

annual report

**alfa**





ALFA is a holding company that manages a portfolio of diversified subsidiaries:

**Alpek**, one of the world's largest producers of polyester (PTA, PET and fibers), and the leader in the Mexican market for polypropylene, expandable polystyrene (EPS) and caprolactam.

**Sigma**, a leading multinational refrigerated food company, focused on the production, marketing and distribution of quality foods through recognized brands in Mexico, Europe, United States and Latin America.

**Nemak**, a leading provider of innovative lightweighting solutions for the global automotive industry, specializing in the development and manufacturing of aluminum components for powertrain and body structure and parts for electric vehicles.

**Axtel**, a provider of Information Technology (IT) and Communication services for the enterprise and government markets in Mexico.

**Newpek**, an oil and gas exploration and production company with operations in Mexico and the United States.

In 2018, ALFA reported revenues of Ps. 366,432 million (US \$19.1 billion), and EBITDA<sup>1</sup> of Ps. 55,178 million (US \$2.9 billion). ALFA's shares are quoted on the Mexican Stock Exchange and on Latibex, the market for Latin American shares of the Madrid Stock Exchange.

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<sup>1</sup> EBITDA = operating income + depreciation and amortization + non-recurring items.

NOTE: In this annual report, monetary figures are expressed in nominal Mexican pesos (Ps.), and in nominal dollars (US \$) unless otherwise specified. Conversions from pesos to dollars were made using the average rate of the month in which the revenues or disbursements were made. The percentages of variation between 2018 and 2017 are expressed in nominal terms.

# FINANCIAL HIGHLIGHTS

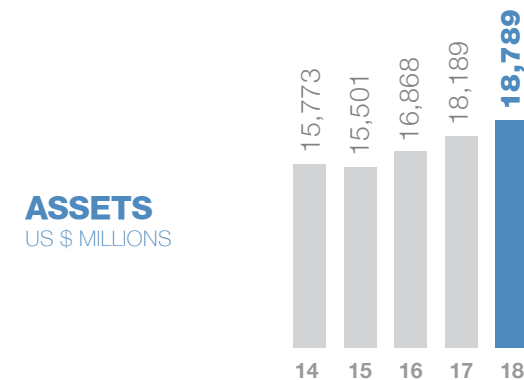
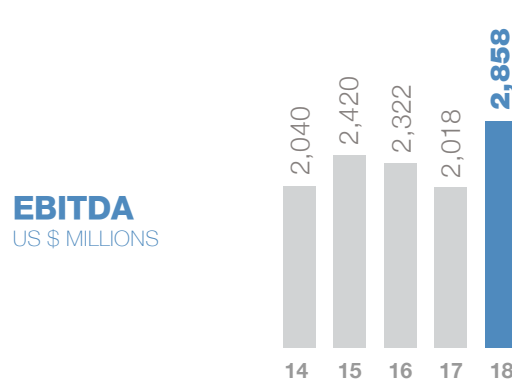
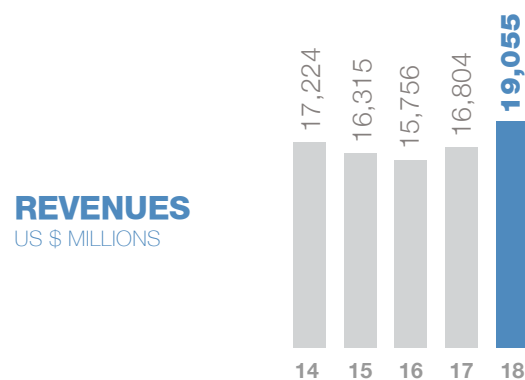
ALFA AND SUBSIDIARIES	MILLIONS OF PS.			US \$ MILLIONS <sup>(4)</sup>		
	2018	2017	% CHG.	2018	2017	% CHG.
<b>INCOME STATEMENT</b>						
Net Sales	<b>366,432</b>	317,627	15	<b>19,055</b>	16,804	13
Operating Income	<b>35,705</b>	11,195	219	<b>1,844</b>	557	231
Majority Net Income	<b>13,143</b>	(2,051)	741	<b>682</b>	(134)	608
Majority Net Income per Share <sup>(1)</sup> (Ps. & US \$)	<b>2.60</b>	(0.40)	750	<b>0.13</b>	(0.03)	533
EBITDA <sup>(2)</sup>	<b>55,178</b>	38,312	44	<b>2,858</b>	2,018	42
<b>BALANCE SHEET</b>						
Total Assets	<b>369,828</b>	358,968	3	<b>18,789</b>	18,189	0
Total Liabilities	<b>271,604</b>	266,542	2	<b>13,799</b>	13,506	2
Stockholders' Equity	<b>98,224</b>	92,426	6	<b>4,990</b>	4,683	7
Majority Interest	<b>73,391</b>	69,436	6	<b>3,729</b>	3,518	6
Book Value per Share <sup>(3)</sup> (Ps. & US \$)	<b>14.5</b>	13.7	6	<b>0.74</b>	0.70	7

<sup>(1)</sup> Based on the weighted average number of outstanding shares (5'055,111 in 2018 and 5'087,743 in 2017).

<sup>(2)</sup> EBITDA = operating income + depreciation and amortization + impairments.

<sup>(3)</sup> Based on the number of outstanding shares (5'055,111 at the end of 2018 and 5'055,111 at the end of 2017).

<sup>(4)</sup> Due to the dollarization of its revenues, which is higher than 75%, and because of the holding of shares by foreign investors, ALFA provides equivalent US \$ amounts for some of its most important financial data.





## BUSINESS GROUPS

The company produces and provides more than 40 products and services that are sold in the food, beverages, consumer products, automotive, packaging, textiles, construction, information technologies and communication markets, among others.



### Main products

- Polyester: PTA, PET, fibers.
- Plastics and chemicals: Polypropylene, EPS, Caprolactam, chemical specialties and industrial chemicals.

### Markets:

- Containers for beverages, food and consumer products, packaging for electronics and appliances, textiles, construction and automotive.

### Financial Highlights 2018

Revenues:  
US \$7 billion  
Plants: 25, in 6 countries  
Employees: 6,603  
Footprint: Argentina, Brazil, Canada, Chile, Mexico, U.S.A.



### Main products

- Cooked and cured meats: Ham, sausages, bacon.
- Dairy products: Cheese, yoghurt, cream, butter.
- Other refrigerated and frozen foods.

### Markets

- Food

### Financial Highlights 2018

Revenues:  
US \$6.3 billion  
Plants: 70, in 14 countries  
Employees: 45,515  
Footprint: Belgium, Costa Rica, Dominican Republic, Ecuador, El Salvador, France, Italy, Mexico, Netherlands, Peru, Portugal, Spain, Romania and U.S.A.



### Main products

- Aluminum heads and blocks for combustion engines.
- Transmission cases.
- Structural components.
- Components for electric vehicles.

### Markets

- Automotive

### Financial Highlights 2018

Revenues:  
US \$4.7 billion  
Plants: 38, in 16 countries  
Employees: 23,982  
Footprint: Argentina, Austria, Brazil, Canada, China, Czech Republic, Germany, Hungary, India, Mexico, Poland, Russia, Slovakia, Spain, Turkey, U.S.A.



### Main services

- Data centers.
- Security.
- Systems integration.
- Cloud services.
- Management applications.
- Managed networks.
- Collaborative services.
- VPN and Ethernet.

### Markets

- Enterprise and Government.

### Financial Highlights 2018

Revenues:  
US \$809 million  
Employees: 7,549  
Footprint: Mexico



### Main products

- Hydrocarbons.
- Oil and gas services.

### Markets

- Energy, oil and gas

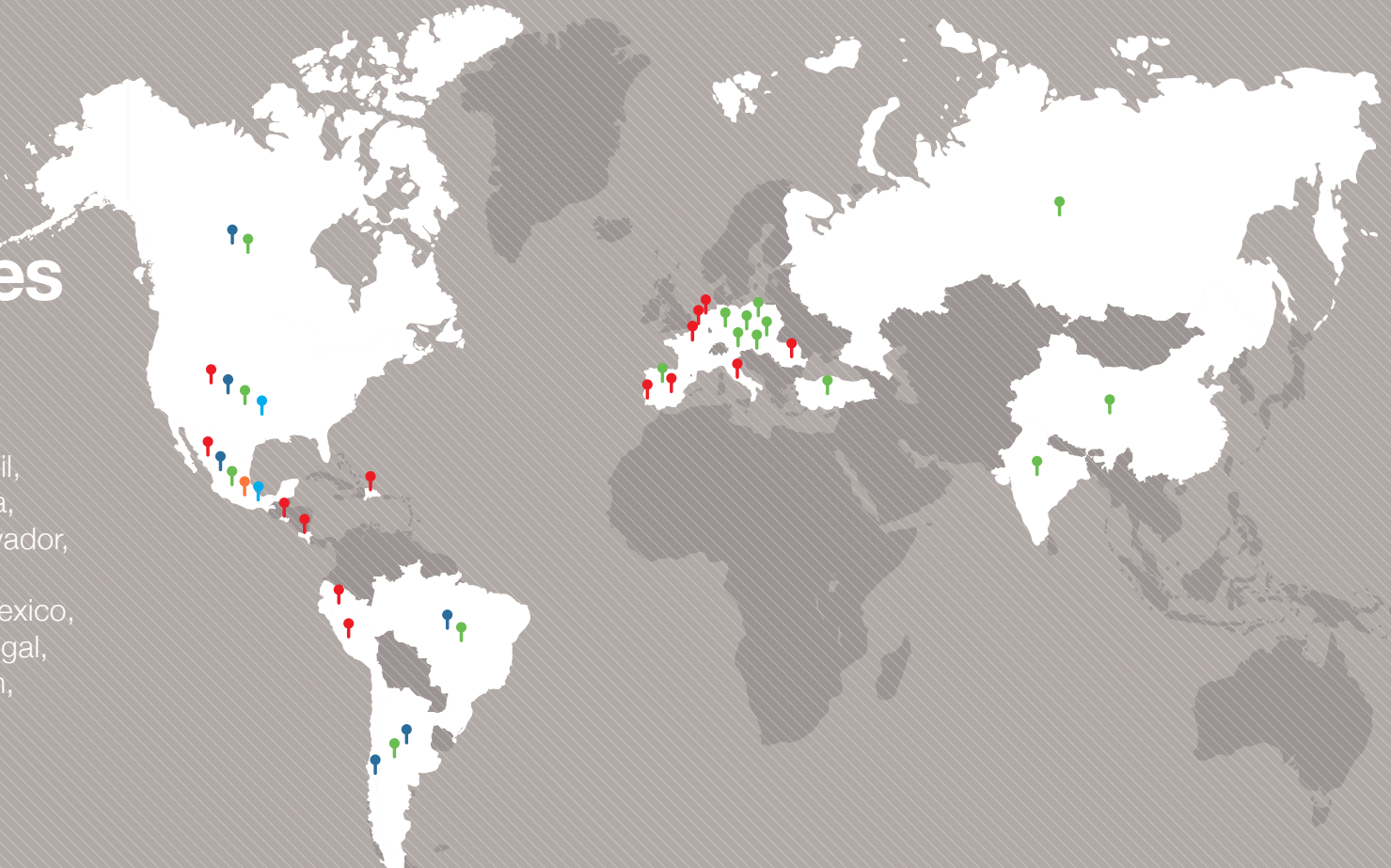
### Financial Highlights 2018

Revenues:  
US \$108 million  
Employees: 52  
Footprint: Mexico, U.S.A.

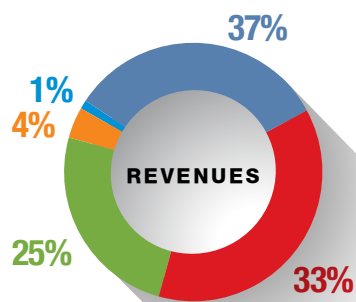


# ALFA operates 133 plants in 28 countries:

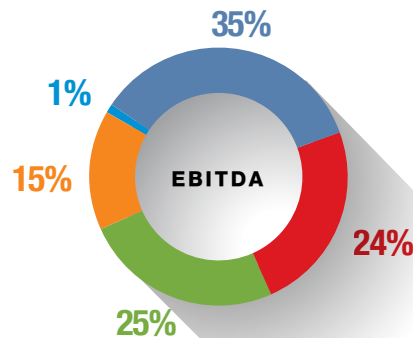
Argentina, Austria, Belgium, Brazil, Canada, Chile, China, Costa Rica, Czech Republic, Ecuador, El Salvador, Dominican Republic, France, Germany, Hungary, India, Italy, Mexico, Netherlands, Peru, Poland, Portugal, Romania, Russia, Slovakia, Spain, Turkey and United States.



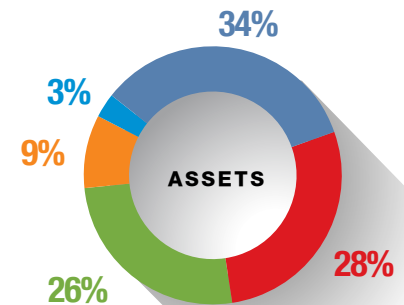
**ALPEK**  
**SIGMA**  
**NEMAK**  
**AXTEL**  
**NEWPEK**



US \$19,055



US \$2,858



US \$18,789



**Armando Garza Sada**  
Chairman of the Board of Directors

**Álvaro Fernández Garza**  
President

More than **90%**  
of Alpek's production is used for  
beverage, food and other consumer  
packaging applications.



In 2018, ALFA had a strong performance and progressed in the implementation of its business strategy. Consolidated revenues and EBITDA reached record levels, underpinning an improvement in financial condition. This enabled ALFA to further reduce its leverage ratios.

The good performance was driven mainly by the petrochemical, auto components and food businesses, all of which delivered better results in comparison to the prior year, reflecting market leadership positions, higher margins, entry into new geographies, and a focus on value-added products and services.

Each subsidiary made progress on its investment plans and executing on its strategy even as they faced various challenges that arose in the market and macro-economic environment. Initiatives to strengthen each business's competitive position met and in some cases exceeded expectations.

Main performance drivers included margin recovery in the polyester business and the contribution of the petrochemical plants acquired by Alpek in Brazil; increased sales of value-added products by Nemark in North America; operating efficiencies and higher food sales in the core markets in Sigma; and growth in Information Technology and Communications services at Axtel.

## BUSINESS PERFORMANCE

### ALPEK

The recovery of polyester and polypropylene margins, the contribution from the acquired plants in Brazil and successful execution of its business strategy, enabled Alpek to increase revenues and post record EBITDA. This was a significant recovery from the unfavorable operating environment in the preceding year.

Rising oil and commodity prices, brought stronger average prices and margins for petrochemical products. Alpek also benefited from the 2017 polystyrene capacity expansion in Altamira.

The polyester plants in Brazil, consolidated in May 2018, turned in better than expected results. In addition to the increased production, this investment allowed Alpek to enter a market with significant growth potential and to assume leadership of PTA-PET production in the Americas.

At the end of the year, a joint venture between Alpek, Indorama and Far Eastern completed the acquisition of M&G's PTA-PET Project in construction in Corpus Christi, Texas. Once in operation, each partner will have the right to receive one third of the PTA and PET produced by the Project. In addition, supported by Alpek-backed financing, the M&G Mexico plant in Tamaulipas resumed and normalized PET production while a definitive restructuring plan is being finalized.



**12** Sigma brands sell more than US \$100 million a year each.



**1 out of every 4** new cars sold in the world contains at least one Nematik product.

In addition, Alpek signed an agreement for the sale of its two power cogeneration plants in Cosoleacaque and Altamira, Mexico for an amount of US \$801 million. The closing date is expected during the first half of 2019.

## SIGMA

The company continued to strengthen its operations in 18 countries where it operates, supported by a broad product selection and leading brands.

Operations in Mexico reported solid results, with higher sales and margins, while in the U.S., the company faced higher raw material cost and distribution expenses.

In Europe, the Burgos plant, equipped with cutting edge technology, operated according to plan, supplying cold cuts and cured meats to the European market, while the acquisition of the remaining 51% of Caroli in Romania (2017) generated better-than-expected synergies.

In Latin America, through the acquisition of Supemsa (2017), Sigma generated synergies and further strengthened its leadership position in the premium segment in Peru.

In order to strengthen a single global culture, Sigma established its new purpose: to bring communities everywhere foods to love, offering consumers fresh, healthy and delicious products, increasingly in tune with their tastes and preferences.

The company continued expanding its product portfolio and positioning its brand leadership, through a unique innovation process and high impact marketing campaigns.

In addition, several digital transformation projects contributed to increase margins and efficiencies through the value chain.

## NEMAK

In 2018, economic conditions across North America and Europe, which are Nematik's main markets, provided stability in the automotive industry.

In this environment, Nematik leveraged its capacity and leadership in the development of lightweighting solutions, as well as the growing trend toward vehicle electrification, to capture growth opportunities in all the regions where it operates.

Likewise, the company increased its efficiency improving operations through cost-cutting initiatives and benefiting from its global presence in areas such as product development, procurement and manufacturing, while maintaining the highest quality standards and on-time delivery.

The year saw high demand for powertrain auto components, such as engine heads and blocks for high-performance applications. Additionally, Nematik continued to add value to its products through machining processes which increased from 56% to 60%.



## LETTER TO SHAREHOLDERS

The company improved the performance of its structural and electric vehicle components business, solidifying its market position.

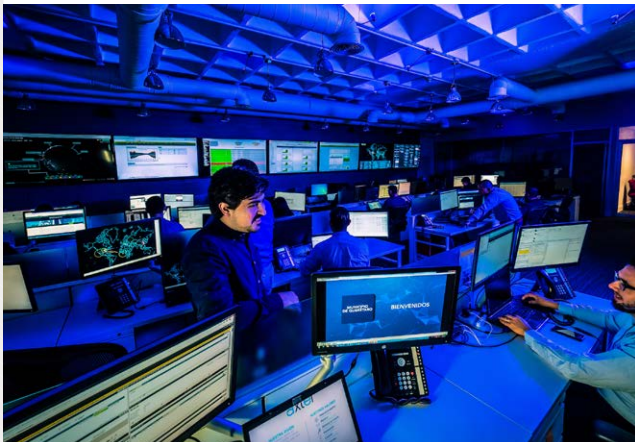
In 2018, the company was awarded contracts in this segment, valued at approximately US \$280 million annually, including the development and production of complex battery and electric motor housings for premium vehicles in Europe.

Nemak has a solid client base, a diversified product portfolio and presence in close to 650 vehicle platforms, and is the sole supplier for products that account for nearly 90% of its sales.

### AXTEL

In 2018, Axtel continued to focus its efforts on Information Technology (IT) and Communication services, meeting a growing demand from the business and government segments. During the year these services grew at double-digit rates.

The company continued to invest in bringing last-mile access to its customers and deploying its IT infrastructure in Mexico. It also expanded its portfolio



of IT and network management solutions and created an alliance with Microsoft to provide access to hybrid, public-private, cloud services through its latest-generation Data Center in Querétaro.

In 2018, Axtel received, from national and international organizations, several certificates and award distinctions for its quality, security, service efficiency and operating sustainability.

At the end of the year, Axtel sold its mass market business to focus on the enterprise and government segment. The proceeds from this sale were applied to the prepayment of bank debt, thus improving the company's capital structure.

### NEWPEK

During the year, the hydrocarbons company moved forward with the sale of its US assets.

As part of this effort, together with its partners Pioneer Natural Resources and Reliance Industries, it partially divested its assets in the Eagle Ford Shale. In addition it sold its participation in the Wilcox formation, also in Texas. The process of selling approximately 11,000 remaining acres in the United States continues.

In Mexico, Newpek concentrated in the two mature fields it has been operating since 2013 in the state of Veracruz, under service contracts with Pemex, where it operates 131 wells.

The company is mapping out programs to start up exploration activities at the two blocks won in auctions by the Mexican government in 2017.

# 686

production wells operated by Newpek in Texas and Veracruz.



# 22,087 sq ft

at six Axtel Data Centers.





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# 138

students from ALFA Fundacion high school continued to college in Mexican and US universities.

### SUSTAINABILITY

Sustainability continues to be a high priority for ALFA. In 2018, the company invested US \$67 million in funding health, safety and employee development programs. It also drove actions to have cleaner and responsible operations, and to support the communities where it operates.

During the year, the company improved its workplace safety indicators, reducing work-related accidents by 18%, while its unwavering goal is to achieve zero accidents. It also expanded personal development programs. In 2018, each employee received an average of 32 hours of training.

In environment-related activities, the company continued to increase its usage of clean energy. In 2018, 148 facilities operated with clean and renewable energies such as wind and geothermal.

ALFA continued to promote the usage of recycled raw materials. For example, in the year, 80% of Nemak's aluminum consumption in Mexico came from recycled sources.

With respect to community relations, the ALFA Foundation's educational project continued to yield results. In 2018, 144 students graduated from high school. Of them, 138 continued to college, including 78 who were awarded scholarships to study in Mexican and US Universities.

In 2018, we celebrated the 40th anniversary of the ALFA Planetarium, which has received more than 14 million visitors in its history.

Finally, we would like to highlight the work of Sigma's Nutrition Institute which is bringing increasingly nutritious and healthy products to consumers. In line with this, over the past eight years, the company has improved the nutritional profile of more than 400 products.

Sustainability is an important initiative for the company and begins with safeguarding the physical integrity of our employees, reducing the environmental footprint of our operations, being a responsible corporate citizen to our communities and continuing to support our value chain. In each of these areas, we plan to continue the work we have started as we believe there is still more work to do.

### CONSOLIDATED FINANCIAL RESULTS

ALFA's revenues totaled US \$19,055 million in 2018, an increase of 13% over 2017, while EBITDA rose to US \$2,858 million, an increase of 42%. A strong performance from Alpek supported these results.

The company reported majority net income of US \$682 million, compared to a loss of US \$134 million in 2017, reflecting mainly the improvement in operating results.

In 2018, ALFA invested US \$1,565 million in capital expenditures and acquisitions, including the purchase of Petroquímica Suape and Citepe in Brazil. During the year, Nemak and Sigma completed successful bond offerings for US \$500 million, each, while Alpek received a syndicated bank loan for US \$710 million.

The company's financial condition remained solid, as evidenced by the following indicators: Net Debt to EBITDA, 2.3 times and Interest Coverage, 5.8 times.

# LETTER TO SHAREHOLDERS

## OUTLOOK

2018 was a year of significant progress for ALFA even as its businesses faced various challenges. Each subsidiary seized growth opportunities, expanding capacity, improving operations, opening new markets and creating better products and services.

ALFA is a global company with operations in 28 countries and 70% of its revenues coming from outside of Mexico. Today, the company is more diversified, financially strong, has market leadership positions in attractive industries, with clear growth opportunities.

2019 brings new challenges to ALFA, given the uncertainty and lower expectations in Mexico and worldwide, as a result of geopolitical and economic factors that are beyond our control, it is important to act with caution, encourage austerity and focus on activities whose main objective is to maximize EBITDA, including the sale of non-priority assets, and cost reduction, among others. At the same time however, ALFA will consider growth opportunities, where profitability and risk conditions are adequate.

The company's goal continues to be ensuring operating excellence in all its businesses and to increase profitability.

Alpek will work on improving performance in recent acquisitions and consolidating its leadership position in the polyester market.

Sigma will focus on expanding its margins in Europe and exploring growth opportunities through merger and acquisitions.

Nemak will continue to capitalize on electrification trends in the automotive industry.

Meanwhile, Axtel will pursue growth based on innovation and supporting companies in their digital transformation, while divesting non-strategic assets.

Newpek will continue to sell assets outside Mexico and will begin exploration activities in the Burgos shale.

At the consolidated level, ALFA will work to further improve its financial condition, increasing EBITDA and lowering debt. The company will also consider monetizing some of its non-core assets.

With respect to investments, the vision is focused on long-term growth through strategic projects. We will continue to weigh opportunities for all our subsidiaries, but maintaining a conservative financial position.

In conclusion, on behalf of the Board of Directors, we express our gratitude to all our customers, suppliers, financial institutions, and all of you, our shareholders, for the confidence you have shown in this company's management over the year. We are particularly grateful to our more than 86,000 employees for their valuable contribution to the good results reported in 2018, and who continue to make ALFA an exemplary company.

San Pedro Garza García, Nuevo León, México,  
February 28, 2019.



**Armando Garza Sada**  
Chairman of the Board of Directors



**Álvaro Fernández Garza**  
President



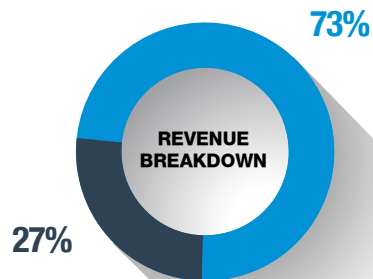
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# ALPEK

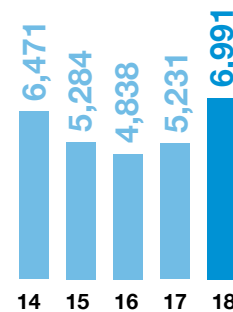
In 2018, Alpek benefited from higher product margins, as well as from strategies begun in 2017, to achieve unprecedented results and improve its financial structure.

## POLYESTER PLASTICS & CHEMICALS



## REVENUES

US \$ MILLIONS



**#1**

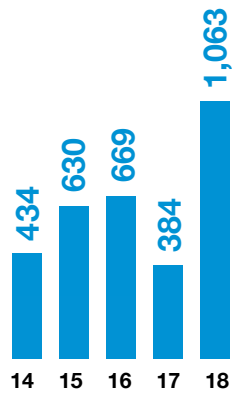
in the production of PTA, PET  
and EPS in the Americas.



Alpek's polyester filament is used in 1 of every 4 cars produced in North America.

## EBITDA

US \$ MILLIONS



The company operated in a favorable oil and commodity price environment for most of the year, allowing Alpek to increase revenues by 34% to US \$6,991 million and achieve record EBITDA of US \$1,063, 177% higher compared to 2017.

The Polyester business improved its revenues and EBITDA, helped in part by the incorporation of the PTA and PET plants of Petroquímica Suape and Citepe, in Brazil, starting in May. The performance of these operations exceeded expectations.

During the year, Alpek continued to provide support through guaranteed financing to M&G México's Tamaulipas plant, which was able to normalize PET production while a definitive restructuring plan is completed.

The Plastics and Chemicals segment also reported a solid performance, driven by higher polypropylene margins and higher expandable polystyrene sales, benefiting from the 2017 capacity expansion at the Altamira plant.

At the close of the year and in early 2019, two events came together to further advance the company's business strategy and to improve its financial profile.

First, Corpus Christi Polymers LLC (CC Polymers), a joint venture between Alpek, Indorama and Far Eastern, completed the acquisition of M&G's Corpus Christi PTA-PET project under construction, for US \$1.2 billion in cash and other capital contributions.

Alpek, Indorama and Far Eastern will fund CC Polymers to complete construction, and once operational, each partner will receive a third of the PTA and PET produced at this facility.

Second, Alpek signed a definitive agreement for the sale of its two power cogeneration plants at Cosoleacaque and Altamira, Mexico, for US \$801 million. The transaction is expected to close by the first semester of 2019.

These two transactions will enable Alpek to expand its PTA and PET business in the Americas and strengthen its financial structure.

Looking ahead to 2019, Alpek will work on capitalizing on current projects and realizing the expected return on its recent investments, while maintaining its financial discipline.

The company will continue to capitalize on its Brazilian operations, which have so far exceeded expectations, and have given Alpek access to an attractive market with strong growth potential.

Furthermore, the company will be working on the completion of the Corpus Christi project, together with Indorama and Far Eastern, so that it can start up operations, and also complete the final restructuring process at M&G Mexico.

The year's results, combined with the progress made on its strategic plans, place Alpek favorably to achieve strong results and to further strengthen its financial position.

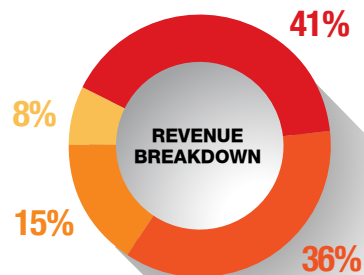




# SIGMA

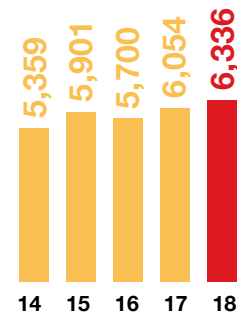
Sigma continued to position itself as a leading multinational company in the food industry, offering quality products in a wide range of categories and price points.

**MEXICO**  
**EUROPE**  
**U.S.A.**  
**LATIN AMERICA**



## REVENUES

US \$ MILLIONS



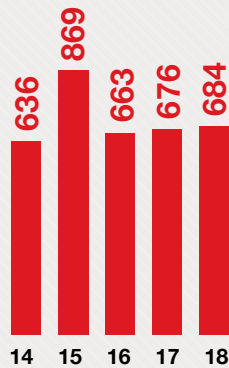
**640,000**  
points of sale.





**10%**

of its sales came from innovation.



**EBITDA**  
US \$ MILLIONS



The Burgos plant operated according to plan, serving the Spanish and European markets. The facility is equipped with state-of-the-art technology like real-time monitoring, water and energy saving systems, as well as the highest safety standards. Its efficiency contributed to stronger operating margins for Spanish operations.

In addition, the integration of the acquisition of the remaining 51% of Caroli in Rumania and Supemsa in Peru, brought better results than expected, generating synergies through product reformulation, procurement and process optimization.

In 2018, Sigma established its new purpose: to bring communities everywhere favorite foods to love. It aims to offer its consumers fresh, healthy and delicious food, through their favorite brands in every market where it operates.

To stay on top of consumer trends, Sigma leveraged on innovation to improve its product offering in order to remain as the consumer’s most attractive option, to build brand loyalty and boost sales. In Mexico, it launched Yoplait “Double Zero” yoghurt, a healthier option with no fat or added sugar. In its convenience platform, one of its most significant launches was Campofrio’s “Snack’in” line, offering healthy chicken, turkey and cured ham snacks.

In Portugal and Italy, it introduced the Vegalia line of vegetarian products. In the dairy and luncheon meats segment, it launched Del Prado brand lactose-free cheeses in Central America and FUD brand premium chorizo in the United States.

Digital transformation played a large role for Sigma in 2018, through projects like Revenue Management, which optimizes prices and promotions, based on elasticities by product and client, contributing to increase margins. In addition, a project to streamline route design and operation brought outstanding results in business logistics, through mathematical and geo-analytic algorithms to optimize sales routes in real time.

Sigma continued to generate high-impact marketing campaigns to strengthen brand value. Its adds in 2018 were no exception, capitalizing on current issues, like the “Te lo dije” campaigns for FUD in Mexico, for Mother’s Day, and the long-awaited Campofrio Christmas campaign called “La tienda del humor.”

Through these efforts, Sigma’s revenues in 2018 totaled US \$6.3 billion, 5% higher than in 2017, and EBITDA was US \$684 million, a 1% increase over 2017.

Sigma issued a 10-year US \$500 million bond with a coupon of 4.875%, using the proceeds to redeem Campofrio Food Group’s 2022 notes and for other corporate purposes. This strengthened its financial condition by extending its average debt maturity.

Sigma is prepared to capture growth opportunities. The new plant in Spain, along with innovation and digital transformation projects, will continue to support margins. Also, the company has extensive experience and know-how in acquiring and integrating companies, enabling it to seek new opportunities to generate value.

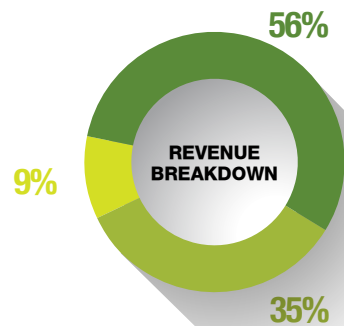


# NEMAK

In 2018, Nematik continued strengthening its competitive position while broadening its product portfolio, taking firm steps to capitalize on the growing trend in the global automotive industry toward vehicle lightweighting and electrification.

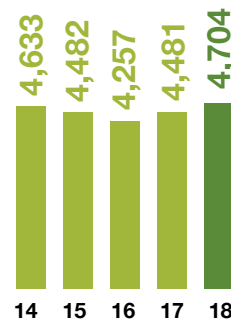


**NORTH AMERICA**  
**EUROPE**  
**REST OF WORLD**



## REVENUES

US \$ MILLIONS

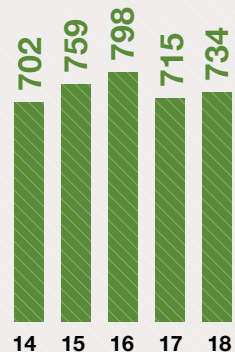


Sole supplier in  
**90%**  
of its sales





Presence in ~650 vehicle platforms.



**EBITDA**  
US \$ MILLIONS

Macroeconomic conditions in North America and Europe, the company’s main markets, supported a stable performance in the automotive industry. In this context, sales volume for the company was similar to that of 2017, as higher demand for auto components in North America offset the combined impact of lower diesel sales and lower customer demand stemming from the implementation of new emissions testing standards, which caused delays in bringing new models to market in Europe.

Operationally, the company continued to improve efficiency through cost reduction initiatives and through leveraging its global footprint in areas such as procurement, manufacturing and product development.

In 2018, Nemak’s revenues amounted to US \$4.7 billion, a 5% increase over 2017, mainly explained by higher aluminum prices and a better product mix. Meanwhile, EBITDA was US \$734 million, 3% higher than in 2017, driven by operational efficiencies and the improved product mix already mentioned.

During the year, the company focused on producing higher value-added auto parts across its product lines. This included the launching of new programs for complex cylinder heads and engine blocks for high-performance engines, and the ramp-up of structural and electric vehicle components (SC/EV).

Considering all product lines, in 2018 Nemak signed contracts worth around US \$770 million in annual revenues, approximately half of which represented incremental volumes. This includes US \$280 million from the SC/EV business, to produce complex battery and electric motor housings as well as multi-material assemblies, among other applications. As a result, its order book for this segment grew to US \$600 million in annual revenues.

Other highlights include its Slovakia operation, which reached high production levels of its first SC program; and its high-pressure die casting operation in Mexico, which by the end of the year had produced more than 700,000 units. In 2018, revenues from the SC/EV business totaled approximately US \$150 million.

The company continued making progress in the execution of its vertical integration strategy, increasing the use of in-house machining, which is now applied to 60% of the pieces produced, up from 56% in 2017.

Nemak’s capital expenditures amounted to US \$403 million in 2018, primarily focused on supporting new program launches and improving efficiency across all its regions.

Nemak’s debt remained stable as the company generated enough EBITDA to finance capital expenditures, pay dividends, and cover other expenses. In addition, to reinforce its financial condition, Nemak successfully placed a US \$500 million bond in the international debt markets, with a coupon of 4.75% and a maturity period of seven years. The proceeds were used to repay shorter-term obligations, extending the average life of its debt. In recognition for its financial discipline and credit profile, Fitch Ratings upgraded Nemak to “investment grade”, raising its debt score from BB+ to BBB-.

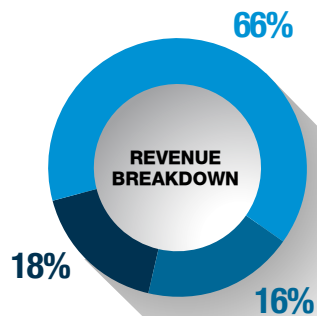
Going forward, Nemak will remain focused on leveraging its technological leadership and global presence to tap into emerging opportunities in automotive lightweighting solutions. It will work to further increase profitability in its powertrain business while pursuing new growth opportunities in SC/EV.



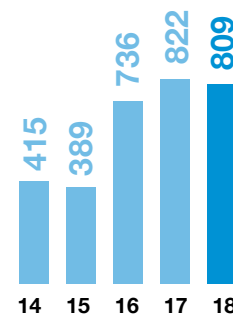
The company strengthened its leading position in the Mexican Information Technology and Communications market. 2018 was a decisive year for Axtel, as it divested part of its mass-market business, enabling it to focus its strategy and commercial operations to provide IT solutions and value-added communication services for the business and government segments.



**BUSINESS**  
**GOVERNMENT**  
**MASS MARKET**



**REVENUES**  
US \$ MILLIONS



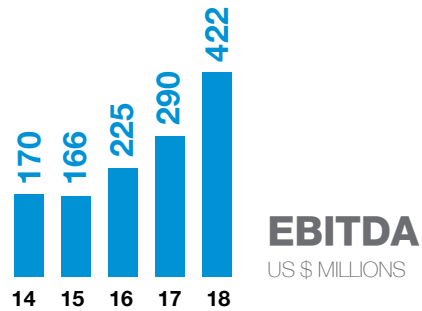
**82%**

if its revenues come from the business and government markets.





Axtel operates the most powerful Data Centers in Latin America.



In 2018, the company continued to strengthen its infrastructure and service portfolio through cutting-edge technologies. This drove IT revenues, such as Cloud Services, Security and Managed Applications, to report double-digit growth.

Axtel operates six Data Centers with the highest service standards, backed by the most sophisticated security, energy, communication and refrigeration systems that places them among the most modern and trustworthy in Latin America.

In line with its strategy to lead the market in cloud services, it forged alliances to strengthen its position in the market as a supplier of hybrid, public and private, cloud services by integrating Axtel's cloud services with global cloud leaders like Microsoft and Amazon.

It also continued to support its clients to increase data security through new solutions based on technologies like Cisco, Fortinet and Palo Alto.

To address the new needs in business communication, Axtel incorporated services like Virtual Switchboards, wireless solutions with information analysis and Big Data applications, as well as concept and market testing for new trends in Software Defined Networks, all while continually improving its existing products, to stay at the forefront of technological change in its industry.

These actions allowed Axtel to earn new certifications such as Symantec Platinum Partner, Microsoft Gold Cloud Productivity and AWS Standard Partner.

In addition, during the year, it successfully completed the third generation of NAVE, its business accelerator, receiving applications from companies in Mexico and Chile. Seven enterprising projects were selected in technologies like Security, Artificial Intelligence and Machine Learning, Big Data, Cloud Applications and Mobility. Through this initiative, Axtel pursues commercial alliances and opportunities for co-creating new products.

In 2018, revenues and EBITDA for Axtel were US \$809 million and US \$422 million, respectively, which were 2% lower and 46 % higher, respectively, than in 2017.

At the end of the year, Axtel prepaid a bank loan using the proceeds from the sale of the mass-market business, improving its financial profile. It reduced both leverage and interest expense and extended the average life of the debt from 4.7 to 5.7 years.

In order to reduce its exposure to exchange-rate risk, Axtel refinanced a US \$172 million loan at 10 years from dollars to pesos, at competitive conditions, and secured a credit line for US \$50 million, which can be drawn in pesos or dollars.

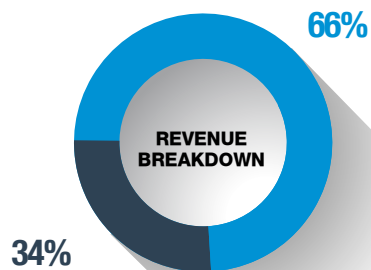
Axtel will continue to focus on supporting companies in their Digital Transformation. It will also analyze options to divest non-strategic assets in order to maximize value creation for its shareholders.



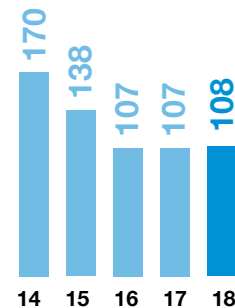
# NEWPEK

The rise in hydrocarbon prices in 2018, along with the sale of assets, brought better financial and operating performance for the company during the year. In the U.S., Newpek's activities focused primarily on the Eagle Ford Shale (EFS) formation in southern Texas, where there were 555 producing wells by the end of the year.

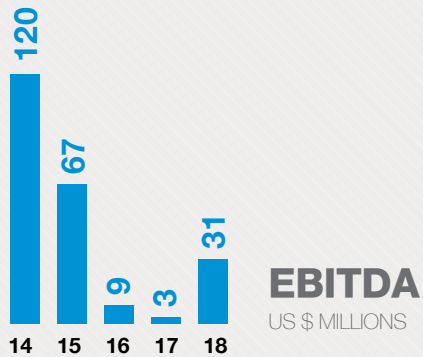
**OIL AND LIQUIDS**  
**DRY GAS**



**REVENUES**  
US \$ MILLIONS



**555**  
production wells in Texas.



Sales volume was 4,400 barrels of oil equivalent per day (BOEPD), a reduction of 10% from 2017, due to the normal decline of operating wells. Production of liquids and oil accounted for 66% of total volume, compared to 67% reported in 2017.

During the year, Newpek completed the sale of two territorial assets in Texas.

First, together with its partners Pioneer Natural Resources and Reliance industries, sold 1,900 acres within the Eagle Ford Shale (EFS) formation, in Atascosa, LaSalle, Live Oak and McMullen counties, for US \$19 million. After this sale, Newpek still owned around 11,000 acres in the EFS. The process to sell these assets continues.

Then, together with Pioneer Natural Resources, sold 725 acres in the Wilcox formation, in the Live Oak County, for US \$33 million.

In Mexico, the company continued operating mature oil fields at San Andrés and Tierra Blanca in the state of Veracruz, both under service contracts signed with Pemex in 2013. At the end of 2018, there were 131 wells in operation, with an average production of 3,400 BOEPD, a reduction of 3% compared to 2017.

**131**  
production wells in Veracruz.

In 2018, Newpek reported revenues of US \$108 million, unchanged with respect to 2017, while EBITDA was US \$31 million, an increase of 971%, mainly explained by the aforementioned asset sales.

