alfa

ANNUAL REPORT 2019

CONTENTS

ALFA IS A HOLDING COMPANY THAT MANAGES A DIVERSIFIED PORTFOLIO OF SUBSIDIARIES WITH GLOBAL OPERATIONS:

ALPEK

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

SIGMA

Leading multinational food company, focused on the production, marketing and distribution of quality food through recognized brands including packaged meats, cheese, yogurt and other refrigerated and frozen foods.

NEMAK

Leading provider of innovative lightweighting solutions for the global automotive industry, specializing in the development and manufacturing of aluminum components for powertrain, structural components and for electric vehicles.

AXTEL

Provider of Information Technology and Communications (ITC) services for the enterprise, wholesale and government segments in Mexico.

NEWPEK

Oil and gas exploration and production company with operations in Mexico and the United States.

IN 2019, ALFA REPORTED REVENUES OF PS. 337,750 MILLION (US $17.5 BILLION), AND THE EBITDA[1] OF PS. 44,280 MILLION (US $2.3 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.

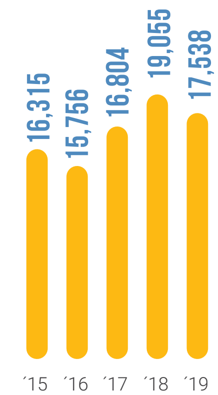
[1] EBITDA = operating income + depreciation + amortization + impairments.

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 2019 and 2018 are expressed in nominal terms.

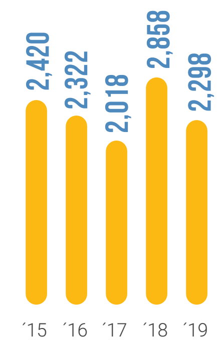
FINANCIAL HIGHLIGHTS

ALFA AND SUBSIDIARIES	MILLION OF PS.			US $ MILLION[4]		
	2019	2018	% CHG.	**2019**	2018	% CHG.
INCOME STATEMENT						
Net Sales	**337,750**	366,432	(8)	**17,538**	19,055	(8)
Operating Income	**23,594**	35,705	(34)	**1,224**	1,844	(34)
Majority Net Income	**5,807**	13,143	(66)	**300**	682	(56)
Majority Net Income per Share[1] (Ps. & US $)	**1.15**	2.60	(56)	**0.06**	0.13	(54)
EBITDA[2]	**44,280**	55,178	(20)	**2,298**	2,858	(20)
BALANCE SHEET						
Total Assets	**339,709**	369,828	(8)	**18,026**	18,789	(4)
Total Liabilities	**244,783**	271,604	(10)	**12,989**	13,799	(6)
Stockholders' Equity	**94,926**	98,224	(3)	**5,037**	4,990	1
Majority Interest	**71,762**	73,391	(2)	**3,808**	3,729	2
Book Value per Share[3] (Ps. & US $)	**14.2**	14.5	(2)	**0.76**	0.74	2

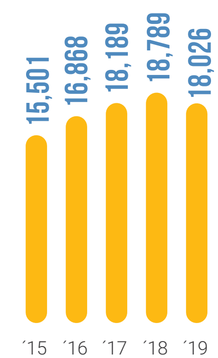
(1) Base on the weighted average number of thousands of outstanding shares (5'036,993 in 2019 and 5'055,111 in 2018).
(2) EBITDA = operating income + depreciation + amortization + impairments.
(3) Based on the number of thousands of outstanding shares (5'036,993 at the end of 2019 and 5'055,111 at the end of 2018).
(4) Due to the dollarization of its revenues and because of the holding of shares by foreign investors, ALFA provides equivalent US $ amounts for some of its most important financial data.



REVENUES
US $ MILLION



EBITDA
US $ MILLION



ASSETS
US $ MILLION

BUSINESS GROUPS

The company produces and provides a wide variety of products and services that are sold in the food, beverages, consumer products, automotive, packaging, textiles, construction, information technologies and communication markets, among others.

alpek

MAIN PRODUCTS
- Polyester: PET, PTA, fibers and rPET.
- Plastic 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 2019:
Revenues:
US $6.2 billion
Plants: 28, in seven countries.
Employees: 6,004
Footprint: Argentina, Brazil, Canada, Chile, Mexico, United Kingdom and United States.

Sigma

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

MARKETS
- Food.

FINANCIAL HIGHLIGHTS 2019:
Revenues:
US $6.5 billion
Plants: 70, in 14 countries.
Employees: 45,852
Footprint: Belgium, Costa Rica, Dominican Republic, Ecuador, El Salvador, France, Italy, Mexico, Netherlands, Peru, Portugal, Spain, Romania and United States.

Nemak

MAIN PRODUCTS
- Powertrain components (cylinder heads, engine blocks, and transmissions).
- Structural components.
- Components for electric vehicles.

MARKETS
- Automotive.

FINANCIAL HIGHLIGHTS 2019:
Revenues:
US $4.0 billion
Plants: 38, in 16 countries.
Employees: 23,224
Footprint: Argentina, Austria, Brazil, Canada, China, Czech Republic, Germany, Hungary, India, Mexico, Poland, Russia, Slovakia, Spain, Turkey and United States.

axtel

MAIN PRODUCTS
Services:
- Cloud services.
- Systems integration.
- Cybersecurity.
- Managed networks.
- Collaboration solutions.

Infrastructure:
- Last mile and long-distance access.
- Fiber to the tower and data centers.
- IP Transit.
- Spectrum.

MARKETS
- Wholesale operators, Enterprise and Government.

FINANCIAL HIGHLIGHTS 2019:
Revenues:
US $680 millon
Employees: 4,919
Footprint: Mexico.

Newpek

MAIN PRODUCTS
- Hydrocarbons.
- Oil and gas services.

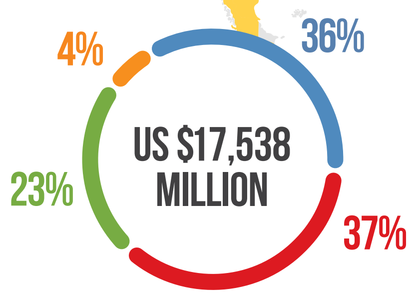
MARKETS
- Energy, oil and gas.

FINANCIAL HIGHLIGHTS 2019:
Revenues:
US $76 millon
Employees: 50
Footprint:
Mexico and United States.

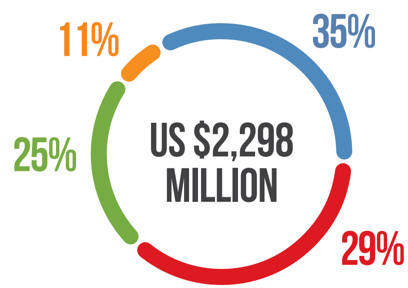
PRESENCE

ALFA OPERATES 136 PLANTS IN 29 COUNTRIES:

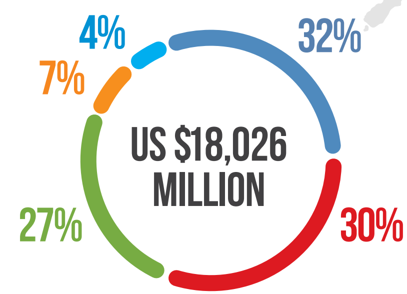
- Argentina
- Austria
- Belgium
- Brazil
- Canada
- Chile
- China
- Costa Rica
- Czech Republic
- Ecuador
- El Salvador
- Dominican Republic
- France
- Germany
- Hungary
- India
- Italy
- Mexico
- Netherlands
- Peru
- Poland
- Portugal
- Romania
- Russia
- Slovakia
- Spain
- Turkey
- United Kingdom
-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



REVENUES



EBITDA

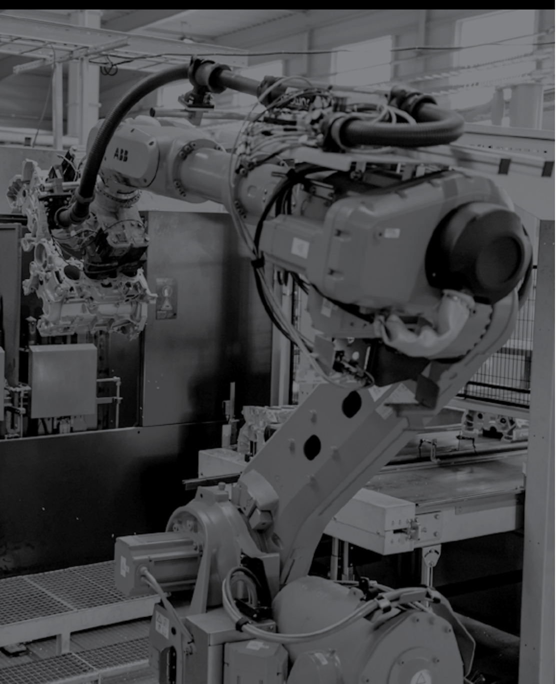


ASSETS

LETTER TO SHAREHOLDERS

ARMANDO GARZA SADA
Chairman of the Board

ÁLVARO FERNÁNDEZ GARZA
President



In 2019, ALFA successfully continued executing on its long-term strategy and financial results were generally in line with our expectations. Alpek's geographic and product expansion, Sigma's enhanced innovation capabilities, Nemak's focus on structural and electric vehicle components, and Axtel's reorganization all helped to better position our business portfolio for the years ahead. Meanwhile, selective monetization of non-core assets by Alpek and Axtel strengthened ALFA's financial position.

Over the past decade, ALFA solidified its position as a leading global company. Today, 70% of our revenues come from outside Mexico, partially reflecting increased production capacity outside Mexico as we expanded from 16 countries in 2009 to 29 nowadays.

In the same period, revenues and EBITDA have more than doubled, while dividends have more than quadrupled. At the same time, this company has maintained its financial discipline, reflected in an investment-grade credit rating and access to funding with attractive conditions.

Based on solid cash generation by our businesses, a record dividend of US $202 million was paid out in 2019, in addition to the cancellation and repurchase of our own stock a total benefit of US $404 million for our shareholders.

During the year, ALFA further strengthened its corporate governance practices by appointing an eleventh independent member of the Board of Directors. The Company is committed to having board members with extensive experience in various sectors and industries, key for guiding the growth of our businesses.

ALFA's subsidiaries also strengthened their leadership position in their respective industries, driven by the ability to be agile and flexible giving them the capacity to capitalize on market trends.

Alpek is today the world's second largest producer of PET, a 100% recyclable plastic, which has economic and environmental advantages over other packaging materials.

Sigma has created a portfolio of brands that are leaders in their markets, such as: FUD in Mexico, BAR-S in the United States, and Campofrío in Europe. Innovation has become its defining feature, and the platform for launching new products has accelerated—introducing more than 270 new products in 2019, approximately five per week.

IN THE LAST DECADE, REVENUES AND EBITDA HAVE MORE THAN DOUBLED

ALFA MONETIZE NON-CORE ASSETS WITH PROCEEDS TOTALING US $1.3 BILLION

Nemak is the leading supplier of lightweighting solutions for the global automotive industry. Today, one in every four new cars manufactured contains at least one Nemak component. The company anticipates ongoing growth in the electric vehicle market and is today capitalizing on that potential by successfully winning new supply contracts for vehicles of this type, such as Ford Mustang Mach-E.

Axtel continued the transformation of its business structure, with the aim of leveraging its technological infrastructure and strengthening its leadership in the Enterprise, Government and Wholesale sectors. Indicative of its leading position, today, eight out of every ten corporations in Mexico use Axtel's IT and Communication (ITC) services.

