Discount rate (Mexico)	7.25%	7.75%
Discount rate (Europe)	1.25%	2.00%
Inflation rate (Mexico)	3.50%	3.50%
Wage increase rate (Mexico)	4.50%	4.50%
Wage increase rate (Europe)	1% a 3%	1% to 5%
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 was as follows:

	<b>Discount rate</b>	
	<b>Increase of 1%</b>	<b>Decrease of 1%</b>
Impact on defined benefit obligations	\$(391,425)	\$382,730

	<b>Medical inflation rate</b>	
	<b>Increase of 1%</b>	<b>Decrease of 1%</b>
Impact on defined benefit obligations	\$(1,059)	\$1,133

### *Assets of the pension benefits*

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

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Short and long-term fixed income securities	\$1,844,178	\$1,805,123
Shares	<u>503,878</u>	<u>425,865</u>
Fair value of plan assets	<u>\$2,348,056</u>	<u>\$2,230,988</u>

### Stockholders' equity

As of December 31, 2017, 2016 and 2015, the capital stock is variable, with a fixed minimum without withdrawal rights of \$27,081, represented by 1,290,654,555 nominative, 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, 2017, 2016 and 2015, the legal reserve amounted to \$5,416, which is included in other capital reserves.

At the General Ordinary Stockholders' Meeting on October 11, 2017, the stockholders agreed to declare dividends in cash in the aggregate amount of US\$80 million, which was paid in October 12, 2017 in the aggregate amount of \$1,490,616 (\$1.15 dividends per share in Mexican pesos) which was paid in October 12, 2017, fully applied to the Net Taxable Income Account ("CUFIN by its Spanish initials").

At the General Ordinary Stockholders' Meeting on February 23, 2017, the stockholders agreed to declare dividends in cash in the aggregate amount of US\$75 million, which was paid in the first quarter of 2017 in the amount of \$1,487,415 (\$1.15 dividends per share in Mexican pesos), fully applied to the CUFIN.

At the General Ordinary Stockholders' Meeting on June 15, 2016, the stockholders' agreed to declare dividends in cash in the aggregate amount of \$383,436 (\$1.05 dividends per share in Mexican pesos), which was paid in 2016, fully applied to the CUFIN.

At the General Ordinary Stockholders' Meeting on February 23, 2016, the stockholders' agreed to declare dividends in cash in the aggregate amount of \$1,329,645 (\$1.05 dividends per share in Mexican pesos), which was paid in 2016, fully applied to the CUFIN.

At the General Ordinary Stockholders' Meeting on September 1, 2015, the shareholders revoked the resolution on the payment of dividends related to the outstanding amount of dividends declared on April 1, 2015, as a result of which the amount of dividends canceled was \$842,922.

At the General Ordinary Stockholders' Meeting on April, 2015, the stockholders agreed to declare dividends in cash for a total amount of \$1,922,105 (\$1.49 dividends per share in Mexican pesos), which derived fully from the CUFIN.

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, 2017, 2016 and 2015, the tax value of the CUFIN of Sigma Alimentos, S. A. de C. V. was \$11,098,808, \$11,798,596 and \$10,538,660, 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.

Movements in other reserves for 2017, 2016 and 2015 are presented below:

	<b>Effect of foreign currency translation</b>	<b>Legal reserve</b>	<b>Total</b>
As of January 1, 2015	\$ 741,206	\$5,416	\$ 746,622
Movement of the year	<u>(1,091,227)</u>	<u>-</u>	<u>(1,091,227)</u>
As of December 31, 2015	(350,021)	5,416	(344,605)
Movement of the year	<u>557,922</u>	<u>-</u>	<u>557,922</u>
As of December 31, 2016	207,901	5,416	213,317
Movement of the year	<u>2,465,069</u>	<u>-</u>	<u>2,465,069</u>
As of December 31, 2017	<u>\$2,672,970</u>	<u>\$5,416</u>	<u>\$2,678,386</u>