The company continues to work with government authorities on developing prospecting plans and other related activities required to begin operations at two blocks in the Burgos Basin in northern Mexico, after it won public tenders in 2017. The project involves the extraction of natural gas and condensates.

Newpek has extensive experience in the exploration and production of hydrocarbons in shale formations as well as in conventional mature fields. It also has geological and geophysical analysis capabilities to capitalize on growth opportunities in the future.





# SUSTAINABILITY

In 2018, ALFA continued to deploy a broad program of actions in every aspect of its Sustainability strategy. The goal is to strengthen the relation between its operating and financial performance, and its activities in support of employees, communities, environment and the value chain.



**10 years**

without incapacitating accidents in Styropek Mexico. In all, 21 plants ended the year with no such accidents.

**14 million**

visitors (1,100 a day) visited the ALFA Planetarium between 1978 and 2018.

**146**

ALFA facilities run on clean and renewable energy sources such as wind and geothermal.



# SUSTAINABILITY

ALFA's Sustainability Model is based on four pillars:



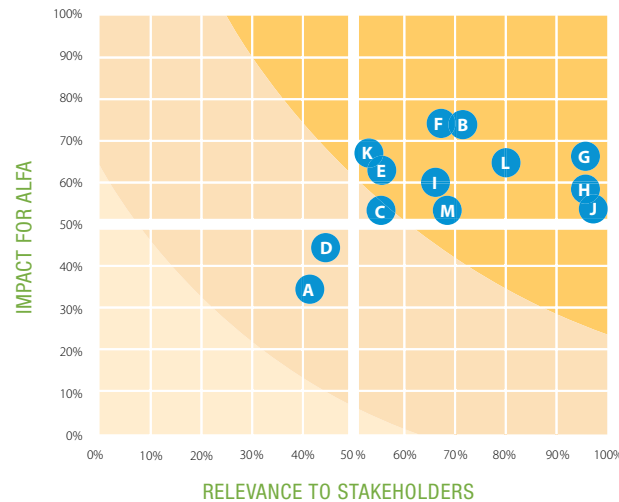
ALFA has maintained a long tradition of sustainability since its foundation. The companies that originally formed the group were among the first in Mexico to provide quality of life to its employees and their families, with health and safety services and training, in addition to taking steps to protect the environment.

## MATERIALITY MATRIX

(GRI Standards 102-11, 102-46, 102-47, 103-a, 103-b, 103-c, 103-2, 103-3)

In line with Global Reporting Initiative (GRI) Standards, ALFA has established its Sustainability Strategy based on the outcomes of a regular materiality analysis. This process encompasses risks, industry trends and expectations for ALFA, its companies and its stakeholders.

## RELEVANCE MATRIX



As a result of this process, the company identified 13 highly relevant aspects relating to its business and sustainability strategies:

- A.** Responsible marketing
- B.** Energy efficiency
- C.** Climate change and emissions strategy
- D.** Water management
- E.** Environmental management
- F.** Labor practices
- G.** Relations with NGOs and regulatory agencies
- H.** Relations with clients and suppliers
- I.** Health and Safety
- J.** Wealth distribution
- K.** Operational and risks strategy
- L.** Investor relations
- M.** Community Engagement



In 2018 ALFA was confirmed as a member of the FTSEGood Index, in recognition of its environmental, social and corporate governance practices.



# SUSTAINABILITY

## STAKEHOLDER ENGAGEMENT

(GRI Standards 102-3, 102-43, 102-44)

In addition to this Materiality analysis, ALFA promotes transparency, dialogue and process improvement, always taking into consideration the concerns and needs of the groups with which it interacts through various communication channels.

Given ALFA's geographic, industry and market diversity, the information collected from its stakeholders may vary depending on each country's regulations and trends.



The information gathered from stakeholders allows ALFA to identify their needs, concerns and suggestions, to establish strategies and programs that address them, and to detect improvement opportunities in its business activities.



## MISSION, VISION AND VALUES

(GRI Standards: 102-16, 102-40, 102-42)

### Mission

To become a source of pride for our workers and shareholders; exceed stakeholder expectations through leadership, innovation and long-term exceptional performance.

### Vision

ALFA's commitment to its stakeholders:

**Shareholders.** To achieve outstanding long-term value creation through profitable growth, continuous portfolio improvement, and selective investment in new opportunities.

**Employees.** To be a great place to work. To attract and develop the best talent, motivating them to achieve their full potential.

**Clients.** To exceed expectations through superior experiences and innovative offerings.

**Suppliers.** To build long-lasting, mutually beneficial relationships.

**Community.** To encourage safe and sustainable operations. To contribute to the development of our communities.

## Values

### Integrity

Our actions are governed by a commitment to ethical conduct and social responsibility.

### Respect and Empathy

We consider diversity as a strength. We seek to incorporate individuals with different backgrounds and experiences. We aspire to provide a work environment that promotes trust and cooperation.

### Results Oriented

We are committed to value creation and to the continuous improvement of our businesses. All our employees embody a personal commitment to improving the performance of the company.

### Innovation and Entrepreneurial Approach

We encourage and reward innovation and development of new business opportunities.

### Customer Centricity

We are dedicated to exceeding our clients' needs.





## ETHICS AND ANTICORRUPTION

(GRI Standard: 102-17)

ALFA's policies and procedures are spearheaded by senior management, which is actively involved in establishing, developing and approving programs and initiatives aimed at strengthening the culture of ethics and integrity within the company.

ALFA has a Code of Ethics and an Anticorruption Policy that contain guidelines on the conduct expected from its companies and employees. These are available online following the next links:

<https://www.alfa.com.mx/download/CODEOFETHICS.pdf>  
<https://www.alfa.com.mx/download/AnticorruptionPolicy.pdf>

ALFA also makes a Transparency Mailbox available: <https://www.alfa.com.mx/CONT/transparency.htm> an anonymous, internal and external grievance mechanism for receiving and following up on complaints regarding the misappropriation of resources, violation of the Code of Ethics and conduct harmful to the integrity of employees and the company. This hotline is open 24 hours a day, 365 days a year, via email or telephone, and is available in all the languages of the 28 countries where ALFA operates.

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Since its foundation in 1974, ALFA is committed to being a responsible company in each field of action: economic, social and environmental.

In 2018, 1,260 complaints related to non-compliance with ALFA's policies and values were filed. 86% of cases were addressed and investigated, and the rest remain under investigation. As a result, 246 persons were dismissed or resigned from the organization and the relationship with 15 business partners were terminated for reasons attributable to non-compliance with ALFA's policies and values. None of these cases involved interaction with government authorities. Neither were there any cases in which complaints were lodged against ALFA for matters related to corruption.

Both nationally and internationally, ALFA works with other organizations, public and private sector, in the global effort to build a sustainable society in the long term.



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**27%**

of ALFA's employees are women.



Along with other 50 companies, organizations, universities and civil society, Axtel participated in the "Soy Honesto Hoy" (I am honest today) campaign, promoted by the Civic Council of Nuevo Leon, whose aim is to generate a positive impact in building awareness and denormalizing corruption.

## ANALYSIS AND DIALOGUE WITH CHAMBERS AND ASSOCIATIONS

*(GRI Standard 102-13)*

ALFA is also actively involved in organizations that share its business and sustainability vision. An effective engagement in business, environmental and civil society chambers and associations strengthen the company's efforts on these issues.

In 2018, ALFA took part in 183 organizations around the world, in which it shared its vision and developed projects along with other companies and institutions for the benefit of the communities where it operates.

In 63% of these organizations, ALFA participated as a board member, sat on special project committees and/or served as division leader in specific initiatives.

## ADHERENCE TO INTERNATIONAL INITIATIVES

*(GRI Standard 102-12)*

Also, by endorsing or participating in external initiatives, NGOs and government organizations that foster the adoption of principles and values, ALFA promotes sustainable growth, as well as a culture of respect and care for the environment.

Since 2006, ALFA is committed to comply with the 10 Principles of the UN Global Compact, which promote economic and social development through respect for human rights and universal values.

Sigma launched several internal initiatives to promote the adoption of the objectives of sustainable development (ODS) of the United Nations. More than 1,200 employees participated in this program. In addition, since 2017, Nemark and Alpek started to identify actions contributing to the achievement of these goals, through a mapping of the GRI standards and the compliance of each ODS.





# EMPLOYEES

Employees are the basis for ALFA's development. The company has therefore introduced policies and programs that seek to create a balance between work, personal and family life, as well as professional growth. This includes providing a healthy, safe and inclusive work space, training programs and development opportunities, and promoting a culture of loyalty toward and by the company.

INVESTMENT (US \$ MILLION)	2018	2017
Health and safety	49.3	36.9
Training and development	11	14.4
Wellness and recreation	6.5	4.1
<b>Total</b>	<b>66.8</b>	55.4

## WORKFORCE AND DIVERSITY

((GRI Standards 102-8, 405-1))

With a staff of more than 86,000 employees from more than 60 nations, ALFA is nourished by a vast diversity of cultures that enrich its daily performance.

The company has established initiatives that strengthen equal opportunity, talent retention and non-discrimination policies such as the Equal Employment Opportunity in the US, Together ALFA, ALFA live and *Mujeres en Nemark* (Women in Nemark).

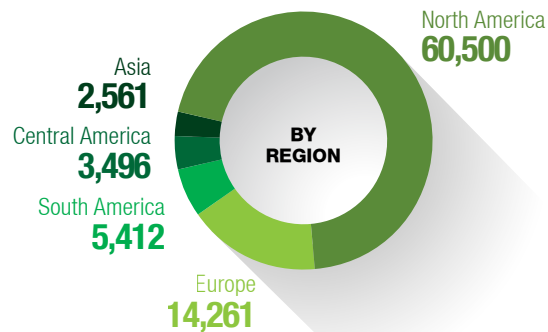
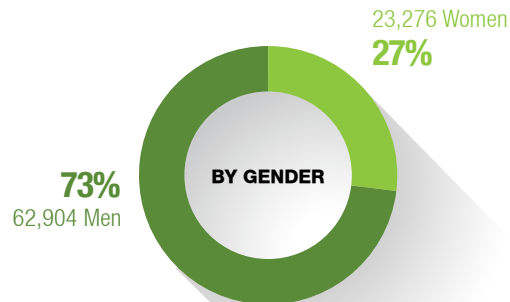
During the year, there were 562 people with disabilities working in the company. In addition, through its *Movimiento Congruencia* initiative, ALFA is part of the Global Business and Disability Network, a chapter of the International Labor Organization (ILO).

ALFA also ensures that salary differences in its workforce are based on job characteristics, not gender. The relationship between men's basic salary and women's salary is 1:1, with no difference whatsoever for jobs of equal qualifications and duties. Starting salaries vary according to the geographical zone and type of industry, but are always above the current minimum wage.

US \$67 million invested in funding health, safety and employee development programs.



In 2018, the company launched its Model for Workplace Inclusion of People with Disabilities, in order to promote greater employability.



## EMPLOYEES

# 90%

of ALFA's plants operate under the OSHAS system, an international management system that promotes occupational health and safety.



### HEALTH AND SAFETY

(GRI Standards 403-1, 403-2)

In 2018, ALFA implemented 330 health programs and initiatives, such as campaigns against cancer, obesity, diabetes and high blood pressure, as well as events aimed at boosting physical activity, in which more than 53,000 employees participated.

During the year, the number and severity of accidents was significantly reduced from the previous year, and in 2018 more than 380 safety actions and programs were carried out.

All of ALFA's plants has Safety, Health and Hygiene Committees, actively involving between 2% to 10% of the workforce and representing 100% of it. These committees work to reduce the frequency of accidents and occupational illness. When starting work for the company, each employee receives the safety equipment, training and programs needed to perform their duties in the safest manner.

INDICATOR	2018	2017
Accident rate	<b>198.61</b>	236.26
Frequency rate	<b>8.27</b>	9.68
No. of disabling accidents	<b>1,014</b>	1,277
No. of non-disabling accidents	<b>1,458</b>	632
Lost days rate	<b>24,344</b>	31,154
Fatalities	<b>1</b>	3

### TRAINING AND DEVELOPMENT

(GRI Standards 404-1, 404-2, 404-3)

ALFA devotes considerable resources to recruiting and retaining the best talent, given the competitive advantage that a qualified and talented base of human capital represents for the company's performance.

In 2018, it promoted cutting-edge training initiatives, such as the Styropek Chile Operational Alignment Model, which trained employees on how to integrate their own goals into the company's objectives. At Nemak, the Leadership Development Program resulted in a significant improvement in employee performance and an increase in internal promotions.

In 2018, ALFA obtained the Gold Medal in the category *Best Unique or Innovative Learning and Development Program* of the Brandon Hall Awards, one of the most renowned contests in the executive development industry, due to the innovative features of its Multi-University Experience executive program. ALFA is the first Mexican company to receive this award.

In addition to internal programs, 1,156 scholarships were granted to employees to improve their technical skills or to continue their professional studies, 19% more than in 2017.



# EMPLOYEES

## WORK-LIFE BALANCE AND RECREATION

ALFA also encourages a balance between work, recreation and family life, considering it to be a key element in employee development.

In 2018, ALFA invested US \$6.5 million in activities and programs in which more than 180,000 employees and their families participated. For example, Family Day celebrations, sports tournaments and programs such as ANSPAC (the Mexican National Association of Personal Growth), an initiative that promotes personal development through self-improvement courses for employees and their families.

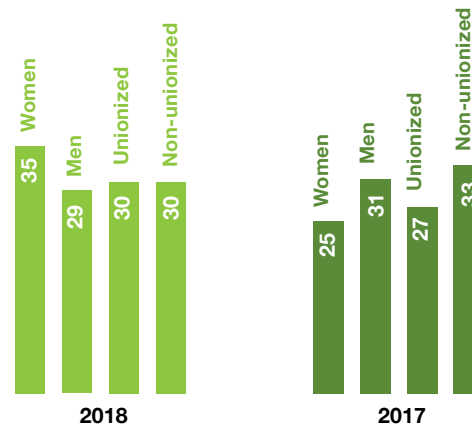
In addition, under the Employee Assistance Program, companies such as Sigma, Terza, Styropek, Alpek Polyester and ALFA in Mexico provide employees with legal, emotional and psychological counseling services free of charge.

ALFA also offers schemes that facilitate the employee's work management, such as flex time, work from home and maternity and paternity leave.

Education of employees' children is also a subject of considerable interest to ALFA. In 2018, it granted 4,063 scholarships, stipends and other forms of support, such as school supplies.



## TRAINING HOURS PER EMPLOYEE:



The ALFA Live program continued to operate as a meeting point between talent and experience, promoting inclusiveness and participation, and distributing important information to employees.

**5,000**

employees participated in Sigma's Human Training Program at 37 locations in Mexico, USA and Latin America, promoting personal growth and skills training.

## 19,500

students from 122 schools were benefited from ALFA's support.



## 138

students, from the 144 that formed the first generation of ALFA Foundation high school, began their college education.

For ALFA, supporting communities is a permanent commitment. Its engagement includes support for education and culture, charities, assistance in natural disasters, volunteer work, donations and involvement with civil society, authorities and institutions in actions that promote community welfare.

### ALFA FOUNDATION

Aware of the problem of school dropout rates in Mexico, and after analyzing various ways to support the education of talented young people and thus promote greater social mobility, in 2013 ALFA Foundation created the Educational Project, which offers extracurricular support to high school students in Monterrey, Mexico.

ALFA Foundation operates three Extracurricular Centers and one high school that offers an accredited diploma. In 2018, the first generation of ALFA's high school graduated with positive results: out of 144 graduates, 138 went on to college, including 78 that were offered scholarships by universities in Mexico and the USA.

	2018	2017
Students	<b>1,291</b>	1,240
Extracurricular Centers	<b>3</b>	3
High schools	<b>1</b>	1
Teachers	<b>78</b>	76
Graduates	<b>144</b>	0

To broaden the benefits of this program, in 2017 the School for Parents, an initiative created to help parents of students from the Extracurricular Centers strengthen their understanding of the challenges their sons and daughters face today. The instructors are volunteer ALFA employees, trained by Tecnológico de Monterrey and other ALFA employees. Since 2015, 203 parents have graduated. This model was replicated at Nemark offering the same course to unionized staff with teenage sons and daughters. In 2018, 50 parents participated.

### EDUCATION

ALFA also seeks to strengthen educational platforms in the communities where it operates. To this end, the company provides support, donating school supplies and equipment and supporting the renovation of school facilities, and by organizing events and talks on the environment and overall health.

In 2018, ALFA joined Inroads, a project that promotes social mobility and equal opportunity, diversity and inclusion of talented young people from disadvantaged backgrounds into corporate jobs.

## 239

Cooperation agreements with universities, benefiting 777 students.



# COMMUNITY

## ALFA PLANETARIUM

In 2018, this institution celebrated 40 years of promoting the appreciation for science, technology, art and nature. It was in 1978 that the Planetarium first opened its doors, offering the community a new cultural and recreational alternative, including the first IMAX projection system in Latin America. Four decades later, the Planetarium continues to host a wide range of events including exhibitions, conferences and workshops.

2018	
No. of events	40
Visitors	399,424
Schoolchildren	104,853 out of 1,118 schools
Visitors from charitable programs	10,001

Its most frequent visitors are schoolchildren, mainly from elementary schools and the Community Centers Network of Nuevo León.

## SOCIAL ASSISTANCE

ALFA also provides support to vulnerable communities and charitable institutions through donations of food, sponsorship of educational, environmental and health activities, among others. Through these programs, it is able to understand and better serve the needs of people in situations of vulnerability.

In addition, it continued to participate in the SumaRSE Network, an association that promotes a model of inter-industry cooperation to improve conditions for vulnerable communities, through programs that seek to involve citizens in the transformation of their own communities.

- 23 man-hours donated by 1,130 employees in volunteer activities.
- The Cáritas Food Bank of Monterrey, with the support of Sigma and other companies, opened a processing plant that keeps 700 tons of food, benefiting more than 7,000 families.
- 2,900 tons of Sigma products were donated to Mexican food banks.

# 32,313

people enjoyed a unique learning experience through *Diálogos en la Oscuridad* (Dialogues in the Dark), an event that exceeded all expectations.



# 17,000

people benefited through support to 168 institutions of social care.



# ENVIRONMENT

The Axtel Data Centers in Querétaro received the DCD Awards 2018 Latin America prize in the Innovation in Energy Efficiency Improvement category.



**95%**

of ALFA's facilities have ISO 14001 Certification in Environmental Management.

At ALFA, respect and care for the environment translates into actions aimed at reducing the environmental footprint of its operations. ALFA companies apply their experience and technology to initiatives that protect the environment. These include:

- Comply with environmental legislation in the countries where it operates.
- Promote continuous improvement in practices and procedures to make its operations more environmentally friendly.
- Invest in preventing, reducing or eliminating the negative impact of the company's activity on nature.
- Incorporate the environmental issue into the company's daily activities.
- Respond in a timely and responsible manner to contain incidents that may pose a risk to the environment.
- Contribute to a better environmental performance in the value chain.
- Promote an environmental culture among employees and the community.

**Main lines of action:**

- Use of clean and renewable energies
- Efficient water management
- Reduction of greenhouse gases
- Rational use of non-renewable resources
- Control and responsible handling of waste
- Recycling of materials
- Protection of biodiversity

**ENERGY EFFICIENCY**

(Standards 302-1, 302-2, 302-4, 302-5)

ALFA continued to boost energy consumption from less polluting sources such as natural gas, as well as clean and renewable energies like geothermal and wind energy.

All business groups took action to reduce and optimize energy consumption.

Among the initiatives pursued to reduce the energy requirements of products and services were a project introduced by Alpek that reduced energy consumption in its PET bottle-blowing process. Nemark Brazil developed an improvement in engine heads to consume less fuel while maintaining the same power and optimum performance.

INVESTMENTS IN ENVIRONMENTAL ISSUES (US MILLION)	2018	2017
Waste reduction and disposal	6.5	8.9
Reduction of emissions	14.7	13.5
Prevention and remediation costs	1.6	23.7
Environmental management	1.9	4.5
Other environmental action	3.3	7.9
<b>Total</b>	<b>28</b>	<b>58.5</b>



# ENVIRONMENT

## ENERGY CONSUMPTION

(GJ)	2018	2017
Direct energy consumption	<b>41.34 x 10<sup>6</sup></b>	40.32 x 10 <sup>6</sup>
Indirect energy consumption	<b>20.59 x 10<sup>6</sup></b>	19.40 x 10 <sup>6</sup>
<b>Total</b>	<b>61.93 x 10<sup>6</sup></b>	<b>59.72 x 10<sup>6</sup></b>

\*The method for measuring consumption was modified from 2017 to 2018: this year it was based on GRI and CDP methodology, in order to standardize data across all reporting platforms.

CONSUMPTION BY ENERGY TYPE (GJ)	2018	2017
Natural gas	<b>38.99 x 10<sup>6</sup></b>	37.92 x 10 <sup>6</sup>
LP gas	<b>0.29 x 10<sup>6</sup></b>	0.12 x 10 <sup>6</sup>
Gasoline	<b>0.003 x 10<sup>6</sup></b>	0.13 x 10 <sup>6</sup>
Diesel	<b>1.27 x 10<sup>6</sup></b>	1.16 X 10 <sup>6</sup>
Coal	<b>0.12 x 10<sup>6</sup></b>	0.20 x 10 <sup>6</sup>
Biofuel	<b>0.66 x 10<sup>6</sup></b>	0.31 x 10 <sup>6</sup>
Others	<b>0.007 x 10<sup>6</sup></b>	0.48 x 10 <sup>6</sup>
<b>Total</b>	<b>41.34 x 10<sup>6</sup></b>	<b>40.32 x 10<sup>6</sup></b>

Sigma once again received the "Excellent Environmental Performance" award for its application to the Clean Transport program established by the Government of Mexico.

## EMISSIONS REDUCTION

(GRI Standards 305-1, 305-2, 305-5)

The reduction of emissions at ALFA is a permanent task, implemented in all its operations.

During the year, ALFA invested US \$14.7 million in programs and equipment to control and reduce emissions, including maintenance and equipment upgrades, as well as process optimization and reengineering. For example, Indelpro installed a gas recovery system that reduced CO<sub>2</sub> emissions by 60%. In 2018, the company avoided the emission of 240,000 tons of CO<sub>2</sub>.

### EMISSIONS IN 2018

TON CO <sub>2</sub> EQ	2018	2017
Direct emissions	<b>2.35 x 10<sup>6</sup></b>	2.32 x 10 <sup>6</sup>
Indirect emissions	<b>2.01 x 10<sup>6</sup></b>	1.97 x 10 <sup>6</sup>
<b>Total</b>	<b>4.36 x 10<sup>6</sup></b>	4.29 x 10 <sup>6</sup>

- Axtel avoided the emission of almost 9,818 t of CO<sub>2</sub>e as a result of the consumption of wind and geothermal energy at 70 facilities.
- 78 Sigma sites operated with clean energy, avoiding the emission of 79,000 tons of CO<sub>2</sub> per year.



# 7 million

monthly minutes of service provided by Axtel, through video and audio conferencing, equivalent to the time and emissions of 107,000 flights between Monterrey and Mexico City in the same period.

## ENVIRONMENT

Between 2016 and 2018, Terza reduced water consumption in its carpet dyeing process from 112,000 m<sup>3</sup> to 40,000 m<sup>3</sup>.



Sigma achieved a reduction of +100,000 m<sup>3</sup> of water in its processes through efficiency projects.

### WATER MANAGEMENT

(GRI Standards 303-1, 303-3, 306-1)

The ALFA Water Commission was created in 2012 to promote and manage efforts aimed at optimizing the consumption of this important resource. As a result, in 2018, water consumption was reduced by 2 million m<sup>3</sup> in ordinary operations throughout ALFA.

SOURCE (M <sup>3</sup> )	2018	2017
Municipal water supply	<b>15,967,611</b>	17'514,470
Rivers, lakes and seas	<b>80,395,922</b>	90'371,348
Wells, wetlands and springs	<b>4,401,434</b>	4'393,516
Wastewater from another organization	<b>0</b>	635,550
Others	<b>10,150,750</b>	0
<b>Total</b>	<b>110,915,717</b>	<b>112'914,885</b>

Univex and Akra Polyester reused 83% and 53% of their water consumption.

ALFA continued its participation in the Monterrey Metropolitan Water Fund, which seeks to protect surface and underground sources of water for consumption in that city.

The company also supports the conservation of the San Juan River basin in northern Mexico in order to maximize the environmental benefits it provides through increased infiltration, decreased runoff, and resilience and adaptation to climate change.





# ENVIRONMENT

## RECYCLING AND WASTE MANAGEMENT

*(GRI Standard 301-2)*

In addition to promoting a culture of environmental care, recycling has other benefits, such as lower consumption of raw materials and resources such as energy and water.

ALFA's recycling and waste management efforts focus primarily on the recycling of aluminum and PET, in addition to permanent programs for the collection of wood, metals, plastics, paper and cardboard, among other materials that are sent for recycling.

In the case of PET, Alpek operates a recycling plant in Argentina and through a JV participates in another in North Carolina, USA. Together, these operations have the capacity to produce 89,000t of PET flakes. In addition, in early 2019 it announced an agreement to acquire a PET recycling facility in Indiana, USA, capable of processing 45,000t per year of recycled PET.

The companies also carry out ongoing work to reduce and properly confine solid waste.



Nemak Mexico is the main consumer of recycled aluminum in the country, with 80% of its aluminum usage coming from recycled sources.

## PROTECTING BIODIVERSITY

*(GRI Standards 304-1, 304-2, 304-3)*

The vast majority of ALFA operations are located in industrial areas where there is little or no impact on biodiversity. In facilities near areas of greater biodiversity, the companies carry out actions to conserve and care for the protected species.

The Columbia Alpek plant, located 15 miles from Congaree National Park, is certified Wildlife Habitat at Work for its pro-nature actions.

- Nemak Turkey participates in the Aegean Forest Foundation, planting 700 trees per year.
- Alpek Polyester partners donated and planted 1,000 trees around the plant in Altamira, Mexico.

Alpek Polyester reduced its generation of waste sent to landfills by 98% in the U.S.

Three Sigma plants in Europe made progress in their "Zero Waste" project, managing to recycle 100% of solid waste.



Alpek recycled 4 billion PET bottles, producing 47,016 tons of rPET.

## VALUE CHAIN

In 2018, **56%**  
of ALFA's procurement was  
from local suppliers.



ALFA also seeks to promote sustainable operations throughout its value chain. In line with its commitment to ethics and integrity in all its productive and commercial activities, the company ensures that its vendors comply with all pertinent laws and maintain the standards established for their respective industries. This allows ALFA to mitigate the risks of its own operations and to generate relationships of trust between client and vendor.

### ECONOMIC IMPACT

In 2018, ALFA invested US \$1,565 million in expanding its capacity, adding value to its products and services, and improving its technology. This represented a significant economic spillover in industries such as petrochemicals, automotive, energy, food, telecommunications, as well as the generation of direct and indirect jobs and the economic flow to supply chains and marketing.

#### *Investments:*

US \$1,565 million

The most important investments of the year were:

- Acquisition of two polyester plants in Brazil.
- Completion of a power cogeneration plant in Altamira, Mexico.
- Acquisition in a JV of M&G's Corpus Christi PTA-PET plant in construction.

**+86,000**

employees in 28 countries in  
America, Europe and Asia.

### RESPONSIBLE PROCUREMENT PRACTICES (SC2.1)

In 2016, ALFA's Sustainability Committee began a program to identify and record of social responsibility practices in its supply chain, especially with its most critical vendors. In 2018, the project advanced from the identification stage to efficiency and innovation.

In addition, ALFA began to collaborate with other leading companies in Mexico to promote common procurement standards and develop a cleaner, more responsible and ethical supply chain. The objective for 2019 is to generate a common document of good procurement practices that vendors can implement in their companies.

In addition to these initiatives, ALFA works on various actions towards a more sustainable supply chain. For example:

- 100% of Sigma's meat vendors in Mexico, Europe and the U.S. have been certified by internal standards.
- Alpek continued to audit its most critical vendors of raw materials in environmental, labor practices, human rights, social performance, safe facilities, and other key concerns.



## VALUE CHAIN

### SUPPORT FOR ECONOMIC GROWTH

(GRI Standard 203-2)

Axtel continued to promote entrepreneurs. Some 250 applications to its NAVE business acceleration program were received from Europe, Latin America, USA and Mexico in 2018, 100 more than in 2017. Seven entrepreneurial projects were selected from among these.

ALFA's Sustainability Committee continued its efforts to involve an increasing number of participants. Meetings of this committee provide a space for the exchange of ideas, opinions and recommendations that strengthen sustainability management.

The objective is to promote and share good sustainability practices, and to define and implement environmental and social policies and positions that meet the expectations of different stakeholders.

### RESPONSIBLE MARKETING

(GRI Standards 461-1, 417-1)

Responsibility for products and services goes beyond mere quality. All of ALFA's companies, and all of the marketing it conducts to promote and sell them, provide information on their products' life cycle. Product packaging and labeling are fully compliant with all laws in the countries where they are sold, including information on the origin

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dairy livestock produces in Mexico were supported through Sigma's Dairy Farming Support Program.

of the components, substances that may have an environmental impact, safety instructions and appropriate disposal of the product at the end of its useful life.

Sigma complies with the Code of Self-Regulation of Food and Non-Alcoholic Beverages (PABI Code) in Mexico and adheres to the National Agreement for Food Health: Strategy against overweight and obesity.

The Sigma Nutrition Institute published 29 informational brochures on community health and organized a Scientific Committee on Food Allergy and Intolerance, participating in congresses where its experts gave talks on nutrition and health.

### SERVICE AND DIALOGUE WITH CUSTOMERS

(GRI Standards 102-43, 102-44)

ALFA's companies have consumer service procedures and systems in place to ensure a timely response to their needs. This includes toll-free hotlines, email and the Transparency Mailbox. In the case of Sigma, due to the nature of its industry, it operates several Service Centers for customers and consumers, as well as mechanisms to offer specific solutions.

In 2018, through its Excellent Client program, Sigma recognized 57,446 customers in the traditional channel, with service visits by Supervisors and Executives, supported by new direct and personalized digital communication channels for customers.

Axtel has dedicated phone lines where service users can call to communicate any question, need or service failure. In 2018, Axtel was once again selected for inclusion in the MILA Pacific Alliance Dow Jones Sustainability Index, one of only 12 Mexican companies to achieve this distinction.



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Since 2010, Sigma has improved the nutritional profile of more than 400 products, offering a wider variety of healthy options for consumers.

## BOARD OF DIRECTORS

### **JOSÉ CALDERÓN ROJAS (2A)**

*Chairman of the Board and Chief Executive Officer of Franca Industrias, S.A. de C.V. and Franca Servicios, S.A. de C.V.*

Board member since April, 2005.

Member of the Boards of FEMSA, BBVA Bancomer (Regional Board), ITESM and UDEM. President of Asociación Amigos del Museo del Obispado.

Member of Fundación UANL and founder of Centro Integral Down.

### **ENRIQUE CASTILLO SÁNCHEZ MEJORADA (1A)**

*Managing Partner of Ventura Capital Privado, S.A. de C.V.*

Board member since March, 2010.

Chairman of the Board of Maxcom

Telecomunicaciones and of Banco Nacional de

México. Board member of Southern Copper

Corporation, Grupo Herdez and Médica Sur. Senior

Advisor of General Atlantic. Alternate Board member of Grupo Gigante.

### **FRANCISCO JAVIER FERNÁNDEZ CARBAJAL (1C)**

*President of Servicios Administrativos Contry, S.A. de C.V.*

Board member since March, 2010.

President of ALFA's Planning and Finance Committee.

Member of the Boards of VISA Inc., FEMSA and CEMEX.

### **ÁLVARO FERNÁNDEZ GARZA (3C)**

*President of ALFA, S.A.B. de C.V.*

Board member since April, 2005.

Chairman of the Board of Universidad de Monterrey.

Member of the Boards of Grupo Citibanamex, Cydsa,

Grupo Aeroportuario del Pacífico, Vitro and Museo de

Arte Contemporáneo de Monterrey.

### **ARMANDO GARZA SADA (3C)**

*Chairman of the Board of ALFA, S.A.B. de C.V.*

Board member since April, 1991.

Chairman of the Boards of Alpek and Nemak. Member of the Boards of Axtel, BBVA Bancomer, CEMEX, FEMSA, Grupo Lamosa, Liverpool, Proeza and ITESM.

### **CLAUDIO X. GONZÁLEZ LAPORTE (1B)**

*Chairman of the Board of Kimberly-Clark de México, S.A.B. de C.V.*

Board member since December, 1987.

Member of the Boards of Fondo México, Grupo México and Bolsa Mexicana de Valores. Advisor to Capital Group.

### **RICARDO GUAJARDO TOUCHÉ (1B)**

Board member since March, 2000.

Member of the Boards of Liverpool, Grupo Aeroportuario del Sureste, Grupo Bimbo, FEMSA, Coca-Cola FEMSA, Grupo Coppel, Vitro and ITESM.

### **DAVID MARTÍNEZ GUZMÁN (1C)**

*Chairman of the Board and Special Advisor of Fintech Advisory Inc.*

Board member since March, 2010.

Member of the Boards of CEMEX, Vitro, ICATEN and Banco Sabadell.

### **ALEJANDRO RAMÍREZ MAGAÑA (1C)**

*President of Cinépolis, S.A. de C.V.*

Board member since February 2018.

Member of the Boards of BBVA Bancomer, Harvard University, Mexican Institute for Competitiveness, Harvard School of Public Health and Center of Latin American Studies at Harvard. Chairman of the Boards of Mexican Business Council, the International Film Festival of Morelia, Cinépolis Foundation and Mexicanos Primero.

### **ADRIÁN SADA GONZÁLEZ (1B)**

*Chairman of the Board of Vitro, S.A.B. de C.V.*

Board member since April, 1994.

President of ALFA's Corporate Practices Committee. Member of the Board of Cydsa. Member of Consejo Mexicano de Negocios.

### **FEDERICO TOUSSAINT ELOSÚA (1A)**

*Chairman of the Board and Chief Executive Officer of Grupo Lamosa, S.A.B. de C.V.*

Board member since April, 2008.

President of ALFA's Audit Committee. Member of the Boards of Xignux, Grupo Iconn, Banco de México (Regional Board), UDEM and Centro Roberto Garza Sada of the UDEM. Member of Consejo Mexicano de Negocios.

### **GUILLERMO F. VOGEL HINOJOSA (1C)**

*Chairman of the Board of Grupo Collado, S.A.B. de C.V., and of Exportaciones IM Promoción, S.A. de C.V.*

Board member since April, 2008.

Member of the Boards of Tenaris, Rassini, Corporación Mexicana de Inversiones de Capital, Innovare, Novopharm and Universidad Panamericana-IPADE. Member of the Trilateral Commission and of the International Council of the Manhattan School of Music

### **CARLOS JIMÉNEZ BARRERA**

*Secretary of the Board*

Keys:

- (1) Independent Board Member
- (2) Independent Proprietary Board Member
- (3) Related Proprietary Board Member
- (A) Audit Committee
- (B) Corporate Practices Committee
- (C) Planning and Finance Committee



## MANAGEMENT TEAM



**ARMANDO GARZA SADA**

*Chairman of the Board*

Joined ALFA in 1978. Undergraduate degree from MIT. Master's degree from Stanford University.



**ÁLVARO FERNÁNDEZ GARZA**

*President*

Joined ALFA in 1991. Undergraduate degree from Notre Dame University. Master's degrees from ITESM and Georgetown University.



**JOSÉ DE JESÚS VALDEZ SIMANCAS**

*President of Alpek*

Joined ALFA in 1976. Undergraduate degree from ITESM. Master's degrees from ITESM and Stanford University.



**MARIO H. PÁEZ GONZÁLEZ**

*President of Sigma*

Joined ALFA in 1974. Undergraduate degree from ITESM. Master's degrees from ITESM and Tulane University.



**ARMANDO TAMEZ MARTÍNEZ**

*President of Nemak*

Joined ALFA in 1984. Undergraduate degree from ITESM. Master's degree from George Washington University.



**ROLANDO ZUBIRÁN SHETLER**

*President of Axtel*

Joined ALFA in 1999. Undergraduate degree from UNAM. Master's degree from USC. Ph.D. from UANL.



**ALEJANDRO M. ELIZONDO BARRAGÁN**

*Senior Vice President, Development*

Joined ALFA in 1976. Undergraduate degree from ITESM. Master's degree from Harvard University.



**CARLOS JIMÉNEZ BARRERA**

*Senior Vice President, Legal, Audit and Corporate Affairs*

Joined ALFA in 1976. Undergraduate degree from Universidad de Monterrey. Master's degree from New York University.



**EDUARDO ALBERTO ESCALANTE CASTILLO**

*Chief Financial Officer*

Joined ALFA in 1981. Undergraduate degree from ITESM. Master's degree from Stanford University.



**PAULINO J. RODRÍGUEZ MENDÍVIL**

*Senior Vice President, Human Capital and Services*

Joined ALFA in 2004. Undergraduate degree and Master's degree from the University of the Basque Country, Spain.

## CORPORATE GOVERNANCE

ALFA adheres to Mexico's current Code of Principles and Best Corporate Governance Practices (before Code of Best Corporate Practices) in place in Mexico since 2000.

This Code was developed at the initiative of the securities authorities of Mexico and its purpose is to establish corporate governance principles to increase investor confidence in Mexican companies.

Companies whose stocks trade on the Mexican Stock Exchange must disclose the extent to which they adhere to the Code of Best Corporate Practices. This is done annually by responding to a questionnaire, which is available to the public through the Mexican Stock Exchange's web site.

The following is a summary of ALFA's corporate governance as stated in the June, 2018 questionnaire, with any pertinent information updated:

- A.** The Board of Directors comprises eleven proprietary members who have no alternates. Of this number, eight are Independent and one is Independent Proprietary Board Member. This annual report provides information on all of the Board's members, identifying those who are independent and the Committees in which they participate.
- B.** Three Committees assist the Board of Directors in carrying out its duties: Audit, Corporate Practices, and Planning and Finance. Board members participate in at least one committee each. All three committees are headed by an independent board member. The Audit and Corporate Practices Committees are formed by independent members only.
- C.** The Board of Directors meets six times by year. Meetings of the Board can be called by the Chairman of the Board, the President of the Audit Committee, the President of the Corporate Practices Committee, the Secretary of the Board or by at least 25% of its members. At least one of these meetings is dedicated to defining the company's medium and long term strategy.
- D.** Members must inform the Chairman of any conflicts of interest that may arise, and abstain from participating in the corresponding deliberations. Average attendance at Board meetings was 89% during 2018.
- E.** The Audit Committee studies and issues recommendations to the Board on matters such as the selection and determination of fees to the independent auditor, coordinating with the internal audit area of the company, and studying accounting policies, among others.
- F.** The company has internal control systems with general guidelines. These are submitted to the Audit Committee for its opinion. In addition, the independent auditor validates the effectiveness of the internal control system and issues the corresponding reports.
- G.** The Planning and Finance Committee evaluates all matters relating to its particular area and issues recommendations to the Board on matters such as feasibility of investments, strategic positioning of the company, alignment of investment and financing policies, and review of investment projects.
- H.** The Corporate Practices Committee is responsible for issuing recommendations to the Board on such matters as employment conditions and severance payments for senior executives, and compensation policies, among others.
- I.** There is a department dedicated to maintaining an open line of communication between the company and its shareholders and investors. This ensures that investors have the financial and general information they require in order to evaluate the company's development and progress.



# CONSOLIDATED FINANCIAL STATEMENTS

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## MANAGEMENT'S DISCUSSIONS & ANALYSIS

### 2018

The following report should be considered jointly with the Letter to Stockholders (pages 5 – 9) and the Audited Consolidated Financial Statements (pages 60 – 161). Unless otherwise indicated, the figures are expressed in millions of Mexican pesos for the information from 2016 through 2018. The percentage variances are presented in nominal terms. Also, certain figures are expressed in millions of US dollars (US\$) and millions of euros (€).

The financial information contained in this Management Discussion & Analysis refers to the last three years (2016, 2017 and 2018), and is in accordance with International Financial Reporting Standards (IFRS). Furthermore, this information has been expanded in certain chapters, in order to include three years and bring it in line with the General Provisions applicable to Security Issuing Companies and Other Participants of the Securities Market, as issued by the National Banking and Securities Commission (CNBV for its Spanish initials) up to December 31, 2018.

San Pedro Garza García, N. L., January 31, 2019.

### ECONOMIC ENVIRONMENT

The global economic environment continued to perform well in 2018; nevertheless, risks for financial markets remain due to economic policy decisions made in developed nations, the geopolitical environment, commercial tensions and downward projections in the Euro Zone. In the US, there was an initial economic boost from the tax incentives offered by the current administration; however, something of a slowdown was noted by the end of the year. Energy exporting emerging economies were helped by higher petroleum prices in the first half of 2018. The Mexican peso appreciated slightly against the dollar compared to last year, despite the adverse winds facing the Mexican economy.

Changes in the GDP and other variables in Mexico and globally, which are key to better understand the results of ALFA, are described in the following paragraphs:

Mexico's Gross Domestic Product (GDP) stayed on course at 2.1%<sup>(a)</sup> in 2017 in line with 2.0%<sup>(a)</sup> in 2018. Consumer inflation was 4.8%<sup>(b)</sup> in 2018, lower than the 6.7%<sup>(b)</sup> registered in 2017. For the second consecutive year the Mexican peso had an annual nominal appreciation in 2018 of 0.3%<sup>(c)</sup>, compared to 4.5%<sup>(c)</sup> in 2017. In real terms, annual average overvaluation of the peso against the dollar slid from 3.1%<sup>(d)</sup> in 2017 to 1.0%<sup>(d)</sup> in 2018.