Overall, ALFA's performance in 2019 was close to forecast, as the businesses faced a variety of unforeseen events and a global environment of slower economic growth. Despite this, a higher-than-expected margin against revenues of US $17.5 billion resulted in EBITDA of US $2.3 billion. Adjusted by extraordinary items, comparable EBITDA with our Guidance was US $2.4 billion.

Among the challenges of the past year were Sigma's initiatives to offset the effects of the African Swine Fever (ASF), and operating efficiencies at Nemak to maintain stable EBITDA per unit despite lower automobile production. Alpek, had the benefit of the first full year of production from the successful integration of PQS in Brazil, which were acquired the year before.

In 2019, ALFA invested US $920 million in Capex and Acquisitions to boost capacity, develop high-potential business lines and expand its global presence.

Additionally, between December 2018 and December 2019, the company monetize non-core assets with proceeds totaling US $1.3 billion. The goal was to strengthen the financial position, focus each company on core activities and maximize return on invested capital.

Consolidated net debt was reduced by US $267 million in 2019. EBITDA generation and asset monetization surpassed the US $490 million increase in debt resulting from adoption of the new accounting standard for leases (IFRS16) beginning in January 1st, 2019. The ratio of net debt to EBITDA closed the year at 2.7 times.

Our success at maintaining strict financial discipline is reflected today in a solid balance sheet, access to capital markets and an investment-grade credit rating.

BUSINESS PERFORMANCE

Each of our subsidiaries strengthened their businesses during the year through efforts aimed at increasing operating efficiency, capturing investment opportunities or reconfiguring their portfolios towards higher growth opportunities.

ALPEK

The company was supported last year by better-than-expected results in the Plastics and Chemicals segment, and by the first full year of operations from PQS in Brazil, which offset the impact of falling prices on Paraxylene, its main raw material. Particularly noteworthy were initiatives to monetize non-core assets and expand rPET production capacity.

Alpek completed in 2019 the sale of two energy cogeneration plants for US $801 million, the largest in its history. The proceeds from this transaction significantly improved its capital structure and enabled it to declare a dividend of US $143 million.

In line with its goal of promoting a circular economy, Alpek acquired a PET recycling plant in the United States, which raised its rPET production capacity by 64%. It also joined The Recycling Partnership, a non-profit organization dedicated to promoting recycling in that country.

The company also signed an agreement with Lotte Chemical Corporation to purchase the only PET plant in the United Kingdom, transaction that was completed at the beginning of 2020. Along with marking Alpek's first site outside of the Americas, it adds 14% to total production capacity, which will improve vertical integration from PTA to PET.

Alpek also prioritized successfully integrating recent acquisitions and making progress on strategic projects that encourage a circular economy. The company is in a solid position to continue strengthening its operations and taking advantage of investment opportunities.

SIGMA

Higher margins in Mexico, the United States and Latin America supported the company's results amid a global climate of rising pork prices due to the outbreak of ASF. A combination of operating efficiencies, inventory management, targeted price increases and financial hedges, helped to mitigate some of the impact.

Innovation has become a distinguishing feature at Sigma, an attribute that enables it to anticipate and meet consumers' needs and keep its promise of bringing each community its favorite foods. In 2019, revenues generated by developments through the innovation platform accounted for 11% of total sales.

ALPEK COMPLETED THE SALE OF ITS ENERGY COGENERATION PLANTS FOR US $801 MILLION

In addition to its in-house capabilities the Company launched *Tastech by Sigma*, a program that looks for innovative or disruptive startups and scaleups from around the world to explore areas such as; automation, development of new foods and novel business models. In its first call for entries, this program received entrepreneurs' proposals from more than 20 countries.

Another highlight of the year was the creation of Global Snacking, a new business unit that will operate across the globe and together with core areas to promote and grow the protein-based snack category.

~25% OF NEMAK'S CAPEX INVESTMENT IN 2019 WAS EXPENDED ON SC/EV

Currently, this category accounts for 3% of the company's annual sales.

Looking ahead, Sigma will continue to exploit its innovation capabilities to their fullest potential as well as executing operating efficiency initiatives to improve profitability, particularly in Europe.

NEMAK

The company's results reflect incipient signs of lower volume due to the slowing of the global automotive industry and lower demand from certain clients. Nevertheless, Nemak was able to maintain EBITDA per equivalent unit stable through operating efficiencies.

Despite this challenging environment, Nemak won new production contracts in 2019 that will generate total annual revenues of US $1.0 billion, of which approximately one-third represents incremental business.

At the same time, the company continued to ramp up its capacity to meet demand for lightweighting solutions through structural and electric vehicle components. Approximately 25% of Nemak's Capex investment in 2019 was expended on this new business line.

During the year the Company began constructing its first facility in North America engaged 100% in assembly processes for electric vehicle components. With this facility, Nemak expands the current range of solutions that it can provide its customers.

Contracts to supply structural and electric vehicle components (SC/EV) total incremental annual revenues of approximately US $160 million, bringing Nemak 75% of the way toward its goal of US $1.0 billion by 2022. The Company currently produces these components for a wide range of vehicles for customers like Audi, BMW, Diamler, Fiat-Chrysler, Ford and Porsche.

Nemak will continue to optimize operations to keep up with current industry conditions. The company is in a solid position to expand its manufacturing capacity and continue capitalizing on the growing trend towards a more sustainable mobility.

AXTEL

Axtel's results were better than expected for 2019. During the year the company completed the sale of its Mass Market business, which together with the initial transaction, in 2018, generated proceeds of approximately US $300 million million, at a valuation of ~7.5 times EBITDA. The proceeds were utilized to pay down bank loans and other liabilities as well as strengthening the company's financial condition.

To support its Information Technology and Communications (ITC) solutions product offerings, Axtel signed a strategic agreement with Equinix, Inc., a global infrastructure and data center company. As part of this agreement, Equinix will acquire three Axtel data centers for US $175 million. The transaction finalized in January 2020.

As part of Axtels' realignment process, the company began to operate under two new specialized business units: Infrastructure and Services.

The Infrastructure unit is focused on providing connectivity services to the Service unit and to other wholesalers, including mobile operators and data centers, among others.

The Services unit will continue to focus on offering managed ITC solutions to customers in the Enterprise and Government segments.

This new business structure is planned to optimize Axtel operations and maximize the value of its infrastructure, which includes more than 40,600 km (~25,200 miles) of optic fiber.

Once the reorganization is complete, Axtel will exhibit a more solid financial position and a more efficient functional structure for strengthening its leadership in key markets.

NEWPEK

Newpek's results for 2019 reflect the divestitures of 2018 and the normal production decline in operating wells. Nevertheless, the Company and its new partner, Ensign Natural Resources (Ensign), resumed drilling in southern Texas, with encouraging initial results.

In Mexico, Newpek continued operating two mature fields in Veracruz and began exploration and assessment work on the blocks in Tamaulipas assigned by federal authorities.

The company will continue evaluating strategic alternatives for its assets outside of Mexico, with the objective of leaving this business.

SUSTAINABILITY

Sustainability is a significantly important initiative for ALFA, and is the primary driver behind actions that the company undertakes to ensure its employees have a safer, healthier and more inclusive workplace; to maintain a cooperative, sharing relationship with its communities; to reduce the impact of its operations on the natural environment; and to support its value chain.

Throughout the year, ALFA continued to strengthen programs in the areas of health, safety and personnel development, through an investment of US $53.5 million. The accident rate was reduced by 34% from the previous year. Additionally, each employee received an average of 55 hours of training.

ALFA also supported pro-community initiatives by supporting education and culture, charitable organizations, and efforts to assist during national disasters, as well as encouraging volunteer work by its employees.

The most important of these initiatives has been the educational project created by ALFA Foundation, which since 2013 has been working to encourage social mobility through an educational program that identifies and develops potential for talented youth from vulnerable communities in the Monterrey area. In 2019, the second generation of high school students graduated 158 students, 96% of which entered prestigious universities in Mexico and the United States.

Another program, the Escuela para Padres (Parents' School), aimed at the parents of students in the above-mentioned educational project, was named Best Corporate Social Responsibility Project in the Corporate Volunteering category in Latin America 2019 by the Mexican Center for Philanthropy, the Alliance for Corporate Social Responsibility, and Forum Empresa.

Other noteworthy actions included the delivery of more than 2,757 metric tons of food to almost 62 million people through the Sigma Food Bank; support for charitable institutions such as the United Fund and Habitat for Humanity; and volunteer work involving 2,285 employees.

In the environmental area, ALFA worked tirelessly to reduce the environmental footprint of its operations. For example, through the supply of energy from cogeneration plants that reduce CO_2 emissions by 35%, compared to conventional energy supply. These efforts included continuing to make more use of renewable energies; 171 of its facilities ran on this type of energy in 2019, avoiding the emission of 148,440 tons of greenhouse gases.

96% OF THE SECOND GENERATION OF HIGH SCHOOL ENTERED PRESTIGIOUS UNIVERSITIES IN MEXICO AND THE UNITED STATES

ALFA also worked to promote the circular economy. Nemak was once again Mexico's largest consumer

of recycled aluminum. It's important to highlight that one ton of recycled aluminum reduces CO_2 emissions by approximately 90% in comparison to one of primary aluminum. While Alpek grew stronger as one of the leading PET recyclers in the Americas and joined The Recycling Partnership, a non-profit organization focused on promoting recycling in the United States.

ALFA's companies earned several national and international certifications and recognitions for their sustainability practices.

Nemak was incorporated into the Dow Jones Sustainability MILA Pacific Alliance index and the FTSE4Good index of the London Stock Exchange, two of the worlds' most important indexes of this type.

Furthermore, Sigma signed a series of 2025 Sustainability Commitments, to continue aligning its efforts with the UN Sustainable Development Goals.

While we made substantial progress in this area in 2019, we know that sustainability is an ongoing effort. Through these efforts, ALFA reiterates its firm commitment to being a company that is responsible to its employees, its community, the environment and its value chain.

OUTLOOK

The strategic advances of the last decade have created a solid platform for long-term growth, driven by a diversified portfolio of leading businesses and a solid financial position.

In 2020 and beyond, ALFA plans to continue promoting investment by its companies aimed at increasing efficiency, developing high-potential business lines and expanding their global presence.

However, it will be considered a challenge year for our businesses in 2020, due to conditions such as the ASF, lower dynamism in the global automotive industry and lower margins in some petrochemical products will continue to be present.

For Alpek, it is a priority to continue integrating recent acquisitions and making progress in strategic projects that encourage a circular economy; for Sigma, improving the profitability of its operations in Europe and maximizing the potential of its innovation capacity; for Nemak, capitalizing on the growing trend toward vehicle lightweighting; and for Axtel, completing the realigning process and strengthening its leadership in key markets.

On behalf of the Board of Directors, We wish to extend a special recognition to the more than 83,000 employees that comprise the ALFA team, as their work and commitment to excellence are essential to this company. We extend our thanks as well to customers, suppliers, financial institutions and to you, our shareholders, for the trust you once again placed in this Board of Directors.

Together, we will continue to make ALFA a source of pride for all of us.

San Pedro Garza García, Nuevo León, Mexico, February 27, 2020

Armando Garza Sada
Chairman of the Board of Directors

Álvaro Fernández Garza
President

ALPEK CONSOLIDATED AS ONE OF THE TOP PET RECYCLERS IN THE AMERICAS

ALPEK

- LEADING PETROCHEMICAL COMPANY
- TOP PRODUCER OF PTA, PET, rPET AND EXPANDABLE POLYSTYRENE IN THE AMERICAS
- MEXICO'S ONLY POLYPROPYLENE AND CAPROLACTAM PRODUCER

REVENUES
US $ MILLION

REVENUE BREAKDOWN

ALPEK

Alpek had one of its best years in history in 2019. The monetization of its cogeneration assets, better-than-expected performance in the Plastics and Chemicals segment and the first full year of operation of PQS in Brazil, offset part of the negative impact that declining paraxylene prices had on results in the Polyester business.