In relation with the subsidiary Campofrio, there were several signed agreements that could result in the obligation to acquire a non-controlling interest, as well as other claims thereof. Based on the legal assessments, both internal and external, performed in prior years, the validity and scope of the aforementioned agreements and claims were deemed to possibly become void; therefore, management of the Company considered there was no obligation given the inability to anticipate the date or impact of future negotiations or litigations that, in any case, had not been declared. During 2016, due to the ongoing negotiations with respect to those issues, a written put option over non-controlling interests in Campofrio was recognized as a financial liability (Note 18), net of certain related accounts receivable. Those agreements

resulted in recording those obligations in 2016, as well as in the extinction of the associated contingencies. Consequently, as of June 15, 2016, the Company recorded a decrease in retained earnings as shown in the statement of changes in stockholders' equity for the year ended December 31, 2016. The option exercise price is determined according to a predefined formula based on the financial performance of the subsidiary and the option is exercisable on a fixed date.

#### 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 program consists of determining a number of shares the Directors shall be entitled to, which will be paid in cash in the next five years, i.e. 20% each year, and which will be paid at the average price per share at the end of each year. The average price per share in 2017 and 2016 is \$21.12 and \$26.73, respectively.

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

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Current	\$14,400	\$19,792
Non-current	<u>36,705</u>	<u>36,705</u>
Total carrying amount	<u><u>\$51,105</u></u>	<u><u>\$56,497</u></u>



Expenses classified by their nature

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

	<b>For the years ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Changes in inventory of finished goods and in progress	\$ (65,081,888)	\$(58,919,080)	\$(52,361,532)
Employee benefit expenses (Note 25)	(16,698,913)	(14,717,108)	(12,888,860)
Maintenance	(2,856,905)	(2,694,044)	(2,328,269)
Depreciation and amortization	(3,775,832)	(3,494,252)	(2,829,566)
Freight expenses	(2,200,360)	(2,006,918)	(2,386,687)
Advertising expenses	(2,264,759)	(2,594,470)	(1,771,849)
Energy and fuel consumption	(1,575,859)	(1,451,958)	(1,337,846)
Travel expenses	(565,705)	(542,867)	(472,885)
Operating lease expenses	(680,973)	(636,748)	(492,340)
Technical assistance, professional fees and administrative services	(1,808,213)	(2,035,546)	(2,006,513)
Other	<u>(8,285,955)</u>	<u>(8,253,344)</u>	<u>(7,293,495)</u>
Total	<u><u>\$(105,795,362)</u></u>	<u><u>\$(97,346,335)</u></u>	<u><u>\$(86,169,842)</u></u>

Other income (expenses), net

	<b>For the years ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Claim reimbursements	\$ 38,586	\$ 30,044	\$3,912,524
Gain on sale of property, plant and equipment	86,495	16,891	2,429
Gain on remeasurement of business acquisition	410,448	-	-
Other	<u>264,710</u>	<u>48,726</u>	<u>65,690</u>
Other income	<u>800,239</u>	<u>95,661</u>	<u>3,980,643</u>
Expenses related to acquisitions	-	(702)	(8,884)

Project consulting	(117,332)	(48,080)	(52,867)
Impairment of property, plant and equipment and intangible assets	(358,621)	(142,711)	(157,917)
Impairment of intangible assets for Campofrio Italy	-	(183,831)	-
Other	<u>(160,222)</u>	<u>(195,993)</u>	<u>(254,760)</u>
Other expenses	<u>(636,175)</u>	<u>(571,317)</u>	<u>(474,428)</u>
Total other income (expenses), net	<u>\$164,064</u>	<u>\$(475,656)</u>	<u>\$3,506,215</u>

Financial cost, net

**For the years ended December 31,**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Financial income:			
- Interest income on short-term bank deposits	\$ 166,128	\$ 70,202	\$ 36,942
- Other financial income	102,432	36,158	32,210
- Interest on accounts receivable	<u>28,327</u>	<u>26,409</u>	<u>24,088</u>
Total financial income	<u>296,887</u>	<u>132,769</u>	<u>93,240</u>
Financial expenses:			
- Interest expense on bank loans	(423,705)	(481,788)	\$ (649,343)
- Interest expense on debt securities and Senior Notes	(2,364,393)	(1,620,496)	(943,542)
- Financial expense for portfolio sale	(35,329)	(36,544)	(18,521)
- Financial expense for employee benefits	(68,741)	(21,606)	(20,129)
- Other financial expenses	<u>(154,686)</u>	<u>(233,045)</u>	<u>(84,585)</u>
Total financial expenses	<u>(3,046,854)</u>	<u>(2,393,479)</u>	<u>(1,716,120)</u>
Exchange fluctuation:			
- Exchange fluctuation gain	2,658,259	1,937,953	807,658
- Exchange fluctuation loss	<u>(4,297,201)</u>	<u>(2,434,212)</u>	<u>(1,791,262)</u>