With regard to interest rates, the average TIIE (Interbank Interest Rate) in Mexico for 2018 was 8.0%<sup>(b)</sup> in nominal terms, compared to 7.1% in 2017. In real terms, there was an increase, from an annual accumulated rate of 1.2% in 2017 to 3.2% in 2018. Such uptick remains in line with the decisions of Banxico.

The nominal three month LIBOR rate in US dollars, at an annual average rate, was 2.3%<sup>(b)</sup> in 2018, above the 1.3%<sup>(b)</sup> registered in 2017. If the nominal appreciation of the Mexican peso against the US dollar is included, the LIBOR rate in constant pesos increased from 1.3%<sup>(b)</sup> in 2017 to 1.6%<sup>(b)</sup> in 2018.

#### Sources:

<sup>(a)</sup> Instituto Nacional de Estadística, Geografía e Informática (INEGI) (Equivalent of Census Bureau).

<sup>(b)</sup> Banco de México (Banxico).

<sup>(c)</sup> Banxico. Exchange rate to settle obligations denominated in foreign currency payable in Mexico.

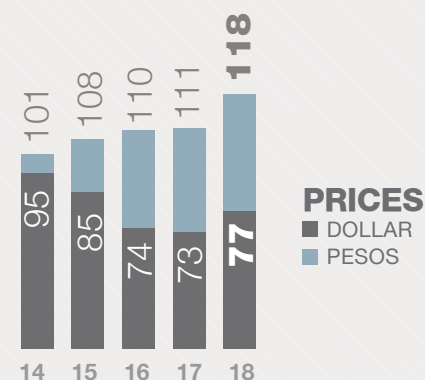
<sup>(d)</sup> Proprietary calculations with data INEGI, reciprocally with the US, considering consumer prices.



## MANAGEMENT'S DISCUSSIONS & ANALYSIS

### INDEXES OF REVENUES

(2013=100)



### ALFA - SOLID PERFORMANCE DESPITE CURRENT MACROECONOMIC CHALLENGES

During 2018, ALFA generated favorable performances with its different businesses worldwide even though the Company is exposed to the uncertainty generated by the presidential elections in Mexico, the effect on markets due to the tariff policies implemented by the US, as well as slower growth in Europe.

The general economic environment was subject to volatility in the peso-dollar exchange rate. International oil prices increased in the first half of 2018, which helped several businesses held by ALFA. The Company developed a positive strategy accordingly, and continued to show that it is a financially solid entity, able to take advantage of growth opportunities that will maintain its leadership position in all the industries where it operates.

### RESULTS

#### REVENUES

The following chart provides information on the revenues earned by ALFA for the years 2018, 2017 and 2016, breaking down its volume and price components (the indexes are calculated using the base 2013=100):

DESCRIPTION	2018	2017	2016	VAR. 2018-2017 (%)	VAR. 2017-2016 (%)
Consolidated Revenues	366,432	317,627	293,782	15	8
Volume Index	167.9	155.5	144.3	8	8
Price Index Pesos	118.2	110.7	110.2	7	0
Price Index Dollars	77.1	73.4	74.2	5	(1)

We also detail the consolidated revenues for each of the main subsidiaries of ALFA:

DESCRIPTION	2018	2017	2016	VAR. 2018-2017	VAR. 2017-2016
Alpek	134,523	98,998	90,192	35,525	8,806
Sigma	121,900	114,222	106,341	7,678	7,881
Nemak	90,327	84,779	79,244	5,548	5,535
Axtel	15,561	15,513	13,744	48	1,769
Newpek	2,060	2,036	1,991	24	45
Other	2,061	2,079	2,270	(18)	(191)
<b>Consolidated Total</b>	<b>366,432</b>	<b>317,627</b>	<b>293,782</b>	<b>48,805</b>	<b>23,845</b>

Note: In this document the figures of Axtel 2016 include results 12 months Alestra and 10.5 months Axtel.

## MANAGEMENT'S DISCUSSIONS & ANALYSIS

### REVENUE TRENDS ARE EXPLAINED BELOW:

#### 2018-2017:

For the year 2018, consolidated revenues were \$366,432 million (US\$19,055 million), 15% up on the figure for 2017 (13% higher in dollars). Below we detail the behavior of the businesses of ALFA over the year:

Alpek, in line with its strategy, had outstanding results in 2018. Revenues totaled US\$6,991 million, a 34% increase compared to 2017, driven by higher oil prices and the contribution as of May 2018 of the plants of Petroquímica Suape and Citepe in Brazil.

In 2018, Sigma revenues totaled US\$6,336 million, 5% higher than 2017, mainly due to the synergies obtained with Caroli (Rumania) and Supemsa (Peru). Sales volume in 2018 was 1,756 thousands of tons of food products, which is 2.1% higher than the previous year. In 2018, seeking to capitalize on consumer trends, Sigma used innovation to expand its product offerings. In Mexico it launched the “Doble Cero” yogurt made by Yoplait, a snack line of Campofrío in Europe, and introduced lactose-free cheeses in Central America and the Premium chorizo made by FUD in the US, among others. Also, the plant at Burgos, Spain went fully into operation, offering its products mainly to the European market.

During 2018, Nematik, in line with the automotive industry expanded its portfolio of products, based on global industry trends for weight reduction and electrification of vehicles. In North America, the company benefited from favorable economic conditions where demand increased, whereas in Europe there were lower sales of diesel components, apart from production delays related to the implementation of the new emission control regulations. Sales volume was 50 million equivalent units in 2018, in line with that recorded in 2017. Sales for the year were US\$4,704, a 5% increase over the previous year.

Axtel continued to strengthen its leadership role in the IT and telecommunications market, focusing on the business and government sectors. In 2018 it earned revenues of US\$809, a 2% reduction compared to 2017. This result mainly reflects the growth recorded in the business and government segments, supported by its six data centers. Also, new services were added, such as virtual switchboards, wireless access solutions and Big Data.

Against a backdrop of price increases for oil and hydrocarbons, in 2018 Newpek produced a performance similar to that of 2017. In the US, productive activity focused on Eagle Ford Shale, while in Mexico the operation of mature oil wells continued in San Andres and Tierra Blanca, located in Veracruz, reaching a total of 137 wells, with average production of 3.4 thousand barrels of oil equivalent per day (BOEPD). Sales volume was 4.4 thousand barrels of oil equivalent per day (BOEPD), a reduction of 10%. In 2018, the revenues of Newpek were US\$108 million, similar to last years revenue.



## MANAGEMENT'S DISCUSSIONS & ANALYSIS

### 2017-2016:

In 2017, consolidated revenues totaled \$317,627 million (US\$16,804 million), 8% above the figure for 2016 (7% higher in dollars). Below we detail the performance of the businesses of ALFA in the year quite:

Alpek reported sales volume in line with estimates. Revenues totaled US\$5,231 million, an 8% increase against 2016, due to the increase in prices of raw materials, mainly paraxylene and propylene. During 2017, the petrochemicals industry continued to face high volatility in prices of crude oil and its derivatives, resulting in temporary distortions in demand. In the case of polyester, there was a recovery in the second half due to a better balance between supply and demand in Asia and more favorable conditions in North America, based on expected favorable rulings in the antidumping cases. Also, plastics and chemicals outperformed due to higher margins in the polypropylene business.

Sigma revenues totaled US\$6,054 million, 6% higher than the previous year, mainly due to better performance in Mexico and Europe. Sales volume reached 1,727 thousand tons of food products, 3% above that recorded in the prior year. In 2017, Sigma continued using innovation as a growth factor, establishing a procedure to accelerate the development of new products and drive platforms which enabled the company to get even more in line with customer thinking. Also, it added two processed meats companies, in Peru (Supemsa) and Romania (Carol), and made progress in the startup of the plant at Burgos, Spain, improving its efficiency, as it has last generation processes and installations which make it an industry benchmark.

In 2017 the automotive industry enjoyed contrasting fortunes, with a downturn in North America offset by growth in Europe and other regions. Nematik continued its coordination with the assembly plants in the trend towards structural components, which brings the benefit of auto lightweighting. Furthermore, the development of electric power in vehicles opens new doors for Nematik, where it can seek growth in the supply of structural components and also for electric cars, such as hybrid transmissions, battery housings and electric engines. Sales volume was 49.9 million equivalent units in 2017, 0.4% lower than the previous year. Revenues for the year came in at \$84,779, a 7% increase compared to 2016. In dollar terms, revenues showed a 5% increase, due to the higher price for aluminum, the primary raw material, which directly affected the selling price.

Axtel had revenues of US\$822 in 2017, a 12% increase in dollar terms compared to 2016. This improvement is mainly due to the business and government sectors, and includes greater cloud market share, based on the financial and IT security sectors. To do this Axtel banked on infrastructure growth, such as the opening of the first room of the second Data Center in Querétaro, which covers 600mts<sup>2</sup> dedicated to hosting. It also consolidated agreements with the largest public cloud services in Mexico, seeking to become the first MultiCloud Service Provider in the country, offering integral solutions based on the cloud hosted in its Data Center. It also continued expansion of its service portfolio with Cisco as technology partner.

Finally, in Newpek, even though there was a slight recovery in prices of hydrocarbons, the drop in oil and gas prices since mid-2014 affected operating and financial performance in 2017. As a result, the company continued focusing its activities on reducing operational costs in its assets, without jeopardizing their operation and focusing investment on exploration, drilling and well termination. In the US drilling resumed in Eagle Ford Shale, with 20 new wells, raising the total number of production wells to 648. In Mexico it continued operating the mature oil wells in San Andres and Tierra Blanca, located in Veracruz, and reached a total of 137 wells with an average production of 3.6 thousand barrels of petroleum equivalent per day (MBPED). Sales volume was 4.8 thousand barrels of petroleum equivalent per day (MBPED), a drop of 34%. In 2017 Newpek revenues totaled US\$107 million, similar to the prior year.

## MANAGEMENT'S DISCUSSIONS & ANALYSIS

### OPERATING INCOME

The operating income of ALFA in 2018, 2017 and 2016 is illustrated below:

2018-2017:

OPERATING INCOME	VARIATION BY GROUP								
	2018	2017	VAR.	ALPEK	SIGMA	NEMAK	AXTEL	NEWPEK	OTHER
Revenues	366,432	317,627	48,805	35,525	7,678	5,548	48	24	(18)
Operating income	35,705	11,195	24,510	24,056	(1,153)	808	2,291	(1,215)	(277)
Consolidated operating margin (%)	9.7	3.5							
Alpek (%)	15.8	(2.9)							
Sigma (%)	6.1	7.5							
Nemak (%)	8.7	8.3							
Axtel (%)	23.8	9.1							
Newpek (%)	(92.9)	(34.3)							

In 2018, consolidated operating income enjoyed an increase of 219% (expressed in Mexican pesos) and 231% (expressed in US dollars) compared to 2017. The explanations for the performance of each ALFA business are shown below:

Alpek had an outstanding year, with operating income growth of 676% compared to 2017, in dollar terms. Greater margins in polyester and polypropylene, plus the incorporation of Petroquimica Suape y Citepe as of May 2018, provided a strong boost for results, apart from the increase in oil and hydrocarbons prices over much of the year. Operating income includes extraordinary items due to a gain in business combination of US\$220 million, recognized for the purchase of Petroquimica Suape and Citepe in Brazil and a reversal in the impairment of intangible assets in the Corpus Christi operation (M&G) for US\$195 million. Excluding the effect of extraordinary items, the operating income of Alpek increased by 101% compared to 2017, mainly due to the improvement in polyester margins described above.

With regards to Sigma, despite increased sales, operating incomes dropped 15% compared to 2017, in dollar terms, mainly due to extraordinary events recorded in Campofrio for impairment of assets. Excluding these effects, the operating income of Sigma in 2018 is 2% higher than 2017 in dollar terms. This result was based on a solid performance in the Mexican and Latin American operations, whereas greater costs for raw materials and distribution affected US margins.

Nemak generated a 10% increase in operating income for the year, measured in dollars. This was due to different factors, including a higher price for aluminium, operating efficiencies and a better product mix, higher North American demand and underperformance in Europe and Asia. Nemak continued to take advantage of its leadership in technology, as well as international diversification to move towards solutions for lightweighting and opportunities in structural components and electric vehicles.



## MANAGEMENT'S DISCUSSIONS & ANALYSIS

Operating income at Axtel increased by 146% in dollar terms compared to 2017, due to the partial sale of its mass segment fiber business, the sale of the last batch of its telecommunications towers, and the boost from the business and government segment, where it enjoyed solid growth by expanding and improving the services portfolio. Excluding the effect of extraordinary items, operating income increased by 17% compared to 2017.

In 2018, Newpek dealt with higher international oil prices, which then fell at the end of the year. Newpek also completed the sale of the two territorial assets located in Texas, together with its partners Pioneer Natural Resources and Reliance Industries. These two factors, plus the impairment of its assets in BPZ, the Peruvian operation, generated an operating loss for Newpek in 2018.

2017-2016:

OPERATING INCOME	VARIATION BY GROUP								
	2018	2017	VAR.	ALPEK	SIGMA	NEMAK	AXTEL	NEWPEK	OTHER
Revenues	317,627	293,782	23,845	8,806	7,881	5,535	1,769	45	(191)
Operating income	11,195	24,214	(13,019)	(12,717)	72	(1,669)	921	1,246	(872)
Consolidated operating margin (%)	3.5	8.2							
Alpek (%)	(2.9)	10.9							
Sigma (%)	7.5	8.0							
Nemak (%)	8.3	11.0							
Axtel (%)	9.1	3.5							
Newpek (%)	(34.3)	(97.7)							

The 54% drop in consolidated operating income from 2017 over 2016 is due to the individual performance of the ALFA companies, as discussed below:

In Alpek, while greater margins in polyester enhanced performance, especially in the second half, operating income was adversely affected by the shutdown of Mossi & Ghisolfi (M&G), its main customer, which resulted in the recording of nonrecurring provisions and impairments of receivables and other intangible and financial assets, as well as the temporary suspension of the PTA supply to two plants of that company. With regard to plastics and chemicals, the drop in operating income in the plastics and chemicals segment was lower than expected due to higher margins in polypropylene, expandable polystyrene and caprolactam.

In Sigma, operating income increased 1% compared to the prior year, mainly because in 2017 there was a better performance from Europe and Mexico. Another factor helping growth was the incorporation of two companies engaged in the production of processed meats: Caroli in Rumania and Supemsa in Peru, which enabled it to enter the Eastern European market and assume a market leadership role in the South American country.

Over the year Nemak suffered a 19% drop in operating income compared to the previous year, measured in pesos. This was mainly due to the underperforming North American market, which was only partially offset by the better performance of the automotive market in Europe and China, and the time lag needed to pass on aluminum price increases to customers and incremental increases due to the launch of new programs. In dollar terms the drop is 21%.

## MANAGEMENT'S DISCUSSIONS & ANALYSIS

In 2017, Axtel had a successful year. In operating terms, the merger of Alestra and Axtel cut expenses and helped to streamline both functions and infrastructure. Improved performance in the business and government segments and the sale of its telecommunications towers also enhanced results. All of these factors helped boost operating income by 190% in Mexican pesos, and 174% in US dollars terms.

In Newpek, operating income continued to suffer from a combination of international oil prices and lower production of hydrocarbons due to the natural decline in operating wells. It was also affected by an impairment in its unproven reserves.

### REVENUES AND OPERATING INCOME COMPOSITION

The percentage structure of revenues between 2018 and 2017 shows an upturn mainly in the business of Alpek, and a downturn in Sigma, Nematik and Axtel, with no major changes between 2017 and 2016. There were significant changes for ALFA between 2018 and 2017, largely due to an increase in the operating income of Alpek, which reduced the percentage of the other businesses. Such variances were explained above.

The following chart shows these effects:

	% COMPOSITION					
	REVENUES			OPERATING INCOME		
	2018	2017	2016	2018	2017	2016
Alpek	36	31	31	59	(25)	41
Sigma	33	35	36	21	76	35
Nematik	25	27	26	22	62	35
Axtel	4	5	5	10	13	2
Newpek	1	1	1	(5)	(6)	(8)
Other	1	1	1	(7)	(20)	(5)
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>



## MANAGEMENT'S DISCUSSIONS & ANALYSIS

### FINANCIAL RESULT

The Financial Result for 2018 was influenced by different factors, such as a slight appreciation of 0.1% in the Mexican peso against the US dollar, financial expenses for ALFA's debt positions, plus the exchange effects of the rest of the currencies in which the businesses operate.

DETERMINANTS OF THE FINANCIAL RESULT	2018	2017
Overall inflation (December-December)	4.8	6.8
% Variation in the nominal closing exchange rate	0.3	4.6
Nominal closing exchange rate	19.68	19.74
Real peso /dollar appreciation (depreciation) compared to the previous year:		
Close	2.8	8.8
Year average	1.5	2.5
Average interest rate:		
Nominal LIBOR rate	2.3	1.3
Nominal implicit rate, ALFA debt	6.7	6.5
LIBOR rate in real terms	1.6	1.3
Real implicit rate, ALFA debt	1.7	(4.6)
Average monthly debt of ALFA in US\$	8,132	7,610

Expressed in US\$, net financial expenses from the 2018 through 2016 were \$493, \$438 and \$352, respectively.

VARIATION IN NET FINANCIAL EXPENSES IN US\$	18/17	17/16
Due to (higher) lower interest rate	(20)	(54)
Due to (higher) lower debt net of cash	(35)	(32)
Net variation	(55)	(86)

Net financial expenses in results include bank financing expenses, premiums paid in refinancing operations and operating interest, in 2018, 2017 and 2016.

## MANAGEMENT'S DISCUSSIONS & ANALYSIS

In Mexican pesos, the Financial Result was composed as follows:

FINANCIAL RESULT	VARIANCE				
	2018	2017	2016	18/17	17/16
Financing expenses	(10,486)	(8,988)	(7,196)	(1,498)	(1,792)
Financial income	1,416	1,034	597	382	437
Financing expenses, net	(9,070)	(7,954)	(6,599)	(1,116)	(1,355)
Exchange fluctuation result, net	332	(1,264)	(7,189)	1,596	5,925
Impairment in fair value of financial investments available for sale	0	0	(1,270)	0	1,270
Impairment in fair value of other assets	0	(1,694)	0	1,694	(1,694)
<b>Total Financial Result</b>	<b>(8,738)</b>	<b>(10,912)</b>	<b>(15,058)</b>	<b>2,174</b>	<b>4,146</b>

The fair value of the derivative financial instruments of ALFA as of December 31, 2018 and 2017 is as follows:

TYPE OF DERIVATIVE, SECURITY OR CONTRACT	FAIR VALUE (MILLIONS OF DOLLARS)	
	DECEMBER 2018	DECEMBER 2017
Exchange Rate	174	3
Energy	(135)	(32)
<b>Total</b>	<b>39</b>	<b>(29)</b>



## MANAGEMENT'S DISCUSSIONS & ANALYSIS

### INCOME TAX.

Below is an analysis of the main factors which determined income taxes in each of the years compared, using income tax base, which is Operating Income less Financial Result and Other Expenses, Net.

INCOME TAX	2018	2017	2016	VARIANCE	
				18/17	17/16
Profit before income tax	27,088	375	9,271	26,713	(8,896)
Equity in results of associated companies recognized by the equity method	(121)	(92)	(115)	(29)	23
Equity in income	26,967	283	9,156	26,684	(8,873)
Statutory rate	30%	30%	30%		
Income tax with statutory rate	(8,090)	(85)	(2,747)	(8,005)	2,662
+ / (-) Income tax effect on tax-accounting permanent differences:					
Financial Result Tax vs Accounting	0	(782)	283	782	(1,065)
Other permanent differences, net	(1,038)	(936)	(2,072)	(102)	1,136
Total income tax effect on permanent differences	(1,038)	(1,718)	(1,789)	680	71
Total income tax provision (charged) credited to results	(9,128)	(1,803)	(4,536)	(7,325)	2,733
Effective income tax rate	34%	637%	50%		
Income tax:					
Current tax	(7,564)	(5,698)	(5,983)	(1,866)	285
Deferred tax	(1,564)	3,895	1,447	(5,459)	2,448
<b>Total income tax expense</b>	<b>(9,128)</b>	<b>(1,803)</b>	<b>(4,536)</b>	<b>(7,325)</b>	<b>2,733</b>

## MANAGEMENT'S DISCUSSIONS & ANALYSIS

### NET CONSOLIDATED (LOSS) INCOME, 2018

During the year, ALFA generated a consolidated net income, as detailed in the chart below, and is the result of the matters explained above regarding the operating income, the financial result and taxes:

STATEMENT OF INCOME	2018	2017	2016	VARIANCE	
				18/17	17/16
Operating income	35,705	11,195	24,214	24,510	(13,019)
Financial Result	(8,738)	(10,912)	(15,058)	2,174	4,146
Equity in results of associated companies recognized by the equity method	121	92	115	29	(23)
Taxes <sup>(1)</sup>	(9,128)	(1,803)	(4,536)	(7,325)	2,733
Consolidated net income (loss)	17,960	(1,428)	4,735	19,388	(6,163)
Net income (loss) of the controlling interest	13,143	(2,051)	2,325	15,194	(4,376)

<sup>(1)</sup> *Income tax (current and deferred)*



## MANAGEMENT'S DISCUSSIONS & ANALYSIS

### CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

The comprehensive income and loss is shown in the statement of changes in stockholders' equity and its purpose is to show the total effect of the events and transactions which affected earned capital, regardless of whether they were recognized in the statement of operations or directly in equity accounts. Operations between the Company and its shareholders, mainly dividends paid, are excluded. Comprehensive income and loss for 2018, 2017 and 2016 was as follows:

COMPREHENSIVE INCOME (LOSS)			
	2018	2017	2016
Net income (loss)	17,960	(1,428)	4,735
Translation of foreign entities	(5,226)	1,223	16,058
Effects of derivative financial instruments	(554)	162	419
Actuarial losses from employee benefits	122	(91)	(81)
<b>Other comprehensive profit and loss items for the year</b>	<b>(5,658)</b>	<b>1,294</b>	<b>16,396</b>
<b>Comprehensive income (loss) for the year</b>	<b>12,302</b>	<b>(134)</b>	<b>21,131</b>
Attributable to:			
Controlling interest	8,301	(906)	15,473
Noncontrolling interest	4,001	772	5,658

A previous section of this report explains the net income obtained in 2018, 2017 and 2016; the translation effect of foreign entities, which is the product of using different exchange rates between the balance sheet accounts and income statements accounts.

During this year there was significant movement due to volatility in the exchange rates of the currencies of different countries where ALFA has operations.

The equity effect of financial derivatives represents the effect from energy derivatives, in accordance with International Financial Reporting Standards, and is presented in stockholders' equity.

The effect of actuarial results of the labor liability is due to the variation in actuarial estimates.

## MANAGEMENT'S DISCUSSIONS & ANALYSIS

### DIVIDENDS DECLARED AND CHANGES IN STOCKHOLDERS' EQUITY

In 2018, ALFA S.A.B. declared a dividend of \$3,154 equivalent to \$0.62 per share.

For the year 2017 it declared a dividend of \$3,312, equivalent to \$0.65 per share.

For the year 2016 it declared a dividend of \$3,043 equivalent to \$0.59 per share.

In 2018, total stockholders' equity increased by 7%, in dollar terms, due to a net favorable result, and the conversion effect of foreign entities and dividends.

### INVESTMENT IN DAYS NWC<sup>(1)</sup>

In 2018 at a consolidated level, the ratio of revenues to NWC behaved similarly to that of 2017, with a slight change in the main subsidiaries, which meant that the NWC days at a consolidated level have the same figure of 13 in 2018 and 2017.

NWC DAYS	2018	2017	2016
Alpek	41	44	52
Sigma	(3)	(2)	1
Nemak	4	10	23
Axtel	(20)	(25)	(12)
Newpek	(161)	(124)	(58)
<b>Consolidated</b>	<b>13</b>	<b>13</b>	<b>21</b>

<sup>(1)</sup> Net Working Capital



## MANAGEMENT'S DISCUSSIONS & ANALYSIS

### INVESTMENTS

#### PROPERTY, PLANT AND EQUIPMENT

Total investments by group were as follows:

	2018	2017	% VARIANCE 18/17	LAST 5 YEARS INVESTMENT	%
Alpek	2,005	4,431	(55)	17,384	22
Sigma	3,499	3,542	(1)	14,072	18
Nemak	7,786	8,279	(6)	32,969	41
Axtel	2,359	2,192	8	8,711	11
Newpek	(495)	646	(177)	5,349	7
Other	448	49	814	674	1
<b>Total</b>	<b>15,602</b>	<b>19,139</b>	<b>(43%)</b>	<b>79,459</b>	<b>100%</b>

#### ACQUISITIONS AND SALE OF BUSINESSES

In 2018, ALFA continued with the strategic implementation of its investment program, which involved several significant transactions. In Alpek the incorporation of Petroquímica Suape and Citepe was completed in Brazil, as well as the establishment of Corpus Christi Polymers LLC, a joint venture created together with Indorama Ventures Holdings LP and Far Eastern Investment (Holding) Limited, in which it signed a purchase of assets agreement with M&G USA Corp. and its affiliated debtors ("M&G Corp.") to acquire the PTA-PET integrated plant under construction in Corpus Christi, Texas, as well as certain intellectual property of M&G Corp. and a desalination plant/boiler which supplies water and steam to the site. Furthermore, Axtel sold off part of its mass segment fiber business, as well as the last batch of its telecommunications towers. In the energy sector Newpek completed the sale of two territorial assets located in Texas, USA. Such operations improved ALFA's financial position so that it can capitalize on new opportunities and strengthen its market leadership position.

## MANAGEMENT'S DISCUSSIONS & ANALYSIS

### CASH FLOWS

Starting with the line item Cash Flows generated from operations, the chart below shows the main transactions for 2018 and 2017.

	2018	2017
Cash flows generated from operations	35,050	34,403
Property, plant and equipment and other	(15,602)	(19,139)
Investment in acquisitions of subsidiaries, associated companies and joint ventures	(12,974)	(1,697)
(Decrease) increase in Bank Financing	(44)	13,256
Dividends paid by ALFA, S. A. B. de C. V.	(3,154)	(3,301)
Dividends paid to noncontrolling interest	(1,770)	(1,855)
Repurchase of shares	0	(1,537)
Interest paid	(9,485)	(8,403)
Cash flows from sale of businesses	4,671	0
Other	(2,023)	(3,283)
<b>(Decrease) increase in cash</b>	<b>(5,331)</b>	<b>8,444</b>
Adjustments in cash flows due to exchange rate variances	(1,071)	(264)
Cash and cash equivalents at the beginning of the year	32,813	24,633
<b>Total cash at the end of the year</b>	<b>26,411</b>	<b>32,813</b>



## MANAGEMENT'S DISCUSSIONS & ANALYSIS

The main changes in the net debt of ALFA and its companies were as follows:

CHANGES IN DEBT NET OF CASH US\$	CONSOLIDATED	ALPEK	SIGMA	NEMAK	AXTEL	NEWPEK	OTHER
Balance, December 31, 2017	6,300	1,262	1,936	1,271	973	34	824
Long-term financing:							
Financing	1,286	333	409	495	40	0	9
Payments	(1,384)	(160)	(495)	(501)	(229)	(45)	47
<b>Short-term financing, net of payments</b>	<b>26</b>	<b>131</b>	<b>(4)</b>	<b>20</b>	<b>(68)</b>	<b>0</b>	<b>(54)</b>
Total financing, net of payments	(72)	304	(91)	14	(257)	(45)	2
Foreign currency conversion effect	(5)	14	(14)	(24)	18	0	0
Debt variance in statement of cash flows	(78)	318	(104)	(9)	(239)	(45)	2
Debt from acquired companies and other	(22)	(22)	0	0	0	0	0
Total debt variance	(100)	296	(104)	(9)	(239)	(45)	2
Decrease (increase) in cash and restricted cash	345	273	30	(11)	(47)	(7)	107
Change in interest payable	(2)	1	(2)	0	(1)	0	0
Increase (decrease) in debt net of cash	243	570	(77)	(20)	(287)	(52)	109
<b>Balance, December 31, 2018</b>	<b>6,543</b>	<b>1,832</b>	<b>1,859</b>	<b>1,251</b>	<b>686</b>	<b>(18)</b>	<b>933</b>

## MANAGEMENT'S DISCUSSIONS & ANALYSIS

SHORT-TERM AND LONG-TERM DEBT BY GROUP	ALPEK		SIGMA		NEMAK		AXTEL		OTHER	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Balance of debt (US\$)	2,030	1,734	2,455	2,559	1,480	1,490	798	1,037	1,113	1,156
Short-term debt	25	21	10	4	4	4	2	6	4	9
Long-term 1 year										
2	8	1	0	10	3	3	2	2	5	4
3	17	14	0	0	3	3	3	8	1	1
4	35	6	0	0	2	2	11	11	0	0
5 years or more	15	58	90	86	88	88	82	73	90	86
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Average life long-term debt (years)	3.2	4.3	7.3	6.4	5.7	4.8	5.6	5.3	14.6	15.7
Average life total debt (years)	2.6	3.5	6.6	6.2	5.3	4.3	5.5	5.0	14.0	14.3



## MANAGEMENT'S DISCUSSIONS & ANALYSIS

CONSOLIDATED SHORT-TERM AND LONG-TERM DEBT:	US\$			% OVERALL	
	2018	2017	VAR.	2018	2017
<b>Short-term debt</b>					
Long-term 1 year	949	690	259	12	9
2	288	384	(96)	4	5
3	397	379	18	5	5
4	831	247	584	11	3
5 years or more	5,411	6,276	(865)	68	78
<b>Total</b>	<b>7,876</b>	<b>7,976</b>	<b>(100)</b>	<b>100</b>	<b>100</b>
Average life long-term debt (years)	7.3	7.1			
Average life total debt (years)	8.0	6.5			

## FINANCIAL RATIOS

### LIQUIDITY

#### DEBT NET OF CASH/CASH FLOWS (TIMES, BASE IN US DOLLARS LAST 12 MONTHS)

GROUPS	2018	2017
Alpek	1.72	3.29
Sigma	2.72	2.86
Nemak	1.70	1.78
Axtel	1.63	3.36
Newpek	(0.60)	11.98
<b>Consolidated</b>	<b>2.29</b>	<b>3.12</b>

## MANAGEMENT'S DISCUSSIONS & ANALYSIS

### INTEREST COVERAGE (TIMES, BASE IN US DOLLARS LAST 12 MONTHS)\*

	2018	2017	18/17
Alpek	9.9	4.8	5.1
Sigma	5.3	4.7	0.6
Nemak	7.7	11.2	(3.5)
Axtel	4.4	3.4	1.0
Newpek	(7.8)	0.7	(8.5)
<b>Consolidated</b>	<b>5.8</b>	<b>4.6</b>	<b>1.2</b>

### VARIATION DUE TO

	CASH FLOWS	FINANCIAL EXPENSES
	8.5	(3.4)
	0.1	0.5
	0.3	(3.8)
	1.5	(0.5)
	7.0	(15.5)
	<b>1.9</b>	<b>(0.7)</b>

\* Defined as operating income plus depreciation, amortization and impairments of assets, divided by net financial expenses.

### FINANCIAL STRUCTURE

The indicators of the financial structure of ALFA improved during 2018, as illustrated in the following table:

FINANCIAL INDICATORS	2018	2017
Total Liabilities/Equity	2.77	2.88
Long-Term Debt/Total Debt (%)	92	91
Total Debt in Foreign Currency/Total Debt (%)	96	95

# INDEPENDENT AUDITORS' REPORT

to the Board of Directors and Stockholders of Alfa, S. A. B. de C. V.

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## OPINION

We have audited the consolidated financial statements of Alfa, S. A. B. de C. V. and Subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and the 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, 2018 and 2017 and its consolidated financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

## BASIS FOR OPINION

We conducted our audits 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.

## 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.

## **BUSINESS COMBINATION - COMPANHIA PETROQUÍMICA DE PERNAMBUCO (PETROQUÍMICA SUAPE) Y COMPANHIA INTEGRADA TEXTIL DE PERNAMBUCO (CITEPE)**

As disclosed in Note 2b. to the consolidated financial statements, Alpek, S. A. B. de C. V. ("Alpek"), subsidiary of the Company, acquired all of the shares representing the respective share capital of Petroquímica SUAPE and CITEPE. Both companies operate an integrated PTA-PET site in Ipojuca, Pernambuco, Brazil, with an installed capacity of 640,000 and 450,000 tons per year of PTA and PET, respectively. The total consideration amounted to US\$435 million, paid in Brazilian reais at the closing date of the transaction. The fair value of the assets acquired and assumed liabilities determined and recognized at the acquisition date amounted to US\$792 million and US\$137 million, respectively. Additionally, a gain in business combination of US\$220 million was recognized.



## INDEPENDENT AUDITORS' REPORT

Due to the significant judgments used by management in the valuation models to determine the consideration, the fair value of the assets acquired and liabilities assumed, particularly property, plant and equipment, as well as the intangible assets, we involved our experts in valuation to evaluate the premises and criteria used by the administration and its independent expert and we carry out the following procedures:

- We evaluated the capacity and independence of the independent expert.
- We verified that the models used by the administration to determine the fair values were those used and recognized to value assets with similar characteristics in the industry.
- We challenged the financial projections of the administration and compare them with the performance and historical trends of the Company's businesses.
- We evaluated that the projections of the administration were consistent with those approved by the Board of Directors of the Company.
- We reviewed the most relevant valuation assumptions (discount rate, multiple of EBITDA, sales multiples, as well as the determination of the useful life of the assets), and compared them with independent market sources.

The results of our procedures were satisfactory and we agree with the fair value of the acquired assets and liabilities assumed recognized.

### **JOINT VENTURE - GRUPO MOSSI & GHISOLFI ("M&G")**

As disclosed in Note 2c. y 2h., to the consolidated financial statements, in 2015, Alpek, subsidiary of the Company, entered into agreements with M&G Resins USA, LLC ("M&G"), one for capacity reservation and another of tolling services, for which the latter agreed to supply PET for its plant to be constructed in Corpus Christi, Texas. As a result of these agreements, Alpek paid \$7,745 million (US\$435 million). In 2017, due to M&G's inability to complete the construction of the plant, Alpek decided to recognize an impairment for \$11,456 million (\$8,721, net of taxes) for its assets associated with M&G.

In October 2017, M&G, as owner of the assets under construction, requested a voluntary reorganization petition under Chapter 11 of the Bankruptcy Code of the United States of America ("USA"). As a result of the foregoing, during 2018 Alpek, Indorama Ventures, LLC ("Indorama") and Far Eastern Investment ("Far Eastern") made a joint proposal to the bankruptcy administrator for the acquisition of the aforementioned assets under construction and created a joint venture for this purpose, from which the constitution of Corpus Christi Polymers LLC ("CCP") was incorporated as the legal vehicle for the acquisition. The acquisition agreement for the assets amounted to US\$1,199 million in cash and other capital contributions (capacity reservation) made by CCP in 2018. Alpek was recognized for its US\$200 million contribution, which partially represented the capacity reservation rights paid in 2015, US\$133 million as part of its contributions to CCP and US\$67 million (US\$62 at present value) for the sale to Indorama and Far Eastern of one sixth of said capacity reservation agreement, and therefore, Alpek reversed US\$195 million of the impairment recognized in 2017.

Due to the significant judgments used by management to determine the partial reversal of the impairment of Alpek's assets arising from the operation with M&G, our audit procedures focused on reviewing the significant elements and judgments considered by the Company. Regarding the recognized effects of reversal of impairment, we obtained and read the contractual agreements of the transaction and carried out the following procedures:

- We reviewed the contractual agreements between the joint venture participants.
- We reviewed the cash contributions made to CCP and the legal documentation that supports the contribution of capacity reservation rights.
- We verified the authorization granted by the competition authorities of the United States of America for the acquisition of the assets of M&G.
- We discussed with management and confirmed that at the date of the consolidated financial statements all the obligations of the parties to comply with the acquisition have been fulfilled.

The results of our procedures were satisfactory and we agree with the judgments used by management to reverse the impairment.

## ASSESSMENT OF IMPAIRMENT INTANGIBLE ASSETS AND GOODWILL

As described in Notes 31., 3m. and 12 to the consolidated financial statements, the Company performs impairment tests on its intangible assets with indefinite useful lives and goodwill on an annual basis.

We have been focused in the review of the intangible assets with indefinite useful lives and goodwill, mainly due to the importance of the intangible assets balance in the consolidated financial statements of the Company, which consists of goodwill of \$22,798 million and trademarks of \$13,389 million, and because 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 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:

- We reviewed the models applied to determine the recoverable value of the assets and methods used and accepted for valuing assets with similar characteristics.
- We challenged 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.
- We analyzed the assumptions used in the impairment model, specifically including the cash flow projections, EBITDA 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.
- Independent assessment of 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.
- We evaluated the factors and variables used to determine the CGUs, among which were considered the analysis of operating cash flows and borrowing policies, analysis of the legal structure, allocation of production and understanding of the operation of the commercial area and sales.
- We discussed with management the sensitivity calculations for all 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.

# INDEPENDENT AUDITORS' REPORT

## **ASSESSMENT OF THE RECOVERABILITY OF DEFERRED INCOME TAX ASSETS**

The Company records deferred income tax assets derived from tax loss carryforward. Management performed an assessment of the probability of recovering the tax losses carryforward to support the deferred tax assets recognized on its consolidated financial statements.

Due to the importance of the balance of the deferred tax asset derived from the tax loss carryforward as of December 31, 2018, amounting to \$6,903 million, and to significant judgments and estimates to determine the future projections of the Company's tax results, we focus on this area and perform, among others, 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 tax 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 key assumptions used would need to be modified in order for an adjustment to be considered for evaluation.

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 3o. and 17, respectively, to the accompanying consolidated financial statements.

## **INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON**

Management 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 auditors' 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 charged with governance in the Company.



# INDEPENDENT AUDITORS' 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 IFRSs, 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 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 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 taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Company and subsidiaries audit. We remain solely responsible for our audit opinion.

## INDEPENDENT AUDITORS' REPORT

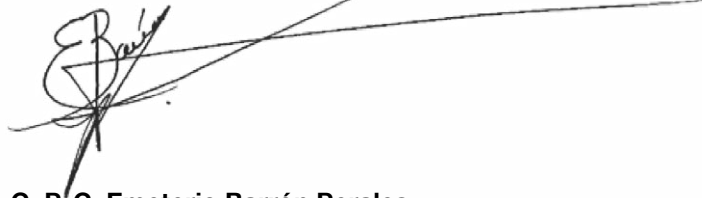
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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, 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 auditor's 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

A handwritten signature in black ink, appearing to read 'C. P. C. Emeterio Barrón Perales', is written over a horizontal line. The signature is stylized and includes a large, sweeping flourish that extends to the right.

**C. P. C. Emeterio Barrón Perales**

Monterrey, Nuevo León, México

January 31, 2019

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

## Alfa, S. A. B. de C. V. and Subsidiaries

As of December 31, 2018 and 2017

In millions of Mexican pesos

	NOTE	2018	2017
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	6	\$ 26,411	\$ 32,813
Restricted cash	7	672	961
Trade and other accounts receivable, net	8	43,419	38,994
Inventories	9	51,790	44,341
Derivative financial instruments	4	39	209
Other current assets	10	5,053	4,817
<b>Total current assets</b>		<b>127,384</b>	<b>122,135</b>
<b>Non-current assets:</b>			
Property, plant and equipment, net	11	153,389	153,642
Goodwill and intangible assets, net	12	52,311	58,058
Deferred income taxes	17	17,408	19,517
Derivative financial instruments	4	1,082	-
Investments accounted for using the equity method and other non-current assets	13	18,254	5,616
<b>Total non-current assets</b>		<b>242,444</b>	<b>236,833</b>
<b>Total assets</b>		<b>\$369,828</b>	<b>\$358,968</b>

	NOTE	2018	2017
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Debt	16	\$ 20,322	\$ 15,146
Trade and other accounts payable	15	83,959	77,366
Income taxes payable	17	3,516	2,737
Derivative financial instruments	4	1,086	304
Provisions	18	1,175	471
Other current liabilities	19	2,663	2,170
<b>Total current liabilities</b>		<b>112,721</b>	<b>98,194</b>
<b>Non-current liabilities:</b>			
Debt	16	135,227	142,799
Derivative financial instruments	4	283	472
Provisions	18	1,417	796
Deferred income taxes	17	13,112	13,874
Income taxes payable	17	3,221	4,826
Employee benefits	20	4,973	4,982
Other non-current liabilities	19	650	599
<b>Total non-current liabilities</b>		<b>158,883</b>	<b>168,348</b>
<b>Total liabilities</b>		<b>271,604</b>	<b>266,542</b>
<b>STOCKHOLDERS' EQUITY:</b>			
<b>Controlling interest:</b>			
Capital stock	21	211	211
Retained earnings		59,999	51,202
Other reserves		13,181	18,023
Total controlling interest		73,391	69,436
Non-controlling interest	14	24,833	22,990
<b>Total stockholders' equity</b>		<b>98,224</b>	<b>92,426</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$369,828</b>	<b>\$358,968</b>

The accompanying notes are an integral part of these consolidated financial statements.