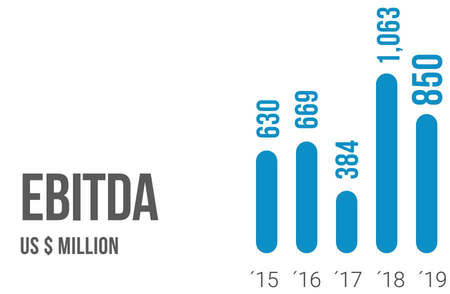
Revenues totaled US $6.2 billion, 11% less than the year before, the result of an 11% drop in average prices. EBITDA totaled US $850 million, 20% less than the record level reached in 2018, also because of the unprecedented levels margins reached in that year.

In 2019, Alpek sold two of its cogeneration plants to ContourGlobal for US $801 million, the largest asset sale in its history. The proceeds of the sale allowed the company to substantially strengthen its capital structure and declare a dividend of US $143 million.

In line with its commitment to promoting a circular economy, Alpek acquired a PET recycling site in Richmond, United States, with annual capacity of 45k metric tons. This raised Alpek's consolidated rPET capacity to 115k metric tons year, making it one of the leading companies in this area in the Americas. It also joined The Recycling Partnership, an institution that promotes recycling in that country.

Also during the year, the company signed an agreement with Lotte Chemical Co. to buy the only PET plant in the United Kingdom ("Wilton") with a capacity of 350k metric tons a year. With this site, its first in Europe, Alpek intends to continue expanding its integrated polyester platform and improve the balance of PTA-PET capacities.

WORLD'S SECOND LARGEST PET PRODUCER



The company's financial solidity has given it the resources necessary to continue the M&G restructuring process; pay out attractive dividends; execute its strategic investment program; improve profitability and leverage; and access international capital markets under highly competitive conditions.

In 2019, Alpek placed a US $500 million bond at 10 years, with an annual coupon of 4.25%, the lowest in its history. As a result, the company fortified its financial condition, refinanced short-term debt and extended its average maturity profile from 2.7 to 4.9 years.

In brief, in 2019 Alpek capitalized on favorable aspects such as a full year of operations at PQS and the sale of the cogeneration assets to obtain better-than-expected results, improve its financial position and reward investors for their confidence with a dividend.

For 2020, the company expects a climate of generally lower margins than in 2019, but its prospects remain favorable over the long term.

Alpek will continue strengthening its businesses, taking advantage of proprietary technology like Integrex® and promoting cost optimization initiatives.

It will also focus on maximizing the return on recent investments like PQS and Wilton, and on moving forward on projects that encourage a circular economy.

On the strategic front, it will continue growing and expanding its geographic footprint, selectively and with discipline, sustained by its solid financial position.

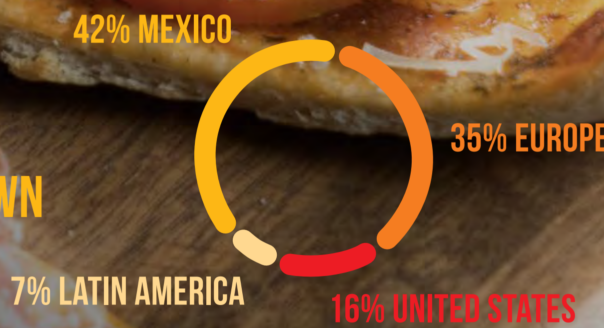
Finally, with the purchase of the Richmond recycling site, Alpek continues to integrate vertically in the polyester business, taking advantage of conditions in the circular economy and reaffirming its commitment to sustainability.

SIGMA

GLOBAL COMPANY WITH LEADERSHIP IN PACKAGED MEATS, CHEESE AND YOGURT
OPERATES 70 PLANTS AND 210 DISTRIBUTION CENTERS IN 18 COUNTRIES
11 BRANDS WITH ANNUAL SALES OF MORE THAN US $100 MILLION EACH

REVENUES
US $ MILLION

REVENUE BREAKDOWN



SIGMA

In 2019, Sigma was able to deal with an environment of volatile prices for some of its raw materials caused the African Swine Fever (ASF), through actions like targeted price increase, operating improvements, effective inventory management and hedging, among others.

PRESENT IN MORE THAN 640,000 POINTS OF SALE WORLDWIDE

EBITDA

US $ MILLION

Revenues totaled US $6.5 billion, 2% more than in 2018, while EBITDA came to US $703 million, a 3% increase over the preceding year. By region, EBITDA in Mexico, the United States and Latin America all showed a solid growth, while EBITDA in Europe weakened on higher raw material costs.

Sigma continues to earn consumers' preference throughout to its capacity for innovation. In line with its aim of bringing each community its favorite foods, in 2019 alone the company introduced more than 270 new products to the market and is in the process of developing more than 740. Furthermore, revenues from products launched in the past three years accounted for around 11% of Sigma's total sales in 2019.

Some of the year's biggest launches were the Max Protein Yoplait product in Mexico, a yogurt alternative with high protein content; the Fiorucci Meat, Cheese & Cracker pack line in the United States; Vegalia plant-based hamburgers in Europe; and Monteverde lactose-free cream cheese in Costa Rica.

Also during the year, it created a new global business unit focus on snacking, which operates in all regions and promotes the protein-based snack category. Snacking sales accounted for 3% of total revenues in 2019.

In addition to its organic efforts, the company launched Tastech by Sigma, an acceleration program that invites startups and scaleups with a high impact in the food and beverage industry. In this first year more than 120 entrepreneurs from more than 20 countries answered the call for entries, focused on the areas of new food development, processing technology optimization and new business models.

As in every year, in 2019 Sigma's market campaigns supported brand positioning. These included the "FakeMe" campaign by Campofrío in Spain, and the "Sin Tí" campaign from FUD in Mexico.

The company also strengthened its financial structure last year. It took advantage of a US $250 million bond maturity to pay down debt and reduce exchange-rate exposure. Therefore, it refinanced US $180 million through a peso-denominated bank loan at six years under competitive conditions. It also continued its hedge strategy in order to cover the dollar exposure of its business in Mexico.

One of the year's highlights was the appointment of Rodrigo Fernández as President of SIGMA, in substitution of Mario Paez, who retired in 2019 after a successful 45-year career with ALFA and its subsidiaries.

Sigma will continue to capitalize on its current strengths, like innovation, to build growth through new revenue sources and higher margins.

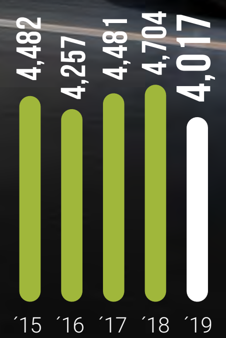
NEMAK

LEADER IN LIGHTENING SOLUTIONS FOR THE AUTOMOTIVE INDUSTRY

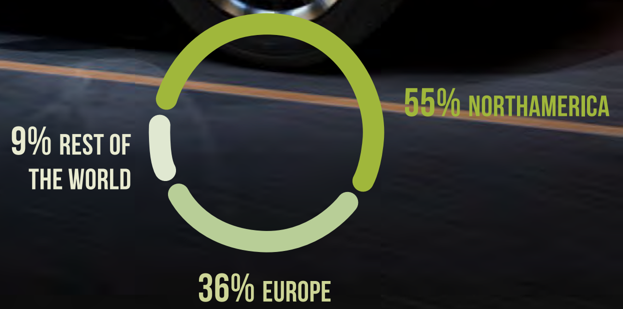
COMPONENTS ARE USED BY MOST OF THE WORLD'S LEADING AUTOMOTIVE BRANDS

ONE OUT OF FOUR CARS BUILT IN THE WORLD CONTAINS AT LEAST ONE NEMAK COMPONENT

REVENUES
US $ MILLION



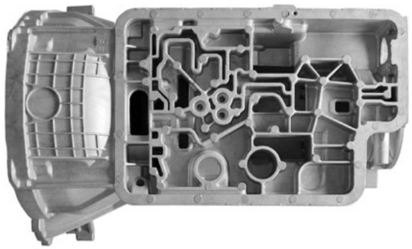
REVENUE BREAKDOWN



NEMAK

The company continued to capitalize on its leadership in the development of lightening solutions for the automotive industry, supporting clients' effort to improve efficiency and performance in new car models.

THE OBTAINED CONTRACTS REPRESENTS ANNUAL REVENUES OF US $1.0 BILLION



Although the business climate was affected by a drop in the production of lightweight vehicles in most of its markets, which in turn meant fewer components sold, Nemak was able to keep its EBITDA per unit produced at levels similar to 2018, supported by operating efficiency and other strategies.

Revenues totaled US $4.0 billion and EBITDA reached US $621 million, reduction of 15% from 2018 in both cases, due primarily to the reduction in volume, combined with a decline in average aluminum prices.

Operating efficiency initiatives were able to offset some of the impact of 12% reduction in volume caused by some factors that we had already anticipated--automotive industry slowdown and lower demand from some clients.

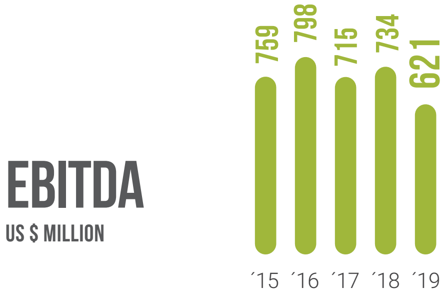
On the bright side, Nemak won various new contracts for all its production business lines, from European and American manufacturers, representing annual revenues of US $1.0 billion, of which one-third part were incremental.

The company intensified its focus on structural components and electric vehicle (SC/EV). During 2019, won incremental business to produce SC/EV worth approximately US $160 million in annual revenues. Today, Nemak produces this type of component for a wide range of vehicles for customers like Audi, BMW, Daimler, Fiat-Chrysler, Ford and Porsche.

Contracts to date in this business segment total US $750 million in annual revenues, or 75% of the US $1.0 billion goal that Nemak intends to reach by 2022.