Exchange gain (loss), net	<u>(1,638,942)</u>	<u>(496,259)</u>	<u>(983,604)</u>
Financial cost, net	<u><u>\$ (4,388,909)</u></u>	<u><u>\$ (2,756,969)</u></u>	<u><u>\$ (2,606,484)</u></u>

Employee benefit expenses

**For the years ended December 31,**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Salaries, wages and benefits	\$13,777,359	\$12,636,794	\$10,987,815
Social security fees	1,155,784	1,024,981	944,482
Employee benefits	113,197	90,095	89,302
Other fees	<u>1,652,573</u>	<u>965,238</u>	<u>867,261</u>
Total	<u><u>\$16,698,913</u></u>	<u><u>\$14,717,108</u></u>	<u><u>\$12,888,860</u></u>

Related party transactions

Transactions with related parties for the years ended December 31, 2017, 2016 and 2015, which were held under equal conditions for similar transactions with independent parties, were as follows:

**For the years ended December 31,**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Income (affiliates):			
Leases	\$ 8,333	\$ 7,828	\$ 6,318
Interest	-	4,571	9,936
Expenses (affiliates):			
Administrative services	\$ 160,479	\$ 159,154	\$ 163,859
Leases and other items	188,628	262,408	213,856
Dividends paid to ALFA (holding)	2,978,031	1,713,081	1,080,300

For the years ended December 31, 2017, 2016 and 2015, the considerations and benefits received by the main officers of the Company amounted to \$423,527, \$419,494 and \$418,226, 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 21).

As of December 31, 2017 and 2016, balances with related parties are as follows:

		<b>As of December 31,</b>	
<b>Nature of the transaction</b>		<b>2017</b>	<b>2016</b>
Receivable:			
Affiliates	Services	\$ 6,632	\$ 33,554
Payable:			
Affiliates	Services	\$ 36,487	\$50,640
Affiliates	Interest	1,411	1,415

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

#### Financial information by segments

Segment information is presented consistently with the internal reports provided to the CEO (Chief Operating Decision Maker "CODM"), 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 CODM considers the business from a geographic perspective. The geographies monitored by the CODM are defined as the Company's operating segments. For geographical purposes, the CODM considers performance 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, 2017, 2016 and 2015, 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, 2017:

	<b>Mexico</b>	<b>USA</b>	<b>Europe</b>	<b>LATAM</b>	<b>Total</b>
Total income by segment	\$48,204,470	\$21,711,179	\$40,456,450	\$8,670,035	\$119,042,134
Intersegment income	<u>(1,125,225)</u>	<u>(3,453,939)</u>	<u>-</u>	<u>(240,931)</u>	<u>(4,820,095)</u>
Income from external customers	<u>47,079,245</u>	<u>18,257,240</u>	<u>40,456,450</u>	<u>8,429,104</u>	<u>114,222,039</u>
Adjusted EBITDA	6,055,605	2,638,120	3,318,046	713,423	12,725,194
Depreciation and amortization	(1,173,204)	(584,849)	(1,747,605)	(270,174)	(3,775,832)
Impairment of fixed assets	(77,587)	(33,405)	(135,692)	(31,365)	(278,049)
Impairment of intangible assets	<u>(80,572)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(80,572)</u>
Operating income	<u>4,724,242</u>	<u>2,019,866</u>	<u>1,434,749</u>	<u>411,884</u>	<u>8,590,741</u>
Financial cost, net	(3,975,238)	83,951	(524,128)	26,506	(4,388,909)
Equity in income of associates	<u>(194)</u>	<u>-</u>	<u>16,170</u>	<u>-</u>	<u>15,976</u>
Income before taxes	<u>748,810</u>	<u>2,103,817</u>	<u>926,791</u>	<u>438,390</u>	<u>4,217,808</u>
Capital investment (Capex)	<u>\$ 1,628,157</u>	<u>\$ 279,562</u>	<u>\$ 1,454,668</u>	<u>\$ 179,317</u>	<u>\$ 3,541,704</u>