## CONSOLIDATED STATEMENTS OF INCOME

### Alfa, S. A. B. de C. V. and Subsidiaries

For the years ended December 31, 2018 and 2017

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

	NOTE	2018	2017
Revenues	28	\$ 366,432	\$ 317,627
Cost of sales		(292,574)	(254,283)
Gross profit		73,858	63,344
Selling expenses		(23,545)	(21,582)
Administrative expenses		(22,666)	(21,228)
Other income (expenses), net	24	8,058	(9,339)
Operating income		35,705	11,195
Financial income	25	1,416	1,034
Financial expenses	25	(10,486)	(8,988)
Gain (loss) due to exchange fluctuation, net	25	332	(1,264)
Impairment of financial assets	25	-	(1,694)
Financial result, net		(8,738)	(10,912)
Equity in income of associates recognized using the equity method		121	92
Income before taxes		27,088	375
Income taxes	17	(9,128)	(1,803)
<b>Net consolidated income (loss)</b>		<b>\$ 17,960</b>	<b>\$ (1,428)</b>
Income (loss) attributable to:			
Controlling interest		\$ 13,143	\$ (2,051)
Non-controlling interest		4,817	623
		<b>\$ 17,960</b>	<b>\$ (1,428)</b>
Earnings (losses) per basic and diluted shares, in Mexican pesos		\$ 2.60	\$ (0.40)
<b>Weighted average outstanding shares (thousands of shares)</b>		<b>5,055,111</b>	<b>5,087,743</b>

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOMES

### Alfa, S. A. B. de C. V. and Subsidiaries

For the years ended December 31, 2018 and 2017

In millions of Mexican pesos

	NOTE	2018	2017
Net consolidated income (loss)		\$17,960	\$(1,428)
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	20	122	(91)
<i>Items that will be reclassified to the consolidated statement of income</i>			
Effect of derivative financial instruments designated as cash flow hedges, net of taxes		(554)	162
Translation effect of foreign entities		(5,226)	1,223
Total comprehensive (loss) income of the year		(5,658)	1,294
<b>Consolidated comprehensive income (loss)</b>		<b>\$12,302</b>	<b>\$ (134)</b>
Attributable to:			
Controlling interest		\$ 8,301	\$ (906)
Non-controlling interest		4,001	772
<b>Comprehensive income (loss) for the year</b>		<b>\$12,302</b>	<b>\$ (134)</b>

The accompanying notes are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

### Alfa, S. A. B. de C. V. and Subsidiaries

For the years ended December 31, 2018 and 2017

In millions of Mexican pesos

	CAPITAL STOCK	RETAINED EARNINGS	OTHER RESERVES	TOTAL CONTROLLING INTEREST	NON-CONTROLLING INTEREST	TOTAL STOCKHOLDERS' EQUITY
Balances as of January 1, 2017	\$ 213	\$ 58,774	\$16,789	\$ 75,776	\$ 24,837	\$100,613
Transactions with stockholders:						
Repurchase of own shares	(2)	(1,535)	-	(1,537)	-	(1,537)
Dividends declared	-	(3,312)	-	(3,312)	(1,924)	(5,236)
Movements in non-controlling interest	-	184	-	184	(184)	-
Other	-	(769)	-	(769)	(511)	(1,280)
	(2)	(5,432)	-	(5,434)	(2,619)	(8,053)
Net loss	-	(2,051)	-	(2,051)	623	(1,428)
Total other comprehensive income for the year	-	(89)	1,234	1,145	149	1,294
Comprehensive (loss) income	-	(2,140)	1,234	(906)	772	(134)
Balances as of December 31, 2017	211	51,202	18,023	69,436	22,990	92,426
Transactions with stockholders:						
Dividends declared	-	(3,154)	-	(3,154)	(1,778)	(4,932)
Other	-	(33)	-	(33)	6	(27)
Total transactions with stockholders	-	(3,187)	-	(3,187)	(1,772)	(4,959)
Effect of adoption of IFRS 9 and 15	-	(1,159)	-	(1,159)	(386)	(1,545)
Consolidated net income	-	13,143	-	13,143	4,817	17,960
Total other comprehensive income for the year	-	-	(4,842)	(4,842)	(816)	(5,658)
Comprehensive income (loss)	-	13,143	(4,842)	8,301	4,001	12,302
<b>Balances as of December 31, 2018</b>	<b>\$ 211</b>	<b>\$ 59,999</b>	<b>\$13,181</b>	<b>\$ 73,391</b>	<b>\$ 24,833</b>	<b>\$ 98,224</b>

The accompanying notes are an integral part of these consolidated financial statements.



## CONSOLIDATED STATEMENTS OF CASH FLOWS

### Alfa, S. A. B. de C. V. and Subsidiaries

For the years ended December 31, 2018 and 2017

In millions of Mexican pesos

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income taxes	\$27,088	\$ 375
Depreciation and amortization	18,957	18,638
Impairment of long-lived assets	517	8,479
Allowance for doubtful accounts	690	2,261
Gain on sale of property, plant and equipment	(764)	(856)
Gain on sale of business	(2,256)	-
Gain on joint ventures	(4,597)	(732)
Effect of changes in the fair value of derivative financial instruments	5	(10)
Financial expenses, net	9,070	7,435
Exchange fluctuation, net	(332)	1,264
Equity in results of associates, provisions and others	(1,509)	(336)
Impairment of financial assets	-	1,694
Movements in working capital:		
Increase in trade and other accounts receivable	(4,516)	(1,529)
Increase in inventories	(7,220)	(3,183)
Increase in trade and other accounts payable	7,020	5,711
Income taxes paid	(7,103)	(4,808)
<b>Net cash flows generated by operating activities</b>	<b>35,050</b>	<b>34,403</b>

**Continue in next page**

## CONSOLIDATED STATEMENTS OF CASH FLOWS

### Continued from previous page

	2018	2017
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest collected	768	781
Cash flows in acquisition of property, plant and equipment	(15,625)	(18,811)
Cash flows in sale of property, plant and equipment	2,012	2,035
Cash flows in acquisition of intangible assets	(1,989)	(2,363)
Cash flows in business acquisitions, net of cash acquired	(12,974)	(1,697)
Cash flows in sale of businesses	4,671	-
Restricted cash	(485)	(1,190)
Dividends collected	-	11
Other	(2,375)	(2,529)
<b>Net cash flows used in investing activities</b>	<b>(25,997)</b>	<b>(23,763)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceed from borrowings or debt	38,911	66,155
Payments of borrowings or debt	(38,955)	(52,899)
Interest paid	(9,485)	(8,403)
Dividends paid	(3,154)	(3,301)
Dividends paid to non-controlling interest	(1,770)	(1,855)
Repurchase of shares	-	(1,537)
Other	69	(356)
<b>Net cash flows used in financing activities</b>	<b>(14,384)</b>	<b>(2,196)</b>
Net (decrease) increase in cash and cash equivalents	(5,331)	8,444
Effect of changes in exchange rates	(1,071)	(264)
Cash and cash equivalents at beginning of year	32,813	24,633
<b>Cash and cash equivalents at end of year</b>	<b>\$26,411</b>	<b>\$32,813</b>

The accompanying notes are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Alfa, S. A. B. de C. V. and Subsidiaries

As of and for the years ended December 31, 2018 and 2017

In millions of Mexican pesos, except where otherwise indicated

### 1. ALFA COMPANIES' ACTIVITIES

Alfa, S. A. B. de C. V. and subsidiaries (therein after "Alfa" or "the Company"), is a Mexican company controlling five business groups with the following activities: Alpek, engaged in the production of petrochemicals and synthetic fibers; Sigma, a refrigerated food producer; Nemak, engaged in the manufacture of high-tech aluminum auto parts; Axtel (previously Alestra), in the telecommunications sector; and Newpek, a natural gas and hydrocarbons company.

Alfa has a competitive position globally in the auto parts segment as a producer of aluminum engine heads and blocks, as well as in the manufacture of PTA (raw material for the manufacture of polyester), and is a leader in the Mexican market for refrigerated foods. Alfa operates industrial production and distribution centers mainly in Mexico, the United States of America (US), Canada, Germany, Slovakia, Belgium, Czech Republic, Italy, Holland, Portugal, France, Costa Rica, Dominican Republic, El Salvador, Argentina, Peru, Ecuador, Austria, Brazil, China, Hungary, Spain, India, Poland, Turkey, Romania and Russia. The company markets its products in over 45 countries worldwide and employs over 86,000 people.

Alfa's shares are traded on the Mexican Stock Exchange, S. A. B. de C. V. and Latibex, the Latin American market of the Madrid Stock Exchange.

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

In the following notes to the consolidated financial statements references to pesos or "\$", mean millions of Mexican pesos. References to "US\$" or dollars, mean millions of dollars from the United States. In addition, references to "€", mean millions of euros.

### 2. SIGNIFICANT EVENTS

#### 2018

##### a. Issuance and prepayment of debt

###### *Sigma*

On March 22, 2018, Sigma Finance Netherlands B.V. issued Senior Notes in the Irish Stock Exchange to qualified institutional investors under Rule 144A, and other investors outside the United States of America under Regulation S in the amount of US\$500, including issuance costs of US\$7, including discounts of US\$3.3. The Senior Notes mature in ten years at a coupon of 4.875%. The transaction proceeds were mainly used to prepay 2022 Campofrío Senior Notes and for general corporate purposes.

###### *Nemak*

On January 11, 2018, Nemak issued Senior Notes on the Irish Stock Exchange and on the Global Exchange Market in the amount of US\$500, through a private offering under Rule 144A and Regulation S. The Senior Notes accrue an annual coupon of 4.750%, maturing in 7 years. The proceeds were mainly used to prepay other financial liabilities with shorter maturity terms.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### *Axtel*

On February 22, 2018, Axtel's syndicated long-term credit with HSBC Mexico was increased by \$291 from the original amount of \$5,709 to \$6,000, with the same terms as the original credit. The proceeds obtained from this additional loan were used to pay short-term debt of \$400 with HSBC Mexico.

On August 30, 2018, Axtel entered into a debt restructuring agreement with Bancomext to exchange the original debt of US\$171 to a new debt of \$3,263. The terms of the new debt is 10 years with quarterly principal payments from the third year and with a 91-day TIE interest rate plus 2.10 basis points.

### **b. Acquisition of Petroquímica SUAPE and CITEPE**

On April 30, 2018, Alpek completed the acquisition of 100% of Companhia Petroquímica de Pernambuco ("Petroquímica Suape") and Companhia Integrada Têxtil de Pernambuco ("Citepe"), owned by Petróleo Brasileiro, S.A. ("Petrobras"), through DAK Americas Exterior, S.L. and Grupo Petrotex, S. A. de C. V., with stakes of 99.99% and 0.01%, respectively. The total consideration paid by Alpek was US\$435, free of debt, which was paid in Brazilian reais at the closing date of the transaction.

As a result of this transaction, Alpek acquired an integrated PTA-PET site in Ipojuca, Pernambuco, Brazil, with a capacity of 640,000 and 450,000 tons per year of PTA and PET, respectively. Citepe also operates a textured polyester filament plant with a capacity of 90,000 tons per year. The operation was carried out due to Alpek's strategy of making continuous and selected investments in integration, efficiency and expansion projects, in order to achieve a sustainable growth.

The consolidated financial statements of Alpek include the financial information of Petroquímica Suape and Citepe as of the date of acquisition. The acquisition of the business is included in the Polyester segment of Alpek.

The acquisition of Petroquímica Suape y Citepe met the criteria of a business combination in accordance with the requirements of IFRS 3 Business Combinations, for which Alpek applied the acquisition method to measure the assets acquired and liabilities assumed in the transaction. The purchase price allocation was determined in 2018, and the adjustments derived from acquisition method accounting were recognized from the date of acquisition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The fair values of the assets acquired and liabilities assumed as a result of this acquisition are as follows:

Inventories	US\$101
Other current assets <sup>(1)</sup>	162
Recoverable taxes	115
Property, plant and equipment, net	353
Intangible assets <sup>(2)</sup>	21
Other non-current assets <sup>(3)</sup>	40
Current liabilities <sup>(4)</sup>	(87)
Provisions <sup>(5)</sup>	(50)
Net acquired assets	655
Gain on business combination	220
<b>Consideration paid</b>	<b>US\$435</b>

<sup>(1)</sup>Current assets consist of cash and cash equivalents for US\$18, accounts receivable for US\$98, recoverable taxes for US\$45 and others for US\$1.

<sup>(2)</sup>Intangible assets consist of customer relationships, which guarantee the existence and continuity of the business from the moment of acquisition.

<sup>(3)</sup>The other non-current assets consist of an indemnification asset for US\$23 and others for US\$17. The indemnification asset corresponds to the right of reimbursement in case of any disbursement that is made corresponding to labor and civil contingencies.

<sup>(4)</sup>Current liabilities consist of suppliers and accounts payable for US\$77 and others for US\$10.

<sup>(5)</sup>Provisions consist of provisions for labor contingencies for US\$6, provisions for civil contingencies for US\$18, provisions for tax contingencies for US\$11 and provisions for reimbursement of taxes recovered to Petrobras for US\$15.

As a result of this transaction, a gain associated with the business combination was recognized for an amount of US\$220, recorded in 2018 (Note 24). The gain associated with the business combination is the result of Petrobras divesting of these operations as part of its Strategic Plan, in order to optimize its business portfolio and cease its participation in the petrochemical industry; the aforementioned portfolio included the plan to sell Petroquímica Suape and Citepe.

The consolidated statement of cash flows in 2018 presents the incorporation of the operations of Petroquímica Suape and Citepe into a single line within the investment activity, net of cash acquired.

### c. Acquisition of Corpus Christi Project from Grupo Mossi & Ghisolfi ("M&G")

On March 21, 2018, Alpek announced its participation in the creation of Corpus Christi Polymers LLC ("CCP"), a joint venture formed together with Indorama Ventures Holdings LP ("Indorama") and Far Eastern Investment (Holding) Limited ("Far Eastern"), through which it signed an asset purchase agreement with M&G USA Corp. and its affiliated debtors ("M&G Corp.") to acquire the integrated PTA-PET plant currently under construction in Corpus Christi, Texas, as well as certain intellectual property of M&G Corp. and a desalination/boiler plant that supplies water and steam to the place (the "Corpus Christi Project").

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On December 28, 2018, Alpek announced that CCP completed the acquisition of the Corpus Christi Project, for an aggregate amount of US\$1,199 in cash and other capital contributions. Of this amount, Alpek contributed US\$283 in cash and US\$133 in other capital contributions, which correspond to a portion of its secured claim with M&G, arising under the Corpus Christi Capacity Reservation Agreement ("Capacity Reservation Agreement"). In addition, Alpek agreed to sell the rest of the Capacity Reservation Agreement to Indorama and Far Eastern (the "buyers"), for which it will obtain US\$67 in cash, which will be payable in 3 years in equal parts from each of the buyers, subject to certain conditions. Alpek will recognize its investment in CCP as a joint venture through the equity method.

Once finished, the plant will have a nominal production capacity of 1.1 million and 1.3 million metric tons per year of PET and PTA, respectively. In accordance with the terms of CCP, the partners will provide resources to complete the Corpus Christi Project in the most efficient way. As of December 31, 2018, Alpek has invested US\$416 and it is estimated that the project will be completed by the end of 2021.

Additionally, Alpek, Indorama and Far Eastern will each have the right to receive one third of the PTA and PET produced by the Corpus Christi Project upon completion. Moreover, each one is responsible for acquiring their raw materials independently, as well as carrying out the sale and distribution of their corresponding PTA and PET.

In line with the foregoing, Alpek recognized the reversal of a portion of the impairment recorded in 2017 on intangible assets (see Note 2h), for US\$195, which correspond to the amount that Alpek expects to recover from the Capacity Reservation Agreement, which is recognized as part of its investment in CCP for US\$133, and as an account receivable from its joint venture partners for US\$62 (recognized at present value).

### **d. Sale of Mass Segment of Axtel**

On December 17, 2018, Axtel divested a significant portion of its Mass Segment through the sale of assets, shares, inventories, receivables and telecommunications equipment to Grupo Televisa in exchange for consideration of \$4,713. As of December 31, 2018, the rest of the Mass Segment not contemplated in this transaction continues to be operated by Axtel. The divestment is part of Axtel's business strategy to be the leading provider of information and communication technology solutions in the Business and Government Segments in Mexico.

On December 21, 2018, with the proceeds obtained from the transaction, Axtel made a partial prepayment of the syndicated loan held with HSBC, as lead coordinator of the participating financial institutions, for \$4,350, reducing the outstanding principal balance to \$1,570 as of December 31, 2018. Debt issuance costs of \$27 pending to be amortized and that corresponded to the amount of the prepayment, were recognized in results in the statement of income.

For Alfa, the gain of \$2,256 was recognized in the result of the year ended December 31, 2018 in the caption "Other income (expenses), net".

### **e. 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. The acquired entity is engaged in the production of processed meat and marketing of dairy products in Peru, and is included in the Latam.

The acquisition qualified as a business combination in accordance with the requirements of IFRS 3 Business Combinations ("IFRS 3"); therefore, Sigma applied the purchase method to measure the assets acquired and liabilities assumed in the transaction. Sigma recognized goodwill of \$320, which was recognized in 2018, when the allocation of fair values of the net assets acquired was concluded; however, 2017 amounts were not restated given the immaterial nature of the purchase price adjustments in 2018.

SUPEMSA's results have been included in the consolidated financial statements from the acquisition date; therefore, the consolidated statements of income for 2017 are not comparable with those of the current year. The 2017 consolidated statement of cash flows presents the incorporation of SUPEMSA's operations in a single line within the investment activity, net of acquired cash.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### **f. Acquisition of Caroli Foods Group B. V.**

On September 1, 2017, Sigma acquired the remaining 51% of the shares of Caroli Foods Group B.V. ("Caroli") for \$1,054, 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.

Sigma already owned 49% of the shares and, with this transaction, it acquired all the shares of Caroli; therefore, under IFRS 3, the transaction is deemed an acquisition in stages. According to this standard, Sigma revalued the previously held 49% interest 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 2017 of \$410 (equivalent to €18.5).

The acquisition of 51% of the shares of Caroli was classified as a business combination in accordance with IFRS 3 requirements; therefore, Sigma applied the purchase method to measure the assets acquired and liabilities assumed in the transaction. Sigma recognized goodwill of \$2,150, which was recognized in 2018, when Sigma completed the allocation of fair values of the net assets acquired; however, 2017 amounts were not restated given the immaterial nature of the identified acquisition adjustments.

Caroli's results have been included in the consolidated financial statements from the acquisition date; therefore, the consolidated statements of income for 2017 are not comparable with those of the current year. In addition, the 2017 consolidated statement of cash flows presents the incorporation of Caroli's operations in a single line within investing activities, net of acquired cash, whereas for 2018, the cash flows corresponding to this business are presented within each of the corresponding operating, investing and financing activities.

During 2018, Sigma remeasured the interest of 49% of the shares of Caroli at fair value as of September 30, 2018, due to an adjustment in the estimate of the earn-out payable to the sellers and based on Caroli's improved performance than initially estimated; therefore, it recognized a gain in the consolidated statement of income of \$224 (equivalent to €10).

### **2017**

#### **g. Issuance and prepayment of debt**

##### *Sigma*

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, gross from issuance costs of €5.4 and discounts of €2.2. The Senior Notes mature in seven years at a coupon of 2.625%. The transaction resources were mainly used to pay debt.

On March 9, 2017, Sigma prepaid the Senior Notes maturing on December 14, 2018, in the amount of US\$450, incurring a cost for the prepayment of US\$20 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.

##### *Nemak*

On March 9, 2017, Nemak issued Senior Notes on the international market that were listed on the Irish Stock Exchange in the amount of €500, through a private offering under Rule 144A and Regulation S. The Senior Notes accrue an annual coupon of 3.25%, maturing in 7 years. The proceeds were mainly used to prepay other financial liabilities with shorter maturity terms.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### *Axtel*

On November 9, 2017, Axtel placed Senior Notes in the international market and listed on the Irish Stock Exchange under a private offering under Rule 144A and Regulation S in the amount of US\$500, gross of issuance costs of US\$7. The Senior Notes accrue an annual coupon of 6.375% maturing in 7 years. The proceeds were mainly used to prepay the existing debt, including certain issuance costs. 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 \$53.

Additionally, on December 19, 2017, Axtel signed a bilateral credit agreement with HSBC México, for an amount of \$5,709 (equivalent to US\$300) with a maturity of 5 years and at a variable interest rate with a margin on the TIIE rate applicable according to the leverage ratio between 1.875% and 3.25%. The proceeds obtained were used to prepay the remaining debt of the syndicated loan, denominated mainly in dollars.

### **h. Impairment of assets from supply agreements with several subsidiaries of Mossi & Ghisolfi Group (“M&G”) and agreement to provide secured financing to M&G Mexico**

During 2015, Alpek held a licensing agreement for IntegRex® PTA technology and another PTA-PET supply agreement with M&G Resins USA, LLC (“M&G Resins”). These agreements will allow M&G to use the IntegRex® PTA technology in the PTA-PET integrated plant to be constructed in Corpus Christi, Texas in the United States of America.

Resulting from this agreement, Alpek paid US\$435 to M&G Resins, of which US\$360 were recognized as an intangible asset, to be amortized based on their production volumes, and US\$75 were recognized as an inventory advance within the prepayment line item. However, during 2017 M&G suspended payments and began formal restructuring of its operations, including bankruptcy filings in the United States and Italy, due to its liquidity problems. As a result of the foregoing, Alpek recognized an impairment due to the following concepts:

	IMPAIRMENT AMOUNT		DEFERRED TAX EFFECT		RECOGNIZED IN NET INCOME
Intangible assets and advanced payments	US\$435	\$ 7,745	\$ 1,658		\$ 6,087
Trade and other accounts receivable <sup>(1)</sup>	113	2,017	560		1,457
Long-term notes receivable <sup>(1)</sup>	94	1,694	517		1,177

<sup>(1)</sup> Held with various subsidiaries of M&G.

Subsequently, on October 9, 2017, Alpek entered into a transfer-of-rights agreement with Banco Inbursa, S.A., on an unsecured loan agreement bearing interest and mortgage guarantee with M&G Polímeros México, S. A. of C. V. (“M&G Polímeros México”). The consideration for the assignment of rights paid by Alpek amounts to \$1,870 (US\$100), which were recognized in the consolidated financial statements as other non-current assets. This contract gives Alpek a right in the first instance over the other creditors of M&G Polímeros México and is guaranteed by a PET plant in Altamira, Mexico, whose fair value exceeds the amount of the right to payment maintained by Alpek.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On December 29, 2017 Alpek signed an agreement to provide secured financing to M&G Polímeros México, S. A. de C. V. ("M&G Mexico"). The new credit facility is secured by a second lien on M&G Polímeros México's PET production facility in Altamira, Mexico, and has a two-year term for a maximum principal amount of US\$60 that will be disbursed in several intervals subject to certain conditions, including a restructuring plan that should be presented by M&G Polímeros México and approved by its creditors. The new credit facility is intended to support M&G Polímeros México's PET operations during its restructuring process.

### **i. Adjustment to Alfa shareholding**

On July 18, 2017 and in accordance with the resolutions adopted at the General Stockholders' Extraordinary Meeting held on January 15, 2016 relating to the merger of Onexa, S. A. of C.V., Axtel, proceeds to deliver to Alfa 1,019,287,950 Class "I" shares of Series "B", representing an additional ownership to Alfa of 2.50% in Axtel. The shares were previously held in the Axtel's Treasury and its payment to Alfa cancelled the liability previously recognized by Axtel as a consideration for the merger.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **a. Basis of preparation**

The consolidated financial statements of Alfa, S. A. B. 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 Standard Interpretations Committee ("SIC").

The consolidated financial statements have been prepared on a historical cost basis, except for the cash flow hedges which are measured at fair value, and for the financial assets and liabilities at fair value through profit or loss with changes reflected in the consolidated statement of income and for financial assets available for sale.

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 judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where judgments and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

#### **b. Consolidation**

##### *i. Subsidiaries*

The subsidiaries are all the entities over which the Company has control. The Company controls an entity when it is exposed, or has the right to variable returns from its interest in the entity and it is capable of affecting the returns through its power over the entity. When the Company's interest in subsidiaries is less than 100%, the interest attributed to external 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The accounting method used by the Company for business combinations is the acquisition method. The Company defines a business combination as a transaction in which it gains control of a business, and through which it is able to direct and manage the relevant activities of the set of assets and liabilities of such business with the purpose of providing a return in the form of dividends, smaller costs or other economic benefits directly to stockholders.

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 transferred consideration and the carrying amount of the net assets acquired at the level of the subsidiary are recognized in equity.

The acquisition-related costs are recognized as expenses when incurred.

Goodwill is initially measured as excess of the sum of the consideration transferred and the fair value of the non-controlling interest over the net identifiable assets and liabilities assumed. 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 achieved in stages, the book value at the acquisition date of the interest previously held by the Company in the acquired entity is remeasured at its fair value at the acquisition date. Any loss or gain resulting from such remeasurement is recorded in results of the year.

Transactions and intercompany balances, as well as unrealized gains on transactions between Alfa's companies are eliminated in preparing the consolidated financial statements. In order to ensure consistency with the policies adopted by the Company, the amounts recorded by subsidiaries have been changed where it was deemed necessary.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2018 and 2017, the primary subsidiary companies of Alfa were as follows:

	COUNTRY <sup>(1)</sup>	SHAREHOLDING (%) <sup>(2)</sup>		FUNCTIONAL CURRENCY
		2018	2017	
<b>ALPEK (PETROCHEMICALS AND SYNTHETIC FIBERS)</b>				
Alpek, S. A. B. de C. V. (Holding Co.)		82	82	Mexican peso
Grupo Petrotemex, S. A. de C. V.		100	100	U.S. dollar
DAK Americas, L.L.C.	USA	100	100	U.S. dollar
DAK Resinas Americas México, S. A. de C. V.		100	100	U.S. dollar
DAK Americas Exterior, S. L. (Holding Co.)	Spain	100	100	Euro
DAK Americas Argentina, S. A.	Argentina	100	100	Argentine peso
Tereftalatos Mexicanos, S. A. de C. V.		92	92	U.S. dollar
Akra Polyester, S. A. de C. V.		93	93	Mexican peso
Companhia Integrada Textil de Pernambuco <sup>(5)</sup>	Brazil	100	-	Real
Companhia Petroquímica de Pernambuco <sup>(5)</sup>	Brazil	100	-	Real
Indelpro, S. A. de C. V.		51	51	U.S. dollar
Poliolés, S. A. de C. V. <sup>(3)</sup>		50	50	U.S. dollar
Unimor, S. A. de C. V. (Holding Co.)		100	100	Mexican peso
Univex, S. A.		100	100	Mexican peso
Grupo Styropek, S. A. de C. V.		100	100	Mexican peso
Styropek México, S. A. de C. V.		100	100	Mexican peso
Styropek S. A.	Argentina	100	100	Argentine peso
Aislapol S. A.	Chile	100	100	Chilean peso
Styropek EPS Do Brasil Ltda	Brazil	100	100	Real
Compagnie Selenis Canada <sup>(6)</sup>	Canada	50	50	U.S. dollar

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUATION	COUNTRY <sup>(1)</sup>	SHAREHOLDING (%) <sup>(2)</sup>		FUNCTIONAL CURRENCY
		2018	2017	
<b>SIGMA (REFRIGERATED FOOD)</b>				
Sigma Alimentos, S. A. de C. V. (Holding Co.)		100	100	U.S. dollar
Alimentos Finos de Occidente, S. A. de C. V.		100	100	Mexican peso
Grupo Chen, S. de R. L. de C. V.		100	100	Mexican peso
Sigma Alimentos Lácteos, S. A. de C. V.		100	100	Mexican peso
Sigma Alimentos Centro, S. A. de C. V.		100	100	Mexican peso
Sigma Alimentos Noreste, S. A. de C. V.		100	100	Mexican peso
Sociedad Suizo Peruana Embutidos, S. A. <sup>(4)</sup>	Peru	100	100	Peruvian sol
Caroli Foods Group S. R. L. <sup>(4) (6)</sup>	Romania	100	100	Euro
Sigma Alimentos Exterior, S. L. (Holding Co.)	Spain	100	100	Euro
Bar-S Foods Co.	USA	100	100	U.S. dollar
Mexican Cheese Producers, Inc.	USA	100	100	U.S. dollar
Braedt, S. A.	Peru	100	100	Nuevo sol
Elaborados Cárnicos Ecarri S. A.	Ecuador	100	100	U.S. dollar
Campofrío Food Group, S. A.	Spain	95	95	Euro
Fábrica Juris Compañía Limitada	Ecuador	100	100	U.S. dollar
Sigma Foodservice Comercial, S. de R.L. de C.V.		100	100	Mexican peso
<b>NEMAK (ALUMINUM AUTO PARTS)</b>				
Nemak, S. A. B. de C. V. (Holding Co.)		75	75	U.S. dollar
Nemak México, S. A.		100	100	U.S. dollar
Modellbau Schönheide GmbH	Germany	100	100	Euro
Corporativo Nemak, S. A. de C. V.		100	100	Mexican peso
Nemak Canadá, S. A. de C. V. (Holding Co.)		100	100	Mexican peso
Nemak of Canada Corporation	Canada	100	100	Canadian dollar



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUATION	COUNTRY <sup>(1)</sup>	SHAREHOLDING (%) <sup>(2)</sup>		FUNCTIONAL CURRENCY
		2018	2017	
Camen International Trading, Inc.	USA	100	100	U.S. dollar
Nemak Europe GmbH (Holding Co.)	Germany	100	100	Euro
Nemak Exterior, S. L. (Holding Co.)	Spain	100	100	Euro
Nemak Dillingen GmbH	Germany	100	100	Euro
Nemak Wernigerode (GmbH)	Germany	100	100	Euro
Nemak Linz GmbH	Austria	100	100	Euro
Nemak Győr Alumíniumöntöde Kft.	Hungary	100	100	Euro
Nemak Poland Sp. Z.o.o.	Poland	100	100	Euro
Nemak Nanjing Automotive Components Co., Ltd.	China	100	100	Yuan
Nemak USA, Inc.	USA	100	100	U.S. dollar
Nemak Alumínio do Brasil Ltda.	Brazil	100	100	Real
Nemak Argentina, S. R. L.	Argentina	100	100	Argentine peso
Nemak Slovakia, S.r.o.	Slovakia	100	100	Euro
Nemak Czech Republic, S.r.o.	Czech Republic	100	100	Euro
Nemak Rus, L. L. C.	Russia	100	100	Russian Ruble
Nemak Aluminum Castings				
India Private, Ltd.	India	100	100	Rupee
Nemak Automotive Castings, Inc.	USA	100	100	U.S. dollar
Nemak Izmir Döküm Sanayii A. Ş.	Turkey	100	100	Euro
Nemak Izmir Dis Ticaret A. Ş.	Turkey	100	100	Euro
<b>AXTEL (TELECOMMUNICATIONS)</b>				
Axtel, S. A. B. de C. V. <sup>(7)</sup>		53	53	Mexican peso
Avantel, S. de R. L. de C. V.		100	100	Mexican peso
Servicios Axtel, S. A. de C. V.		100	100	Mexican peso

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUATION	COUNTRY <sup>(1)</sup>	SHAREHOLDING (%) <sup>(2)</sup>		FUNCTIONAL CURRENCY
		2018	2017	
<b>NEWPEK (NATURAL GAS AND HYDROCARBONS)</b>				
Newpek, S. A de C. V.		100	100	Mexican peso
Oil and Gas Holding España, S.L.U. (Holding Co.) (formerly Alfa Energía Exterior, S.L.U.)	Spain	100	100	Euro
Newpek, L. L. C.	USA	100	100	U.S. dollar
Newpek Capital, S. A de C. V.		100	100	Mexican peso
BPZ Exploración & Producción S. R. L.	Peru	100	100	U.S. dollar
Alfasid del Norte, S. A. de C. V.		100	100	Mexican peso
<b>OTHER COMPANIES</b>				
Colombin Bel, S. A. de C. V.		100	100	U.S. dollar
Terza, S. A. de C. V.		50	50	Mexican peso
Alfa Corporativo, S. A. de C. V.		100	100	Mexican peso
Alfa Subsidiaria Alimentos, S. A. de C. V.		100	100	Mexican Peso

<sup>(1)</sup>Companies incorporated in Mexico, except those indicated.

<sup>(2)</sup>Ownership percentage that Alfa has in the holding companies of each business group and ownership percentage that such holding companies have in the companies integrating the groups. Ownership percentages and the right to vote are one and the same.

<sup>(3)</sup>The Company owns 50% plus one share, see Note 5.2 a.

<sup>(4)</sup>Companies acquired in 2017, see Note 2.

<sup>(5)</sup>Companies acquired in 2018, see Note 2.

<sup>(6)</sup>In 2017, 100% of the shares were acquired. Prior to the acquisition, Sigma owned 49% of the shares.

<sup>(7)</sup>In 2017, the Extraordinary General Stockholders' Meeting decided that, concerning the merger of Onexa, S.A. de C.V. with Axtel, 1,019,287,950 Class "I" Series "B" shares, equivalent to 2.50% of Axtel's capital stock will be delivered to Alfa.

<sup>(8)</sup>The purchase agreement of this entity included an earn-out clause for the production of PETG. Under this clause, the selling party kept in stock the shares not acquired by Alpek, which could be released to the extent that Alpek completed the first production run of PETG. At the end of 2018, Alpek maintains 50% + 1 shareholding.

As of December 31, 2018 and 2017, there are no significant restrictions for investment in shares of 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 cause such effects occur. The effect of absorption (dilution) of control is determined by comparing the book value of the investment in shares 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

When the Company has issued a call option on certain non-controlling interests in a consolidated subsidiary. The exercise price of the option is determined according to a predefined formula based on the financial performance of the subsidiary and can be exercised on a certain date. Put options granted to non-controlling stockholders that hold the risks and benefits on the net assets of the consolidated subsidiary are recognized as financial liabilities at the present value of the amount to be reimbursed of the options, initially recorded with a corresponding reduction in the Equity and subsequently accrue through financial charges in results during the contractual period.

### *iii. Sale or disposal of subsidiaries*

When the Company ceases to have control any retained interest in the entity is remeasured at fair value, and the change in the carrying amount is recognized in the consolidated statement of income. The fair value is the initial carrying amount for the purposes 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 if the Company had directly disposed of the related assets and liabilities. This results in the amounts previously recognized in comprehensive income being 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 using 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 the comprehensive income are reclassified to income for the year, where appropriate.

The Company's share of profits or losses of associates, post-acquisition, is recognized in the consolidated statement of income and its share in the other comprehensive income of associates 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 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 adopted by the Company, the accounting policies of associates have been modified. When the Company ceases to have significant influence over an associate, any difference between the fair value of the remaining 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 one of the parties sharing control.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Investments in joint arrangements are classified in accordance with the contractual rights and obligations of each investor such as: joint operations or joint ventures. When the Company holds the right over assets and obligations for related assets under a joint arrangement, this 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. The Company has assessed the nature of its joint arrangements and classified them as joint ventures. Joint ventures are accounted for by using the equity method applied to an investment in associates.

### **c. Foreign currency translation**

#### *i. Functional and presentation currency*

The amounts included in the financial statements of each of the Company's subsidiaries and associates should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). In the case of Alfa, S. A. B. de C. V., the functional currency is determined to be the Mexican peso. The consolidated financial statements are presented in Mexican pesos, which is the Company's presentation currency.

When there is a change in the functional currency of one of the subsidiaries, according to International Accounting Standard 21 - Effects of changes in foreign exchange rates ("IAS 21"), this change is accounted for prospectively, translating at the date of the functional currency change, all assets, liabilities, equity, and income items at the exchange rate of that date.

#### *ii. Transactions and balances*

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

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.

#### *Translation of subsidiaries with recording currency other than the functional currency.*

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

- The balances of monetary assets and liabilities denominated in the recording currency were translated at the closing exchange rate.
- To the historical balances of monetary assets and liabilities and stockholders' equity translated into the functional currency the movements that occurred during the period were added, which were translated at historical exchange rates. In the case of the movements of non-monetary items recognized at fair value, which occurred during the period stated in the recording currency, these were translated using the historical exchange rates in effect on the date when the fair value was determined.
- Revenues, costs and expenses of 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 of the non-monetary items was used.
- The exchange differences arising in the translation were recognized as income or expense in the consolidated statement of income in the period they arose.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### *Translation of subsidiaries with functional currency other than the presentation currency.*

The results and financial position of all Alfa's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows, depending on whether the functional currency comes from a non-hyperinflationary or hyperinflationary environment:

#### *Non-hyperinflationary environment*

- Assets and liabilities for each statement of financial position are translated at the closing exchange rate at the date of the statement of financial position.
- Stockholders' equity of each statement of financial position presented is translated at historical exchange rate.
- Revenues and expenses for each statement of income are translated at average exchange rate (when the average exchange rate is not a reasonable approximation of the cumulative effect of the rates of the transaction, to the exchange rate at the date of the transaction is used); and
- The resulting exchange differences are recognized in the consolidated statement of comprehensive income as translation effect.

#### *Hyperinflationary environment*

- Assets, liabilities and equity in the statement of financial position, as well as income and expenses in the income statement, are translated at the closing exchange rate of the statement of financial position, after being restated in its functional currency (Note 3d.);
- Assets, liabilities, equity, income and expenses of the comparative period, are maintained according to the amount obtained in the translation of the year in question, that is, the financial statements of the preceding period. These amounts are not adjusted to subsequent exchange rates because the Company presents its financial information in Mexican pesos, which correspond to a currency of a non-hyperinflationary environment.

The main exchange rates in the different translation procedures are listed below:

		LOCAL CURRENCY TO MEXICAN PESOS			
		CLOSING EXCHANGE RATE AT DECEMBER 31,		AVERAGE ANNUAL EXCHANGE RATE	
COUNTRY	LOCAL CURRENCY	2018	2017	2018	2017
Canada	Canadian dollar	14.41	15.74	14.77	15.09
USA	US dollar	19.68	19.75	19.20	19.10
Brazil	Brazilian real	5.07	5.96	5.24	5.81
Argentina	Argentine peso	0.52	1.06	0.70	1.07
Peru	Peruvian sol	5.84	6.09	5.83	5.92
Costa Rica	Costa Rican Colon	0.03	0.04	0.03	0.04
Ecuador	US dollar	19.68	19.75	19.20	19.10
Czech Republic	Euro	22.51	23.69	22.62	22.92

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

		LOCAL CURRENCY TO MEXICAN PESOS			
		CLOSING EXCHANGE RATE AT DECEMBER 31,		AVERAGE ANNUAL EXCHANGE RATE	
COUNTRY	LOCAL CURRENCY	2018	2017	2018	2017
Germany	Euro	22.51	23.69	22.62	22.92
Austria	Euro	22.51	23.69	22.62	22.92
Italy	Euro	22.51	23.69	22.62	22.92
France	Euro	22.51	23.69	22.62	22.92
Hungary	Euro	22.51	23.69	22.62	22.92
Poland	Euro	22.51	23.69	22.62	22.92
Slovakia	Euro	22.51	23.69	22.62	22.92
Spain	Euro	22.51	23.69	22.62	22.92
Romania	Euro	22.51	23.69	22.62	22.92
Russia	Russian ruble	0.28	0.34	0.31	0.33
China	RenMinBi Chinese yuan	2.86	3.03	2.90	2.92
India	Indian rupee	0.28	0.31	0.28	0.30

#### d. Hyperinflationary effects

As of July 1, 2018, the cumulative inflation in Argentina of the prior 3 years exceeded 100%, consequently, the Argentine peso was classified as a currency of a hyperinflationary economic environment. As a result of, the financial statements of the subsidiaries located in that country, whose functional currency is the Argentine peso, have been restated and adjusted for inflation in accordance with the requirements of the International Accounting Standard 29 Financial information in hyperinflationary economies ("IAS 29") and they have been consolidated in compliance with the requirements of IAS 21. The purpose of applying these requirements is to consider changes in the general purchasing power of the Argentine peso in order to present the financial statements in the current unit of measurement at the date of the statement of financial position. The financial statements before including any inflation adjustments were prepared using the historical cost method.

*The Company determined the inflation adjustments in its consolidated financial statements in the following manner:*

- The amounts corresponding to non-monetary items of each statement of financial position, which are not measured at the date of the statement of financial position at their fair value or net realizable value, as the case may be, are restated applying the variation of a general price index, from the date of acquisition or the date of its last measurement at fair value, to the date of the statement of financial position, to the historical cost;
- The amounts corresponding to monetary items of the statement of financial position are not restated;
- The components of stockholders' equity of each statement of financial position are restated:
  - i. at the beginning of the first period of application of IAS 29, except for retained earnings, by applying the change of a general price index from the dates the components were originated to the date of restatement. Restated retained earnings are derived from all the other balances in the statement of financial position;



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- ii. at the end of the first period and in subsequent periods, all components of stockholders' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later.
- Revenues and expenses are restated by applying the variation in the general price index, from the date on which the expenses and revenues were recognized, up to the reporting date.
- Gains or losses arising from the net monetary position are recognized in the consolidated statement of comprehensive income.

As of July 1, 2018, the Company reflects the effects of hyperinflation on the financial information of its subsidiaries in Argentina using price indexes that are considered appropriate in accordance with Resolution 539/19 JG ("the Resolution") of the Argentine Federation of Professional Councils of Economic Sciences. This resolution establishes that a combination of price indices should be used in the calculation of the effects of restatement of financial statements. Therefore, the Company has decided to use the Consumer Price Index ("CPI") to restate balances and transactions that have been generated as of January 2017; and the IPIM (domestic wholesale price index) for balances and transactions generated for all months prior to 2017, except for the months of November and December 2015, due to the fact that said index was not available. For these months, the Company used the IPCBA (consumer price index of the city of Buenos Aires).