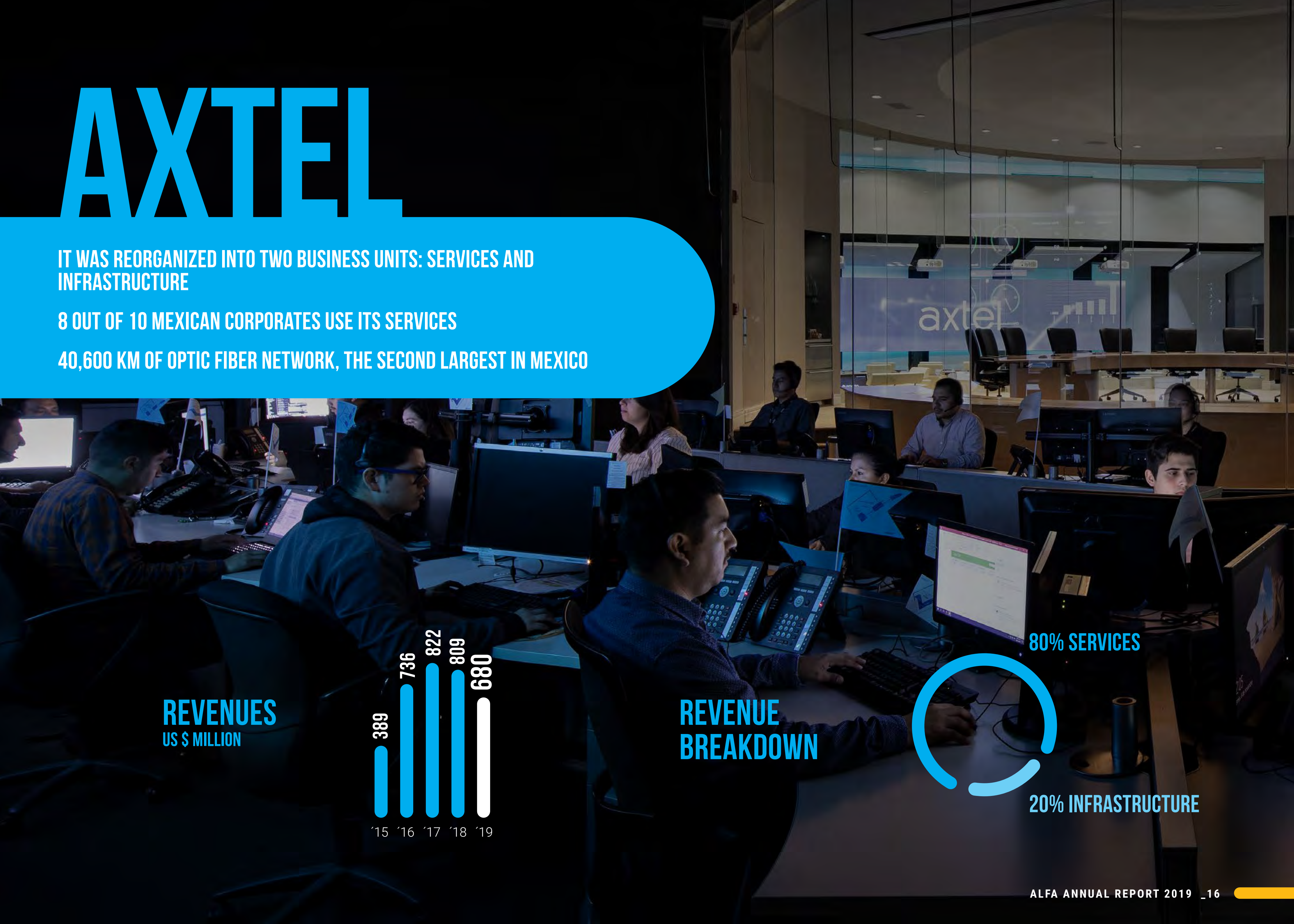
In 2019, Nemak invested US $344 million in Capex, approximately 25% of which went to expanding capacity for the SC/EV segment. This included the start of construction on its first plant in North America devoted 100% to making electric vehicle components, and the startup of production lines for turning out rechargeable battery cases for hybrid vehicles.

Nemak remains in sound financial condition. It generated enough EBITDA in 2019 to cover all its Capex investment while paying a dividend and covering other expenses. It ended the year with net debt levels slightly lower than in 2018.



The company also moved forward on its plans to strengthen sustainability practices. During the year it was incorporated into the Dow Jones Sustainability MILA Pacific Alliance Index and the London Stock Exchange's FTSE4Good index, two leading indicators that track companies with outstanding economic, social and environmental practices.

The year ahead is likely to continue to present challenges for some of the world's main automotive markets. But Nemak has prepared itself for these trends, and is now in an optimal position to capitalize on the growing needs for lightening and electrification solutions in the industry, both in the short, medium and long term.



AXTEL

IT WAS REORGANIZED INTO TWO BUSINESS UNITS: SERVICES AND INFRASTRUCTURE

8 OUT OF 10 MEXICAN CORPORATES USE ITS SERVICES

40,600 KM OF OPTIC FIBER NETWORK, THE SECOND LARGEST IN MEXICO

REVENUES
US $ MILLION

´15	´16	´17	´18	´19
389	736	822	809	680

REVENUE BREAKDOWN

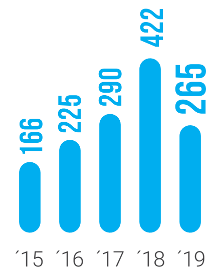
80% SERVICES

20% INFRASTRUCTURE

AXTEL

EBITDA

US $ MILLION



The performance of the Infrastructure unit, operating expense efficiency, and the divesture of the mass market business, brought higher-than-expected results for Axtel in 2019.

Revenues totaled US $680 million and EBITDA US $265 million, 7% higher than in 2018, adjusted for the sale of the mass-market business.

In 2019, Axtel extended its coverage of Ethernet data services to nine cities, and local service to one more, in addition to equipping 21 industrial parks and 89 business centers with optic fiber.

After selling 82% of the mass market business for Ps. $4,713 million in late 2018, Axtel completed the remainder of the divesture in mid-2019, for Ps. $1,150 million.

The proceeds of these transactions were used to pay down bank loans and other liabilities totaling Ps. $5,800 million, which reduced its financial expenses by 30% and improved its leverage.

In order to make the most of its technological infrastructure and capture market opportunities through its offering of ITC solutions, Axtel reconfigured its operating structure and began to operate through two specialized business units: Infrastructure and Services. These enable Axtel to serve various markets in different ways.

Likewise, this separation gives Axtel the opportunity to show the value of its assets and its growth potential, which is why a competitive process has begun to attract and analyze investment proposals that maximize the value of the infrastructure unit and the company.

The Infrastructure unit, as a neutral operator, provides fiber-network and spectrum-based connectivity services to capitalize on opportunities in the growing demand for data from mobile operators and data centers, as well as domestic and international fixed-line carriers. This unit incorporates most of Axtel's assets, including Mexico's second largest optic fiber network.

The Service unit, which operates under the Alestra brand, serves business and government clients through managed ITC services.

In 2019, Axtel signed an agreement with Equinix, a global infrastructure and data center company, to sell three data centers for US $175 million. Through this agreement, Axtel strengthens its portfolio of multi-cloud solutions and managed ITC services, which it sells through the Alestra brand, and also improves its capital structure by paying down debt and other liabilities.

The outlook for Axtel in 2020 is positive. In coming years, the company expects to show healthy growth in both of its business units, due primarily to the anticipated rise in demand for connectivity services.

AXTEL BEGAN TO OPERATE THROUGH TWO SPECIALIZED BUSINESS UNITS: SERVICES AND INFRASTRUCTURE

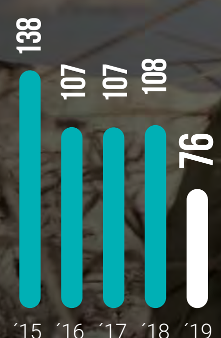
NEWPEK

OPERATIONS IN THE UNITED STATES AND MEXICO

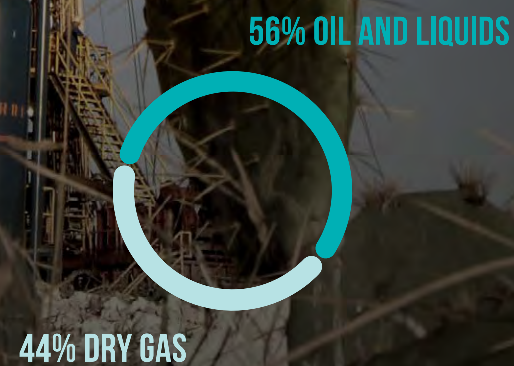
728 PRODUCING WELLS

EXTENSIVE EXPERIENCE IN HYDROCARBON EXPLORATION AND PRODUCTION

REVENUES
US $ MILLION

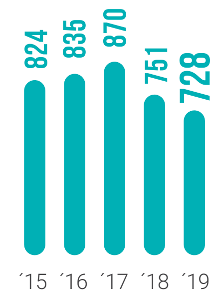


REVENUE BREAKDOWN



NEWPEK

NUMBER
OF WELLS



In 2019, Newpek reactivated its drilling program in the United States, advanced in its plans to monetize assets outside of Mexico, continued operating two mature fields in Veracruz and started up operations in Tamaulipas.

An average annual reduction of 12% and 19% in the prices of crude oil and gas, respectively, along with the natural decline in oil well production, as well as some extraordinary adjustments, led to lower-than-expected operating and financial performance for Newpek in 2019.

Revenues totaled US $76 million, 29% less than the year before, due to asset sales and a combination of lower volume and prices. EBITDA was negative by US $91 million, reflecting extraordinary charges of US $63 million, which included a provision of US $54 million relating to the expected costs of hydrocarbon transport, processing and distribution contracts in the United States between 2020 and 2022. These contracts commit Newpek to deliver a specific volume in the period, but under the new drilling program, volume does not reach that level, so Newpek has set aside a reserve to cover all of the expected costs relating to the shortfall. It also includes a non-monetary provision of US $9 million, associated with lower expected recovery of previous expenses, pursuant to Integral Exploration and Production Agreements (CIEPs) in Veracruz.

Operations in the United States were focused primarily on the Eagle Ford Shale in southern Texas, where there were 554 producing wells at the close of 2019, compared to 555 at the end of 2018.

Regarding operations in the United States, Newpek partner Pioneer Natural Resources decided to sell its stake in the Eagle Ford project to Ensign Natural Resources (Ensign), which was in turn designated operator of these assets.

The drilling program resumed in 2019, resulting in 17 new wells connected to sales.

New drilling and fracturing techniques lowered costs and shortened production times, so the initial output by these new wells has been higher than previous generations.

In Mexico, Newpek operated the San Andres and Tierra Blanca oil fields in Veracruz under service contracts with Pemex signed in 2013. At the close of the year, these fields contained 115 active wells.

The company has extensive experience in hydrocarbon exploration and production in shale formations, mature conventional fields and shallow waters, in addition to world-class technological capacities in geological and geophysical analysis.

Newpek is working with federal authorities on exploration and assessment programs at blocks assigned by the National Hydrocarbons Commission at the Burgos Basin in Tamaulipas.

The price environment in 2020 is expected to be similar to that of 2019. Although the number of oil platforms in the United States has declined in recent months, oil well productivity and operating efficiency has grown, which is a trend expected to continue in the near future.

17 NEW WELLS CONNECTED TO SALES

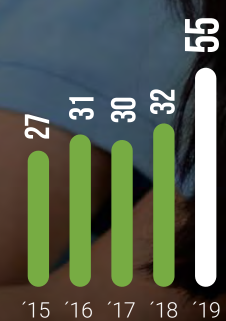
SUSTAINABILITY

1,259 STUDENTS BENEFITED FROM THE ALFA FOUNDATION EDUCATIONAL PROJECT

171 ALFA FACILITATES OPERATED WITH RENEWABLE ENERGY.

ACCIDENT RATE

AVERAGE HOURS OF TRAINING PER EMPLOYEE



SUSTAINABILITY

ALPEK ACQUIRED A PLANT IN THE UNITED STATES WITH rPET CAPACITY OF 45K METRIC TONS A YEAR

The ALFA Foundation Educational Project continued to bear fruit in its efforts to promote social mobility through education. Alpek invested in expanding its PET recycling capacity to promote the circular economy; Sigma continued to stress the nutritional qualities of its products; Nemak strengthened its position as Mexico's largest consumer of recycled aluminum; and Axtel succeeded in obtaining 15% of its total energy consumption from clean sources.

With measures such as these, ALFA moved forward in executing its sustainability strategy, combining the pursuit of profit with the creation of social and environmental value.

580 SIGMA PRODUCTS UNDERWENT NUTRITIONAL IMPROVEMENTS IN THE PAST DECADE

Since its founding in 1974, ALFA has incorporated this vision into its business philosophy, with a particular focus on providing health, safety, training and quality of life to its employees and their families.

This commitment has evolved in tune with prevailing trends in its industries and advances in sustainability around the world.