As of December 31, 2017:

	<b>Mexico</b>	<b>USA</b>	<b>Europe</b>	<b>LATAM</b>	<b>Total</b>
Non-current assets:					
Property, plant and equipment <sup>(*)</sup>	\$10,147,870	\$ 2,141,994	\$21,121,445	\$1,857,096	\$35,268,405
Intangible assets	3,726,604	867,626	10,516,131	604,234	15,714,595
Goodwill	<u>1,942,250</u>	<u>5,289,432</u>	<u>5,235,268</u>	<u>2,275,298</u>	<u>14,742,248</u>
	<u>\$15,816,724</u>	<u>\$ 8,299,052</u>	<u>\$36,872,844</u>	<u>\$4,736,628</u>	<u>\$65,725,248</u>
Other:					
Deferred income tax assets					2,792,463
Other non-current assets					<u>267,001</u>
Total non-current assets					<u>\$68,784,712</u>
Total liabilities	<u>\$51,096,834</u>	<u>\$ 2,575,122</u>	<u>\$32,516,936</u>	<u>\$1,107,929</u>	<u>\$87,296,821</u>

<sup>(\*)</sup> These assets are assigned based on operations in the different segments and physical location of assets.

For the year ended December 31, 2016:

	<b>Mexico</b>	<b>USA</b>	<b>Europe</b>	<b>LATAM</b>	<b>Total</b>
Total income by segment	\$44,453,875	\$17,997,515	\$40,002,464	\$7,825,384	\$110,279,238
Intersegment income	<u>(1,020,663)</u>	<u>(2,690,300)</u>	<u>-</u>	<u>(227,411)</u>	<u>(3,938,374)</u>
Income from external customers	<u>43,433,212</u>	<u>15,307,215</u>	<u>40,002,464</u>	<u>7,597,974</u>	<u>106,340,864</u>
Adjusted EBITDA	5,905,015	2,491,912	3,096,326	880,869	12,374,122
Depreciation and amortization	(1,112,892)	(524,281)	(1,583,617)	(273,462)	(3,494,252)
Impairment of fixed assets	(121,125)	-	(27,242)	(1,684)	(150,051)
Impairment of intangible assets	-	-	(183,831)	-	(183,831)
Deferred charge write-off	<u>(1,329)</u>	<u>-</u>	<u>(25,787)</u>	<u>-</u>	<u>(27,116)</u>
Operating income	<u>4,669,669</u>	<u>1,967,631</u>	<u>1,275,849</u>	<u>605,723</u>	<u>8,518,872</u>
Financial cost, net	(2,237,068)	(1,534)	(528,077)	9,710	(2,756,969)
Equity in income of associates	<u>(4,116)</u>	<u>-</u>	<u>54,352</u>	<u>-</u>	<u>50,236</u>
Income before taxes	<u>2,428,485</u>	<u>1,966,097</u>	<u>802,124</u>	<u>615,433</u>	<u>5,812,139</u>
Capital investment (Capex):					
Property, plant and equipment	<u>\$ 1,703,210</u>	<u>\$ 478,489</u>	<u>\$ 4,018,514</u>	<u>\$ 98,189</u>	<u>\$ 6,298,402</u>

As of December 31, 2016:

	<b>Mexico</b>	<b>USA</b>	<b>Europe</b>	<b>LATAM</b>	<b>Total</b>
Non-current assets:					
Property, plant and equipment (*)	\$ 9,531,283	\$ 2,284,503	\$ 19,281,696	\$ 1,991,800	\$33,089,282
Intangible assets	4,028,650	1,044,980	9,950,681	728,690	15,753,001
Goodwill	<u>2,032,465</u>	<u>4,866,872</u>	<u>2,576,242</u>	<u>1,436,264</u>	<u>10,911,843</u>
	<u>\$ 15,592,398</u>	<u>\$ 8,196,355</u>	<u>\$ 31,808,620</u>	<u>\$ 4,156,754</u>	<u>\$59,754,126</u>

Other:

Deferred income tax assets					2,995,464
Other non-current assets					<u>1,068,949</u>