The effects of the restatement of the financial statements of the subsidiaries located in Argentina, were not material; therefore, they were included in the "Financial result, net" line item of the year ended December 31, 2018.

### **e. Cash and cash equivalents**

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

### **f. Restricted cash**

Cash and cash equivalents whose restrictions cause them not to comply with the definition of cash and cash equivalents given 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 cash flows.

### **g. Financial instruments**

#### **Financial assets**

Through December 31, 2017, the Company classified financial assets into the following categories: at fair value through profit or loss, loans and receivables, investments held to maturity and available for sale. The classification depended on the purpose for which the financial assets were acquired. Beginning January 1, 2018, in accordance to the adoption of IFRS 9, Financial Instruments, the Company subsequently classifies and measures its financial assets based on the Company's business model to manage financial assets, and on the characteristics of the contractual cash flows of such assets. This way financial assets can be classified at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss. Management determines the classification of its financial assets upon initial recognition. Purchases and sales of financial assets are recognized at settlement date.

Financial assets are entirely written off when the right to receive the related cash flows expires or is transferred and the Company has also substantially transferred all the risks and rewards of its ownership, as well as control of the financial asset.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*Classes of financial assets under IAS 39, in effect through December 31, 2017*

*i. Financial assets at FVTPL*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired mainly for the purpose of being sold in the short term. Derivative financial instruments are also classified as held for trading unless they are designated as hedges.

Financial assets recorded at fair value through profit or loss are initially recognized at fair value, and transaction costs are recorded as an expense in the consolidated statement of income. Gains or losses due to changes in fair value of these assets are presented in profit or loss of 2017.

Beginning January 1, 2018, financial assets at fair value through profit or loss still maintain their classification according to the assessment of their business model, however, financial assets previously classified in this category at December 31, 2017, did not suffer measurement impacts and were classified as described in Note vii of this section.

*ii. Loans and receivables*

Accounts receivable are non-derivative financial assets with fixed or specific payments that are not traded in an active market. They are included as current assets, except for maturities greater than 12 months after the date of the consolidated statement of financial position, which are classified as non-current assets.

Loans and receivables are initially valued at fair value plus directly attributable transaction costs and, subsequently, at amortized cost, using the effective interest method. When circumstances indicate that amounts receivable will not be collected in the amounts initially agreed or will be collected in a different period, accounts receivable are impaired.

Beginning January 1, 2018, loans and receivables are considered within the class of financial assets at amortized cost (see number v in this section).

*iii. Investments held to maturity*

If the Company has a demonstrable intention and capacity to hold debt instruments to maturity, they are classified as held to maturity. Assets in this category are classified as current assets if they are expected to be settled within the following 12 months, otherwise, they are classified as non-current assets. They are initially recognized at fair value plus any directly attributable transaction cost, subsequently, they are valued at amortized cost using the effective interest method. Investments held to maturity are recognized or written off on the day they are transferred to or through the Company. As of December 31, 2018 and 2017, the Company does not have this type of investment.

*iv. Investments available for sale*

Investments available for sale are non-derivative financial assets designated to this category or that do not fall under any of the other categories. They are included as non-current assets, unless their maturity is less than 12 months or management intends to dispose of that investment within the following 12 months after the date of the consolidated statement of financial position.

Investments available for sale are initially recognized at fair value plus directly attributable transaction costs. Subsequently, these assets are recorded at fair value (unless they cannot be measured at their value in an active market, and the value is not reliable, in this case, they will be recognized at cost less impairment).

Gains or losses arising from changes in the fair value of monetary and non-monetary instruments are directly recognized in the consolidated statement of comprehensive income in the period in which they occur.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

When investments classified as available for sale are sold or impaired, the fair value accumulated adjustments recognized in equity are reclassified to the consolidated statement of income. As of December 31, 2017, the Company does not have this type of investment.

*Classes of financial assets under IFRS 9, in effect beginning January 1, 2018*

*v. Financial assets at amortized cost*

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

*vi. Financial assets at fair value through other comprehensive income*

Financial assets at fair value through other comprehensive income are financial assets: i) held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and ii) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal. As of December 31, 2018, the Company does not have financial assets at fair value through other comprehensive income.

*vii. Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss, in addition to those described in point i in this section, are financial assets that do not meet the characteristics to be measured at amortized cost or fair value through other comprehensive income, since i) they have a business model different to those that seek to collect contractual cash flows, or collect contractual cash flows and sell the financial assets, or otherwise ii) the generated cash flows are not solely payments of principal and interest on the amount of outstanding principal.

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

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

As of December 31, 2018, the Company has not made any of the irrevocable designations described above.

### **Impairment of financial assets.**

Through December 31, 2017, the Company assessed whether there was objective evidence of impairment of each financial asset or group of financial assets. An impairment loss was recognized if there was 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) had an impact on the estimated future cash flows derived from the financial asset or group of financial assets that could be reliably estimated.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### **New impairment policy from the adoption of IFRS 9.**

Beginning January 1, 2018, the Company used a new impairment model based on expected credit losses rather than losses incurred, applicable to financial assets subject to such assessment (i.e. financial assets measured at amortized cost and at fair value through other comprehensive income), as well as lease receivables, contract assets, certain written loan commitments, and financial guarantee contracts. The expected credit losses on these financial assets are estimated from the initial recognition of the asset at each reporting date, using as a reference the past experience of the Company's credit losses, adjusted for factors that are specific to the debtors or groups of debtors, the general economic conditions and an assessment of both, the current management and the forecast of future conditions.

#### *i. Trade receivables and contract assets*

The Company adopted the simplified expected loss calculation model, through which expected credit losses are recognized during the account receivable's lifetime.

The Company performs an analysis of its portfolio of customer receivables, in order to determine if there are significant customers for whom it requires an individual assessment; meanwhile, customers with similar characteristics that share credit risks (participation in the portfolio of accounts receivable, type of market, sector, geographic area, etc.), are grouped to be evaluated collectively.

In its impairment assessment, the Company may include indications that the debtors or a group of debtors are experiencing significant financial difficulties, and also observable data indicating that there is a significant decrease in the estimated cash flows to be received, including arrears. For purposes of the historical estimate, the Company considers that the following constitutes an event of default, since historical experience indicates that financial assets are not recoverable when they meet any of the following criteria:

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

The Company defined the breach threshold as the period from which the recovery of the account receivable subjected to analysis is marginal, considering the internal risk management customers.

#### *ii. Other financial instruments*

The Company recognizes credit losses expected during the asset's lifetime of all financial instruments for which credit risk has significantly increased since its initial recognition (assessed on a collective or individual basis), considering all the reasonable and sustainable information, including the one referring to the future. If at the presentation date, the credit risk a financial instrument has not significantly increased since its initial recognition, the Company calculates the loss allowance for that financial instrument as the amount of expected credit losses in the following 12 months.

In measuring the expected credit losses, the Company does not necessarily identify all the possible scenarios. However, it considers the risk or probability that a credit loss occurs, reflecting the possibility that the payment default occurs and does not occur, even if that possibility is very low. In addition, the Company determines the period for the default to occur, and the recoverability rate after default.

Management assesses the impairment model and the inputs used therein at least once every 3 months, in order to ensure that they remain in effect based on the current situation of the portfolio.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Financial liabilities

Financial liabilities that are not derivatives are initially recognized at fair value and subsequently valued at amortized cost using the effective interest rate method. Liabilities in this category are classified as current liabilities if they are expected to be settled within the following 12 months; otherwise, they are classified as non-current liabilities.

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

### Derecognition of financial liabilities

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

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

### Offsetting 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 on a net basis or to realize the asset and settle the liability simultaneously.

### h. Derivative financial instruments and hedging activities

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

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

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

### Fair value hedges.

Changes in the fair value of derivative financial instruments are recorded in the consolidated statement of income. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the consolidated statement of income profit in the same line item as the hedged position. As of December 31, 2018 and 2017, the Company has no derivative financial instruments classified as fair value hedges.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Cash flow hedges.

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

### Net investment hedge in a foreign transaction.

Beginning March 1, 2018, the Company applies the hedge accounting to currency risk arising from its investments in foreign transactions for variations in exchange rates arising between the functional currency of such transaction and the functional currency of the holding entity, regardless of whether the investment is maintained directly or through a sub-holding entity. Variation in exchange rates is recognized in the other items of comprehensive income as part of the translation effect, when the foreign transaction is consolidated.

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

### Suspension of hedge accounting

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

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

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

### i. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the average cost method. The cost of finished goods and work-in-progress includes cost of product design, raw materials, direct labor, other direct costs and 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 other comprehensive income corresponding to raw material purchases that qualify as cash flow hedges.

### j. Property, plant and equipment

Items of property, plant and equipment are recorded at cost less the accumulated depreciation and any accrued impairment losses. Costs includes expenses directly attributable to the asset acquisition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 during 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 assets, and the cost is recognized in the carrying amount of the corresponding asset as a replacement, provided that 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 using the straight-line method, considering separately each of the asset's components, except for land, which is not subject to depreciation. The estimated useful life of the asset classes is indicated below:

Buildings and constructions	33 to 60 years
Machinery and equipment	10 to 14 years
Vehicles	4 to 8 years
Telecommunications network	6 to 28 years
Lab and IT furniture and equipment	6 to 10 years
Tooling and spare parts	3 to 20 years
Leasehold improvements	3 to 20 years
Other assets	3 to 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.

Borrowing costs related to financing of property, plant and equipment whose acquisition or construction requires a substantial period (nine months or more), 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 in 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.

During 2018, the Company reviewed the useful lives of its property, plant and equipment, and determined some changes because it is estimated that these assets will generate future economic benefits for period greater than previously estimated. These changes in the estimated useful life were recognized prospectively at the beginning of 2018 and represented a decrease in depreciation expense of \$768 with respect to the previous year.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Gains and losses on disposal of assets are determined by comparing the sale value with the carrying amount and are recognized in other expenses, net, in the consolidated statement of income.

### **k. Leases**

The classification of leases as finance or operating depends on the substance of the transaction rather than the form of the contract.

Leases in which 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 based on the straight-line method over the lease period.

Leases where 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, in order to discount 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 finance charges to achieve a constant rate on the outstanding balance. The corresponding rental obligations are included in non-current debt, net of finance charges. The interest element of the finance cost is charged to the income 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.

As of January 1, 2019, as a result of the adoption of IFRS 16, Leases, the Company's accounting policy for the treatment of leases as a lessee, has been modified according with what it is detailed in Note 3y.

### **l. Intangible assets**

Intangible assets are recognized in the consolidated statement of financial position when they meet the following conditions: they are identifiable, they 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, 2018 and 2017, no factors have been identified limiting the life of these intangible assets.

##### *(ii) Finite useful life*

These assets are recognized at cost less accumulated amortization and accrued 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 triggering events of impairment are identified.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Development costs	5 to 20 years
Exploration costs <sup>(1)</sup>	
Trademarks	5 to 22 years
Relationships with customers	15 to 17 years
Software and licenses	3 to 11 years
Intellectual property rights	20 to 25 years
Other (patents, concessions, non-competition agreements, among others)	3 to 20 years

<sup>(1)</sup> Exploration costs are depreciated based on the unit-of-production method based on proven reserves of hydrocarbons.

### 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 intends also has sufficient resources to complete the development and to use or sell the asset. Their amortization is recognized in income by the straight-line method over the estimated useful life of the asset. Costs in development that do not qualify for capitalization are recognized in income as incurred.

### Exploration costs

The Company uses the successful efforts method of accounting for its oil and gas properties. Under this method, all costs associated with productive and non-productive wells are capitalized while non-productive and geological exploration costs are recognized in the consolidated statement of income as incurred. Net capitalized costs of unproved reserves are reclassified to proven reserves when they are found. The costs of operating the wells and field equipment are recognized in the consolidated statement of income as incurred.

### 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 amortized based on their useful life according to the Company's evaluation; if in said evaluation it is determined that the useful life of these assets proves to be indefinite, then trademarks are not amortized but are subject to annual impairment tests.

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### Software development

Costs associated with the maintenance of software are recorded as expenses are 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 charged to income in the period they are incurred.

### m. Goodwill

Goodwill represents the excess of the acquisition cost of a subsidiary over the Company's interest in the fair value of the identifiable net assets acquired, determined at the date of acquisition, and 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.

### n. 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 for 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 its 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). Non-financial long-term assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

When an impairment loss is reversed, the carrying amount of the asset or cash generating unit, is increased to the revised estimated value of its recoverable amount, in such a way that the adjusted carrying amount does not exceed the carrying amount that would have been determined if an impairment loss had not been recognized for that asset or cash generating unit in previous years. The reversal of an impairment loss is recognized immediately in the consolidated statement of income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### **o. Income tax**

The amount 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 of the year and the effects of deferred income tax assets determined in each subsidiary by the assets and liabilities method, applying the rate established by the legislation enacted or substantially enacted at the consolidated statement of financial position date, wherever the Company operates and generates taxable income. The applicable rates are applied to the total temporary differences resulting from comparing the accounting and tax bases of assets and liabilities, and that are expected to be applied when the deferred tax asset is realized or the deferred tax liability is expected to be settled, considering, when applicable, any tax-loss carryforwards, prior to the recovery analysis. The effect of the change in current tax rates is recognized in current income of the period in which the rate change is determined.

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, associates, and joint agreements is recognized, unless the period of reversal of temporary differences is controlled by Alfa 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.

### **p. Employee benefits**

#### *i. Pension plans*

#### **Defined contribution plans:**

A defined contribution plan is a pension plan under which the Company pays fixed contributions into 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. The contributions are recognized as employee benefit expense on the date that the contribution is required.

#### **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 consolidated 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 third parties using 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 in conformity with IAS 19 – Employee Benefits that are denominated in the currency in which the benefits will be paid, and have maturities that approximate the terms of the pension liability.

Actuarial remeasurements arising from adjustments and changes in actuarial assumptions are recognized directly in stockholders' equity in other items of the comprehensive income in the year they occur, and will not be reclassified to profit or loss of the period.

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 following dates, whichever occurs first: (a) when the Company can no longer withdraw the offer of these benefits, and (b) when the Company recognizes the costs from restructuring within the scope of the IAS 37 and it involves the 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*

La Compañía otorga beneficios a empleados a corto plazo, los cuales pueden incluir sueldos, salarios, compensaciones anuales y bonos pagaderos en los siguientes 12 meses. Alfa reconoce una provisión sin descontar cuando se encuentre contractualmente obligado o cuando la práctica pasada ha creado una obligación.

### *v. Statutory employee profit sharing (PTU in Spanish) and bonuses*

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

### **q. 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 class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

### **r. Share based payment**

The Company has compensation plans that are based on the market value of shares of Alfa, Alpek, Axtel and Nemark granted to certain senior executives of the Company and its subsidiaries. The conditions for granting such compensation to the eligible executives includes compliance with certain financial metrics such as the level of profit achieved and remaining in the Company for up to 5 years, among other requirements. The Board of Directors has appointed a Technical

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Committee to manage the plan, and it reviews the estimated cash settlement of this 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.

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

### **s. Treasury shares**

The Company's stockholders' periodically authorize a maximum amount for the acquisition of the Company's own shares. Upon the occurrence of a repurchase of its own shares, they become treasury shares and the amount is presented as a reduction to stockholders' equity at the purchase price. These amounts are stated at their historical value.

### **t. Capital stock**

Alfa's common shares are classified as capital stock within stockholders' equity. Incremental costs directly attributable to the issuance of new shares are included in equity as a reduction from the consideration received, net of tax.

### **u. Comprehensive income**

Comprehensive income is comprised of net income or loss, plus the annual effects of their capital reserves, net of taxes, which are comprised of the translation of foreign subsidiaries, the effects of derivative cash flow hedges, actuarial remeasurements, net investment hedges, the effects of the change in the fair value of financial instruments available for sale, the equity in other items of comprehensive income or losses of associates, and other items specifically required to be reflected in stockholders' equity, and which do not constitute capital contributions, reductions and distributions.

### **v. Segment reporting**

Segment information is presented consistently with the internal reporting provided to the Chief Executive Officer who is the highest authority in operational decision-making, resource allocation and assessment of operating segment performance.

### **w. Revenue recognition**

Revenues comprise the fair value of the consideration received or to receive for the sale of goods and services in the ordinary course of the transactions, and are presented in the consolidated statement of income, net of the amount of variable considerations, which comprise the estimated amount of returns from customers, rebates and similar discounts and payments made to customers with the objective that goods are accommodated in attractive and favorable spaces at their facilities.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For Nematik, the Company evaluates whether agreements signed in conjunction with a manufacturing contract must be combined as a single contract. In cases where the two contracts meet the characteristics to be combined, management evaluates the performance obligations identified in the contract. Therefore, when determining the existence of separable performance obligations in a contract with clients, management evaluates the transfer of control of the good or service to the client, with the purpose of determining the moment to recognize the revenue corresponding to each performance obligation.

Additionally, for Axtel, the Company evaluates certain contracts in which more than one separable performance obligation is identified, which consists of the equipment used to provide the service that is installed in the customer's locations. In addition to the equipment, telecommunications and information technology services are identified as another separable performance obligation. In the event that the equipment delivered to the customer is a separate performance obligation for the performance of the service, the Company assigns the price of the service contracts administered to the performance obligations identified according to their independent values in the market and relative discounts.

Performance obligations from the sale of goods and products are not separable, and are not partially met, so they are satisfied at a point in time, when the control of the products sold has been transferred to the customer which is given at the time of the delivery of the goods promised to the customer in accordance with the contractual terms negotiated. The Company recognizes an account receivable when the performance obligations have been met, recognizing the corresponding revenue.

The payment terms identified in most sources of revenue are short-term, with variable considerations including discounts and product rebates that are granted to customers, without financial components or significant guarantees. These discounts and incentives to customers are recognized as a reduction in revenue. Therefore, the allocation of the price is direct on the performance obligations of production, distribution and delivery, including the effects of variable consideration.

When the Company identifies separable performance obligations, it allocates the price of the transaction to each item, in order to recognize the corresponding revenue, either at a point in time, or over time. Specifically, for Axtel, the Company recognizes the revenue derived from managed service contracts as follows:

- Revenues for equipment installed in customer locations are recognized at the time control is transferred or the right to use them, that is, at a point in time. This performance obligation has a significant financial component, so that revenues are recognized in accordance with the effective interest rate method during the term of the contract.
- Revenues from services are recognized as they are provided, that is, as the customer is consuming them in relation to voice, data and telecommunications services.

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

The Company's management adopted IFRS 15, Revenue from contracts with customers on January 1, 2018 using the modified retrospective method applied to the contracts in force on the date of adoption, for which reason the accounting policy applied as of said date, is not comparable to that used for the year ended December 31, 2017.

### **x. Earnings per share**

Earnings per share are calculated by dividing the income attributable to the owners of the controlling entity by the weighted average of outstanding common shares during the year. As of December 31, 2018 and 2017, there are no dilutive effects for instruments potentially convertible to shares.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### **y. 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, 2018, including the annual improvements to IFRS, as described below:

#### **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 had no impacts associated with the new measurement category of fair value through other comprehensive income, because it currently does not have any instrument that qualifies for this treatment; however, potential impacts could arise if its investment strategy was changed in the future. In addition, there were no impacts related to hedge accounting.

Finally, in regards to the new model for impairment based on expected losses, the Company decided to adopt the standard retrospectively, recognizing the effects on retained earnings as of January 1, 2018. On this date, derived from the new requirements, the Company recognized an adjustment of \$359, net of deferred taxes, for increasing the allowance for impairment of accounts receivable. In addition, the number of disclosures increased in the Company's consolidated financial statements.

#### **IFRS 15, Revenues from contracts with customers**

IFRS 15, *Revenues from contracts with customers*, is effective for periods beginning January 1, 2018. 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, which 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.

The Company's management adopted this standard using the modified retrospective approach applied to contracts in effect at the date of initial adoption on January 1, 2018. On this date, derived from the new requirements, the Company through its Sigma segment, recognized a liability corresponding to the right granted to its customers for the return of goods; such impact was recognized against retained earnings in the amount of \$80, net of taxes.

Additionally, the Company recognized through its Nemark segment, the cancellation of certain assets associated with long-term contractual relationships derived from the assignment of variable consideration to performance obligations that at the date of adoption have already been met; this impact was recognized against retained earnings for an amount of \$1,106, net of taxes.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Finally, the Company determined that for its Axtel segment, IFRS 15 impacted the following: (i) contracts with multiple performance obligations and (ii) recognition of costs for obtaining contracts. For the new contracts that were negotiated subsequent to January 1, 2018, in which embedded finance leases related to the equipment used to provide services to customers were identified, revenue was recognized for the sale of equipment at the inception date of the lease; an account receivable for contractual payments at their present value and the corresponding cost of the equipment. Additionally, during the term of these agreements, Axtel will recognize interest income based on the effective interest method.

In addition, the required disclosures increased in the consolidated financial statements of the Company.

### **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.

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 did not have significant impacts in the adoption of this interpretation in its consolidated financial statements.

### *ii. New standards and interpretation, not in force in the reporting period*

A number of new standards, amendments and interpretations have been issued, are not yet effective for reporting periods ended December 31, 2018, 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 16, Leases**

IFRS 16, Leases, supersedes IAS 17, Leases, and the related interpretations. This new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and financial leases, while the model for lessees remains without significant changes. IFRS 16 is effective beginning January 1, 2019, and the Company decided to adopt it with the recognition of all the effects as of that date, without changing prior years.

Under IFRS 16, lessees will recognize a right-of-use asset and the corresponding lease liability. The right of use will be depreciated based on the contractual term or, in some cases, on its economic useful life. On the other hand, the financial liability will be measured at initial recognition, discounting future minimum lease payments at present value according to a term, using the discount rate that represents the lease funding cost; subsequently, the liability will accrue interest through maturity.

The Company will apply the exemptions to not to recognize an asset and a liability as described above, for lease agreements with a term of less than 12 months (provided that they do not contain purchase or term renewal options) and for those agreements where the acquisition of an individual asset of the contract was less than USD\$5,000 (five thousand dollars). Therefore, payments for such leases will continue to be recognized as expenses within operating income.

The Company adopted IFRS 16 on January 1, 2019; therefore, it recognized a right-of-use asset and a lease liability of approximately \$5,965.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In addition, the Company adopted and applied the following practical expedients provided by IFRS 16:

- Account for as leases the payments made in conjunction with the rent, and that represent services (for example, maintenance and insurance).
- Create portfolios of contracts that are similar in terms, economic environment and characteristics of assets, and use a funding rate by portfolio to measure leases.
- For leases classified as financial leases as of December 31, 2018, and without elements of minimum payment updating for inflation, maintain the balance of the right-of-use asset, and its corresponding lease liability on the date of adoption of IFRS 16.
- Not to revisit the previously reached conclusions for service agreements which were analyzed to December 31, 2018 under the IFRIC 4, Determining Whether a Contract Contains a Lease, and where it had been concluded that there was no implicit lease.

The Company has taken the required steps to implement the changes that the standard represents in terms of internal control, tax and systems affairs, from the adoption date.

Lastly, as a result of these changes in accounting, some performance indicators of the Company, such as operating income and adjusted EBITDA, will be affected because what was previously recognized as an operating rental expense equivalent to rental payments, now a portion will be recognized by reducing the financial liability (which will not affect the statement of income), and the other portion will be recognized as a financial expense under the operating income indicator. On the other hand, the expense for depreciation of right-of-use assets will affect operating income linearly, but without representing a cash outflow, which will benefit the adjusted EBITDA.

### **IFRIC 23, Interpretation on 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 are tax treatments 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, *Accounting Policies, Changes in Accounting Estimates and Errors*, modifying comparative periods or retrospectively with the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings, without modifying comparative periods.

The Company determined that the impacts of the implementation of this Interpretation as of January 1, 2019 are not material considering the prevailing conditions of the tax positions that it has taken at the date of adoption and the faculties of the competent authorities to assess tax positions held by the Company at the same date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's activities expose it to various financial risks; market risk (including exchange rate risk, price risk, and interest rate variation risk), credit risk and liquidity risk.

The Company has a general risk management program focused on the unpredictability of financial markets, and seeks to minimize the potential adverse effects on its financial performance.

The objective of the risk management program is to protect the financial health of its business, taking into account the volatility associated with foreign exchange and interest rates. Sometimes, the Company uses derivative financial instruments to hedge certain exposures to risks. In addition, due to the nature of the industries in which it participates, the Company has performed hedges of input prices with derivative financial instruments.

Alfa has a Risk Management Committee (RMC), comprised of the Board's Chairman, the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and the Chief Executive Officer of the corresponding business unit. The RMC reviews derivative transactions proposed by the subsidiaries of Alfa, in which a potential loss analysis surpasses US\$1. This Committee supports both the CEO and the Company's Board President. 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 Alfa's CEO and the corresponding subsidiary, according to the following schedule of authorizations:

	MAXIMUM POSSIBLE LOSS US\$1 MILLION	
	INDIVIDUAL TRANSACTION	ANNUAL CUMULATIVE TRANSACTIONS
Chief Executive Officer of Alfa	1	5
Risk Management Committee of Alfa	30	100
Finance Committee	100	300
Board of Directors of Alfa	>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 properly documented. Sensitivity analysis and other risk analyses should be performed before the operation is entered into.

The Company's risk management policy indicates that hedge positions must always be less than the projected exposure to allow for an acceptable margin of uncertainty. Exposed transactions are expressly prohibited. The Company's policy indicates that the farther the exposure is, the lower the coverage, based on the following table:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### MAXIMUM COVERAGE (AS A PERCENTAGE OF THE PROJECTED EXPOSURE)

	CURRENT YEAR
Commodities	100
Energy costs	75
Exchange rate for operating transactions	80
Exchange rate for financial transactions	100
Interest rates	100

### CAPITAL MANAGEMENT

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to stockholders and benefits to other stakeholders, as well as maintaining an optimal capital structure to reduce the cost of capital.

To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to stockholders, return equity to stockholders, issue new shares or sell assets to reduce debt.

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

The financial ratio of total liabilities/total equity was 2.77 and 2.88 as of December 31, 2018 and 2017, respectively, resulting in a leverage ratio that meets the Company's management and risk policies.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FINANCIAL INSTRUMENTS BY CATEGORY

Below are the Company's financial instruments by category:

As of December 31, 2018 and 2017, financial assets and liabilities consist of the following:

	AS OF DECEMBER 31,	
	2018	2017
Cash and cash equivalents	\$ 26,411	\$ 32,813
Restricted cash	1,480	1,965
<b>Financial assets measured at amortized cost:</b>		
Trade and other accounts receivable	45,184	38,690
Other non-current assets	4,077	2,227
Financial assets measured at fair value (1):		
Derivative financial instruments <sup>(2)</sup>	1,121	209
	<b>\$ 78,273</b>	<b>\$ 75,904</b>
<b>Financial liabilities measured at amortized cost:</b>		
Debt	\$155,549	\$157,945
Trade and other accounts payable	76,230	71,031
Other non-current liabilities	90	82
Financial liabilities measured at fair value:		
Derivative financial instruments	1,369	776
	<b>\$233,238</b>	<b>\$229,834</b>

<sup>(1)</sup>As described in Note 3g., the Company had no impacts associated with the introduction of the new category of financial assets measured at fair value through other comprehensive income, derived from the adoption of IFRS 9. Therefore, all financial assets that were measured at fair value as of January 1, 2018 thereon, were classified as financial assets measured at fair value through profit or loss. Therefore, the comparative information is appropriate, since it reflects the consistency in the recognition and measurement principles for all reporting periods.

<sup>(2)</sup>The Company designated the derivative financial instruments that comprise this balance, as hedges for accounting purposes, in accordance with what is described later in this Note.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES VALUED AT AMORTIZED COST

The amount of cash and cash equivalents, restricted cash, customers and other accounts receivable, other current assets, trade and other accounts payable, current debt, other current liabilities approximate their fair value, because their maturity date is less than twelve months. The net carrying amount of these accounts represents the expected cash flows to be received as of December 31, 2018 and 2017.

The carrying amount and estimated fair value of assets and liabilities valued at amortized cost is presented below:

	AS OF DECEMBER 31, 2018		AS OF DECEMBER 31, 2017	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets:				
Non-current accounts receivable	\$ 4,077	\$ 4,077	\$ 2,227	\$ 2,227
Financial liabilities:				
Non-current debt <sup>(1)</sup>	142,899	139,585	146,425	151,475

<sup>(1)</sup> The book value of the debt, for purposes of calculating its fair value, is presented gross of interest payable and issuance costs.

The estimated fair values as of December 31, 2018 and 2017 were determined based on discounted cash flows and with reference to the yields at the closing of the debt securities, using rates reflecting a similar credit risk, depending on the currency, maturity period and country where the debt was acquired. The primary rates used are the Interbank Equilibrium Interest Rate ("TIIE" for its acronym in Spanish) for instruments in Mexican pesos, London Interbank Offer Rate ("LIBOR") for instruments in US dollars and Euro Interbank Offer Rate ("EURIBOR") for instruments in Euro. Measurement at fair value for non-current accounts receivable is deemed within Level 3 of the fair value hierarchy, while for the financial debt, the measurement at fair value is deemed within Levels 1 and 2 of the hierarchy, as described herein below.

### MARKET RISKS

#### (i) Exchange rate risk

The Company operates internationally, and is exposed to foreign exchange risk, primarily derived from the transactions and balances that the subsidiaries conduct and have in foreign currency, respectively. A foreign currency is that which is different from the functional currency of an entity. In addition, the Company is exposed to changes in the value of financial instruments arising from foreign exchange variations; therefore, the Company applies hedge accounting to the differences in foreign currency originated between the functional currency of the foreign operation and the functional currency of the holding company (pesos), regardless of whether the net investment is maintained directly or indirectly through a subholding.

The behavior of the exchange rates fluctuations between the Mexican peso, US dollar and the euro represents a very important factor for the Company due to the effect that such currencies have on its consolidated results and because, in addition, Alfa has no interference in its determination. Historically, in times when the Mexican peso has appreciated in against other currencies such as the US dollar, Alfa's profit margins have been reduced. On the other hand, when the Mexican peso has lost value, Alfa's profit margins have increased. However, although this factor correlation has arisen several times in the recent past, there is no assurance 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 foreign currency monetary position of its subsidiaries.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Accordingly, the Company sometimes enters into transactions with derivative financial instruments on exchange rates in order to hedge the risk associated with exchange rates. However, as most of the Company' revenues are in US dollars, there is a natural hedge against its obligations in US dollars.

Based on the above, the Company has the following assets and liabilities in foreign currency in relation to the functional currency of the subsidiary entities, translated to millions of Mexican pesos at the closing exchange rate as of December 31, de 2018:

	MXN	USD	EUR
Financial assets	\$19,899	\$ 24,403	\$ 1,036
Financial liabilities	(22,545)	(51,815)	(14,427)
<b>Foreign exchange monetary position</b>	<b>\$ (2,646)</b>	<b>\$ (27,412)</b>	<b>\$ (13,391)</b>

The exchange rates used to translate the foreign currency monetary positions to Mexican pesos are those described in Note 3.

Based on the financial positions in foreign currency maintained by the Company, a hypothetical variation of 10% in the MXN/USD and MXN/EUR exchange rate and keeping all other variables constant, would result in an effect of \$4,179 in the consolidated statement of income and stockholders' equity as of December 31, 2018.

### FINANCIAL INSTRUMENTS TO HEDGE NET INVESTMENTS IN FOREIGN TRANSACTIONS

Beginning March 1, 2018 (designation date), the Company designated certain non-current debt instruments as hedges to net investments in foreign transactions in order to mitigate the variations in exchange rates arising between the functional currency for such transactions and the functional currency of the holding or sub-holding company that maintains these investments.

The Company formally designated and documented each hedging relationship establishing objectives, management's strategy to hedge the risk, the identification of the hedging instrument, the hedged item, the nature of the risk to be hedged, and the methodology to assess the effectiveness. Given that the exchange rate hedging relationship is clear, the method that the Company used to assess the effectiveness consisted of a qualitative effectiveness test by comparing the critical terms between the hedging instruments and the hedged items.

The hedge will be effective as long as the notional debt instrument designated as a hedging instrument is equal to or less than the value of the net assets of the hedged foreign transaction. When the value of the net assets of the foreign transaction is less than the notional value of the designated debt, the Company rebalances the hedging relationship and recognizes the ineffectiveness in the income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2018, the Company maintains the following hedging relationships:

HOLDING	FUNCTIONAL CURRENCY	HEDGING INSTRUMENT	NOTIONAL VALUE	HEDGED ITEM	CHANGE IN NET ASSETS OF HEDGED ITEM
Alfa, S.A.B de C.V.	MXN	Senior Notes Fixed Rate	US\$ 500	Compagnie Selenis Canada	US\$ 9
		Senior Notes Fixed Rate	500	Polioles, S. A. de C. V.	12
		Bank loan	50	Styropek Mexico, S. A. de C. V.	83
				Dak Americas	666
				Nemak Mexico, S. A.	212
				Nemak USA, Inc.	367
				Nemak Automotive S. A. de C. V.	18
				Alestra USA, Inc.	1
				<b>US\$1,050</b>	<b>US\$ 1,368</b>

The average hedging ratio of the Company amounted to 96.5% from the designation date until December 31, 2018. Therefore, the exchange fluctuation generated by the hedging instrument from the date of designation until December 31, 2018 amounted to a net loss of \$1,068, which was recognized in other comprehensive income, offsetting the translation effect generated by each foreign subsidiary. The hedging effectiveness results confirm that the hedging relationships are highly effective due to the economic relationship between the hedging instrument and the hedged items; however, the effects of ineffectiveness that caused the need to rebalance the hedging relationship during the period were recognized immediately in profit or loss.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Additionally, the sub-holding companies of Alfa maintain the hedge relationships described below:

HOLDING	FUNCTIONAL CURRENCY	HEDGING INSTRUMENT	NOTIONAL VALUE	HEDGED ITEM	CHANGE IN NET ASSETS OF HEDGED ITEM
Nemak, S. A. B de C. V. <sup>(1)</sup>	USD	Senior Notes and bank loans	€ 210	Subsidiaries of Nemak, S. A. B de C.V.	€ 575
Alpek, S. A. B de C. V. <sup>(2)</sup>	MXN	Senior Notes and bank loans	US\$502	Subsidiaries of Alpek, S. A. B de C. V.	US\$ 873
Sigma Alimentos, S. A. de C. V. <sup>(3)</sup>	USD	Fixed rate 144A Bond	€ 600	Subsidiaries of Sigma Alimentos, S. A. de C. V.	€ 519
Campofrío Food Group, S. A.U. <sup>(4)</sup>	EUR	Fixed rate 144A Bond	US\$ 86	Subsidiaries of Campofrío Food Group, S. A. U.	US\$ 86
Sigma Alimentos Exterior, S. L. <sup>(5)</sup>	EUR	Fixed rate 144A Bond	US\$368	Subsidiaries of Sigma Alimentos Exterior, S. L.	US\$ 368
Sigma Alimentos, S. A. de C. V. <sup>(6)</sup>	USD	Debt securities	\$ 1,747	Subsidiaries of Sigma Alimentos, S. A. de C. V.	\$ 2,140

<sup>(1)</sup> The average hedging ratio of Nemak amounted to 30.8%. Therefore, the exchange fluctuation generated by the hedging instruments from the date of designation until December 31, 2018 amounted to a net gain of \$304, which was recognized in the other comprehensive income items.

<sup>(2)</sup> The average hedging ratio of Alpek amounted to 55.2%. Therefore, the exchange fluctuation generated by the hedging instruments from the date of designation until December 31, 2018 amounted to a net loss of \$324, which was recognized in the other comprehensive income items.

<sup>(3)</sup> The average hedging ratio of Sigma Alimentos amounted to 97.0%. Therefore, the exchange fluctuation generated by the hedging instruments from the date of designation until December 31, 2018 amounted to a net gain of \$868, which was recognized in the other comprehensive income items.

<sup>(4)</sup> The average hedging ratio of Campofrío Food Group amounted to 100% from the date of designation, because the Company maintains a bond for US\$495, of which it designated only US\$86 as an instrument to hedge the value of the net assets of its foreign investment with dollar as its functional currency. The exchange fluctuation generated by the hedging instrument from the date of designation until December 31, 2018 amounted to a net loss of \$20, which was recognized in the other comprehensive income items, offsetting the conversion effect generated by the foreign investment.

<sup>(5)</sup> The average hedging ratio of Sigma Alimentos Exterior was 100% from the date of designation, due to the fact that the Company maintains a bond of US\$409, of which it designated only US\$368 as an instrument to hedge the value of the net assets of the net assets of its foreign investment with dollar as its functional currency. The exchange fluctuation generated by the hedging instrument from the date of designation until December 31, 2018 amounted to a net loss of \$571, which was recognized in the other comprehensive income items, offsetting the conversion effect generated by each foreign investment.

<sup>(6)</sup> The average hedging ratio of Sigma Alimentos amounted to 80.7%. Therefore, the exchange fluctuation generated by the hedging instruments from the date of designation until July 12, 2018, amounted to a net gain of \$43, which was recognized in the other comprehensive income items.

The effectiveness results of the hedges confirm that the hedging relationships are highly effective due to the economic relationship between the hedging instruments and the hedged items.

### DERIVATIVE FINANCIAL INSTRUMENTS TO HEDGE THE EXCHANGE RATE RISK

As of December 31, 2017, the Company held forward contracts to hedge the exchange risk of the fluctuation of the dollar with respect to the Mexican peso. The fair value of these derivative financial instruments, classified as trading, was \$62.

Axtel, a subsidiary of the Company, has the Mexican peso ("MXN") as its functional currency and maintains accounts payable in US dollars ("USD"), and is exposed to foreign exchange risk. Therefore, as of December 31, 2018, it has designated forward contracts as accounting hedges, where the hedged item is represented by the payments of the USD debt.

Alpek, subsidiary of the Company, maintains forwards (USD/MXN and EUR/USD) to cover different needs. In the case of the USD/MXN ratio, Alpek seeks to cover short-term needs, which correspond to the sale of US dollars for the purchase of raw material in Mexican pesos. For its part, the EUR/USD ratio is used because part of Alpek's revenues are received in Euros, therefore, a highly probable forecasted transaction related to revenues budgeted in said foreign currency has been documented as a hedged item.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Sigma, subsidiary of the Company, maintains three currency swaps ("CCS") of hedge accounting with the objective of mitigating the risk of exposure to the MXN/USD exchange rate derived from the operations of its subsidiaries with peso functional currency. Therefore, Sigma has documented an accounting cash flow hedge relationship, considering as a hedged item a highly probable forecasted transaction related to a revolving liability denominated in Dollars.

The conditions of the derivative financial instruments and the considerations of their valuation as hedging instruments are mentioned below:

CHARACTERISTICS	FORWARDS MXN/USD	FORWARDS USD/MXN	FORWARDS EUR/USD	CCS USD/ MXN	CCS USD/MXN
Notional amount	US\$94	US\$16	€6	US\$250	US\$250
Currency	USD	USD	EUR	USD	USD
Average strike / Coupon	20.54 MXN/USD	20.79 MXN/USD	1.1756 EUR/USD	6.875%	4.125%
Notional amount	-	-	-	US\$4,652.5	US\$4,560
Currency	-	-	-	USD/MXN	USD/MXN
Average strike / Coupon	-	-	-	12.29%	8.88%-8.90%
Maturity	07/24/2019	02/27/2019	03/31/2020	12/16/2019	05/02/2026
Carrying amount of the Forward / CCS	\$(39)	\$17	\$1	\$301	\$763
Change in the fair value of the Forward / CCS, to measure ineffectiveness	\$(39)	\$17	\$1	\$297	\$728
Recognized in OCI net of reclassifications	\$35	\$(8)	\$ -	\$(223)	\$59
Ineffectiveness recognized in profit or loss	\$ -	\$ -	\$ -	\$ -	\$ -
Reclassification from OCI to profit or loss	\$4	\$(9)	\$ -	\$18	\$17
Carrying amount of the liability in USD	\$ -	\$ -	\$ -	\$(352)	\$(758)
Change in the fair value of the hedged item to measure ineffectiveness	\$39	\$(17)	\$(1)	\$ -	\$ -

In measuring the effectiveness of these hedges, the Company determined that they are highly effective because changes in the fair value and cash flows of each hedged item are compensated within the range of effectiveness established by management. The method used by the Company is the offset of cash flows using a hypothetical derivative, which consists in comparing the changes in the fair value of the hedging instrument with the changes in the fair value of the hypothetical derivative that would result in an identical hedge.

In accordance with the notional amounts described and the way in which the flows of the derivatives are exchanged, the average coverage ratio for the MXN/USD exchange rate is 46%, for the USD/MXN ratio it is 100 %, of 100% for the EUR/USD ratio; while, for CCS, the average coverage ratio is 25%.

In this hedging relationship, the source of ineffectiveness may be caused by three main reasons: the difference in the settlement date of the derivative and the hedged item, the credit risk and that the expected amount becomes a lower amount than the hedging instruments. For the year ended December 31, 2018, no ineffectiveness was recognized in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### PRICE RISK

In carrying out its activities, the Company depends on the supply of raw materials provided by its suppliers, both in Mexico and abroad, among which are intermediate petrochemicals, beef products, pork and poultry, dairy products and aluminum scrap, principally.

In recent years, the price of some inputs have shown volatility, especially those related to oil, natural gas, food, such as meat, cereals and milk, and metals.