ALFA'S SUSTAINABILITY MODEL ORIGINATES IN AND IS SUSTAINED BY COMPANY'S VALUES, WHICH ARE ORGANIZED AROUND FOUR PILLARS:

INTERNAL WELL-BEING
To provide health and safety conditions, as well as development opportunities for our employees.

ENVIRONMENT
To control and reduce our emissions into air, soil and water.

COMMUNITY
To be a responsible citizen towards community.

ECONOMY
Obtain an adequate return of the business, considering the investment and the risk assumed.

Students from ALFA Foundation won silver medal at the Central American & the Caribbean Mathematics Competition.

MISSION, VISION AND VALUES

(GRI Standard 102-16)

MISSION

To be a source of pride for our workers and shareholders; to exceed stakeholder expectations through leadership, innovation and exceptional performance over the long term.

VISION

ALFA's commitment to its stakeholders:

Shareholders: To achieve outstanding long-term value creation through profitable growth, optimization of our portfolio, 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.

Vendors: 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:
ALFA considers 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:
Encourage and reward innovation and development of new business opportunities.

Costumer Centricity:
Committed to exceed our clients' needs.

ETHICS AND ANTICORRUPTION

(GRI Standard 102-17)

ALFA's policies and procedures relating to the ethical conduct of employees and business partners are spearheaded by senior management, which is actively involved in 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 or its companies and employees.

ALFA also provides a Transparency Mailbox at 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, available in all the languages of all the countries where ALFA operates.

In 2019, 1,244 complaints related to non-compliance with ALFA's policies and values were filed. 100% of cases were addressed. To date, 89% of them have been resolved and the rest are in the process of investigation, and the rest remain under investigation. As a result, 171 persons were dismissed or resigned from the organization and the relationship with two business partners were terminated. 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.

https://www.alfa.com.mx/down/CODEOFETHICS.pdf
https://www.alfa.com.mx/down/AnticorruptionPolicy.pdf

STAKEHOLDER ENGAGEMENT

(GRI Standards 102-43, 102-44)

ALFA defines stakeholders as those on whom its activities have or could have some impact. It serves these groups at the appropriate time and manner, which also helps improve operations.

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 opportunities for improvement in its business dealings.

MATERIALITY

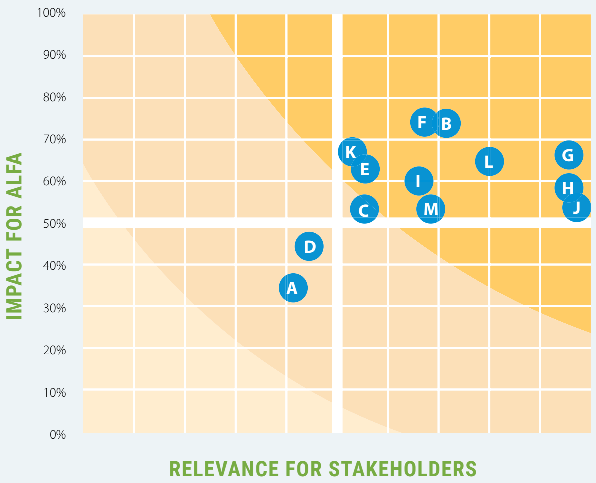
(GRI Standards 102-46, 102-47, 103-1b, 103-c)

ALFA conducts a materiality analysis in line with Global Reporting Initiative (GRI) standards. The results permit the company to adjust its programs and strengthen its sustainability management as it learns about the trends and expectations of each stakeholder group.

Material issues identified with regard to ALFA's business and sustainability strategy:

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 customers and vendors
I. Health and Safety
J. Wealth distribution
K. Operational and risks strategy
L. Investor relations

RELEVANCE MATRIX



ALLIANCES AND PARTNERSHIPS

(GRI Standards 102-12, 102-13)

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

In 2019, ALFA worked on joint projects with other companies and institutions for the benefit of the communities where it operates.

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 for human rights and care for the environment. Among these are the Recycling Partnership in the United States, the Carbon Disclosure Project, the Science Based Target Initiative and the World Business Council for Sustainable Development, among others.

As a result of these advances, ALFA and its companies have earned various certifications and recognitions:

Nemak and Sigma continued their work toward the UN Sustainable Development Goals (SDG). In 2019, Sigma defined its commitments for 2025 and established a Sustainability Community, made up of more than 160 experts working to create, monitor and manage the goals established.

It also created a global committee that identified issues requiring the development of stronger policies and procedures in areas like Human Rights, Health, Safety, Environment, Sustainable Procurement, Anti-Corruption and Anti-Bribery.

Nemak, for its part, took on the task of strengthening its sustainability strategy and model in line with the four SDG to which they contribute. The result was the definition of various goals and indicators of social, environmental and economic performance.

IN 2019, ALFA PARTICIPATED IN MORE THAN 190 ORGANIZATIONS AND CHAMBERS

OUR EMPLOYEES

Employees are the basis for ALFA's development, which is why it places a priority on efforts to offer working conditions with high standards of training, quality of life and a balance between work, personal and family life. This includes providing a healthy, safe and inclusive workspace, training programs and development opportunities, and promoting a culture of loyalty toward and by the company.

INVESTMENT (US $ MILLION)	2019	2018
Health and safety	**38.5**	49.3
Training and development	**15.0**	11.0
Wellness and recreation	**4.7**	6.5
Total	**58.2**	**66.8**

WORKFORCE AND DIVERSITY

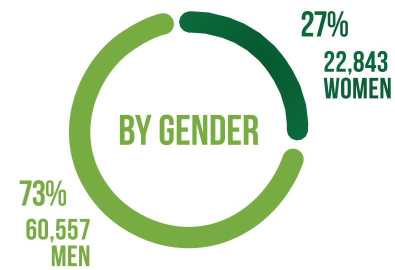
(GRI Standards 202-1, 405-1, 405-2)

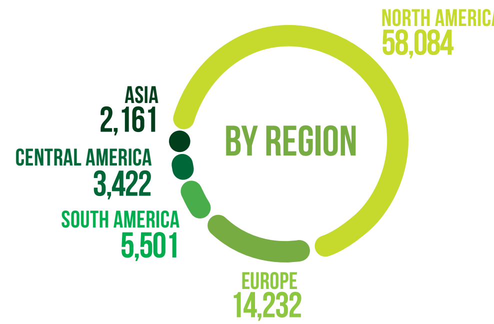
ALFA promotes a culture of respect for diversity, equal opportunity and fair labor practices. Some examples are the Together ALFA, Women in Nemak and the Equal Employment Opportunity in United States. In 2019, the percentage of women working in the company was unchanged from 2018.

Through its Model for Workplace Inclusion of People with Disabilities, ALFA raised the number of differently abled persons working with the firm by 12% over 2018, with a total of 599 men and 31 women. ALFA is also 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, that is to say, with no difference whatsoever for jobs of equal qualifications and duties.

WORKFORCE





+83,400 EMPLOYEES OF MORE THAN 65 NATIONALITIES STRENGTHEN AND NOURISH ALFA'S WORK CULTURE

HEALTH AND SAFETY

(GRI Standards 403-1, 403-2, 403-4)

For ALFA, the physical safety of its employees is fundamental. In 2019, the Company invested US $38.5 million in health and safety equipment and programs, more than 491 specific programs and initiatives were implemented. The accident rate was reduced by 34% from the previous year.

Every one of ALFA's plants has a Safety, Health and Hygiene Committees, made up of employees themselves, who work to prevent accidents and health risks.

INDICATOR	2019*	2018
Accident rate	**130.40**	198.61
Frequency rate	**6.11**	8.27
No. of disabling accidents	**1,107**	1,014
No. of non-disabling accidents	**1,009**	1,458
Lost days rate	**23,636**	24,344
Fatalities	**1**	1

**Does not include information from Sigma Campofrío*

AN AVERAGE OF 55 HOURS OF TRAINING PER EMPLOYEE

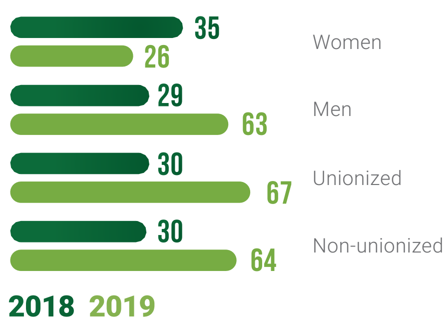
TRAINING AND DEVELOPMENT

(GRI Standards 404-1, 404-2, 404-3, 404-5)

ALFA considers comprehensive employee development to be a primary responsibility as well as a competitive advantage. For this reason, it promotes the development of skills and talent retention through education and training programs in areas of interest to the company and its employees.

In 2019, it promoted programs like Sigma Human Training, which promoted the development of more than 5,000 employees in eight countries. Also, UniAlestra, the company's online learning space, graduated its first class of 163 employees in specialization courses on Cyber-security and Cloud Solutions, given by 55 company experts. It also granted 917 scholarships to employees so they could continue their academic studies.

AVERAGE HOURS OF TRAINING PER EMPLOYEE



WORK-LIFE BALANCE

ALFA recognizes that a healthy balance between work and family life is key to the quality of life of its workforce. Because of this, its companies carry out educational and recreational activities that they extend to employee family members as well.

The Employee Assistance Program that operates at Sigma, Terza, Styropek, Alpek Polyster and ALFA Corporativo México, provides free legal, emotional and psychological counseling services. In 2019, 1,180 employees and family members took advantage of this service.

11,933 EMPLOYEE CHILDREN BENEFITED FROM SCHOOL SUPPLY SUPPORT OR SCHOLARSHIPS

OUR COMMUNITIES

ALFA maintains its commitment to developing the communities where it operates by supporting education and culture and donations to charitable organizations. This includes volunteer work for employees in schools, in addition to economic and in-kind product donations during natural disasters.

ALFA FOUNDATION EDUCATIONAL PROJECT	2019	2018
Current enrollment	**1,259**	1,291
Preparatory school students graduated	**158**	144
Teachers	**75**	78
Extracurricular Centers	**3**	3
Preparatory Schools	**1**	1

EDUCATION

The ALFA Foundation Educational Project graduated its second preparatory school class, made of 158 students, 96% of which received some type of scholarship and continued their studies in universities in Mexico and the United States. Established in 2013, this Project supports social mobility by promoting the development of talented youth from disadvantaged communities in the Monterrey area.

High school students enrolled in ALFA's extra-curricular centers won 1st place in the Mexican Math Olympics, and the Individual Bronze Medal in an international mathematics competition in South Africa.

The Parents' School program, staffed by volunteer instructors from ALFA, trained by the Tecnológico de Monterrey, offers guidance to parents of students in the Educational Project. In 2019, this initiative was designated Best CSR Practice in Latin America, in the Volunteer Category by the Mexican Center for Philanthropy, the Alliance for Corporate Social Responsibility in Mexico and Forum Empresas.

10,845 STUDENTS OF 101 SCHOOLS BENEFITED THROUGH FACILITY IMPROVEMENTS, TEACHING MATERIAL, AND COURSES ON VALUES AND THE ENVIRONMENT

Alfa's companies also support schools located in their communities. Besides donating school supplies and material for cleaning, painting and reforestation, their employees give talks on a variety of topics. One example is the Nemak at your school program, which encouraged the promotion of values in schools of García, Nuevo León, benefiting 820 students and 60 parents.

ALFA also signed more than 170 research agreements with universities, and 700 students performed internships in ALFA facilities.

ALFA PLANETARIUM

This institution continued offering a space for learning and fun through 36 events, including lectures, workshops and exhibits. In 2019, ALFA Planetarium welcomed an average of almost 1,000 visitors a day, including more than 300 schoolchildren, primarily from local elementary schools.