Total non-current assets					<u>63,818,540</u>
Total liabilities	<u>\$ 45,693,788</u>	<u>\$ 2,380,448</u>	<u>\$ 34,599,506</u>	<u>\$ 1,039,458</u>	<u>\$83,713,200</u>

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

For the year ended December 31, 2015:

	<b>Mexico</b>	<b>USA</b>	<b>Europe</b>	<b>LATAM</b>	<b>Total</b>
Total income by segment	\$40,833,512	\$16,891,424	\$33,891,851	\$6,229,907	\$97,846,694
Intersegment income	<u>(918,581)</u>	<u>(3,194,514)</u>	<u>-</u>	<u>(165,916)</u>	<u>(4,279,011)</u>
Income from external customers	<u>39,914,931</u>	<u>13,696,910</u>	<u>33,891,851</u>	<u>6,063,991</u>	<u>93,567,683</u>
Adjusted EBITDA	5,557,089	2,125,721	5,619,971	588,757	13,891,538
Depreciation and amortization	(945,075)	(432,430)	(1,286,494)	(165,567)	(2,829,566)
Impairment of fixed assets	(75,795)	-	(45,089)	-	(120,884)
Deferred charge write-off	<u>(10,872)</u>	<u>-</u>	<u>(26,160)</u>	<u>-</u>	<u>(37,032)</u>
Operating income	<u>4,525,347</u>	<u>1,693,291</u>	<u>4,262,228</u>	<u>423,190</u>	<u>10,904,056</u>
Financial cost, net	(2,212,912)	72,457	(486,546)	20,517	(2,606,484)
Equity in income of associates	<u>(2,072)</u>	<u>-</u>	<u>(399,341)</u>	<u>-</u>	<u>(401,413)</u>
Income before taxes	<u>2,310,363</u>	<u>1,765,748</u>	<u>3,376,341</u>	<u>443,707</u>	<u>7,896,159</u>
Capital investment (Capex):					
Property, plant and equipment	<u>\$ 1,376,497</u>	<u>\$ 275,653</u>	<u>\$ 1,929,018</u>	<u>\$ 56,850</u>	<u>\$ 3,638,018</u>



Income from external customers by products:

<b>For the years ended December 31,</b>			
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Processed meat <sup>(1)</sup>	\$ 88,018,147	\$ 82,109,546	\$72,806,794
Dairy <sup>(2)</sup>	20,964,928	19,234,528	16,926,837
Other <sup>(3)</sup>	<u>5,238,964</u>	<u>4,996,790</u>	<u>3,834,055</u>
Total	<u>\$114,222,039</u>	<u>\$106,340,864</u>	<u>\$93,567,686</u>

(1) Ham, sausage, and other lunch meat.

(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, 2017, 2016 and 2015, sales to its largest customer represented 10.0%, 10.4% and 10.7%, respectively, of total sales.

**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, 2017, 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.

As of December 31, 2017 and 2016, the Company has the following commitments:

- a. Various subsidiaries' contracts with suppliers and customers for acquisition of raw materials used in manufacturing products. The respective contracts are effective for less than a year, and do not stipulate significant restrictions or guarantees for the parties.
- b. Various subsidiaries' contracts with suppliers and customers for acquisition of raw materials used in manufacturing products. The respective contracts are effective for less than a year, and do not stipulate significant restrictions or guarantees for the parties.

**Subsequent events**

In preparing the financial statements, the Company has evaluated events and transactions to be recognized or disclosed after December 31, 2017 and through January 31, 2018 (date of issuance of the consolidated financial statements) and has not identified subsequent events.

**Authorization to issue the consolidated financial statements**

The issuance of the accompanying consolidated financial statements and its notes was authorized on January 31, 2018, by Mario H. Páez González, Chief Executive Officer, and Eugenio Caballero Sada, Chief Financial and Marketing Officer

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

\* \* \* \* \*

## ISSUER

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**US\$500,000,000**



**SIGMA FINANCE NETHERLANDS B.V.**

**4.875% Senior Notes due 2028**

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**OFFERING MEMORANDUM**

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*Joint Book-Running Managers*

**Citigroup**

**HSBC**

**J.P. Morgan**

**May 17, 2018**

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