In order to fix the selling prices of certain of its products, the Company has entered into agreements with certain customers. At the same time, it has entered into transactions involving derivatives on natural gas that seek to reduce price volatility of the prices of this input.

Additionally, it has entered into derivative financial instruments transactions to hedge purchases of certain raw materials, since these inputs have a direct or indirect relationship with the prices of its products.

The derivative financial operations have been privately contracted with various financial institutions, whose financial strength was highly rated at the time by rating agencies. The documentation used to formalize the contract operations is that based generally on the "Master Agreement", generated by the "International Swaps & Derivatives Association" ("ISDA"), which is accompanied by various accessory documents known in generic terms as "Schedule", "Credit Support Annex" and "Confirmation".

Regarding natural gas, the selling price of natural gas is determined by the price of that product on the "spot" market in South Texas, USA, which has experienced volatility. For its part, the Mexican Electric Commission is a decentralized public company in charge of producing and distributing electricity in Mexico.

The Company entered into various derivative agreements with various counterparties to protect it against increases in prices of natural gas and other raw materials. In the case of natural gas derivatives, hedging strategies for products were designed to mitigate the impact of potential increases in prices. The purpose is to hedge the price from volatility by taking positions that provide stable cash flow expectations, and thus avoid price uncertainty. The reference market price for natural gas is the Henry Hub New York Mercantile Exchange (NYMEX). The average price per MMBTU for 2018 and 2017 was US\$3.20 and US\$3.00, respectively.

As of December 31, 2018 and 2017, the Company had hedges of natural gas prices for a portion expected of consumption needs in Mexico and the United States.

### DERIVATIVE FINANCIAL INSTRUMENTS TO HEDGE THE PRICE RISK

Alfa's subsidiaries use natural gas and WTI crude derivatives to carry out their operating processes and within the polyester chain some of their main raw materials are paraxylene, ethylene and ethane, which causes an increase in the prices of natural gas, crude WTI, paraxylene, ethylene or ethane have negative effects on the cash flow of the operation. The objective of the hedge is to hedge against the exposure in the price increase of the aforementioned commodities, for future purchases by contracting swaps where variable prices are received and a fixed price is paid. A strategy called roll-over has been implemented, through which it is analyzed each month if more derivatives are contracted to expand the time or the amount of coverage. Currently, the Company is hedged until December 2024.

Additionally, one of Alfa's subsidiaries is a producer of hydrocarbons, so a drop in oil and gas prices negatively affects cash flow. The objective of the hedge is to hedge against the exposure to the decrease in prices of the aforementioned commodities, for future sales by contracting swaps where a fixed price is received and a variable price is paid. A strategy called roll-over has been implemented, through which it is analyzed each month if more derivatives are contracted to expand the time or the amount of coverage. The current contract as of December 31, 2018, expires in January 2019.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

These derivative instruments have been classified as cash flow hedges for accounting purposes. In this sense, the administration has documented, as a hedged item, a highly probable transaction in relation to the budget for purchases of these generic goods. The conditions of the derivative financial instruments and the considerations of their valuation as hedging instruments are mentioned below:

CHARACTERISTICS OF THE SWAPS	NATURAL GAS	PARAXYLENE	NAFTA	ETHYLENE	MEG	ETHANE	CRUDE WTI
Notional amount	17,228,760	297,200	10,500	118,000,000	33,500	10,200,000	26,000
Units	MMBtu	MT	MT	Pound	MT	Gal	Barrels
Price received	Market	Market	Market	Market	Market	Market	Market
Price paid (average)	\$4.35/MMBtu	\$1,057/MT	\$459/MT	\$0.21/pound	\$741/MT	\$0.32/gal	\$54.16/Bbl
Maturity (monthly)	2024	Dec-2019	Sept-2019	Dec-2019	Dec-2019	Dec-2019	Jan-2019
Net position of the swap <sup>(1)(2)</sup>	\$(478)	\$(710)	\$(3)	\$(12)	\$(70)	\$(2)	\$3
Change in the fair value to measure ineffectiveness	\$200	\$(803)	\$(3)	\$(28)	\$(70)	\$(2)	\$3
Recognized in OCI, net of reclassifications	\$(478)	\$(710)	\$(3)	\$(12)	\$(70)	\$(2)	\$3
Efficiency test results	99%	99%	99%	99%	99%	99%	99%
Fair value as of December 31, 2017	\$(703)	\$125	\$ -	\$23	\$ -	\$ -	\$(64)

<sup>(1)</sup>Due to the high volume of operations, the net position of derivative financial instruments is presented; however, since these instruments do not meet the criteria for offsetting financial instruments, they are presented grossly in the consolidated statement of financial position.

<sup>(2)</sup>The change in the fair value of the derivative financial instruments recognized in OCI for the year ended December 31, 2018 is \$(669).

For commodity hedging relationships, management is designating as a hedged item a specific risk, which is defined by the underlying assets that are clearly identified in the corresponding invoices of the purchases. The designated risk components cover most of the changes in the fair value of the hedged item as a whole.

On the other hand, in the measurement of the effectiveness of these hedges, the Company determined that they are highly effective because the changes in the fair value and cash flows of each hedged item are compensated within the range of effectiveness established by management. The method used by the Company is to offset cash flows using a hypothetical derivative, which consists of comparing the changes in the fair value of the hedging instrument with the changes in the fair value of the hypothetical derivative that would result in a perfect coverage of the item. covered.

According to the notional amounts described and the way in which the flows of the derivatives are exchanged, the average coverage ratio for the natural gas ratio is 30%, 72% for the paraxylene, 44% for the ethylene, 33% for ethane and 0% for WTI crude. If necessary, a rebalancing will be done to maintain this relationship for the strategy.

The source of ineffectiveness can be caused mainly by the difference in the settlement date of the hedging instruments and the hedged items, and that the budget becomes less than the hedging instruments. For the years ended December 31, 2018 and 2017, there was no ineffectiveness recognized in profit or loss.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### INTEREST RATE RISK

The Company is exposed to interest rate variation risk mainly for long-term loans bearing interest at variable rates. Fixed-interest loans expose the Company to interest rate risk at fair value, which implies that Alfa might be paying interest at rates significantly different from those of an observable market.

As of December 31, 2018, 78% of the financings are denominated at a fixed rate and 22% at a variable rate.

As of December 31, 2018, if interest rates on variable rate are increased or decreased by 100 basis points in relation to the rate in effect, the income and stockholders' equity of the Company would change by \$336.

### DERIVATIVE FINANCIAL INSTRUMENTS TO HEDGE INTEREST RATE RISKS

In order to maintain good control over the total cost of its financing and the volatility associated with interest rates, the Company contracted interest rate swaps ("IRS") to convert the interest payment of certain variable rate loans at a fixed rate; and designated the interest payments derived from the debts it maintains as a covered item.

The conditions of the derivative financial instrument and the considerations of its valuation as a hedging instrument are mentioned below:

CHARACTERISTICS OF THE SWAP	INTEREST RATE SWAP	INTEREST RATE SWAP
Currency	MXN	USD
Notional	\$3,380	US\$290
Coupon	8.355%	Libor 3m
Coupon	-	2.897%
Maturity	12/15/2022	03/26/2021
Carrying value of the swap	\$24	\$(42)
Change in the fair value to measure ineffectiveness	\$24	\$(42)
Recognized in OCI, net of reclassifications	\$(24)	\$39
Reclassification from OCI to profit or loss	\$-	\$(3)
Change in the fair value of the hedged item to measure ineffectiveness	\$(25)	\$42

As of December 31, 2018, this hedge is highly effective given that the critical terms of the derivative and the loan are perfectly matched, so it is confirmed that there is an economic relationship. In addition, both the credit profile of the Company and the counterparty are good and are not expected to change in the medium term; therefore, the credit risk component is not considered to be significant to the hedging relationship. The method used to evaluate effectiveness is through a qualitative evaluation comparing the critical terms between the hedging instrument and the hedged instrument.

The prospective effectiveness test resulted in 99%, confirming that there is an economic relationship between the hedging instruments and the hedged instrument.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In accordance with the notionals described and the way in which the flows of derivative financial instruments are exchanged, the average coverage ratio for the interest rate ratio is 95% and 100%. If necessary, a rebalancing will be done to maintain this relationship for the strategy. In this hedge relationship, the source of ineffectiveness is mainly credit risk; For the years ended December 31, 2018 and 2017, there were no ineffectiveness recognized in profit or loss.

As of December 31, 2018 and 2017, the net position of the fair value of the aforementioned financial derivative instruments amounts to \$ 248 and \$ 567, respectively.

### CREDIT RISK

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. Credit risk is generated from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions as well as credit exposure to customers, including receivables and committed transactions.

The Company denominates, from a business point of view and credit risk profile, the significant customers with which it has an account receivable, distinguishing those that require an assessment of the credit risk individually.

Each subsidiary is responsible for managing and analyzing the credit risk for each of its new clients before setting the terms and conditions of payment. If the wholesale customers are independently qualified, these are the ratings used. If there is no independent rating, the Company's risk control evaluates the client's credit quality, taking into account its financial position, prior 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.

Individual risk limits are determined based on internal and external ratings in accordance with limits set by the RMC. The use of credit risk is monitored regularly. Sales to retail customers are in cash or by credit card. During 2018 and 2017, credit limits were not exceeded.

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

During the year ended December 31, 2018, there have been no changes in estimation techniques or assumptions.

### LIQUIDITY RISK

Projected cash flows are determined at each operating entity of the Company and subsequently the finance department consolidates this information. The finance department of the Company continuously monitors the cash flow projections and liquidity requirements of the Company ensuring that sufficient cash and highly liquid investments are maintained to meet operating needs, and it's that some flexibility is maintained through open and committed credit lines. The Company regularly monitors and makes decisions ensuring that the limits or covenants set forth in debt contracts are not violated. The projections consider the financing plans of the Company, compliance with covenants, compliance with minimum liquidity ratios and internal legal or regulatory requirements.

The Company's treasury department invests those funds in time deposits and marketable securities whose maturities or liquidity allow flexibility to meet the cash needs of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table analyzes the derivative and non-derivative, grouped according to their maturity, from the date of the consolidated statement of financial position to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are required to understand the timing of the Company's cash flows. The amounts disclosed in the table are contractual undiscounted cash flows.

	LESS THAN A YEAR	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS
<b>As of December 31, 2018</b>			
Trade and other accounts payable	\$ 83,959	\$ -	\$ -
Current and non-current debt (excluding debt issuance costs)	20,322	36,668	99,704
Derivative financial instruments	1,086	283	-
Other liabilities	2,663	650	-

	LESS THAN A YEAR	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS
<b>As of December 31, 2017</b>			
Trade and other accounts payable	\$ 77,366	\$ -	\$ -
Current and non-current debt (excluding debt issuance costs)	15,146	38,216	105,756
Derivative financial instruments	304	472	-
Other liabilities	2,170	599	-

### FAIR VALUE HIERARCHY

The following is an analysis of financial instruments measured in accordance with the fair value hierarchy. 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, which are directly or indirectly observable
- Level 3: Valuations made through techniques where one or more of their significant data inputs are unobservable.

The derivative financial instruments of the Company that are measured at fair value as of December 31, 2018 and 2017, are located within level 2 of the fair value hierarchy.

There were no transfers between level 1 and 2 or between level 2 and 3.

The specific valuation techniques used to value financial instruments include:

- Market quotations or quotations 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 agreements is determined using exchange rates at the closing balance date, with the resulting value discounted at present value.
- Other techniques such as the analysis of discounted cash flows, which are used to determine fair value of the remaining financial instruments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 ESTIMATES AND JUDGMENTS

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 lives

The Company annually performs tests to determine whether goodwill and intangible assets with indefinite lives have suffered any impairment (see Note 12). For impairment testing purposes, goodwill and intangible assets with indefinite lives is allocated to the groups of cash generating units ("CGUs") of which the Company has considered that economic and operating 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:

- Estimate of gross margins and future operations 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 group of CGUs.
- Long-term growth rates

#### b. Contingent losses

Management also makes judgments and estimates in recording provisions for matters relating to claims and litigation, primarily in relation to rates of interconnection services. Actual costs may vary from estimates for several reasons, such as changes in cost estimates for resolution of complaints and disputes based on different interpretations of the law, opinions and evaluations concerning the amount of loss.

Contingencies are recorded as provisions when it is likely that a liability has been incurred and the amount of the loss is reasonably estimable. It is not practical to estimate sensitivity to potential losses if other assumptions were used to record these provisions, due to the number of underlying assumptions and the range of possible reasonable outcomes regarding potential actions by third parties, such as regulators, both in terms of loss probability and estimates of such loss.

#### c. Recoverability of deferred tax assets

Alfa has tax loss carryforwards, which can be used in the following years until maturity expires. Based on the projections of taxable income that Alfa will generate in the subsequent years through a structured and robust business plan, which includes the sale of non-strategic assets, new services to be provided to its subsidiaries, among others, management has determined that current tax losses will be used before they expire and, therefore, it was considered probable that the deferred tax assets for such losses will be recovered.

#### d. 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 or a reversal of impairment recorded in previous periods.

### **e. Default probability and recovery rate to apply the expected credit losses model in the impairment measurement of financial assets**

The Company assigns to customers with whom it has an account receivable at each reporting date, either individually or as a group, an allowance for the probability of default in the account receivable and the estimated recovery rate, in order to reflect the cash flows expected to be received from the outstanding balances as of that date.

### **f. Business combinations**

When business combinations are concluded, the acquisition method is required to recognize the identifiable net assets acquired at fair value, at the date of acquisition; any excess of the consideration paid on the identified net assets is recognized as goodwill, which is subject to impairment tests at least once a year. On the other hand, any excess of the net assets acquired over the consideration paid is recognized as a gain in profit or loss.

To estimate the fair value of the assets acquired and liabilities assumed, the Company uses observable market data to the extent in which this is available. When the input data of Level 1 is not available, the Company hires an independent qualified appraiser to perform the valuation. Management works closely with the independent qualified appraiser to establish the valuation techniques, the premises, the appropriate input data and the criteria to be used in the valuation models.

## 5.2 CRITICAL JUDGMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

### *Basis of consolidation*

The financial statements include the assets, liabilities and results of all entities in which the Company has a controlling interest. The outstanding balances and significant intercompany transactions have been eliminated in consolidation. To determine control, the Company considers whether it has the power to govern the financial and operational strategy of the respective entity and not just the power of the capital held by the Company.

As a result of this analysis, the Company has exercised critical judgment to decide whether to consolidate the financial statements of Axtel, where the determination of control is not clear. Based on the principal substantive right of Alfa in accordance with the by-laws of Axtel by appointing the General Director, who has control over the relevant decision making and based on the by-laws of Axtel and supported in the General Law of Mercantile Organizations, which allow Alfa to control the decisions over relevant activities by a simple majority through an Ordinary Stockholders' Meeting, where it holds 52.78% of Axtel. Management has concluded that there are circumstances and factors described in the by-laws of Axtel and applicable standards that allow the Company to conduct the daily operations of Axtel, which therefore demonstrate control.

Additionally, the Company has evaluated critical control factors and has concluded it should consolidate the financial statements of its subsidiaries Polioles and Indelpro. The analysis performed by the Company included the assessment of the substantive decision making rights of the respective stockholders set forth in their bylaws, resulting in management's conclusion that it has the power to govern their relevant activities.

The Company will continue to evaluate these circumstances at the date of each statements of financial position to determine whether these critical judgments will continue to be appropriate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents presented in the consolidated statements of financial position consist of the following:

	DECEMBER 31,	
	2018	2017
Cash on hand and in banks	\$14,553	\$15,192
Short-term bank deposits	11,858	17,621
<b>Total cash and cash equivalents</b>	<b>\$26,411</b>	<b>\$32,813</b>

### 7. RESTRICTED CASH AND CASH EQUIVALENTS

The value of restricted cash is composed as follows:

	DECEMBER 31,	
	2018	2017
Current <sup>(1) (3)</sup>	\$ 672	\$ 961
Non-current, (see Note 13) <sup>(1) (2) (3)</sup>	808	1,004
<b>Restricted cash</b>	<b>\$1,480</b>	<b>\$1,965</b>

<sup>(1)</sup> For 2017, it mainly comprised by the deposit that Alpek made in the amount of \$738 (US\$39) related to the acquisition of the shares of Petroquímica Suape y Citepe (see Note 2b.).

<sup>(2)</sup> This restricted cash is for proceedings before The Mexican Federal Telecommunications Commission in connection with a dispute arising from a resale of interconnection rates that Axtel (previously Alestra) has with Teléfonos de Mexico, S. A. de C. V. ("Telmex") and Teléfonos del Norte ("Telnor", a subsidiary of Telmex). Axtel and Telmex created a trust with BBVA Bancomer (as trustee) to ensure the payment of fixed interconnection services on the dispute applicable to 2008, 2009 and 2010. As of December 31, 2018, the restricted cash status remains unchanged. The restricted cash representing the balance of the trust is presented in the consolidated statement of financial position within non-current assets. As of December 31, 2018 and 2017, the balance of the trust was \$94 and \$162, respectively composed of contributions by Alestra and corresponding yields.

<sup>(3)</sup> Corresponds to judicial deposits that Nemark has made, whose balance as of December 31, 2018 and 2017, is \$677 and \$774, respectively, which will be reimbursed to Nemark in case of winning the trial.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 8. TRADE AND OTHER ACCOUNTS RECEIVABLE, NET

	DECEMBER 31	
	2018	2017
Trade accounts receivable	\$37,078	\$32,748
Recoverable taxes	2,312	2,531
Interest receivable	19	2
<b>Other debtors:</b>		
Sundry debtors	9,247	8,756
Notes receivable	4,657	2,311
Allowance for impairment of trade and other accounts receivable	(5,817)	(5,127)
	<b>47,496</b>	<b>41,221</b>
Less: non-current portion <sup>(1)</sup>	4,077	2,227
<b>Current portion</b>	<b>\$43,419</b>	<b>\$38,994</b>

<sup>(1)</sup>The non-current accounts receivable represents long-term receivables and other non-current assets, and are presented in the consolidated statement of financial position in other non-current assets (see Note 13).

As of December 31, 2018 and 2017, trade and other accounts receivable of \$43,419 and \$38,994, respectively have an impairment provision (represented by customers and sundry debtors). The amount of the impairment provision as of December 31, 2018 and 2017 amounts to \$5,817 and \$5,127, respectively.

Movements in the provision for impairment during 2018 and 2017 of customers and other receivables, with the impairment model used by the Company, are analyzed as follows:

	DECEMBER 31, 2018	DECEMBER 31, 2017
Opening balance as of January 1	\$ 5,640	\$ 2,687
Allowance for impairment of trade and other accounts receivable	1,144	2,600
Receivables written off during the year	(967)	(160)
<b>Ending balance as of December 31</b>	<b>5,817</b>	<b>5,127</b>
Adjusted balance of adoption of IFRS 9	-	513
<b>Adjusted balance of adoption of IFRS 9</b>	<b>\$ 5,817</b>	<b>\$ 5,640</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The net change in the allowance for impairment of trade and other accounts receivable of \$690 for the year ended December 31, 2018, was mainly due to changes in the estimation of probabilities of default and percentage of recovery, assigned to the different risk groups. customers of the segments in which the Company operates, which reflected an increase in credit risk on financial assets.

The following describes the probability of default and loss given default ranges assigned to the main customer segments with which the Company has balances receivable in its different businesses:

SEGMENT	PROBABILITY OF DEFAULT IN RANGE	LOSS GIVEN DEFAULT RANGE
Axtel	0.0% - 100.0%	0.0% - 100.0%
Alpek	0.0% - 100.0%	0.0% - 100.0%
Nemak	0.0% - 0.85%	100.0%
Sigma	0.1% - 11.0%	100.0%

Increases in the allowance for impairment of trade and other accounts receivable and cancellations, when they do not imply the derecognition of an account receivable, are recognized in the consolidated statement of income under sales expenses.

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

### 9. INVENTORIES

	DECEMBER 31,	
	2018	2017
Finished goods	\$20,539	\$15,320
Raw material and other consumables	21,437	18,419
Work in process	9,814	10,602
	<b>\$51,790</b>	<b>\$44,341</b>

For the years ended on December 31, 2018 and 2017 damaged, slow-moving and obsolete inventory was charged to cost of sales in the amount of \$9 and \$24, respectively.

As of December 31, 2018 and 2017 there were no inventories pledged as collateral.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 10. OTHER CURRENT ASSETS

Other current assets consist of the following:

	DECEMBER 31,	
	2018	2017
Prepayments <sup>(1)</sup>	\$1,904	\$1,751
Accounts receivable – affiliates (Note 27)	2,712	2,881
Other	437	185
<b>Total other current assets</b>	<b>\$5,053</b>	<b>\$4,817</b>

<sup>(1)</sup>This item comprises mainly advertising and insurance paid in advance.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. PROPERTY, PLANT AND EQUIPMENT

	LAND	BUILDINGS AND CONSTRUC- TIONS	MACHINERY AND EQUIPMENT	VEHICLES	TELECOMMU- NICATION NETWORK	LAB AND IT FURNITURE AND EQUIPMENT	TOOLING AND SPARE PARTS	CONSTRUCTIONS IN PROGRESS	LEASE- HOLD IMPROVE- MENTS	OTHER FIXED ASSETS	TOTAL
<b>For the year ended December 31, 2017</b>											
Opening balance, net	\$11,461	\$ 23,946	\$ 71,725	\$ 1,833	\$ 14,378	\$ 4,124	\$ 535	\$ 20,912	\$ 432	\$157	\$149,503
Translation effect	1	271	(92)	38	(2)	65	45	(337)	(2)	216	203
Additions	117	239	2,943	368	81	274	70	15,952	36	55	20,135
Additions from business acquisitions	129	330	877	60	-	(1)	-	26	-	17	1,438
Disposals	(159)	(105)	(1,423)	(31)	(15)	(31)	3	(520)	(6)	(32)	(2,319)
Impairment charges and reversals recognized in the year	(123)	(10)	155	-	-	(2)	-	(3)	-	(227)	(210)
Depreciation charge recognized in the year	-	(1,331)	(8,685)	(509)	(3,600)	(570)	(299)	-	(59)	(55)	(15,108)
Transfers	63	2,533	8,632	119	4,417	(1,308)	398	(14,968)	69	45	-
<b>Final balance as of December 31, 2017</b>	<b>\$11,489</b>	<b>\$ 25,873</b>	<b>\$ 74,132</b>	<b>\$ 1,878</b>	<b>\$ 15,259</b>	<b>\$ 2,551</b>	<b>\$ 752</b>	<b>\$ 21,062</b>	<b>\$ 470</b>	<b>\$176</b>	<b>\$153,642</b>
<b>As of December 31, 2017</b>											
Cost	\$11,489	\$ 49,754	\$181,642	\$ 5,399	\$ 57,791	\$ 11,885	\$ 2,131	\$ 21,062	\$ 1,152	\$649	\$342,954
Accumulated depreciation	-	(23,881)	(107,510)	(3,521)	(42,532)	(9,334)	(1,379)	-	(682)	(473)	(189,312)
<b>Net carrying amount as of December 31, 2017</b>	<b>\$11,489</b>	<b>\$ 25,873</b>	<b>\$ 74,132</b>	<b>\$ 1,878</b>	<b>\$ 15,259</b>	<b>\$ 2,551</b>	<b>\$ 752</b>	<b>\$ 21,062</b>	<b>\$ 470</b>	<b>\$176</b>	<b>\$153,642</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	LAND	BUILDINGS AND CONSTRUC- TIONS	MACHINERY AND EQUIPMENT	VEHICLES	TELECOMMU- NICATION NETWORK	LAB AND IT FURNITURE AND EQUIPMENT	TOOLING AND SPARE PARTS	CONSTRUCTIONS IN PROGRESS	LEASE- HOLD IMPROVE- MENTS	OTHER FIXED ASSETS	TOTAL
<b>For the year ended December 31, de 2018</b>											
Net opening balance	\$11,489	\$ 25,873	\$ 74,132	\$ 1,878	\$ 15,259	\$ 2,551	\$ 752	\$ 21,062	\$ 470	\$176	\$153,642
Translation effect	(197)	(1,354)	(4,141)	(61)	(2)	(192)	(83)	(417)	-	(12)	(6,459)
Additions	21	196	2,739	289	173	211	136	16,426	131	404	20,726
Additions from business acquisitions	371	4,203	5,680	37	44	96	89	427	4	2	10,953
Disposals	(41)	(61)	(2,339)	(610)	(3,786)	(290)	(98)	(927)	(4)	(34)	(8,190)
Impairment charges and reversals recognized in the year	(1)	(920)	(85)	(1)	-	(19)	-	(465)	(0)	(345)	(1,836)
Depreciation charge recognized in the year	-	(3,642)	(8,707)	(404)	(1,779)	(561)	(266)	-	(66)	(22)	(15,447)
Transfers	54	3,152	9,532	699	3,635	509	360	(17,978)	36	1	-
<b>Final balance as of December 31, 2018</b>	<b>\$11,696</b>	<b>\$ 27,447</b>	<b>\$ 76,811</b>	<b>\$ 1,827</b>	<b>\$ 13,544</b>	<b>\$ 2,305</b>	<b>\$ 890</b>	<b>\$ 18,128</b>	<b>\$ 571</b>	<b>\$170</b>	<b>\$153,389</b>
<b>As of December 31, de 2018</b>											
Cost	\$11,696	\$ 54,969	\$193,039	\$ 5,753	\$ 57,855	\$ 12,192	\$ 2,535	\$ 18,128	\$ 1,319	\$662	\$358,148
Accumulated depreciation	-	(27,522)	(116,228)	(3,926)	(44,311)	(9,887)	(1,645)	-	(748)	(492)	(204,759)
<b>Net carrying amount as of December 31, 2018</b>	<b>\$11,696</b>	<b>\$ 27,447</b>	<b>\$ 76,811</b>	<b>\$ 1,827</b>	<b>\$ 13,544</b>	<b>\$ 2,305</b>	<b>\$ 890</b>	<b>\$ 18,128</b>	<b>\$ 571</b>	<b>\$170</b>	<b>\$153,389</b>

Of the total depreciation expense, \$13,899 and \$13,688 were charged to cost of sales, \$804 and \$704 to selling expenses and \$754 and \$716 to administrative expenses, in 2018 and 2017, respectively.

As of December 31, 2018 and 2017, there were no property, plant and equipment pledged as collateral, except for what is mentioned in Note 16.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Assets under finance lease include the following amounts in which the Company is the lessee:

	DECEMBER 31,	
	2018	2017
Cost – capitalized finance leases	\$ 1,278	\$ 2,109
Accumulated depreciation	(378)	(1,127)
<b>Carrying value, net</b>	<b>\$ 900</b>	<b>\$ 982</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 12. GOODWILL AND INTANGIBLE ASSETS

	FINITE LIFE							INDEFINITE LIFE			
	DEVELOPMENT COSTS	EXPLORATION COSTS	TRADE-MARKS	CUSTOMERS RELATIONSHIPS	SOFTWARE AND LICENSES	INTELLECTUAL PROPERTY RIGHTS	OTHERS	GOODWILL	TRADE-MARKS	OTHER	TOTAL
<b>COST</b>											
As of January 1, 2017	\$ 7,919	\$ 7,178	\$2,611	\$ 9,003	\$ 5,081	\$ 3,937	\$11,457	\$21,491	\$12,557	\$ 10	\$81,244
Translation effect	(289)	-	(10)	(56)	321	(172)	(805)	172	913	(9)	65
Additions	1,265	574	-	230	273	-	56	-	-	-	2,398
Additions from business acquisitions	9	-	-	-	19	-	-	3,185	-	13	3,226
Impairment charges recognized in the year	-	(131)	-	-	(3)	-	(6,692)	-	(77)	-	(6,903)
Transfers	(414)	-	-	493	134	-	(129)	-	-	-	84
Disposals	(148)	-	-	-	(14)	-	(1)	-	(292)	-	(455)
<b>As of December 31, 2017</b>	<b>\$ 8,342</b>	<b>\$ 7,621</b>	<b>\$2,601</b>	<b>\$ 9,670</b>	<b>\$ 5,811</b>	<b>\$ 3,765</b>	<b>\$3,886</b>	<b>\$24,848</b>	<b>\$13,101</b>	<b>\$ 14</b>	<b>\$79,659</b>
Exchange differences	(176)	(69)	45	(433)	(167)	(9)	265	(719)	819	-	(1,773)
Additions	1,227	75	-	-	390	224	266	-	103	16	2,198
Additions and movements from business acquisitions	-	-	200	384	89	-	-	(661)	655	-	776
Impairment charges recognized in the year	-	(314)	-	-	-	-	-	-	-	-	382
Transfers	2	-	7	139	57	15	(220)	-	-	-	-
Disposals	(24)	(1,118)	-	(1,079)	(173)	-	(94)	(670)	(1,289)	-	(3,820)
<b>As of December 31, 2018</b>	<b>\$ 9,371</b>	<b>\$ 6,195</b>	<b>\$2,853</b>	<b>\$ 8,681</b>	<b>\$ 6,007</b>	<b>\$ 3,995</b>	<b>\$ 4,103</b>	<b>\$22,798</b>	<b>\$13,389</b>	<b>\$ 30</b>	<b>\$77,422</b>
<b>NET CARRYING AMOUNT</b>											
Cost	\$ 8,342	\$ 7,621	\$2,601	\$ 9,670	\$ 5,811	\$ 3,765	\$ 3,886	\$24,848	\$13,101	\$ 14	\$79,659
Accumulated amortization	(4,143)	(5,521)	(651)	(3,399)	(4,277)	(994)	(2,616)	-	-	-	(21,601)
<b>As of December 31, 2017</b>	<b>\$ 4,199</b>	<b>\$ 2,100</b>	<b>\$1,950</b>	<b>\$ 6,271</b>	<b>\$ 1,534</b>	<b>\$ 2,771</b>	<b>\$ 1,270</b>	<b>\$24,848</b>	<b>\$13,101</b>	<b>\$ 14</b>	<b>\$58,058</b>
Cost	\$ 9,371	\$ 6,195	\$2,853	\$ 8,681	\$ 6,007	\$ 3,995	\$ 4,103	\$22,798	\$13,389	\$ 30	\$77,422
Accumulated amortization	(5,116)	(4,746)	(2,153)	(4,119)	(4,629)	(1,202)	(3,146)	-	-	-	(25,111)
<b>As of December 31, 2018</b>	<b>\$ 4,255</b>	<b>\$ 1,449</b>	<b>\$ 700</b>	<b>\$ 4,562</b>	<b>\$ 1,378</b>	<b>\$ 2,793</b>	<b>\$ 957</b>	<b>\$22,798</b>	<b>\$13,389</b>	<b>\$ 30</b>	<b>\$52,311</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Other intangible assets consist mainly of patents, licenses, concessions and non-compete agreements.

The Company has concessions of public telecommunications networks granted by the federal government in 1995 and 1996, to offer local and long distance telephony services for periods of 30 years that, given certain conditions, are renewable for equal periods. In addition, the Company has concessions of various radio spectrum frequencies with a duration of 20 years, which are renewable for additional periods of 20 years under the terms of applicable laws and regulations.

Of the total amortization expense, \$1,383 and \$1,371, were charged to cost of sales, \$413 and \$385 to selling expenses and \$1,714 y \$1,774 to administrative expenses in 2018 and 2017, respectively.

Research expenses incurred and recorded in the results of 2018 and 2017 were \$70 and \$68, respectively.

### IMPAIRMENT TESTING OF GOODWILL

As mentioned in Note 5, goodwill is allocated to groups of cash generating units ("CGUs") that are associated with the operating segments, from which are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units or groups of units, as follows:

	DECEMBER 31,	
	2018	2017
Alpek	\$ 339	\$ 339
Sigma	13,567	14,742
Nemak	6,054	6,257
Axtel <sup>(1)</sup>	2,687	3,357
Other	151	153
	<b>\$22,798</b>	<b>\$24,848</b>

<sup>(1)</sup>As mentioned in Note 2.d, as part of the sale of the massive segment of Axtel, an amount of \$ 670 was recognized as a reduction in goodwill, which is presented in the line "Other income (expenses), net" of the consolidated income statement, as part of the determination of the gain on the sale.

The recoverable value from each group of CGUs has been determined based on calculations of values in use, which consist of cash flow projections after on pre-tax 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 group of CGUs 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 group of CGUs and reflects the specific risks associated with each of them.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The key assumptions used in calculating the value in use in 2018 and 2017, were as follows:

	2018				
	ALPEK	SIGMA	NEMAK	AXTEL	OTHER SEGMENTS
Tasa de crecimiento a largo plazo	1.0%	2,8%	1.8%	3.9%	3.5%
Tasa de descuento	8.9%	7.9%	10.3%	10.5%	12.7%

	2017				
	ALPEK	SIGMA	NEMAK	AXTEL	OTHER SEGMENTS
Long-term perpetual growth rate	0.0%	2.1%	1.8%	4.9%	4.0%
Discount rate	9.0%	8.1%	8.7%	10.1%	12.7%

In relation to the calculation of the value in use of groups of cash-generating units, the Alfa Management considers that a possible increase in the discount rate in 100 basis points would cause an impairment of \$308, while a possible decrease in the long-term growth rate in a similar level, a loss of \$97.

For the periods ended December 31, 2018 and 2017, no impairment loss was recognized for goodwill.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AND OTHER NON-CURRENT ASSETS

	DECEMBER 31,	
	2018	2017
Portion of trade and other non-current accounts receivable <sup>(1)</sup> (Note 8)	\$ 4,077	\$2,227
Other capital instruments	489	485
Other assets	3,010	446
Restricted cash (Note 7)	808	1,004
<b>Other non-current financial assets</b>	<b>8,384</b>	<b>4,162</b>
Investments in associates	1,283	1,101
Joint ventures <sup>(2)</sup>	8,587	353
<b>Total other non-current assets</b>	<b>\$18,254</b>	<b>\$5,616</b>

<sup>(1)</sup>Mainly comprised by a loan receivable that generates a semiannual interest at a rate of 6.99% (Libor + 5.3%) and with maturity on December 2019.

<sup>(2)</sup>The main effects arise from the significant event described in Note 2c.

#### OTHER PERMANENT INVESTMENTS

Other permanent investments are investments in shares of companies not listed on the market, representing less than 1% of their capital stock and equity investments in social clubs. No impairment loss was recognized as of December 31, 2018 and 2017.

The other equity investments are denominated in Mexican pesos.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### INVESTMENTS IN ASSOCIATES

The following includes the investments in associates that the Company has as of December 31, 2018:

NAME	SEGMENT	PERCENTAGE OF OWNERSHIP
Starcam sro	Nemak	49.0%
Nanjing Loncin Nematik Precision Machinery Co., Ltd	Nemak	35.0%
Clear Path Recycling LLC	Alpek	49.9%
Terminal Petroquímica de Altamira, S. A. de C. V.	Alpek	42.0%
Agua Industrial del Poniente, S. A. de C. V.	Alpek	47.6%
Desarrollos Porcinos Castileón, S. L.	Sigma	42.0%
Cogenedora Burgalesa, S. A.	Sigma	50.0%
Nuova Mondial S. p. A.	Sigma	50.0%
Servicios Integrales de Salud Nova, S. A. de C. V.	Alfa	22.5%

There are no contingent liabilities related to the investment of Alfa in investments in associates. The Company has no commitments in relation with investments in associates as of December 31, 2018 and 2017.

### JOINT VENTURES

The following includes the joint ventures that the Company has as of December 31, 2018:

NAME	SEGMENT	PERCENTAGE OF POSSESSION
Petroalfa Servicios Integrados de Energía S.A.P.I. de C.V.	Newpek	50.0%
Oilserv, S.A.P.I. de C. V.	Newpek	50.0%
Petroliferos Tierra Blanca S.A. de C.V.	Newpek	50.0%
Galpek, LDA	Alpek	50.0%
Corpus Christi Polymers L. L. C.	Alpek	33.3%

There are no contingent liabilities related to the investment of Alfa in joint agreements. As of December 31, 2018, the Company has a commitment to conclude the construction of the plant of the joint venture of Corpus Christi Polymers L. L. C. The Company has no material commitments with respect to joint venture agreement as of December 31, 2018 and 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14. SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTEREST

The non-controlling interest is comprised as follows:

	PERCENTAGE OF NON-CONTROLLING INTEREST	INCOME (LOSS) OF THE NON-CONTROLLING INTEREST OF THE YEAR		NON-CONTROLLING INTEREST AS OF DECEMBER 31,	
		2018	2017	2018	2017
Axtel, S. A. B. de C. V.	47%	\$ 313	\$ (273)	\$ 3,117	\$ 2,788
Alpek, S. A. B. de C.V.	18%	3,747	(99)	11,851	9,578
Nemak, S. A. B. de C. V.	25%	851	926	9,231	9,815
Other		(94)	69	634	809
		<b>\$4,817</b>	<b>\$ 623</b>	<b>\$24,833</b>	<b>\$22,990</b>

The summarized financial information as of December 31, 2018 and 2017 and for the year then ended, corresponding to each subsidiary with a significant non-controlling interest is shown below:

	AXTEL, S. A. B. DE C. V. <sup>(1)</sup>		NEMAK, S. A. B. DE C. V.		ALPEK, S. A. B. DE C. V.	
	2018	2017	2018	2017	2018	2017
<b>STATEMENTS OF FINANCIAL POSITION</b>						
Current assets	\$ 6,944	\$5,703	\$27,405	\$28,436	\$ 51,792	\$42,192
Non-current assets	21,211	25,051	65,853	68,253	68,105	51,586
Current liabilities	8,778	7,905	26,544	25,509	38,567	28,019
Non-current liabilities	15,757	20,357	30,610	32,757	38,167	34,095
Stockholders' equity	3,620	2,492	36,104	38,423	43,163	31,664

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	AXTEL, S. A. B. DE C. V. <sup>(1)</sup>		NEMAK, S. A. B. DE C. V.		ALPEK, S. A. B. DE C. V.	
	2018	2017	2018	2017	2018	2017
<b>STATEMENTS OF INCOME</b>						
Revenues	12,788	15,513	90,327	84,779	134,523	98,998
Net income (loss)	1,095	62	3,464	3,691	14,934	(4,555)
Comprehensive income (loss) of the year	1,129	53	897	4,602	12,505	(6,843)
Comprehensive income attributable to non-controlling interest	-	1	-	-	1,263	727
Dividends paid to non-controlling interest	-	-	-	-	(981)	(618)
<b>CASH FLOWS</b>						
Cash flows from operating activities	5,411	4,395	12,958	14,359	8,262	7,225
Net cash used in investing activities	(2,376)	(2,307)	(8,237)	(8,239)	(15,501)	(7,618)
Net cash used in financing activities	(6,812)	(2,347)	(4,647)	(5,035)	3,001	5,816

<sup>(1)</sup>These figures are disclosed without the adjustments of the purchase price allocation.

The information above does not include the elimination of intercompany balances and transactions.

### 15. TRADE AND OTHER ACCOUNTS PAYABLE

	DECEMBER 31,	
	2018	2017
Trade accounts payable	\$64,921	\$61,214
Short-term employee benefits	1,673	1,267
Customer advance payments	506	665
Other payable taxes	5,550	4,403
Other accounts and accrued expenses payable	11,309	9,817
	<b>\$83,959</b>	<b>\$77,366</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 16. DEBT

	AS OF DECEMBER 31,	
	2018	2017
<b>CURRENT:</b>		
Bank loans <sup>(1)(2)</sup>	\$ 12,009	\$ 10,836
Current portion of non-current debt	8,161	4,156
Notes payable <sup>(1)(2)</sup>	152	154
<b>Current debt</b>	<b>\$ 20,322</b>	<b>\$ 15,146</b>
<b>NON-CURRENT:</b>		
<b>In US dollars:</b>		
Senior Notes	\$ 92,698	\$ 82,969
Secured bank loans	-	884
Unsecured bank loans	17,497	16,814
Finance lease	809	683
Other	144	166
<b>In Mexican pesos:</b>		
Unsecured debt securities	-	1,805
Unsecured bank loans	5,333	5,757
<b>In euros:</b>		
Senior Notes	24,978	35,671
Unsecured bank loans	979	1,041
Finance leases	585	640
Other	100	149
<b>Other currencies:</b>		
Unsecured bank loans	94	167
Finance leases	171	209
	<b>143,388</b>	<b>146,955</b>
Less: current portion of non-current debt	(8,161)	(4,156)
<b>Non-current debt</b>	<b>\$135,227</b>	<b>\$142,799</b>

<sup>(1)</sup>As of December 31, 2018 and 2017, short-term bank loans and notes payable incurred interest at an average rate of 3.77%, and 3.23%, respectively.