+62,000 PEOPLE BENEFITED GLOBALLY FROM SIGMA'S DONATION OF 2,757 METRIC TONS OF FOOD PRODUCTS

CHARITABLE CONTRIBUTIONS

ALFA also supported organizations like the United Fund, which promotes health, education and financial stability programs; Habitat for Humanity, which encourages the recognition of housing as a basic human right; and United Way, the world's largest solidarity network.

The company also participated in Red SumaRSE, an institution that promotes a multi-sectorial support model in Mexico to benefit vulnerable communities through methodologies that seek to turn citizens into protagonists in their own community transformation.

ALFA PLANETARIUM	2019
Number of events	**36**
Visitors	**211,811**
School visitors	**109,530**
Number of schools	**1,017**
Total visitors	**321,341**

CHARITABLE CONTRIBUTIONS	2019	2018
Charitable institutions supported	**227**	168
Employee volunteers	**2,285**	1,130

2,285 EMPLOYEES PARTICIPATED IN VOLUNTEER PROGRAMS

ENVIRONMENT

(GRI Standards 202-2)

Actions to encourage environmental conservation are a basic part of ALFA's business strategy. Every year the company allocates substantial funding to actions that reduce the impact of its operations on the environment, including the responsible use of natural resources; reducing, reusing and recycling inputs and materials; and promoting an environmental culture within and outside of its facilities.

One of ALFA's ongoing goals is to minimize the environmental footprint of its operations through:

- **Compliance** with environmental legislation in the countries where it operates.
- **Continuous** improvement in practices and processes to makes its operations more environmentally friendly.
- **Investment** in preventing, reducing or eliminating the negative impact of the company's activity on nature.
- **Incorporating** environmental concerns into the company's daily activities
- **A timely** and responsible response to contain incidents that may pose a risk to the environment.
- **Promotion** of a better environmental performance in the value chain.
- **Building** environmental awareness among employees and the community.

Main lines of action:

- Use of efficient and clean 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

15% OF AXTEL'S ENERGY CONSUMPTION COMES FROM WIND ENERGY

ALFA's companies make a public commitment to environmental care by distributing their environmental policies and joining associations like The Climate Registry, The Carbon Disclosure Project and its commitment with the SDG 13: Climate Action.

+ US $42 MILLION INVESTED IN ACTIONS TO PROTECT THE ENVIRONMENT

INVESTMENT IN ENVIRONMENTAL ACTIONS	2019	2018
Waste reduction and disposal	**8.4**	6.5
Emissions reduction	**16.5**	14.7
Prevention and remediation costs	**3.1**	1.6
Environmental management	**1.5**	1.9
Other actions	**13.2**[(1)]	3.3
Total	**42.7**	**28.0**

[(1)]Sigma's environmental investment is not broken down, the total is included in the category of "Other actions".

96% OF ALPEK OPERATIONS USE NATURAL GAS, THE CLEANEST FUEL TODAY

ENERGY EFFICIENCY

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

Energy is a highly important input at ALFA, given its economic impact and the environmental benefits it represents. For that reason, the Company has an area devoted one hundred percent to developing program to optimize energy consumption, including designing more energy-efficient and technology and using alternative sources.

In 2019 initiatives were introduced like the reuse of steam from operations, equipment maintenance and upgrade, process optimizations through cutting-edge technology. These, combined with lower production at some Nemak plants, resulted in a reduction of about 1.8 million GJ in ordinary processes: equivalent to the energy needs of 1,900 Mexican homes in a year.

ENERGY CONSUMPTION (GJ X 10^6)	2019	2018
(1)Direct consumption	**43.0**	41.34
(2)Indirect consumption	**15.87**	20.59
Total consumption	**58.87**	59.72
Energy produced with natural gas	**26.55**	-
(3)Electricity and steam	**19.62**	-

(1)The direct consumption includes fuel consumption. Natural gas from the cogenerator plant at Cosoleacaque, Veracruz is accounted for, which had not been considered in 2018.
(2)Indirect consumption includes steam and electricity acquired externally.
(3)The electricity and steam category is the one generated by the cogenerator and internal consumption. It is not accounted for in the final indirect consumption.

FUEL CONSUMPTION BY TYPE (GJ X 10^6)	(4)2019	2018
Natural Gas	**41.77**	38.99
LP Gas	**0.31**	0.29
Gasoline	**0.06**	-
Diesel	**0.17**	1.27
Wind	**0.78**	-
Coal	**-**	0.12
Fuel Oil	**0.33**	0.66
Ethanol	**0.10**	-
Others	**0.25**	-
Total	**43.77**	**41.33**

(4) This year, the natural gas used for the operations at the Alpek cogeneration plant in Cosoleacaque, Veracruz is now taken into consideration, which was not counted in 2018. The second cogeneration plant, in Altamira, Tamaulipas, was in functional tests, without going into full operations. The consumption of natural gas of this plant is not accounted for. By 2020, this data will again be lower due to the sale of both plants in November 2019, whose energy and emissions will not be accounted for in the impacts of Alpek nor ALFA. In addition, operations and acquisitions of Alpek, Sigma and Nemak that were not reported in 2018 are accounted for.

FOR THE 6TH YEAR IN A ROW, SIGMA EARNED CLEAN TRANSPORT RECOGNITION IN MEXICO

EMISSIONS REDUCTION

(GRI Standards 305-1, 305-2, 305-5, 305-7)

ALFA's investments and initiatives to mitigate its carbon footprint, include the acquisition of more energy-efficient equipment, a greater use of renewable energies, and timely maintenance of its equipment, which on the whole means cleaner operations. This resulted in a reduction of 308,000 tons of CO_2, equivalent to the emissions of 60,000 cars in a year.

ALFA's emissions break down as follows:

TONS CO_2E x 10^6	2019	2018
Direct emissions	(5)**1.64**	2.35
Indirect emissions	**2.63**	2.01
Total	**4.27**	**4.36**

(5)The emissions data presents an update of the first published version. The decrease in direct emissions as well as increased indirect emissions, is due to the fact that in 2019 there was a change in the supply of Alpek's energy sources and an adjustment in calculation methodology vs 2018.

WATER MANAGEMENT

(GRI Standards 303-1, 303-3, 303-4, 306-1)

Water is a key resource for the Company. The ALFA Water Commision was created in 2015 to promote and monitor companies' initiatives for ensuring efficient, responsible management. In 2019 the water extraction and consumption increased due to new acquisitions and the startup of new facilities. During the year the company achieved a 2,020 ML reduction in its water consumption in ordinary processes.

Some of the initiatives that contributed to this reduction were a lower transfer temperature in reactors, recovery of effluents for reuse in processes, among others.

SOURCES AND VOLUME OF EXTRACTION IN ML (MEGALITERS)	2019	2018
Municipal water supply	**17,533**	15,967
Rivers, lakes and seas	**92,450**	80,395
Wells, wetlands and springs	**8,299**	4,401
Rainwater	**3.9**	-
Wastewater from another organization	**497**	-
Others	**26,154.5**	10,150
Total	**144,937.4**	**110,913**

ALFA's companies are strict about compliance with regulations on the quality of wastewater discharges in all the countries where it operates. The discharge of water into rivers, lagoons, municipal sewer systems and other sources totaled 134,689 ML en 2019.

ALFA's real water consumption for 2019 was calculated according to international standards of the Global Reporting Initiative and the Carbon Disclosure Project, in keeping with its commitment to join the global drive for more sustainable operation. This is the total result of extraction less total discharges, which in 2019 was of 9,708 ML.

Since 2015, Sigma's distributiion systems in Mexico operate rainwater capture systems, collecting water to use for sanitary facilities and washing transportation vehicles.

NEMAK TREATED 60% OF ITS WATER CONSUMPTION INTERNALLY AND REUSED 35% OF IT IN ITS PROCESSES

RECYCLING AND WASTE

(GRI Standards 301-2, 416-1)

ALFA promotes recycling actions, which not only build environmental awareness but generate benefits like lower consumption of raw materials, energy and water.

One of the most important of these initiatives is the production of recycled PET (rPET), which has a lower environmental footprint compared to other packaging materials, such as glass. In 2019, Alpek produced 62,692 metric tons of rPET, 33% more than in 2018. One of the things that made this possible was ALFA's purchase of a rPET plant in the United States early in the year, making Alpek one of the main recyclers of this material on the continent. It also joined The Recycling Partnership in that country, an institution focused on promoting initiatives that favor a circular economy in the community.

ALFA supports appropriate waste management and confinement. Ten Sigma plants in Europe operated with the "Zero-Landfill" program in Europe, seven more than reported in the previous year. Alpek Polyester in the United States has reduced the amount of waste sent to landfills by 99%.

~80% OF THE ALUMINUM CONSUMED BY NEMAK CAME FROM RECYCLED SOURCES

AXTEL ISSUED 248,000 E-INVOICES, AVOIDING THE PRINTING OF ALMOST 900,000 PAPER SHEETS

BIODIVERSITY AND CONSERVATION

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

Caring for our biodiversity is also important to ALFA. Although 98% of its facilities are located in areas zoned for industrial use, the plants engage in initiatives for the conservation of flora and fauna not only in areas immediately around them but in neighboring zones as well.

Through reforestation campaigns, Sigma employees in Costa Rica planted 1,200 trees, while 95% of the trees planted in 2018 by Polioles employees in the Sierra Morelos Park were reported to be in good condition.

Alpek's Columbia, S.C. plant, located 24km from the Congaree National Park, has Wildlife Habitat at Work certification in recognition of its actions in favor of the natural environment; and in Saltillo it carries out conservation activities over a 1.5-hectare plant nursery.

VALUE CHAIN

Besides the economic spillover from investment and jobs in the communities where it operates, ALFA seeks to form and maintain mutually beneficial, long-term relationships with its value chain, from suppliers all the way to the end consumer.

ECONOMIC IMPACT

(GRI Standards 201-2)

In 2019, ALFA made a number of investments in capacity expansions, technology improvements and adding value to its products and services. This represented a substantial economic spillover in industries like petrochemicals, automotive, food, telecommunications and energy, including the creation of direct and indirect jobs, from supply chains through sales and distribution.

US $920 MILLION INVESTMENT IN FIXED ASSETS AND ACQUISITIONS

The biggest investments of the past year were:

- Completion and startup of an energy cogeneration plant in Mexico.
- Start of construction of a Nemak plant in Mexico that will produce electric vehicle components.
- Nemak capacity expansions in North America and Europe.

61% OF ALFA SUPPLIERS ARE LOCAL

RESPONSIBLE PROCUREMENT

(CDP: SC2.1, GRI Standards 102-12, 102-43, 308-1, 308-2, 414-1, 414-2)

ALFA seeks a responsible, mutually supportive relationship with its suppliers of raw materials, equipment and services, also supervising them to ensure they comply with the corresponding labor and environmental standards of the countries where they operate.

In 2019, 30% of ALFA suppliers were evaluated according to environmental, social and governance criteria.

One of the initiatives for responsible engagement with the supply chain is Sigma's Dairy Promotion Program, which provided advice to 362 dairy farmers in Mexico. Also, Alpek Polyster provided training to suppliers in its own proprietary technologies, as well as supported their participation in NAFINSA and J.P. Morgan vendor support and financing programs.

Nemak developed a Business Code for Suppliers and a Sustainable Purchasing Policy, establishing guidelines for its vendors to join in the effort to promote a more sustainable automotive industry. As part of these initiatives, working tables were organized with key supplies in order to share best practices, reduce the CO_2 footprint and adopt international sustainability standards. Sigma and Axtel also have a Code of Ethics for suppliers.

CUSTOMER SERVICE AND CUSTOMER CENTRICITY

(GRI Standards 102-43, 102-44, 461-1, 417-1)

ALFA's companies have systems for customer attention, service and dialogue, to respond to their needs and concerns. These include 800 hotlines, e-mails and transparency mailboxes.

Sigma operates a Customer Service Center and mechanisms for promptly responding to their needs, while Axtel has special hotlines for service users to ask questions, express needs or report service failures.

Responsibility for ALFA companies' products and services goes beyond their quality; it includes marketing as well. All companies must provide information on the lifecycle, use and disposal of waste from each product.

Since 2014, Sigma has placed more than 70,000 latest-generation refrigerators, which consume less energy than traditional ones, in stores where its products are sold.

+640,000 POINTS OF SALE AND 210 DISTRIBUTION CENTERS SELL SIGMA PRODUCTS IN 18 COUNTRIES

TRANSPARENCY

In 2019, ALFA and its companies participated in sustainability information platforms like RobecoSAM and CDP, which provide greater transparency and access to the information requested by clients.

In addition, by integrating more information about its management, some were included in national and international indexes for their contribution to environmental, social and governance factors.

INDEXES AND CERTIFICATIONS

	DOW JONES SUSTAINABILITY MILA PACIFIC ALLIANCE INDEX	SUSTAINABLE IPC MEXICAN STOCK EXCHANGE	ROBECOSAM	CDP	#FTSE4GOOD
ALFA		X	X	X	X
Alpek			X	X	
Sigma				X	
Nemak	X		X	X	X
Axtel			X	X	

BOARD OF DIRECTORS

JOSÉ CALDERÓN ROJAS (2A)
Chairman of the Board and Chief Executive Officer of Franca Industrias, S.A. de C.V.
Board member since April, 2005. Member of the Boards of FEMSA, ITESM and UDEM. President of Asociación Amigos del Museo del Obispado. Member of Fundación UANL and of Patronato de Bomberos de Nuevo León.

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, Médica Sur and Unifin. 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 UDEM. Member of the Boards of Grupo Citibanamex, Cydsa, Grupo Aeroportuario del Pacífico and Vitro.

ARMANDO GARZA SADA (3C)
Chairman of the Board of ALFA, S.A.B. de C.V.
Board member since April, 1990. Chairman of the Boards of Alpek and Nemak. Member of the Boards of Axtel, BBVA Mexico, CEMEX, Grupo Lamosa and Liverpool.

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 Grupo Carso. 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 Financiero BBVA, 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 (1)
President of Cinépolis, S.A. de C.V.
Board member since February, 2018. Member of the Boards of BBVA Mexico, Harvard University, Mexican Institute for Competitiveness, Harvard School of Public Healthy and Sundance Institute. Chairman of the Global Cinema Federation, the International Film Festival of Morelia, Cinépolis Foundation y 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 President 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), Banorte, Scotiabank, UDEM and National Advisor of the COPARMEX. 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 Vice Chairman of the Board of Tenaris, S.A.
Board member since April, 2008. Member of the Boards of Tenaris, Innovare, Universidad Panamericana-IPADE, Banco Santander, Club de Industriales and American Iron and Steel Institute. Member of the Trilateral Commission and of the International Council of the Manhattan School of Music. Chairman of the U.S.-Mexico CEO Dialogue.

JOSE ANTONIO MEADE KURIBREÑA (1C)
Independent Advisor
Board member since February, 2019. Member of the Global Board of HSBC. Former Secretary of Hacienda y Crédito Público, Energía, Desarrollo Social y Relaciones Exteriores of Mexico.

CARLOS JIMÉNEZ BARRERA
Secretary of the Board

KEYS:
1 Independent Board Member
2 Independent Patrimonial Board Member
3 Related Patrimonial 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 Sanford University.

RODRIGO FERNÁNDEZ MARTÍNEZ
President of Sigma
Joined ALFA in 1998.
Undergraduate degree from Virginia University. Master's degree from Wharton.

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. PhD. From UNAL.

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 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 Principles and Best Corporate Governance 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 May, 2019 questionnaire with any pertinent information updated:

A. The Board of Director comprises thirteen proprietary members who have no alternates. Of this number, ten are Independent, two are Related Patrimonial Board Member and one is Independent Patrimonial 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 this 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 95% during 2019.

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

MANAGEMENT'S DISCUSSION & ANALYSIS

2019

The following report should be considered jointly with the Letter to Stockholders (pages 4 – 9) and the Audited Consolidated Financial Statements (pages 57– 165). Unless otherwise indicated, the figures are expressed in millions of Mexican pesos for the information from 2017 through 2019. 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 included in this Management Discussion & Analysis refers to the last three years (2017, 2018 and 2019), and is presented in accordance with International Financial Reporting Standards (IFRS). Furthermore, this information has been expanded in certain chapters, in order to include three years in compliance with the General Provisions applicable to Public Companies and Other Participants of the Securities Market, as issued by the National Banking and Securities Commission (CNBV for its Spanish initials) through December 31, 2019.

San Pedro Garza García, N. L., January 31, 2020.

ECONOMIC ENVIRONMENT

The global economic environment growth rate slowed down during 2019, compared to last year. 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 US, China and the European Union (EU). In the US, the economy continued to show signs of deceleration caused by the absence of tax incentives from previous years, among other factors. Emerging economies also presented an economic slowdown due to both internal and external factors. The Mexican peso appreciated slightly against the dollar compared to last year, despite the adverse environment facing the Mexican economy.

Changes in the Gross Domestic Product (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 GDP in 2019 was -0.1%[a] (estimated), lower than the 2.0%[a] in 2018. Consumer inflation was 2.8%[b] in 2019, lower than the 4.8%[b] in 2018 and in line with the decline in GDP. The Mexican peso had an annual nominal appreciation in 2019 of 4.4%[c], compared to 0.1%[c] in 2018. In real terms, annual average overvaluation of the peso against the dollar slid from 1.0%[d] in 2018 to -0.5% %[d] in 2019.

With regard to interest rates, the average TIIE (Interbank Interest Rate) in Mexico for 2019 was 8.3%[b] in nominal terms, compared to 8.0% in 2018. In real terms, the annual cumulative increase in the rate was 4.8%[b] in 2019 compared to 3.2%[b] in 2018. Such increase 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%[b] in 2019, the same as in 2018. If the nominal appreciation of the Mexican peso against the US dollar is included, the LIBOR rate in constant pesos increased from -0.8%% [a] in 2018 to -1.2%%[a] in 2019.

Sources:
(a) Instituto Nacional de Estadística, Geografía e Informática (INEGI) (Equivalent of Census Bureau).
(b) Banco de México (Banxico).
(c) Banxico. Exchange rate to settle obligations denominated in foreign currency payable in Mexico
(d) Proprietary calculations with INEGI data, reciprocally with the US, considering consumer prices.

MANAGEMENT'S DISCUSSION & ANALYSIS

ALFA- Solid performance despite current macroeconomic challenges

During 2019, ALFA continued with its long-term strategies and implemented operational efficiencies. The performance of its subsidiaries was in line with expectations, taking into account the challenges of the year such as the global environment with lower growth, commercial tensions between the US and China, as well as a lower GDP in Mexico.

RESULTS

REVENUES

The following chart provides information on the revenues recognized by ALFA for the years 2019, 2018 and 2017, breaking down its volume and price components (the indexes are calculated using 2014 as the base period =100):

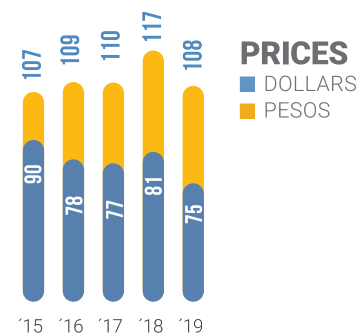
DESCRIPTION	2019	2018	2017	VAR. 2019-2018 (%)	VAR. 2018-2017 (%)
Consolidated revenues	337,750	366,432	317,627	(8)	15
Volume index	136.8	136.9	126.8	-	8
Price Index pesos	108.1	117.1	109.7	(8)	7
Price Index dollars	75.0	81.4	77.5	(8)	5

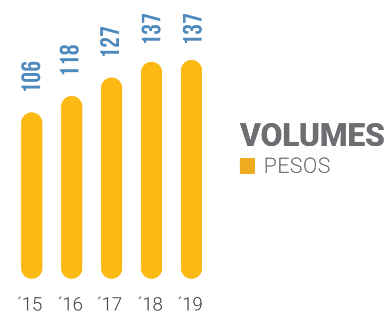
We also detail the consolidated revenues for each of the main subsidiaries of ALFA:

DESCRIPTION	2019	2018	2017	VAR. 2019-2018	VAR. 2018-2017
Alpek	119,685	134,523	98,998	(14,838)	35,525
Sigma	124,498	121,900	114,222	2,598	7,678
Nemak	77,363	90,327	84,779	(12,964)	5,548
Axtel	13,086	15,561	15,513	(2,475)	48
Newpek	1,472	2,060	2,036	(588)	24
Other	1,646	2,061	2,079	(415)	(18)
CONSOLIDATED TOTAL	**337,750**	**366,432**	**317,627**	**(28,682)**	**48,805**

INDEXES OF REVENUES

(2014=100)





MANAGEMENT'S DISCUSSION & ANALYSIS

Revenue trends are explained below:

2019-2018:
In 2019, consolidated revenues were $337,750 (US$17,538 million), 8% lower than 2018 (8% lower in dollars). Below we detail the composition of the businesses of ALFA over the year:

In 2019, Alpek revenues totaled US$6,463 million, 11% lower compared to 2018, mainly due to the impact caused by a decrease in the price of Paraxylene in the Polyester segment, as well as the divestment of its two cogeneration energy plants in Mexico, however, there was a complete integration of the plants of PQS in Brazil.

In 2019, Sigma revenues totaled US$6,216 million, 2% higher compared to 2018. Sales volume in 2019 was 1,754 thousands tons of food products, which is similar to the 1,756 thousands tons in 2018. Sigma's performance faced a combination of factors, while the American markets expanded, those in Europe decreased due mainly to the effects volatility in the prices of pork and other raw materials caused by the African Swine Fever (ASF). Sigma counteracted these impacts through operational improvements.

In 2019, Nemak revenues totaled US$4,017 million, 15% lower compared to 2018, reflecting the lower dynamism observed in the global automative industry. However, Nemak managed to partially overcome this impact through ooperational efficiencies and expanding its capabilities in lightening solutions for structural components and for electric and hybrid vehicles. Finally, the volume of sales in 2019 reached 44.3 million units, 11% lower compared to the previous year.

In 2019, Axtel expanded the coverage of ethernet data services to nine additional cities and local service to one more. In addition, it completed the second stage of the divestment of the mass market business. Revenue for the year totaled US$680 million, 16% lower compared to the previous year.

Newpek's results in 2019 reflect the natural decline in the production of wells in operation in the US, after the divestments made in 2018. In Mexico, Newpek maintained operations in two mature fields in Veracruz and began exploration and evaluation work in Tamaulipas blocks. Together, production wells totaled 728. Revenues totaled US$76 million, a 29% decrease against the US $108 million in 2018.

2018-2017:
In 2018, consolidated revenues totaled $366,432 (US$19,055 million), 15% above the figure for 2017 (13% higher in dollars). Below we detail the performance of the businesses of ALFA:

Alpek, in line with its strategy, showed an outstanding results in 2018. Revenue totaled US $ 6,991 million, compared to 2017, which represents an increase of 34%, driven by the rise in oil prices and the contribution of PQS plants in Brazil as of May 2018.