<sup>(2)</sup>The fair value of bank loans and notes payable approximates their current book value, due to their short maturity.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The carrying amounts, terms and conditions of long-term debt were as follows:

DESCRIPTION	CONTRACTUAL CURRENCY	VALUE IN MX PESOS	DEBT ISSUANCE COSTS	INTEREST PAYABLE	BALANCE AS OF DECEMBER 31, 2018	BALANCE AS OF DECEMBER 31, 2017 <sup>(1)</sup>	MATURITY DATE MM/DD/YYYY	INTEREST RATE %
Fixed rate	USD	\$ -	\$ -	\$ -	\$ -	\$ 884	12/31/2019	4.25%
<b>Total secured bank loans</b>					<b>-</b>	<b>884</b>		
Banking	BRL	68	-	1	69	85	01/25/2025	9.50%
Bilateral	ARS	19	-	1	20	64	04/01/2020	51.75%
Bilateral	ARS	5	-	-	5	16	12/08/2020	25.00%
Banking	USD	2,952	-	17	2,969	2,998	11/30/2020	3.60%
Banking	USD	1,968	-	21	1,989	1,997	10/25/2022	5.75%
Banking	USD	984	-	2	986	988	12/15/2022	4.23%
Banking	USD	-	-	-	-	988	07/06/2021	2.67%
Banking	USD	-	-	-	-	989	07/17/2020	3.86%
Banking	USD	-	-	-	-	396	04/03/2020	2.34%
Bilateral	USD	2,315	10	2	2,307	2,362	12/23/2025	5.16%
Bilateral	USD	1,543	8	-	1,535	1,573	12/29/2025	5.19%
Bilateral	USD	-	-	-	-	3,595	01/17/2024	4.30%
Bilateral	MXN	3,264	16	29	3,277	-	08/30/2028	10.55%
Bilateral	MXN	79	-	-	79	80	11/30/2020	10.84%
Bilateral	USD	84	-	-	84	84	11/30/2020	7.00%
Club Deal	EUR	91	-	-	91	96	11/13/2020	1.25%
Club Deal	USD	447	-	3	450	450	12/13/2020	3.86%
Bilateral	MXN	1,570	52	6	1,524	5,677	12/15/2022	10.73%
Bilateral	EUR	765	-	-	765	806	12/29/2019	1.60%
Banking	EUR	18	-	-	18	35	02/09/2019	0.30%
Banking	EUR	13	-	-	13	15	07/31/2026	-
Banking	EUR	-	-	-	-	1	12/25/2031	1.00%
Banking	EUR	91	-	1	92	88	03/01/2020	1.50%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DESCRIPTION	CONTRACTUAL CURRENCY	VALUE IN MX PESOS	DEBT ISSUANCE COSTS	INTEREST PAYABLE	BALANCE AS OF DECEMBER 31, 2018	BALANCE AS OF DECEMBER 31, 2017 <sup>(1)</sup>	MATURITY DATE MM/DD/YYYY	INTEREST RATE %
Banking	MXN	300	-	-	300	-	06/01/2021	10.43%
Banking	USD	5,708	-	29	5,737	-	03/28/2021	3.86%
Banking	RUR	-	-	-	-	2	11/10/2018	4.05%
Banking	USD	984	-	9	993	-	12/21/2020	3.60%
Bilateral	MXN	153	-	-	153	-	11/29/2020	10.84%
Banking	USD	563	116	-	447	394	06/24/2024	1.42%
<b>Total unsecured bank loans</b>					<b>23,903</b>	<b>23,779</b>		
Debt securities								
Debt securities/ fixed rate	MXN	-	-	-	-	1,050	07/12/2018	10.25%
Debt securities / UDIS	MXN	-	-	-	-	755	07/12/2018	5.32%
<b>Total unsecured debt securities</b>					<b>-</b>	<b>1,805</b>		
Senior Notes - Fixed rate	USD	12,775	61	64	12,778	12,800	11/20/2022	4.50%
Senior Notes - Fixed rate	USD	5,905	31	125	5,999	6,010	08/08/2023	5.38%
Senior Notes - Fixed rate	USD	9,830	57	136	9,909	9,924	03/25/2024	5.25%
Senior Notes - Fixed rate	USD	9,800	106	179	9,873	9,898	03/25/2044	6.88%
Senior Notes - Fixed rate	USD	-	-	-	-	9,937	02/28/2023	5.50%
Senior Notes - Fixed rate	EUR	11,252	86	112	11,278	11,789	03/15/2024	3.25%
Senior Notes - Fixed rate	USD	9,842	149	82	9,775	9,811	11/14/2024	6.38%
Senior Notes - Fixed rate	EUR	13,465	87	322	13,700	14,404	02/07/2024	2.63%
Senior Notes - Fixed rate	USD	4,908	5	14	4,917	4,913	12/16/2019	6.88%
Senior Notes - Fixed rate	USD	19,652	137	133	19,648	19,676	03/15/2022	4.13%
Senior Notes - Fixed rate	USD	9,842	97	214	9,959	-	01/25/2025	4.75%
Senior Notes - Fixed rate	USD	9,842	127	125	9,840	-	03/27/2028	4.88%
Senior Notes - Fixed rate	USD	-	-	-	-	9,478	05/02/2026	4.13%
<b>Total Senior Notes – Fixed rate</b>					<b>117,676</b>	<b>118,640</b>		
Other loans	USD	144	-	-	144	166	Various	Various
Other loans	EUR	100	-	-	100	149	Various	Various
<b>Total other loans</b>					<b>244</b>	<b>315</b>		

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DESCRIPTION	CONTRACTUAL CURRENCY	VALUE IN MX PESOS	DEBT ISSUANCE COSTS	INTEREST PAYABLE	BALANCE AS OF DECEMBER 31, 2018	BALANCE AS OF DECEMBER 31, 2017 <sup>(1)</sup>	MATURITY DATE MM/DD/YYYY	INTEREST RATE %
Finance leases	RMB	161	-	-	161	188	02/01/2026	6.45%
Finance leases	USD	802	-	7	809	683	Various	Various
Finance leases	EUR	585	-	-	585	640	Various	Various
Finance leases	CAD	3	-	-	3	6	03/01/2020	0.83%
Finance leases	SOL	7	-	-	7	15	Various	Various
<b>Total finance leases</b>					<b>1,565</b>	<b>1,532</b>		
<b>Total</b>		<b>\$142,899</b>	<b>\$ 1,145</b>	<b>\$1,634</b>	<b>\$ 143,388</b>	<b>\$ 146,955</b>		

<sup>(1)</sup>For the year ended as of December 31, 2018 and 2017 the debt issuance costs were \$1,145 and \$1,173, respectively.

### Maturities:

As of December 31, 2018, the annual maturities of long-term debt are as follows:

	2020	2021	2022	2023 AND THEREAFTER	TOTAL
Bank and other loans	\$ 5,379	\$ 7,652	\$ 3,480	\$ 6,585	\$ 23,096
Senior Notes	-	-	12,775	99,429	112,204
Finance leases	328	140	133	489	1,090
Non accrued future interests	6,537	6,146	5,918	26,303	44,904
	<b>\$12,244</b>	<b>\$13,938</b>	<b>\$22,306</b>	<b>\$132,806</b>	<b>\$181,294</b>

As of December 31, 2018 and 2017, the Company has contractual unused credit lines for a total of US\$1,719 and US\$1,316, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### **Covenants:**

Loan contracts and debt agreements contain restrictions, primarily relating to compliance with financial ratios, incurring additional debt or making loans that require granting real guarantees, dividend payments and submission of financial information, which if not met or remedied within a specified period to the satisfaction of creditors may cause the debt to become payable immediately.

Financial ratios to be fulfilled include the following:

- a. Interest coverage ratio: which is defined as adjusted EBITDA (See Note 28) for the period of the last four complete quarters divided by financial expenses, net or gross as appropriate, for the last four quarters, which shall not be less than 3.0 times.
- b. Leverage ratio: which is defined as consolidated debt at that date, being the gross debt or net debt, depending on the case, divided by adjusted EBITDA for the period of the last four complete quarters, which shall not be more than 3.5 times.

During 2018 and 2017, the financial ratios were calculated according to the formulas set out in the loan agreements.

Covenants contained in the credit agreements of the subsidiaries establish certain obligations, conditions and certain exceptions that require or limit the capacity of the subsidiaries to:

- Provide certain financial information;
- Maintain books and records;
- Maintain assets in appropriate conditions;
- Comply with applicable laws, rules and regulations;
- 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

As of December 31, 2018 and 2017, and the date of issuance of these consolidated financial statements, the Company and its subsidiaries complied satisfactorily with such covenants and restrictions.

### **Pledged assets:**

As of December 31, 2017, the Newpek segment has pledged assets under a line of credit for an amount up to \$888 (US\$45), respectively, which was paid in full during 2018. In addition, the Nemark segment has assets under guarantee under long-term financing granted by a Brazilian government entity to promote investment. The unpaid balance of the loan as of December 31, 2018, as well as the value of the pledged assets is approximately \$67.9 (US\$3.4) and \$84.6 (US\$4.3), respectively.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SIGNIFICANT DEBT ISSUANCES AND PAYMENTS IN 2018

- a. On March 22, 2018, Sigma Finance Netherlands B.V. issued Senior Notes in the Irish Stock Exchange to institutional investors qualified under Rule 144A, and other investors outside the United States of America under Regulation S in the amount of US\$500, gross from issuance costs of US\$7, including discounts of US\$3.3. The Senior Notes mature in ten years at a coupon of 4.875%. The transaction resources were mainly used to prepay 2022 Campofrío Senior Notes and for general corporate purposes.
- b. On January 11, 2018, Nemark issued Senior Notes on the Irish Stock Exchange and on the Global Exchange Market in the amount of US\$500, through a private offering under Rule 144A and Regulation S. The Senior Notes accrue an annual coupon of 4.750%, maturing in 7 years. The proceeds were mainly used to prepay other financial liabilities with shorter maturity terms.
- c. On February 22, 2018, Axtel's syndicated long-term credit with HSBC Mexico was increased by \$291 from the original amount of \$5,709 to \$6,000, with the same terms as the original credit. The proceeds obtained from this additional loan were used to pay short-term debt of \$400 with HSBC Mexico.
- d. On August 30, 2018, Axtel entered into a debt restructuring agreement with Bancomext to exchange the original debt of US\$171 to a new debt of \$3,263. The terms of the new debt is 10 years with quarterly principal payments from the third year and with a 91-day TIE interest rate plus 2.10 basis points.
- e. On December 21, 2018, with the proceeds obtained from the transaction, Axtel made a partial prepayment of the syndicated loan held with HSBC, as lead coordinator of the participating financial institutions, for \$4,350, reducing the outstanding principal balance to \$1,570 as of December 31, 2018.
- f. On July 12, 2018, Sigma settled the entire balance of its Debt Securities registered in the National Securities Registry in Mexico with the ticker "SIGMA08" and "SIGMA08U," whose maturity was on this date, amounting to \$1,748. The Securities were issued in 2008 and had an interest rate of 10.25% and 5.32%, respectively. In addition, interest accrued as of that date was paid in the amount of \$72.

### SIGNIFICANT DEBT ISSUANCES AND PAYMENTS IN 2017

- a. On February 2, 2017, Sigma issued Senior Notes on the Irish Stock Exchange through a private offering under Rule 144A and Regulation S, in the amount of €600, gross from issuance costs of €5.4 and discounts of €2.2. The Senior Notes mature in seven years at a coupon of 2.625%. The transaction resources were mainly used to pay debt.
- b. On March 9, 2017, Sigma prepaid the Senior Notes maturing on December 14, 2018, in the amount of US\$450, incurring a cost for the prepayment of US\$20 recognized as a financial expense in the consolidated statement of income. The Senior 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.
- c. On March 9, 2017, Nemark issued Senior Notes on the international market that were listed on Irish Stock Exchange in the amount of €500, through a private offering under Rule 144A and Regulation S. The Senior Notes accrue an annual coupon of 3.25%, maturing in 7 years. The proceeds were mainly used to prepay other financial liabilities with shorter maturity terms.
- d. On November 9, 2017, Axtel placed Senior Notes in the international market and on the Irish Stock Exchange under a private offering under Rule 144A and Regulation S in the amount of US\$500, gross of issuance costs of US\$7. The Senior Notes accrue an annual coupon of 6.375% maturing in 7 years. The proceeds were mainly used to prepay the existing debt, including certain issuance costs and expenses. 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 \$53.
- e. On December 19, 2017, Axtel signed a bilateral credit agreement with HSBC México, for an amount of \$5,709 (equivalent to US\$300) for five years and a variable interest rate with a margin on the TIE rate applicable according to the leverage ratio between 1.875% and 3.25%. The resources obtained were used to refinance the remaining debt of the syndicated loan, denominated mainly in dollars.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Finance leases:

Finance lease liabilities are effectively guaranteed to the lessor as the right to reverse the right to the leased asset in case of default.

The total of future minimum payments of finance leases that include non-accrued interest is analyzed as follows:

	DECEMBER 31,	
	2018	2017
Less than 1 year	\$ 526	\$ 515
Over 1 year and less than 5 years	865	788
Over 5 years	393	298
<b>Total</b>	<b>\$1,784</b>	<b>\$1,601</b>

The present value of finance lease liabilities is analyzed as follows:

	DECEMBER 31,	
	2018	2017
Less than 1 year	\$ 467	\$ 479
Over 1 year and less than 5 years	755	759
Over 5 years	336	290
<b>Total</b>	<b>\$1,558</b>	<b>\$1,528</b>

Financial leases as of December 31, 2018 and 2017 accrued payable interest of \$7 and \$4, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 17. INCOME TAXES

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

	2018	2017
Germany	30.0%	30.0%
United States <sup>(1)</sup>	21.0%	35.0%
Spain	25.0%	25.0%

<sup>(1)</sup>On December 22, 2017, the US government enacted substantial changes to its existing tax law ("H.R. 1", originally known as the "Tax Cuts and Jobs Act", or the "Act"). Although most provisions of the Act, including the reduction of the corporate tax rate to 21%, are effective beginning on January 1, 2018, IFRS requires entities to recognize the effect of tax law changes in the period of enactment, therefore, the Company recognized the impacts as part of the deferred income tax item in the consolidated statement of income for 2017.

#### INCOME TAX UNDER TAX CONSOLIDATION REGIME IN MEXICO

The Company incurred income tax in a consolidated manner through 2013 with its Mexican subsidiaries. Since the Mexican income tax law in effect through 2013 was repealed, the tax consolidation regime was eliminated. Therefore, Alfa has the obligation to pay long-term deferred tax determined as of that date during the following ten periods beginning in 2014, as shown below.

In accordance with paragraph a) of section XVIII of the ninth transition article of the 2014 Mexican Tax Law, and provided that the Company at December 31, 2013 was acting as the controlling company and was subject, at that date, to the payment system contained in section VI of the fourth article of the transition provisions of the Mexican Income Tax Law published in the federal official gazette on December 7, 2009, or article 70-A of the 2013 Mexican Income Tax Law that was revoked, shall continue paying the tax consolidation deferred tax in fiscal years 2007 and prior years in conformity with the abovementioned provisions, until payment is concluded.

Income tax from deferred tax consolidation at as of December 31, 2018 and 2017 amounts to \$1,708 and \$2,289, respectively and will be paid off in installments in accordance with the table shown below:

	PAYMENT YEAR				TOTAL
	2019	2020	2021	2022 AND SUBSEQUENT	
Tax losses	\$736	\$438	\$282	\$ 252	\$1,708
Dividends distributed by controlled entities, which do not arise from CUFIN and reinvested CUFIN	-	-	-	-	-
<b>Total deferred tax consolidation</b>	<b>\$736</b>	<b>\$438</b>	<b>\$282</b>	<b>\$ 252</b>	<b>\$1,708</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### OPTIONAL REGIME FOR CONSOLIDATED GROUPS IN MEXICO (INCORPORATION REGIME)

As a result of the elimination of the tax consolidation regime in Mexico, the Company chose to adopt the new optional regime for consolidated groups beginning in 2014, which consists in 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 to the amount of tax profit and losses of the year 2018 and 2017, respectively.

#### a. Income taxes recognized in the statement of income:

	2018	2017
Current tax expense	\$(7,564)	\$(5,698)
Deferred income tax benefit	(1,564)	3,895
<b>Income taxes expense</b>	<b>\$(9,128)</b>	<b>\$(1,803)</b>

#### b. The reconciliation between the statutory and effective income tax rates was as follows:

	2018	2017
Income before taxes	\$27,088	\$ 375
Equity in losses of associates recognized through the equity method	(121)	(92)
<b>Income before interest in associates</b>	<b>26,967</b>	<b>283</b>
Statutory rate	30%	30%
Taxes at statutory rate	(8,090)	(85)
(Add) less tax effect on:		
Differences based on comprehensive financial cost	(2,333)	(782)
Effect of difference of tax rates and other differences, net	1,295	(936)
<b>Total provision for income taxes charged to income</b>	<b>\$(9,128)</b>	<b>\$(1,803)</b>
<b>Effective rate</b>	<b>34%</b>	<b>637%</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### c. The detail of deferred income tax asset and liability is as follows:

	(ASSET) LIABILITY DECEMBER 31,	
	2018	2017
Inventories	\$ 85	\$ 74
Intangible assets	5,702	6,197
Property, plant and equipment	11,046	11,997
Provisions	(1,402)	(1,087)
Other temporary differences, net	(2,319)	(3,307)
<b>Deferred tax liability</b>	<b>\$13,112</b>	<b>\$13,874</b>
Inventories	\$ 49	\$ 99
Property, plant and equipment	(1,794)	(942)
Intangible assets	(1,229)	994
Valuation of derivative instruments	350	25
Provisions	951	978
Tax cost of shares	7,544	7,544
Tax loss carryforwards	6,903	9,621
Other temporary differences, net	4,634	1,198
<b>Deferred tax assets</b>	<b>\$17,408</b>	<b>\$19,517</b>

Deferred income tax assets are recognized on tax loss carryforwards to the extent the realization of the related tax benefit through future tax income is likely.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Tax losses as of December 31, 2018 expire in the following years:

LOSS YEAR	TAX LOSSES TO BE AMORTIZED	EXPIRATION YEAR
2009	\$ 50	2019
2010	41	2020
2011	491	2021
2012	72	2022
2013	309	2023
2014	2,810	2024
2015	21,388	2025 and later
No maturity	4,094	
	<b>\$ 29,255</b>	

**d. The tax charge/(credit) related to comprehensive income is as follows:**

	2018			2017		
	BEFORE TAXES	TAX CHARGED (CREDITED)	AFTER TAXES	BEFORE TAXES	TAX CHARGED (CREDITED)	AFTER TAXES
Effect of derivative financial instruments contracted as cash flow hedge	\$ (791)	\$ 237	\$ (554)	\$ 231	\$ (69)	\$ 162
Remeasurement of employee benefit obligations	174	(52)	122	(130)	39	(91)
Translation effect of foreign entities	(5,226)	-	(5,226)	1,223	-	1,223
<b>Other comprehensive income</b>	<b>\$(5,843)</b>	<b>\$ 185</b>	<b>\$(5,658)</b>	<b>\$ 1,324</b>	<b>\$ (30)</b>	<b>\$ 1,294</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### e. Income tax payable consists of the following:

	DECEMBER 31,	
	2018	2017
Current income tax	\$2,781	\$2,074
Income tax from tax consolidation (regime in effect through 2013)	1,708	2,289
Income tax from optional regime for group of entities in Mexico	2,248	3,200
<b>Total income tax payable</b>	<b>\$6,737</b>	<b>\$7,563</b>
Current portion	\$3,516	\$2,737
Non-current portion	3,221	4,826
<b>Total income tax payable</b>	<b>\$6,737</b>	<b>\$7,563</b>

### 18. PROVISIONS

	DISPUTES	RESTRUCTURING AND DEMOLITION <sup>(1) (2)</sup>	CONTINGENCIES	OTHER	TOTAL
At January 1, 2017	\$ 115	\$ 463	\$ 799	\$ 555	\$1,932
Business acquisitions <sup>(1)</sup>	31	100	(332)	166	(35)
Additions	37	-	-	133	170
Exchange effects	8	4	-	5	17
Cancellation of provisions <sup>(2)</sup>	7	(118)	(21)	(311)	(443)
Payments	(21)	(178)	-	(175)	(374)
<b>At December 31, 2017</b>	<b>177</b>	<b>271</b>	<b>446</b>	<b>373</b>	<b>1,267</b>
Business acquisitions	70	289	893	529	1,781
Additions	18	79	-	7	104
Exchange effects	(8)	(8)	13	(34)	(37)
Cancellation of provisions	(14)	(24)	(15)	(137)	(190)
Payments	(46)	(148)	(68)	(71)	(333)
<b>At December 31, 2018</b>	<b>\$ 197</b>	<b>\$ 459</b>	<b>\$ 1,269</b>	<b>\$ 667</b>	<b>\$ 2,592</b>

<sup>(1)</sup>This provision comes from Campofrío and its strategic redefinition process to obtain, among others, efficiencies and a higher level of specialization in the production and logistics centers, as well as strengthening existing synergies.

<sup>(2)</sup>Corresponds to the cancellation of provisions of the telecommunications segment due to a favorable resolution of a litigation related to interconnection rates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2018	2017
Short-term provisions	\$1,175	\$ 471
Long-term provisions	1,417	796
<b>As of December 31</b>	<b>\$2,592</b>	<b>\$1,267</b>

### 19. OTHER LIABILITIES

	DECEMBER 31,	
	2018	2017
Share-based employee benefits (Note 22)	\$ 311	\$ 267
Dividends payable	90	83
Deferred credits	431	419
Accounts payable - Affiliates (Note 27)	2,481	2,000
<b>Total other liabilities</b>	<b>\$3,313</b>	<b>\$2,769</b>
Current portion	\$2,663	\$2,170
Non-current portion	650	599
<b>Total other liabilities</b>	<b>\$3,313</b>	<b>\$2,769</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 20. EMPLOYEE BENEFITS

The valuation of employee benefits for retirement plans is based primarily on their years of service, current age and estimated salary at retirement date.

The Company has established funds for the payment of retirement benefits through irrevocable trusts.

The employee benefits recognized in the consolidated statement of financial position are shown below:

	DECEMBER 31,	
	2018	2017
<b>COUNTRY</b>		
Mexico	\$2,550	\$2,505
United States	997	986
Other	1,426	1,491
<b>Total</b>	<b>\$4,973</b>	<b>\$4,982</b>

Below is a summary of the primary financial data of these employee benefits:

	DECEMBER 31,	
	2018	2017
Obligations in the consolidated statement of financial position:		
Pension benefits	\$4,457	\$4,186
Post-employment medical benefits	516	796
<b>Liability recognized in the consolidated statement of financial position</b>	<b>\$4,973</b>	<b>\$4,982</b>
Charge in the statement of income for:		
Pension benefits	\$ (353)	\$ (375)
Post-employment medical benefits	(61)	(62)
	<b>\$ (414)</b>	<b>\$ (437)</b>
<b>Remeasurements for employee benefit obligations recognized in other comprehensive income for the year</b>	<b>\$ 122</b>	<b>\$ (91)</b>
<b>Remeasurements for accrued employee benefit obligations recognized in other comprehensive income</b>	<b>\$ (277)</b>	<b>\$ (399)</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### POST-EMPLOYMENT PENSION AND 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 practice 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 benefit schemes in Mexico and the United States. The accounting method, assumptions and frequency of the valuations are similar to those used for defined benefits in pension schemes. Most of these plans are not funded.

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

	DECEMBER 31,	
	2018	2017
Present value of obligations	\$10,048	\$10,563
Fair value of plan assets	(6,049)	(6,692)
<b>Present value of defined benefit obligations</b>	<b>\$ 3,999</b>	<b>\$ 3,871</b>
Liability for defined contributions	974	1,111
<b>Liabilities in the consolidated statement of financial position</b>	<b>\$ 4,973</b>	<b>\$ 4,982</b>

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

	2018	2017
<b>As of January 1</b>	<b>\$10,563</b>	<b>\$10,127</b>
Current service cost	276	293
Interest cost	415	416
Contributions from plan participants	73	17
<b>REMEASUREMENTS:</b>		
Loss/(gains) for changes in personnel experience	(614)	180
Exchange differences	10	207
Benefits paid	(663)	(645)
Acquired in business combinations	2	-
Curtailments	(14)	(29)
Settlements	-	(3)
<b>As of December 31,</b>	<b>\$10,048</b>	<b>\$10,563</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	2018	2017
<b>As of January 1</b>	<b>\$(6,692)</b>	<b>\$(6,454)</b>
Remeasurements – expected return on plan assets, excluding interest in income	174	(272)
Exchange differences	208	(216)
Contributions from plan participants	(2)	(85)
Employee contributions	(47)	(2)
Benefits paid	310	337
<b>As of December 31</b>	<b>\$(6,049)</b>	<b>\$(6,692)</b>

The primary actuarial assumptions were as follows:

	DECEMBER 31,	
	2018	2017
Discount rate	MX 9.50%	MX 7.25%
Discount rate	US 4.10%	US 3.40%
Inflation rate	3.50%	3.50%
Wage increase rate	4.50%	4.50%
Future wage increase	3.50%	3.50%
Medical inflation rate	6.50%	6.50%

The sensitivity analysis of the discount rate was as follows:

	EFFECT ON DEFINED BENEFIT OBLIGATIONS		
	CHANGE IN ASSUMPTIONS	INCREASE IN ASSUMPTIONS	DECREASE IN ASSUMPTIONS
Discount rate	+1%	Decrease by \$152	Increase by \$519

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## PENSION BENEFIT ASSETS

Plan assets are comprised of the following:

	DECEMBER 31,	
	2018	2017
Equity instruments	\$ 3,040	\$ 4,686
Short and long-term fixed-income securities	3,009	2,006
	<b>\$ 6,049</b>	<b>\$ 6,692</b>

## 21. STOCKHOLDERS' EQUITY

At December 31, 2018 and 2017, the capital stock is variable, with a fixed minimum without withdrawal rights of \$211 and \$211, respectively, represented by 5,200,000,000 "Class I" Series "A" shares, without par value, fully subscribed and paid. The variable capital entitled to withdrawal will be represented, if issued, by registered "Class II" Series "A" shares without par value.

During 2017, the Company started a stock repurchase program which was authorized by the Ordinary General Meeting held on February 28, 2017. As of December 31, 2017, the Company repurchased 65,388,980 shares, which were kept in treasury. For the year ended December 31, 2018, the Company did not repurchase shares. As of December 31, 2018 and 2017, the Company held 144,888,980 treasury shares, and the market value of the shares was \$23.38 and \$21.62, respectively.

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 amount of paid capital. As of December 31, 2018 and 2017, the legal reserve amounted to \$60, which is included in retained earnings.

On February 28, 2018, the Ordinary General Stockholders' Meeting approved the payment of an ordinary cash dividend of \$0.0332 dollars for each of the outstanding shares, equivalent to approximately \$3,154. Also, on February 28, 2017, the Ordinary General Shareholders' Meeting approved the payment of an ordinary cash dividend of \$0.0332 dollars for each outstanding share, equivalent to approximately \$3,312.

In accordance with the Mexican Income Tax Law becoming effective on January 1, 2014, a 10% tax on income generated starting 2014 on dividends paid to foreign residents and Mexican individuals when these correspond to taxable income. It also establishes that for fiscal years 2001 to 2013, the net tax on profits will be determined as established in the Income Tax Law effective in the corresponding fiscal year.

Dividends paid are not subject to income tax if paid from the Net Tax Profit Account (CUFIN). Dividends exceeding CUFIN will cause a tax on the income at the applicable rate for the period in which they are paid. This tax is payable by the Company and may be credited against its income tax in the same year or the following two years or, if applicable, against the flat tax of the period. Dividends paid from profits which have previously paid income tax are not subject to tax withholding or to any additional tax payment. At December 31, 2018, the tax value of the CUFIN and tax value of the Capital Contribution Account (CUCA) amounted to \$38,371 (\$36,455 in 2017) and \$42,183 (\$40,767 in 2017), respectively.

In case of capital reduction, the procedures established by the Income Tax Law provide that any surplus of stockholders' equity be made over the balances of the tax accounts of the capital contributed, the same tax treatment as applicable to the dividends.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 22. SHARE-BASED PAYMENTS

Alfa has a compensation scheme referenced to the value of its own shares and the value of the shares of its subsidiaries for senior executives of the Company. According to the terms of the plan, eligible executives will receive a cash payment conditional on the achievement of certain quantitative and qualitative metrics based on the following financial measures:

- Improved share price of the Group
- Improvement in net income
- Permanence of the executives in the Company

The bonus will be paid in cash over five years after the grant date, i.e. 20% each year at the average price of the share at the end of each year. The average price of the shares in 2018 and 2017 was \$22.11 and \$21.12, respectively. These payments are measured at the fair value of the consideration, so, because they are based on the price of Alfa shares, the measurement is considered to be within level 1 of the fair value hierarchy.

As of December 31, 2018 and 2017, the liability for share-based payments amounted to \$311 and \$267, respectively.

The short-term and long-term liability is as follows:

	DECEMBER 31,	
	2018	2017
Short term	\$ 92	\$ 87
Long term	219	180
<b>Total carrying amount</b>	<b>\$ 311</b>	<b>\$ 267</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. EXPENSES CLASSIFIED BY THEIR NATURE

The total cost of sales, selling and administrative expenses, classified by nature of the expense, were as follows:

	2018	2017
Raw material and service costs	\$(204,937)	\$(172,033)
Maquila (production outsourcing)	(8,507)	(8,074)
Employee benefit expenses	(50,941)	(43,416)
Maintenance	(11,076)	(9,860)
Depreciation and amortization	(18,957)	(18,638)
Freight charges	(8,865)	(8,577)
Advertising expenses	(2,782)	(2,438)
Lease expenses	(3,969)	(3,695)
Consumption of energy and fuel	(11,732)	(9,994)
Travel expenses	(1,244)	(1,118)
Technical assistance, professional fees and administrative services	(5,382)	(7,912)
Other items	(10,393)	(11,338)
<b>Total</b>	<b>\$(338,785)</b>	<b>\$(297,093)</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 24. OTHER INCOME (EXPENSES), NET

	2018	2017
Gain on sale of assets	\$ 764	\$ 856
Gain on sale of business <sup>(3)</sup>	2,256	-
Gain on business combinations <sup>(4)</sup>	4,597	732
	<b>7,617</b>	<b>1,588</b>
Valuation of derivative financial instruments	559	(192)
Impairment of long-lived assets <sup>(1) (5)</sup>	(517)	(8,479)
Other income (expenses) <sup>(2)</sup>	399	(2,256)
	<b>441</b>	<b>(10,927)</b>
<b>Total other income (expenses), net</b>	<b>\$8,058</b>	<b>\$ (9,339)</b>

<sup>(1)</sup> For 2017, \$7,745 of expense for impairment of intangible assets and prepayments recognized by Alpek, arising from the agreement with M&G, see Note 2h.

<sup>(2)</sup> For 2017, \$2,017 of expense for impairment of receivables recognized by Alpek, arising from the agreement with M&G, see Note 2h.

<sup>(3)</sup> Corresponds to the gain generated by the sale of the mass segment by Axtel, see Note 2d.

<sup>(4)</sup> Corresponds to the gain generated in the business combination of PQS and Citepe from Alpek, see Note 2b.

<sup>(5)</sup> Comprises mainly, \$3,936 of the reversal of part of the impairment expense recorded in 2017 on intangible assets by Alpek, see Note 2c; \$2,073 of expense for impairment of the intangible assets and fixed assets of Newpek, which come from the divestment in Peru and the sale of land; \$1,440 and \$217 of impairment expense for intangible assets and fixed assets of Sigma, due to the decrease in the recoverable value of the CGU in Italy and of an operating plant in the Netherlands, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25. FINANCIAL INCOME AND EXPENSES

	2018	2017
<b>FINANCIAL INCOME:</b>		
Interest income on short-term bank deposits	\$ 445	\$ 357
Other financial income	971	655
Valuation effect of derivative financial instruments	-	22
<b>Total financial income</b>	<b>\$ 1,416</b>	<b>\$ 1,034</b>
<b>FINANCIAL EXPENSES:</b>		
Interest expense on bank loans	\$ (4,441)	\$ (2,966)
Interest expense on debt securities	(4,839)	(4,712)
Interest expense on portfolio sale	(453)	(375)
Financial cost of employee benefits	(252)	(254)
Supplier interest expense	(129)	(90)
Other financial expenses	(372)	(591)
<b>Total financial expenses and other financial expenses</b>	<b>\$ (10,486)</b>	<b>\$ (8,988)</b>
<b>EXCHANGE FLUCTUATION GAIN (LOSS), NET:</b>		
Exchange fluctuation gain	\$ 8,612	\$ 6,519
Exchange fluctuation loss	(8,280)	(7,783)
<b>Exchange fluctuation gain (loss), net:</b>	<b>\$ 332</b>	<b>\$ (1,264)</b>
<b>Impairment of financial assets (Note 2h.)</b>	<b>\$ -</b>	<b>\$ (1,694)</b>
<b>Financial result, net</b>	<b>\$ (8,738)</b>	<b>\$(10,912)</b>

### 26. EMPLOYEE BENEFIT EXPENSES

	2018	2017
Salaries, wages and benefits	\$44,746	\$37,753
Social security fees	4,965	4,497
Employee benefits	823	772
Other fees	407	394
<b>Total</b>	<b>\$50,941</b>	<b>\$43,416</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 27. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties during the years ended December 31, 2018 and 2017, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

	2018	2017
<b>Sale of goods and services:</b>		
Affiliates	\$ 23,681	\$23,914
Stockholders with significant influence over subsidiaries <sup>(1)</sup>	1,708	1,647
<b>Purchase of goods and services:</b>		
Affiliates	\$ 62,026	\$19,742
Stockholders with significant influence over subsidiaries <sup>(1)</sup>	1,016	872

<sup>(1)</sup> Includes the effects of the agreements between Alpek and BASF on the polyurethane (PU) businesses.

For the year ended December 31, 2018 and 2017, wages and benefits received by top officials of the Company were \$629 and \$826, respectively, an amount comprising base salary and legal benefits, supplemented by a variable compensation program primarily based on the results of the Company and the market value of its shares.

At December 31, 2018 and 2017, the balances with related parties were as follows:

	NATURE OF THE TRANSACTION	2018	2017
<b>Receivables:</b>			
Affiliates	Sale of goods	\$ 2,087	\$ 2,082
Affiliates	Loans	625	799
<b>Payable:</b>			
Affiliates	Purchase of raw materials	\$ 2,333	\$ 1,846
Affiliates	Loans	148	154

Balances payable to related parties at December 31, 2018 are payable in 2019 and do not bear interest.

The Company and its subsidiaries did not have significant transactions with related parties or conflicts of interest to be disclosed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28. FINANCIAL INFORMATION BY SEGMENTS

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

An operating segment is defined as a component of an entity over which there is separate financial information that is evaluated regularly.

The Company manages and evaluates its operation through five primary operating segments, which are:

- Alpek: This segment operates in the petrochemical and synthetic fibers industry, and its revenues are derived from sales of its main products: polyester, plastics and chemicals.
- Sigma: This segment operates in the refrigerated food sector and its revenues are derived from sales of its main products: deli meats, dairy and other processed foods.
- Nemak: This segment operates in the automotive industry and its revenues are derived from sales of its main products: aluminum engine heads and blocks.
- Axtel: This segment operates in the telecommunications sector and its revenues are derived from the provision of data transmission services, Internet and long distance phone service.
- Newpek: This segment is dedicated to the exploration and exploitation of natural gas and oil fields.
- Other segments: includes all other companies operating in business services and others which are non-reportable segments and do not meet the quantitative limits in the years presented and, therefore, are presented in aggregate, besides the eliminations of consolidation.

These operating segments are managed and controlled independently because the products and the markets they serve are different. Their activities are performed through various subsidiaries.

The transactions between operating segments are performed 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 metric 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 as an alternative to net income as a measure of operating performance or cash flows as a measure of liquidity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Company has defined the Adjusted EBITDA by also adjusting EBITDA by the impacts of asset impairment. Below is the condensed financial information of the operating segments to be reported for the year ended December 31, 2018:

	ALPEK	SIGMA	NEMAK	AXTEL	NEWPEK	OTHER SEGMENTS AND ELIMINATIONS	TOTAL
<b>STATEMENT OF INCOME</b>							
Income by segment	\$134,523	\$121,900	\$90,327	\$15,561	\$ 2,060	\$ 4,593	\$368,964
Inter-segment income	(384)	-	-	(167)	-	(1,981)	(2,532)
<b>Income from external customers</b>	<b>\$134,139</b>	<b>\$121,900</b>	<b>\$90,327</b>	<b>\$15,394</b>	<b>\$ 2,060</b>	<b>\$ 2,612</b>	<b>\$366,432</b>
Adjusted EBITDA	\$ 20,607	\$ 13,154	\$14,105	\$ 8,241	\$ 572	\$ (1,500)	\$ 55,179
Depreciation and amortization	(2,885)	(3,990)	(6,166)	(4,469)	(413)	(1,034)	(18,957)
Impairment of assets	3,480	(1,726)	(116)	(75)	(2,073)	(7)	(517)
<b>Operating income</b>	<b>21,202</b>	<b>7,438</b>	<b>7,823</b>	<b>3,697</b>	<b>(1,914)</b>	<b>(2,541)</b>	<b>35,705</b>
Financial result, net	(2,783)	(1,875)	(2,220)	(1,665)	359	(554)	(8,738)
Equity in results of associates	(31)	15	136	-	27	(26)	121
<b>Income or loss before taxes</b>	<b>\$ 18,388</b>	<b>\$ 5,578</b>	<b>\$5,739</b>	<b>\$ 2,032</b>	<b>\$(1,528)</b>	<b>\$ (3,121)</b>	<b>\$ 27,088</b>
<b>STATEMENT OF FINANCIAL POSITION</b>							
Investment in associates	\$ 8,746	\$ 59	\$ 662	\$ -	\$ 552	\$ (149)	\$ 9,870
Other assets	111,151	100,361	92,595	28,156	11,290	16,405	359,958
Total assets	119,897	100,420	93,257	28,156	11,842	16,256	369,828
Total liabilities	76,733	83,358	57,154	24,535	4,401	25,423	271,604
<b>Net assets</b>	<b>\$ 43,164</b>	<b>\$ 17,062</b>	<b>\$36,103</b>	<b>\$ 3,621</b>	<b>\$ 7,441</b>	<b>\$ (9,167)</b>	<b>\$ 98,224</b>
<b>Capital investment (Capex)</b>	<b>\$ (2,005)</b>	<b>\$ (3,499)</b>	<b>\$(7,786)</b>	<b>\$ 2,311</b>	<b>\$ 495</b>	<b>\$ (447)</b>	<b>\$(10,931)</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

	ALPEK	SIGMA	NEMAK	AXTEL	NEWPEK	OTROS SEGMENTOS Y ELIMINACIONES	TOTAL
<b>STATEMENT OF INCOME</b>							
Income by segment	\$98,998	\$114,222	\$84,779	\$15,513	\$2,036	\$ 4,768	\$320,316
Inter-segment income	(315)	-	-	(160)	-	(2,214)	(2,689)
<b>Income from external customers</b>	<b>\$98,683</b>	<b>\$114,222</b>	<b>\$84,779</b>	<b>\$15,353</b>	<b>\$2,036</b>	<b>\$ 2,554</b>	<b>\$317,627</b>
Adjusted EBITDA	\$ 7,483	\$ 12,725	\$13,546	\$ 5,451	\$ 50	\$ (943)	\$ 38,312
Depreciation and amortization	(2,635)	(3,776)	(6,320)	(4,034)	(560)	(1,313)	(18,638)
Impairment of assets	(7,702)	(359)	(211)	(12)	(189)	(6)	(8,479)
<b>Operating income</b>	<b>(2,854)</b>	<b>8,590</b>	<b>7,015</b>	<b>1,405</b>	<b>(699)</b>	<b>(2,262)</b>	<b>11,195</b>
Financial result, net	(3,410)	(4,389)	(1,900)	(915)	109	(407)	(10,912)
Equity in results of associates	(4)	16	60	-	36	(16)	92
<b>Income or loss before taxes</b>	<b>\$(6,268)</b>	<b>\$ 4,217</b>	<b>\$ 5,175</b>	<b>\$ 490</b>	<b>\$(554)</b>	<b>\$ (2,685)</b>	<b>\$ 375</b>
<b>STATEMENT OF FINANCIAL POSITION</b>							
Investment in associates	\$ 483	\$ 1	\$ 505	\$ -	\$ 498	\$ (33)	\$ 1,454
Other assets	93,295	105,585	96,184	30,754	12,271	19,425	357,514
Total assets	93,778	105,586	96,689	30,754	12,769	19,392	358,968
Total liabilities	62,114	87,297	58,266	28,261	6,485	24,119	266,542
<b>Net assets</b>	<b>\$31,664</b>	<b>\$ 18,289</b>	<b>\$38,423</b>	<b>\$ 2,493</b>	<b>\$6,284</b>	<b>\$ (4,727)</b>	<b>\$ 92,426</b>
<b>Capital investment (Capex)</b>	<b>\$(4,431)</b>	<b>\$ (3,542)</b>	<b>\$(8,279)</b>	<b>\$(2,192)</b>	<b>\$ (646)</b>	<b>\$ (49)</b>	<b>\$(19,139)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Below are the sales to external customers, as well as property, plant and equipment, goodwill and intangible assets by geographic area. Sales to external customers were classified based on their origin:

### FOR THE YEAR ENDED DECEMBER 31, 2018

	SALES TO EXTERNAL CUSTOMERS	PROPERTY, PLANT AND EQUIPMENT	GOODWILL	INTANGIBLE ASSETS
Mexico	\$108,922	\$ 83,031	\$ 7,526	\$ 12,809
United States	105,860	15,021	45	3,630
Canada	6,207	2,165	-	52
Central and South America	46,626	10,396	-	931
Europe and other countries	98,817	42,776	15,227	12,091
<b>Total</b>	<b>\$366,432</b>	<b>\$ 153,389</b>	<b>\$22,798</b>	<b>\$ 29,513</b>

### FOR THE YEAR ENDED DECEMBER 31, 2017

	SALES TO EXTERNAL CUSTOMERS	PROPERTY, PLANT AND EQUIPMENT	GOODWILL	INTANGIBLE ASSETS
Mexico	\$137,376	\$ 85,044	\$ 8,221	\$ 14,246
United States	83,851	15,437	46	4,962
Canada	4,610	2,453	-	22
Central and South America	16,154	4,316	-	222
Europe and other countries	75,636	46,392	16,581	13,758
<b>Total</b>	<b>\$317,627</b>	<b>\$ 153,642</b>	<b>\$24,848</b>	<b>\$ 33,210</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29. CONTINGENCIES AND COMMITMENTS:

In the normal course of its business, the Company is involved in disputes and litigations. While the results of the disputes cannot be predicted, as of December 31, 2018, the Company does not believe that there are current or threatened actions, claims or legal proceedings against or affecting the Company which, if determined adversely to it, would damage significantly its individual or overall results of operations or financial position.

As of December 31, 2018, the Company and its subsidiaries had the following commitments:

- a. As of December 31, 2018 and 2017, the subsidiaries had entered into several agreements with suppliers and customers for the purchase of raw materials used for the production and sale of finished products, respectively. These agreements have a maturity of between one and five years, and generally comprise price adjustment clauses.
- b. In December 2018, Indelpro (subsidiary of Alpek) entered into an extension agreement with PEMEX Refinación to cover the supply of propylene for the chemical and refining area, which establishes the obligation to purchase the maximum level of production available to a price referenced to market values for a given period.
- c. Newpek, S. A. de C. V., ("Newpek") a subsidiary of the Company, won in areas 2 and 3 auctioned on July 12, 2017, corresponding to the third bidding of the Round 2 held by the National Hydrocarbons Commission ("CNH for its acronym in Spanish"). In order to comply with the requirements of the contract for exploration and extraction of hydrocarbons in conventional onshore deposits under the license modality, the Company has granted CNH an indirect investment in Newpek Capital, S. A. of C.V. The latter must maintain capital stock equal to or greater than US\$300 or the shareholding held must equal that amount, which covers the part that corresponds to the Company. The contract establishes that such guarantee will be exercised in the last resort, in a subordinate way and exclusively to demand compliance with the obligations established in the bidding of the contract, referring to those obligations that have not been paid and/or fulfilled in their entirety.
- d. A subsidiary of the Company, Nemark México, S. A. ("Nemark México") received a tax credit from the Tax Agency of Canada (CRA) for refunds of Tax on Goods and Services (GST) and the Harmonized Tax on Sale (HST) by an approximate total amount including interest of US\$82 million. The CRA alleges that Nemark Mexico delivered certain assets in Canada that were subject to GST and HST. Nemark Mexico presented an objection to the CRA arguing that its clients acted as importers in Canada and that the goods were delivered outside that country. As of the date of the financial statements, the result of this claim cannot be predicted, however management considers that it has the arguments to obtain a favorable result.
- e. As of December 31, 2018, Alpek, subsidiary of the Company, is in a process of fiscal litigation in one of its subsidiaries in Brazil, in relation to the demand for payment of the Tax on the Circulation of Goods and Services ("ICMS") that the Ministry of Finance of the State of Sao Paulo ("SFSP", for its initials in Portuguese) has raised against Alpek, due to differences in the criteria for the calculation and crediting of said tax. Considering all the circumstances and precedents of jurisprudence available at that date, management and its advisors have determined that it is probable that the Superior Court of Justice of Brazil will issue a judgment in favor of Alpek for the amount related to differences in the calculation, which it would exempt it from paying \$401 in taxes, fines and interest that the SFSP demands. On the other hand, for the concept of ICMS accreditation, the amount demanded amounts to \$80, and management consider that it is possible for the authorities to issue an unfavorable resolution for Alpek.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 30. SUBSEQUENT EVENTS

In preparing the consolidated financial statements the Company has evaluated the events and transactions for recognition or disclosure subsequent to December 31, 2018, and through January 31, 2019 (date of issuance of the consolidated financial statements), and except for the matters mentioned in the following paragraph, no additional significant subsequent events have been identified:

- a. On January 6, 2019, Alpek signed a final agreement for the sale of its two electric power cogeneration plants, located in Cosoleacaque and Altamira, Mexico. The agreement contemplates the sale of all the representative shares held by Alpek, S.A.B. on the equity of the companies that own both plants: Cogeneration of Altamira, S. A. de C. V. and Cogeneration of Clean Energy of Cosoleacaque, S. A. de C. V., for an amount of US\$801 to ContourGlobal Terra 3 S.à.r.l. ("CG Terra 3"), a subsidiary of ContourGlobal PLC.

Also, as part of the transaction, Alpek, S. A. B. de C. V. will sign with CG Terra 3, among others, an option contract, by virtue of which Alpek, S. A. B. de C. V. undertakes to sell its shares representing the capital stock of Tereftalatos Mexicanos Gas, S. A. de C. V. (whose assets include gas pipelines that transport natural gas from the point of interconnection of the national transport system integrated to the point of consumption), in favor of CG Terra 3, in the event that the latter exercises the purchase option within a maximum term of 5 years from the date of signature of the option contract. The option will be subject to compliance with certain conditions precedent under this contract and its price will be subject to working capital adjustments.

The agreed price will be subject to certain adjustments established in the purchase agreement and must be paid at the close of the transaction, which is expected during the first months of 2019, and is subject to customary closing terms and conditions, including corporate and consumer approvals. the Federal Commission of Economic Competition.

- b. On January 9, 2019, Alpek announced that one of its subsidiaries signed an agreement with Perpetual Recycling Solutions, LLC ("Perpetual"), for the purchase of a PET recycling facility located in Richmond, Indiana, United States of America. The PET recycling plant has a capacity to produce approximately 45,000 tons per year of high quality recycled PET flakes, and its acquisition will complement the Company's PET recycling operations in Argentina and North Carolina. The closing of the transaction is subject to compliance with preceding conditions and is expected during the first quarter of 2019.
- c. During the month of January 2019, Sigma contracted derivative financial instruments to hedge the exchange risk through forward contracts, for a total value of US\$330.

### 31. AUTHORIZATION TO ISSUE THE CONSOLIDATED FINANCIAL STATEMENTS

On January 31, 2019, the issuance of the accompanying consolidated financial statements was authorized by Álvaro Fernández Garza, Chief Executive Officer, and Eduardo A. Escalante Castillo, Chief Financial Officer. These consolidated financial statements will be subject to the approval of the Company's Ordinary Stockholders' Meeting.

## GLOSSARY

### **CAPROLACTAM**

Raw material derived from oil (cyclohexane), used for the production of nylon.

### **CLOUD APPLICATIONS**

Business model where applications are accessed through the Internet, and are not physically present in the customer's facilities.

### **EPS**

Thermoplastic used for insulation and packaging.

### **INDEPENDENT BOARD MEMBER**

A Board member who does not own company shares and is not involved in the day to day management of the company.

### **INDEPENDENT PROPRIETARY BOARD MEMBER**

A Board member who owns company shares but is not involved in the day-to-day management of the company.

### **PET (POLYETHYLENE TEREPHTALATE)**

Plastic resin mostly used to manufacture containers.

### **POLYESTER**

Plastic resin used to manufacture textile fibers, films and containers.

### **POLYPROPYLENE**

Propylene derivative used in the production of plastics and fibers, among other products.

### **PTA (PURIFIED TEREPHTALIC ACID)**

Raw material used to manufacture polyester.

### **RELATED PROPRIETARY BOARD MEMBER**

A Board member who owns company shares and is involved in the day-to-day management of the company.

### **SYSTEMS INTEGRATION**

Practice of service which consists in designing and building customized computer solutions, combining and connecting hardware and/or software of one or several manufactures products.



# GRI INDEX

STD NUMBER	STANDARD	ANSWER/LOCATION	MATERIAL ASPECT	SDG 2030	STATUS
<b>STRATEGY</b>					
<b>STRATEGY AND ANALYSIS</b>					
102-14	Statement from the Director Executive	Pages 5-9.			Fully
102-15	Key impacts, risks, and opportunities.	Pages 6-8.			Fully
<b>COMPANY'S PROFILE</b>					
102-1	Name of the organization	ALFA S.A.B de C.V.	Obligatory		Fully
102-2	Activities, brands, products, and services	Pages 1, 3 and 6.	Obligatory		Fully
102-3	Location of headquarters	Page 166.	Obligatory		Fully
102-4	Location of operations	Page 4.	Obligatory		Fully
102-5	Ownership and legal form	ALFA S.A.B de C.V.	Obligatory		Fully
102-6	Markets served	Page 3.	Obligatory		Fully
102-7	Scale of the organization	Pages 1-5.	Obligatory		Fully
102-8	Information on employees and other workers	Page 26.	Labor practices	SDG 8: Decent work and economic growth.	Fully
102-9	Supply chain.	Due to the diverse nature of ALFA's businesses, their supply chains are very different. For more information about these, please consult: ALPEK: <a href="http://www.alpek.com/reports.html">http://www.alpek.com/reports.html</a> ; NEMAK: <a href="https://investors.nemak.com/financial-information/annual-reports/">https://investors.nemak.com/financial-information/annual-reports/</a> ; SIGMA: <a href="https://www.sigma-alimentos.com/sustainability-report/">https://www.sigma-alimentos.com/sustainability-report/</a>	Relations with clients and suppliers		Fully
102-10	Significant changes to the organization and its supply chain	Pages 5-9.			Fully
102-11	Precautionary Principle or approach	Pages 5-9. COMPLEMENT: The potential and real risks of the operations and products are identified through studies of impact, health, safety and communication with the stakeholders. All identified risks are taken care of to eliminate them or mitigate them.	Relations with shareholders		Fully

102-12	External initiatives	Page 25. COMPLEMENT: The company also subscribes to different international and local initiatives such as the UN Global Compact, United Way and ANSPAC.	Relationship with NGOs and regulatory agencies	SDGs 5, 8 and 16: Gender equality; Responsible production and consumption; Peace, justice and strong institutions.	Fully
102-13	Membership of associations	Page 25. COMPLEMENT: For more information about these, please consult: ALPEK: <a href="http://www.alpek.com/reports.html">http://www.alpek.com/reports.html</a> ; NEMAK: <a href="https://investors.nemak.com/financial-information/annual-reports">https://investors.nemak.com/financial-information/annual-reports</a> ; SIGMA: <a href="https://www.sigma-alimentos.com/sustainability-report/">https://www.sigma-alimentos.com/sustainability-report/</a>	Relationship with NGOs and regulatory agencies	SDG 17: Partnerships for the goals.	Fully

#### MATERIAL ASPECTS AND REPORT COVERAGE

102-45	Entities included in the consolidated financial statements	ALFA reports its financial status and advances in sustainability in a single integrated report. The consolidated financial statements of ALFA can be consulted from page 40 of this Report.	Relation with shareholders		Fully
102-46	Defining report content and topic Boundaries	Page 21.	CSR Management		Fully
102-47	List of material aspects	Page 21.	CSR Management		Fully
103-1b	Explanation of the material topic and its boundary	Page 21.	CSR Management		Fully
103-1c	Explanation of the material topic and its Boundary	Page 21. COMPLEMENT: The report option chosen for 2018 is CORE, according to the GRI standards. This means that we completely cover at least one standard of the identified material issues.	CSR Management		Fully
102-48	Restatements of information	In 2018 there were no restatements of information.	Obligatory		Fully
102-49	Changes in reporting	In 2018 there were no significant changes in the scope and coverage of each material aspect with respect to previous reports. The most significant change is that in the Annual Report to Shareholders of 2018 the sustainability section was integrated for the first time.	Obligatory		Fully

#### STAKEHOLDERS ENGAGEMENT

102-40	List of stakeholder groups	Pages 21 and 22.	Relationship with NGOs and regulatory agencies		Fully
102-41	Percentage of employees covered by collective agreements.	36.3% globally.	Labor practices	SDG 8: Decent work and economic growth.	Fully

102-42	Identifying and selecting stakeholders	We base the level of engagement with our stakeholders according to the degree of impact we have on them, and vice versa.	Relationship with NGOs and regulatory agencies	SDG 17: Partnerships for the goals.	Fully
102-43	Approach to stakeholder engagement	Page 23.	Labor practices; Relationship with NGOs and regulatory agencies; Relations with clients and suppliers	SDG 17: Partnerships for the goals.	Fully
102-44	Key topics and concerns raised	Página 23. COMPLEMENT: In 2018, the main concerns focused on the long-term objectives of the company, alignment with the Sustainable Development Goals (SDG) and the uncertainty related to the economic environment in Mexico and worldwide.	Relationship with NGOs and regulatory agencies	SDG 17: Partnerships for the goals.	Fully

#### COMPANY'S PROFILE

102-50	Reporting period	January 1st to December 31st, 2018.	CSR Management		Fully
102-51	Date of most recent report	Publication date: February 28th, 2018, includes the reporting period from January to December 2017.	CSR Management		Fully
102-52	Reporting cycle	Annual.	CSR Management		Fully
102-53	Contact point for questions regarding the report	Humberto Estrella, Global Communications Manager, tel. +528187481111	CSR Management		Fully
102-54	Claims of reporting in accordance with the GRI Standards	The chosen option for this report is Core.	CSR Management		Fully
102-55	GRI content index	Present.	CSR Management		Fully
102-56	External assurance	This report does not have external verification.	CSR Management		Fully
102-56	External assurance policies	In Alfa we do not have an established policy regarding external verification practices, but this practice is put into consideration for each reporting cycle. It is important to mention that once it has been decided that it will be carried out, the verifying agency is expected to have the necessary information and not have a working relationship with the consulting agency that supports us in the development of the report.	CSR Management		Fully

## GOVERNANCE

102-18	Governance structure	Pages 34, 46-48.	Corporate governance		Fully
102-19	Delegating authority	The Board of Directors relies on the Presidency, General Management, as well as the Finance Division for the issues of investment viability, strategic positioning of the company. It also has an area specifically responsible for maintaining communication with its shareholders and investors. For the other areas, the directors of each one report directly to the General Management.	Corporate governance		Fully
102-20	Indicate if there are executive positions in the organization or with responsibility for economic, environmental and social issues, and if their holders report directly to the highest governing body.	The Finance and Human Capital departments have the responsibility to boost the economic, environmental and social areas of the company.	Corporate governance		
102-21	Consulting stakeholders on economic, environmental, and social topics	The concerns expressed by our stakeholders through the various means of communication with which we have, are transmitted to the highest governing body through the governing body of the areas to which it corresponds to respond to them.	Corporate governance	SDG 16: Peace, justice and strong institutions.	Fully
102-22	Composition of the highest governance body and its committees	Page 37.	Corporate governance	SDG 5 and 16: Gender equality; Peace, justice and strong institutions.	Fully
102-23	Chair of the highest governance body	Page 37.	Corporate governance	SDG 16: Peace, justice and strong institutions.	Fully
102-24	Nominating and selecting the highest governance body	The members of the Board of Directors are chosen based on their professionalism, business trajectory, leadership, experience and congruence with the values of ALFA. No distinction is made for diversity factors such as gender, race, nationality and / or personal beliefs.	Corporate governance	SDG 5 and 16: Gender equality; Peace, justice and strong institutions.	Fully



102-25	Conflicts of interest	<p>Page 39. COMPLEMENT: ALFA has a Conflict of Interest policy for the members of the Board of Directors and for its collaborators. This establishes that the responsibilities and duties of the members of the Board are governed by the Mexican Securities Market Law (LMV), applicable in Mexico to securities issuers, taking into account the Code of Professional Ethics of the Mexican Stock Market Community, the Code of Best Corporate Practices and the internal regulations of the Mexican Stock Exchange. In accordance with the LMV, the members of the Board have a duty of diligence, so they must always act in good faith in the best interest of the company. They must keep confidentiality with respect to information and / or public matters of the company, as well as refrain from participating and being present in the deliberation and voting on matters that represent a conflict of interest. By policy, those members of the Board who may have a conflict of interest in the decision on any matter, must inform the Chairman and the other members, as well as refrain from participating in the discussion and exercising their vote at the meetings. In the case of employees, ALFA's policy states that they should avoid any situation in which their interests differ from those of the company. All employees who may have interests or relationships with current or potential suppliers or customers should inform their immediate supervisor.</p>	Corporate governance	SDG 16: Peace, justice and strong institutions.	Fully
102-26	Role of highest governance body in setting purpose, values, and strategy	Page 39.	Corporate governance		Fully

102-27	Collective knowledge of highest governance body	Each year, the learning dynamic within ALFA is strengthened in all areas of the company, including our management team. This year, thanks to the materiality process carried out in 2015, which directly involved the executives, and whose results were presented to them as a way to inform ALFA's future strategy as a whole, we were able to strengthen the company's sustainability strategy.	Corporate governance	Fully
102-28	Evaluating the highest governance body's performance	There are several evaluation methods for directors that measure various factors: from attending the Board meetings and the committees to which they belong, to their participation in the deliberations and in the effectiveness of the strategic decisions taken.	Corporate governance	Fully
102-29	Risk management processes of the highest governance body.	This information is considered confidential.	Corporate governance	Fully
102-30	Effectiveness of risk management processes	Pág. 39. COMPLEMENT: The Board of Directors follows procedures in accordance with those established by the corporate governance standards contemplated in the Mexican Securities Market Law and the Code of Best Corporate Practices. In addition, it relies on the Audit, Corporate Practices, and Planning and Finance committees to review the company's strategy, management, and results, which include environmental and social issues. The evaluation is based on compliance with the criteria of ALFA, its business strategy and investment policy: business related to current operations, strengthening of the competitive position, attractive markets (profitability and growth), generation of synergies and assurance of the competitiveness of the value chain.	Corporate governance	Fully
102-31	Review of economic, environmental, and social topics	Page 39.	Corporate governance	Fully
102-32	Highest governance body's role in sustainability reporting	ALFA's Global Communications Department.	Corporate governance	Fully

102-33	Communicating critical concerns	This takes place during the quarterly meetings held by the Board	Corporate governance		Fully
102-34	Nature and number of important concerns that were transmitted to the highest governing body	This information is considered confidential.	Corporate governance		Fully
102-35	Remuneration policies for the highest governing body and senior management	This information is considered confidential.	Wealth distribution		Fully
102-36	Processes to determine remuneration	This information is considered confidential.	Wealth distribution		Fully
<b>ETHICS AND INTEGRITY</b>					
102-16	Values and principles	Page 23.	Obligatory		Fully
102-17	Describe the internal and external mechanisms of advice for ethical and lawful conduct, and for matters related to the integrity of the organization, such as help lines or advice.	Page 24.	Obligatory	SDG 13: Climate action.	Fully
102-17	Describe the internal and external mechanisms for reporting unethical or illicit conduct and matters related to the integrity of the organization, such as escalated notification to management, mechanisms for reporting irregularities or telephone help lines.	Page 24.	Corporate governance		Fully
<b>ECONOMIC PERFORMANCE</b>					
201-1	Direct economic value generated and distributed	Page 2.	CSR Management; Wealth distribution; Operations and risk strategy	SDG 8: Decent work and economic growth.	Fully
201-2	Financial implications and other risks and opportunities due to climate change	Pages. 5-9.	Wealth distribution; Climate change and emissions strategy	SDG 13: Climate action.	Fully
201-3	Defined benefit plan obligations and other retirement plans	"Pension plans, support for education and medical assistance are available to 100% of ALFA's employees, and the pension system is a fixed contribution plan to which the company and its employees contribute the same amount, which goes from 4 to 17% of the total salary of the employee and varies according to the applicable labor regulations. The resources to cover these benefits are contributed 100% by the company.	Prácticas laborales		Completo

201-4	Financial assistance received from government	ALFA does not receive significant aid granted by government agencies.	Relationship with NGOs and regulatory agencies		Fully
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#### MARKET PRESENCE

202-1	Ratios of standard entry level wage by gender compared to local minimum wage	P. 26- COMPLEMENT: Country / Minimum salary ratio of ALFA vs. legal minimum wage: Mexico 3.30 to 1, United States 2.07 to 1. There is no difference between ALFA minimum wages for men and for women.	Labor practices	SDG 8: Decent work and economic growth.	Fully
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202-2	Proportion of senior management hired from the local community	Approximately 70% of managers come from the same community where the operation is located.	Community engagement	SDG 11: Sustainable cities and communities	Fully
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#### INDIRECT ECONOMIC IMPACTS

203-1	Infrastructure investments and services supported	Pages 16 and 20.	Wealth distribution	SDG 1: No poverty.	Fully
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203-2	Significant indirect economic impacts	Pages 16 and 20.	Wealth distribution	SDG 1, 2, 3, 8, 10 and 17: No poverty; Zero hunger; Good health and wellbeing; Decent work and economic growth; Reduced inequalities; Partnerships for the goals.	Fully
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#### ACQUISITION PRACTICES

204-1	Proportion of spending on local suppliers	In 2018, ALFA's business units devoted an average of 56% of their spending to local suppliers. However, in some plants they reach a higher percentage. In conditions of equality of price, quality and availability, priority is given to local suppliers.	Community engagement	SDG 8: Decent work and economic growth.	Fully
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#### ENVIRONMENT

##### MATERIALS

301-1	Materials by weight or volume	It is not a material aspect for our operations. For more information about the ALFA companies in the subject, please consult: ALPEK: <a href="http://www.alpek.com/reports.html">http://www.alpek.com/reports.html</a> ; NEMAK: <a href="https://investors.nemak.com/financial-information/annual-reports">https://investors.nemak.com/financial-information/annual-reports</a> ; SIGMA: <a href="https://www.sigma-alimentos.com/sustainability-report/">https://www.sigma-alimentos.com/sustainability-report/</a>			Fully
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301-2	Recycled input materials used	Page 34.	Climate change and emissions strategy	SDGs 8 and 12: Decent work and economic growth; Responsible production and consumption.	Fully
<b>ENERGY</b>					
302-1	Energy consumption within the organization	Page 32.	Energy efficiency	SDG 7, 8, 12 and 13: Affordable and clean energy; Decent work and economic growth; Responsible production and consumption; Climate action.	Fully
302-2	Energy consumption outside of the organization	Page 32.	Energy efficiency	SDG 7, 8, 12 and 13: Affordable and clean energy; Decent work and economic growth; Responsible production and consumption; Climate action.	Fully
302-3	Energy intensity	For more information about the ALFA companies in the subject, please consult: ALPEK: <a href="http://www.alpek.com/reports.html">http://www.alpek.com/reports.html</a> ; NEMAK: <a href="https://investors.nemak.com/financial-information/annual-reports/">https://investors.nemak.com/financial-information/annual-reports/</a> ; SIGMA: <a href="https://www.sigma-alimentos.com/sustainability-report/">https://www.sigma-alimentos.com/sustainability-report/</a>	Energy efficiency	SDG 7, 8, 12 and 13: Affordable and clean energy; Decent work and economic growth; Responsible production and consumption; Climate action.	Fully
302-4	Reduction of energy consumption	Page 32.	Energy efficiency	SDG 7, 8, 12 and 13: Affordable and clean energy; Decent work and economic growth; Responsible production and consumption; Climate action.	Fully



302-5	Reductions in energy requirements of products and services	Page 31. For more information about the ALFA companies in the subject, please consult: ALPEK: <a href="http://www.alpek.com/reports.html">http://www.alpek.com/reports.html</a> ; NEMAK: <a href="https://investors.nemak.com/financial-information/annual-reports">https://investors.nemak.com/financial-information/annual-reports</a> ; SIGMA: <a href="https://www.sigma-alimentos.com/sustainability-report/">https://www.sigma-alimentos.com/sustainability-report/</a>	Energy efficiency	SDG 7, 8, 12 and 13: Affordable and clean energy; Decent work and economic growth; Responsible production and consumption; Climate action.	Fully
<b>WATER</b>					
303-1	Water withdrawal by source	Page 41.	Water management	SDG 6, 8, 12 and 14: Clean water and sanitation; Decent work and economic growth; Responsible production and consumption; Life below water.	Fully
303-2	Water sources significantly affected by withdrawal of water	No water source was significantly affected by Alfa in 2018.	Water management	SDG 6, 8, 12 and 14: Clean water and sanitation; Decent work and economic growth; Responsible production and consumption; Life below water.	Fully
303-3	Water recycled and reused	Page 41.	Water management	SDG 6, 8, 12 and 14: Clean water and sanitation; Decent work and economic growth; Responsible production and consumption; Life below water.	Fully
<b>BIODIVERSITY</b>					
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Page 41.		SDG 15: Life on land.	Fully
304-2	Significant impacts of activities, products, and services on biodiversity	ALFA's operations do not affect these areas.		SDG 15: Life on land.	Fully
304-3	Habitats protected or restored	See Standard 304-1.		SDG 15: Life on land.	Fully
304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations	ALFA's operations do not affect vulnerable or endangered species.		SDG 15: Life on land.	Fully

## EMISSIONS

305-1	Direct GHG emissions (Scope 1)	Page 32.	Climate change and emissions strategy	SDGs 3, 12, 13, 14 and 15: Good health and wellbeing; Responsible production and consumption; Climate action; Life below water; Life on land.	Fully
305-2	Energy indirect (Scope 2) GHG emissions	Page 32.	Climate change and emissions strategy	SDGs 3, 12, 13, 14 and 15: Good health and wellbeing; Responsible production and consumption; Climate action; Life below water; Life on land.	Fully
305-3	Other indirect (Scope 3) GHG emissions	These emissions are not measured.	Climate change and emissions strategy	SDGs 3, 12, 13, 14 and 15: Good health and wellbeing; Responsible production and consumption; Climate action; Life below water; Life on land.	Fully
305-4	GHG emissions intensity	Page 32.	Climate change and emissions strategy	SDGs 3, 12, 13, 14 and 15: Good health and wellbeing; Responsible production and consumption; Climate action; Life below water; Life on land.	Fully
305-5	Reduction of GHG emissions	Page 32.	Climate change and emissions strategy	SDGs 3, 12, 13, 14 and 15: Good health and wellbeing; Responsible production and consumption; Climate action; Life below water; Life on land.	Fully

305-6	Emissions of ozone-depleting substances (ODS)	ALFA's operations do not have these emissions.	Climate change and emissions strategy	SDGs 3, 12, 13, 14 and 15: Good health and wellbeing; Responsible production and consumption; Climate action; Life below water; Life on land.	Fully
305-7	NOx, SOx and other emissions.	NOX: 435,507 ton CO2 eq; SOX: 24,954 ton CO2 eq; COV 15,742 ton CO2 eq; CAP: 1,105 ton CO2 eq.; MP 523.7 ton CO2 eq.	Climate change and emissions strategy	SDGs 3, 12, 13, 14 and 15: Good health and wellbeing; Responsible production and consumption; Climate action; Life below water; Life on land.	Fully
<b>EFFLUENTS AND WASTE</b>					
306-1	Water discharge by quality and destination	In 2018, water discharges from ALFA operations were distributed as follows (in millions of m3): 86.6 to rivers; 4 to seas; 0.11 to green areas; 8.1 to municipal waters, .072 to wells and 1.73 to others. Total: 100.5 million m3. This information does not include the Sigma and Axtel downloads.	Water management	SDGs 3, 6, 12 and 14: Good health and wellbeing; Clean water and sanitation; Responsible production and consumption; Life below water.	Fully
306-2	Waste by type and disposal method	Approximately 4.2 million tons of waste were processed by the different companies, through reuse, composting, incineration and landfill. This information does not include Sigma.		SDGs 3, 6 and 12: Good health and wellbeing; Clean water and sanitation; Responsible production and consumption.	Fully
306-3	Significant spills	In 2018 there were no significant spills from ALFA's operations.		SDGs 3, 6, 12, 14 and 15: Good health and wellbeing; Clean water and sanitation; Responsible production and consumptions; Life below water; Life on land.	Fully
306-4	Weight of transported, imported, exported or treated waste considered hazardous under the terms of Annexes I, II, III and VIII of the Basel Convention, and percentage of waste transported internationally.	ALFA's operations do not generate waste that is transported internationally.		SDGs 3 and 12: Good health and wellbeing; Responsible production and consumption.	Completo

306-5	Water bodies affected by water discharges and/or runoff	In 2018 there were no water bodies or habitats affected by ALFA's operations runoffs.		SDGs 6 and 15: Clean water and sanitation; Life on land.	Fully
<b>MATERIALS</b>					
301-2	Degree of mitigation of the environmental impact of products and services.	Page 34.	Climate change and emissions strategy	SDGs 8 and 12: Decent work and economic growth; Responsible production and consumption.	Fully
<b>COMPLIANCE</b>					
307-1	Non-compliance with environmental laws and regulations	In 2018 no fines were recorded for this concept.	Relationship with NGOs and regulatory agencies	SDG 16: Peace, justice and strong institutions.	Fully
<b>TRANSPORT</b>					
NA	Significant environmental impacts of the transport of products and other goods and materials used for the activities of the organization, as well as the transportation of personnel	The only operation of ALFA with its own transport fleet is Sigma. For more information about this standard, please see: <a href="https://www.sigma-alimentos.com/sustainability-report/">https://www.sigma-alimentos.com/sustainability-report/</a>	Climate change and emissions strategy	SDG 13: Climate action.	Fully
<b>GENERAL</b>					
NA	Breakdown of environmental expenditures and investments	Page 31. This information does not include Sigma's information on environmental investments.	Climate change and emissions strategy	SDG 13: Climate action.	Fully
<b>ENVIRONMENTAL ASSESSMENT OF SUPPLIERS</b>					
308-1	New suppliers that were screened using environmental criteria	Approximately 50%.	Relations with clients and suppliers	SDG 12: Responsible production and consumption.	Fully
308-2	Negative environmental impacts in the supply chain and actions taken	In 2018 no significant environmental impacts were identified in the supply chain.	Relations with clients and suppliers	SDG 12: Responsible production and consumption.	Fully
<b>COMPLIANCE</b>					
103-2	Number of environmental fines or sanctions.	In 2018 there were no significant environmental fines nor sanctions.	Climate change and emissions strategy	SDGs 1, 5, 8 and 16: No poverty; Gender equality; Decent work and economic growth; Peace, justice and strong institutions.	Fully

## LABOR PRACTICES

### EMPLOYMENT

401-1	New employee hires and employee turnover	Number of hires: 17,213; hiring index: 2.32%; Number of employees in rotation: 16,460; Rate of rotation: 2.22%.	Labor practices	SDGs 5, 8 and 10: Gender equality, Decent work and economic growth; Reduced inequities.	Partially
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	The plant workers have bonuses, vacation premium, pantry bonuses, savings fund, recognition for years of service and pension plan. Temporary and part-time employees are not provided with the pension plan.	Labor practices	SDG 8: Decent work and economic growth.	Fully

### COMPANY-EMPLOYEES RELATION

402-1	Minimum notice periods regarding operational changes	The minimum term is two weeks.	Labor practices	SDG 8: Decent work and economic growth.	Fully
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### HEALTH AND SAFETY

403-1	Workers representation in formal joint management-worker health and safety committees	Page 26. COMPLEMENT: 100% of unionized workers is represented by these committees.	Health and Safety	SDG 8: Decent work and economic growth.	Fully
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Page 27. COMPLEMENT: All the plants have an accident registration and communication policy.	Health and Safety	SDGs 3 and 8: Good health and wellbeing; Decent work and economic growth.	Fully
403-3	Workers with high incidence or high risk of diseases related to their occupation	Approximately 8% of employees participate in high-risk activities. The causes of this risk are the handling of flammable or dangerous materials, and work with energized equipment, in confined spaces or at heights. These risks are mitigated by the continuous evaluation in search of the best security measures for our employees.	Health and Safety	SDGs 3 and 8: Good health and wellbeing; Decent work and economic growth.	Fully
403-4	Health and safety topics covered in formal agreements with trade unions	ALFA operates Health and Safety Committees in which a high percentage of employees, including union members, participate in different activities. These committees work to reduce the incidence of accidents and occupational diseases. Each worker receives the safety equipment, training and programs to perform their functions in the safest manner.	Health and Safety	SDG 8: Decent work and economic growth.	Fully



## TRAINING AND DEVELOPMENT

404-1	Average hours of training per year per employee	Page 27. The average training hours per employee in the year was 32 man/hours. 37 hrs per male employee; 31 hrs per female employee; 29 hrs per unionized employee and 30 hrs per non-unionized employee.	Labor practices	SDGs 4, 5 and 8: Quality education; Gender equality; Decent work and economic growth.	Fully
404-2	Programs for upgrading employee skills and transition assistance programs	"Page 27. COMPLEMENT: All the companies of ALFA have this type of programs, there are agreements with the union, so that a couple of workers a year, who are 60 years of age or older, receive help from of the company, to register in the IMSS Modality 40 and obtain a better pension, and in addition, talks have been given on Retirement and Pensions to the workers in the plants, mainly with the personnel interested in this topic.			
"	Labor practices	SDGs 4, 5 and 8: Quality education; Gender equality; Decent work and economic growth.	Fully		

## DIVERSITY AND EQUAL OPPORTUNITIES

405-1	Diversity of governance bodies and employees	Pages 37 and 38.	Labor practices	SDGs 5 and 8: Gender equality; Decent work and economic growth.	Fully
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## EQUAL REMUNERATION FOR MEN AND WOMEN

405-2	Ratio of basic salary and remuneration of women to men	There are no differences on the base salary for men and women, given that it is based on competences, not gender.	Wealth distribution	SDGs 5, 8 and 10: Gender equality, Decent work and economic growth; Reduced inequities.	Partially
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## EVALUATION

414-1	New suppliers that were screened using labor practices criteria	Approximately 50%.	Relations with clients and suppliers	SDGs 5, 8 and 16: Gender equality, Decent work and economic growth; Peace, justice and strong institutions.	Fully
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414-2	Negative labor practices impacts in the supply chain and actions taken	In 2018, no impacts on labor practices were identified in our supply chain.	Relations with clients and suppliers	SDGs 5, 8 and 16: Gender equality, Decent work and economic growth; Peace, justice and strong institutions.	Fully
<b>GRIEVANCE MECHANISMS</b>					
103-2	Number of complaints about labor practices that have been presented, addressed and resolved through formal grievance mechanisms.	In 2018 there were no claims on these concepts.	Labor practices	SDGs 1, 5, 8 and 16: No poverty; Gender equality, Decent work and economic growth; Peace, justice and strong institutions.	Fully
<b>HUMAN RIGHTS</b>					
<b>INVESTMENT</b>					
412-2	Employee training on human rights	Each company operates various training programs on these topics. For example, Alpek Polyester in Mexico and DAK Americas provided training in DH to 100% of their employees. Alpek Polyester provided four hours for supervisors and operators. Nematik provided an average hour to 26% of employees. Sigma provided this training to 5,000 employees in 37 sites.			Fully
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	All of ALFA's investment contracts are reviewed in detail so that they meet the national and international criteria and standards of respect for human rights.			Fully
<b>NO DISCRIMINATION</b>					
406-1	Incidents of discrimination and corrective actions taken	In 2018 these types of impacts were not identified.	Labor practices	SDGs 5, 8 and 16: Gender equality, Decent work and economic growth; Peace, justice and strong institutions.	Fully
<b>FREEDOM OF ASSOCIATION</b>					
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	In 2018 these types of impacts were not identified.	Relations with clients and suppliers	SDGs 8 and 16: Decent work and economic growth; Peace, justice and strong institutions.	Fully

CHILD LABOR					
408-1	Operations and suppliers at significant risk for incidents of child labor	In 2018, these types of impacts were not identified.	Relations with clients and suppliers	SDGs 8 and 16: Decent work and economic growth; Peace, justice and strong institutions.	Fully
FORCED LABOR					
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	In 2018 these types of impacts were not identified.		SDGs 8 and 16: Decent work and economic growth; Peace, justice and strong institutions.	Fully
SAFETY PRACTICES					
410-1	Security personnel trained in human rights policies or procedures	In 2018 36% of security personnel were trained in this subject.		SDGs 8 and 16: Decent work and economic growth; Peace, justice and strong institutions.	Fully
INDIGENOUS PEOPLE RIGHTS					
411-1	Incidents of violations involving rights of indigenous peoples	In 2018 there were no cases of violation of the rights of indigenous peoples.		SDGs 2 and 8: Zero hunger; Peace, justice and strong institutions.	Fully
IMPACT ASSESSMENTS					
412-1	Operations that have been subject to human rights reviews or impact assessments	This process is not carried out.			Fully
SUPPLIERS ASSESSMENTS					
414-1	Percentage of new suppliers that were examined based on criteria related to human rights.	This practice is carried out in 100% of the new suppliers.	Relations with clients and suppliers	SDGs 5, 8 and 16: Gender equality, Decent work and economic growth; Peace, justice and strong institutions.	Fully
414-2	Significant negative impacts on human rights, real and potential, in the supply chain, and measures taken.	In 2018 these types of impacts were not identified.	Relations with clients and suppliers	SDGs 5, 8 and 16: Gender equality, Decent work and economic growth; Peace, justice and strong institutions.	Fully
GRIEVANCE MECHANISMS					
103-2	Number of human rights complaints that have been filed, addressed and resolved through formal grievance mechanisms.	In 2018 there were no complaints for this concept.			Fully

## COMMUNITY

### LOCAL COMMUNITY

413-1	Operations with local community engagement, impact assessments, and development programs	82% of our operation centers have community development and participation programs. 100% of them carry out impact evaluations on them.	Community engagement		Fully
413-2	Operations with significant actual and potential negative impacts on local communities	Only a small number of ALFA's operations, under certain circumstances outside of the compun, could have possible negative impacts on their communities. In all these cases, the companies are prepared to attend in a timely manner the contingencies that may arise.	Community engagement	SDGs 1 and 2: No poverty; Zero hunger.	Fully

### ANTICORRUPTION

205-1	Operations assessed for risks related to corruption	100% of our operation centers were evaluated on corruption risks.		SDG 16: Peace, justice and strong institutions.	Fully
205-2	Communication and training about anti-corruption policies and procedures	Page 24. COMPLEMENT: In ALFA, it publishes its corporate policies, including the Code of Ethics and the Anticorruption Policy, on its Internet and Intranet pages. However, the diffusion of the policies of the company reliza mainly through internal communication programs, departmental boards and through the unions.		SDG 16: Peace, justice and strong institutions.	Fully
205-3	Confirmed incidents of corruption and actions taken	Page 24.		SDG 16: Peace, justice and strong institutions.	Fully

### POLITICAL CONTRIBUTIONS

415-1	Political contributions	ALFA does not grant political contributions.	Relationship with NGOs and regulatory agencies		Fully
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### UNFAIR COMPETITION PRACTICES

206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	In 2018 there were no demands for this concept.	Relationship with NGOs and regulatory agencies	SDG 16: Peace, justice and strong institutions.	Fully
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### COMPLIANCE

419-1	Non-compliance with laws and regulations in the social and economic area	In 2018 there were no demands for this concept.	Relationship with NGOs and regulatory agencies	SDG 16: Peace, justice and strong institutions.	Fully
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## GRIEVANCE MECHANISMS

103-2	Number of complaints about social impacts that have been presented, addressed and resolved through formal complaint mechanisms.	In 2018 there were no incidents for this concept.	Relationship with NGOs and regulatory agencies	SDGs 1, 5, 8 and 16: No poverty; Gender equality, Decent work and economic growth; Peace, justice and strong institutions.	Fully
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## PRODUCT RESPONSIBILITY

### CUSTOMERS HEALTH AND SAFETY

416-1	Assessment of the health and safety impacts of product and service categories	All of ALFA's products are regularly assessed in order to identify opportunity areas for improvement.			Fully
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	In 2018 there were no demands for this concept.		SDG 16: Peace, justice and strong institutions.	Fully

### INFORMATION ON PRODUCTS AND SERVICES

417-1	Requirements for product and service information and labeling	Page 36.		SDGs 12 and 16: Responsible production and consumption; Peace, justice and strong institutions.	Fully
417-2	Incidents of non-compliance concerning product and service information and labeling	In 2018 there were no incidents for this concept.	Relations with clients and suppliers	SDG 16: Peace, justice and strong institutions.	Fully
102-43 / 102-44	Approach to stakeholder engagement and key topics and concerns raised (clients' satisfaction rate)	Page 36.	Relations with clients and suppliers		Fully

## RESPONSIBLE MARKETING

102-2	Activities, brands, products, and services (products or services in dispute)	Two of the Alpek plants produce products that may be restricted in certain countries due to their use of flame retardant (HBBCD) and nonylphenols. These compounds are banned in the European Union and restricted in other markets. In both cases, Alpek companies are looking for alternatives that meet the strictest environmental and health standards.	Responsible criteria for product development		Fully
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417-3	Incidents of non-compliance concerning marketing communications	In 2018 there were no incidents for this concept.	Responsible criteria for product development	Fully
<b>COSTUMER PRIVACY</b>				
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	In 2018 no claims were filed for this concept.	Relations with clients and suppliers	Fully
<b>COMPLIANCE</b>				
419-1	Non-compliance with laws and regulations in the product and services supply and use	There were no such cases in 2018.	Relationship with NGOs and regulatory agencies	Fully

## **LUIS OCHOA REYES**

**Vice-President Corporate Communications**

Phone: +52 (81) 8748 2521

ir@alfa.com.mx

## **JUAN ANDRÉS MARTÍN**

**Investor Relations Manager**

Phone: +52 (81) 8748 1676

ir@alfa.com.mx



*ALFA, S.A.B. de C.V.*

Av. Gómez Morín 1111 sur, Col.  
CarrizalejoSan Pedro Garza García,  
N.L.C.P. 66254, México  
www.alfa.com.mx

## **INDEPENDIENT AUDITOR**

**Deloitte.**

## **MEXICAN STOCK EXCHANGE**

**ALFA**

Date listed:

**August 1978**



**ALFA**

## **LATIBEX (MADRID STOCK EXCHANGE)**

**ALFA C/I-s/A**

Date listed:

**December 2003**



**alfa**