In 2018, Sigma revenues totaled US$6,336 million, 5% higher than 2017, mainly due to the synergies obtained with the acquisition of Caroli (Romania) 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, Nemak, 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 w ith 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 131 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 year’s revenue.

OPERATING INCOME

The operating income of ALFA in 2019, 2018 and 2017 is illustraed below:

2019-2018:

OPERATING INCOME				VARIATION BY GROUP					
	2019	2018	VAR.	ALPEK	SIGMA	NEMAK	AXTEL	NEWPEK	OTHER
Revenues	337,750	366,432	(28,682)	(14,838)	2,598	(12,964)	(2,475)	(588)	(415)
Operating income	23,594	35,705	(12,111)	(8,841)	1,710	(2,859)	(2,460)	(62)	401
Consolidated operating margin (%)	7.0	9.7							
Alpek (%)	10.3	15.8							
Sigma (%)	7.3	6.1							
Nemak (%)	6.4	8.7							
Axtel (%)	9.5	23.8							
Newpek (%)	(-134.2)	(92.9)							

In 2019, consolidated operating income decreased 34% compared to 2018. Details of the performance of each ALFA businesses are shown below:

In 2019, Alpek's operating income decreased 42% compared to 2018. Among the main factors of this reduction was the absence of the benefit of the one time events that occurred in 2018. There was also a negative effect due to the lower costs of Paraxylene, its main raw material. On the other hand, the first full year of the toal integration of PQS in Brazil and the monetization of assets for the sale of its energy cogeneration plants in Cosoleacaque and Altamira, Mexico.

Sigma reported a favorable performance in 2019, which resulted in a 23% increase in its operating income compared to 2018. This is mainly due to the growth in product margins in Mexico, US and LATAM, which did not occur in Europe due to the volatility experienced in the prices of pork and other raw materials, caused by the ASF. Additionally, Sigma implemented operational efficiencies, better inventory management and utilized innovation as a growth platform (more than 270 new releases in 2019).

In 2019, Nemak reported a 37% decrease in operating income against the previous year as a result of a lower volume worldwide and a decrease in average aluminum prices. However, Nemak started the production of rechargeable hybrid car battery housings and won new production contracts in all its lines.

Axtel reached an operating income that compared to that of 2018 and represents a 65% decrease. This considering a combination of factors, on the one hand the gain resulting from the sale of the first installment of the mass segment in 2018; In conjuction with the reduction in sales related to the disposed business. Additionaly in 2019, the total divestiture was concluded. During the year, Axtel continued in its process of transforming its business structure, aimed at optimizing the use of its technological capacity, consolidating its market leadership in the business and government segments. In addition, Axtel started to provide ethernet data services in nine new cities, local service in an additional city and enabled 21 parks and 89 business centers with fiber optics.

Newpek executed several strategies in 2019 including the reactivation of well drilling in the US with its partner Ensign Natural Resources. In Mexico, the operation of the production wells in San Andrés and Tierra Blanca, Veracruz, continued. In addition, Newpek is collaborating with federal authorities in the execution of exploration and evaluation programs in the basin of Burgos, Tamaulipas. At the end of 2019, Newpek operated 728 active wells, with a production of 5.7 thousand barrels of petrolium equivalent per day (MBPED).

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 increased 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 dollars. Greater margins in polyester and polypropylene, plus the incorporation of Petroquimica Suape y Citepe (PQS) 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 one time 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 these matters, 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 income dropped 15% compared to 2017, in dollars, mainly due to impairment of assets in Campofrio. Excluding these effects, the operating income of Sigma in 2018 is 2% higher than 2017 in dollars. 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, 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.

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

In 2018, Newpek dealed 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.

REVENUES AND OPERATING INCOME COMPOSITION

The percentage of revenues between 2019 and 2018 showed a similar trend. Sigma had an increase, while Alpek, Nemak and Newpek reported a slight decrease. The comparison of 2018 to 2017, indicated an upward shift, mainly in Alpek and a downturn in Sigma, Nemak and Axtel. However, there were significant changes in ALFA between 2019 and 2018, largely due to an increase in the operating income of Sigma, wich in absolute terms generated an increase of 22%. Between 2018 and 2017, the most representative change was Alpek, which reduced the proportion of the other businesses.

The following chart illustrates these effects:

% COMPOSITION

	REVENUES			OPERATING INCOME		
	2019	2018	2017	2019	2018	2017
Alpek	35	37	31	52	59	(25)
Sigma	37	33	36	39	21	76
Nemak	23	25	27	21	22	62
Axtel	4	4	5	5	10	13
Newpek	0	1	1	(8)	(5)	(6)
Other	1	1	1	(9)	(7)	(20)
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**

FINANCIAL RESULT

The financial result for 2019 was influenced by several factors, such as an appreciation of 4% in the Mexican peso against the US dollar, despite the adverse environment faced by the Mexican economy; financial expenses for ALFA's debt positions; and, the exchange effects of the rest of the currencies in which its businesses operate. The main components of financial result are shown below:

FACTORS IMPACTING FINANCIAL RESULT	2019	2018	2017
Overall inflation (dec.- dec.)	2.8	4.8	6.7
% Variation in the nominal closing exchange rate	4.0	0.3	4.6
Nominal closing exchange rate	18.85	19.68	19.74
% Real peso/dollar appreciation (depreciation) compared to previous year			
Close	4.5	2.8	8.8
Year average	1.7	1.5	2.5
Average interest rate:			
Nominal LIBOR rate	2.3	2.3	1.7
Nominal implicit rate, ALFA debt	6.3	6.7	6.5
LIBOR rate in real terms	(1.2)	(0.8)	(3.3)
Real implicit rate, ALFA debt	(0.9)	1.7	(4.6)
Average monthly debt of ALFA in US$	8,215	8,132	7,610

Expressed in US$, net financial expenses from 2019 to 2017 were $442, $493, $438, respectively.

VARIANCE IN NET FINANCIAL EXPENSES IN US$	19/18	18/17
Due to (higher) lower, interest rate	67	(20)
Due to (higher) debt, net of cash	(14)	(35)
Net variance	51	(55)

Net financial expenses include bank financing expenses, premiums paid in refinancing operations and operating interest, in 2019, 2018 and 2017.

MANAGEMENT'S DISCUSSION & ANALYSIS

FINANCIAL RESULT

	2019	2018	2017	VARIANCE 19/18	18/17
Financing expenses	(9,978)	(10,486)	(8,988)	508	(1,498)
Financial income	1,730	1,416	1,034	314	382
Financing expenses, net	(8,248)	(9,070)	(7,954)	822	(1,116)
Exchange fluctuation result, net of derivative financial instruments to hedge the exchange rate risk	(725)	332	(1,264)	(1,057)	1,596
Impairment in fair value of other assets	0	0	(1,694)	0	1,694
TOTAL FINANCIAL RESULT	**(8,973)**	**(8,738)**	**(10,912)**	**(235)**	**2,174**

The fair value of the derivative financial instruments of ALFA as of December 31, 2019 and 2018 is as follows:

TYPE OF DERIVATIVE	FAIR VALUE (MILLIONS OF USD) DEC. 19	DEC. 18
Exchange Rate	(12)	174
Energy	(24)	(135)
TOTAL	**(36)**	**39**

INCOME TAX

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

				VARIANCE	
INCOME TAX	**2019**	**2018**	**2017**	**19/18**	**18/17**
Income before income tax	14,350	27,088	375	(12,738)	26,713
Equity in loss of associated companies recognized by the equity method	271	(121)	(92)	392	(29)
	14,621	26,967	283	(12,346)	26,684
Statutory rate	30%	30%	30%		
Income tax with statutory rate	(4,386)	(8,090)	(85)	3,704	(8,005)
+ / (-) Income tax effect on tax- Accounting permanent differences:					
Financial Result Tax vs Accounting	(2,512)	(2,333)	(782)	(179)	(1,551)
Other permanent differences, net	1,312	1,295	(936)	17	2,231
Total income tax effect on permanent differences	(1,200)	(1,038)	(1,718)	(162)	680
Total income tax provision (charged) credited to results	(5,586)	(9,128)	(1,803)	3,542	(7,325)
Effective income tax rate	38%	34%	637%		
Income tax:					
Current tax	(7,587)	(7,564)	(5,698)	(23)	(1,866)
Deferred tax	2,001	(1,564)	3,895	3,565	(5,459)
TOTAL INCOME TAX EXPENSE	**(5,586)**	**(9,128)**	**(1,803)**	**3,542**	**(7,325)**

NET CONSOLIDATED INCOME (LOSS), 2019

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

				VARIANCE	
INCOME STATEMENT	**2019**	**2018**	**2017**	**19/18**	**18/17**
Operating income	23,594	35,705	11,195	(12,111)	24,510
Financial Result	(8,973)	(8,738)	(10,912)	(235)	2,174
Equity in results of associated companies recognized by the equity method	(271)	121	92	(392)	29
Taxes[1]	(5,586)	(9,128)	(1,803)	3,542	(7,325)
Consolidated net income (loss)	8,764	17,960	(1,428)	(9,196)	19,388
Net income (loss) of the controlling interest	5,807	13,143	(2,051)	(7,336)	15,194

[1] *Income tax (current and deferred)*

CONSOLIDATED COMPREHENSIVE INCOME (LOSS), 2019

Comprehensive income and loss is included 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 income statement or directly in equity accounts. Operations between the Company and its shareholders, mainly dividends paid, are excluded. Comprehensive income and loss for 2019, 2018 and 2017 was as follows:

Comprehensive Income (Loss)

	2019	2018	2017
Net income	8,764	17,960	(1,428)
Translation of foreign entities	(4,650)	(5,226)	1,223
Effects of derivative financial instruments classified as cash flow hedges, net of tax	629	(554)	162
Actuarial (losses) gain from employee benefits, net of tax	(555)	122	(91)
OTHER COMPREHENSIVE INCOME (LOSS) ITEMS FOR THE YEAR	**(4,576)**	**(5,658)**	**1,294**
COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**4,188**	**12,302**	**(134)**
Atributable to:			
Controlling interest	2,788	8,301	(906)
Non-controlling interest	1,400	4,001	772

A previous section of this report explains the net income (loss) for 2019, 2018 and 2017; the transaltion effect of foreign entities is the product of converting different exchange rates between the statement of financial position accounts and income statement accounts.

The effect of derivative financial instruments represents hedges for the future costs of commodities, in accordance with the IFRS, and is presented in stockholders' equity.

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

DIVIDENDS DECLARED AND CHANGES IN STOCKHOLDERS' EQUITY

In 2019, ALFA S.A.B. de C.V. declared a dividend of $3,949 equivalent to $0.79 pesos per share.

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

In 2017 ALFA S.A.B. de C.V. declared a dividend of $3,312 equivalent to $0.65 pesos per share.

In 2019, total stockholders' equity had a similar behavior to that of the previous year in dollars, and in pesos there was a decrease of 3%, which is mainly due to the conversion effect of foreign entities, net income and dividends.

INVESTMENTS IN NET WORKING CAPITAL DAYS (NWC)

In 2019 at a consolidated level, the ratio of revenue to NWC behaved similarly to that of 2018. At the individual business unit level, there were increases in Alpek and Sigma and decreases in Axtel, Nemak and Newpek as follows:

NWC DAYS [1]	2019	2018	2017
Alpek	53	41	44
Sigma	(1)	(3)	(2)
Nemak	(3)	4	10
Axtel	(25)	(20)	(25)
Newpek	(488)	(161)	(124)
CONSOLIDATED	**14**	**13**	**13**

[1] *NWC anual average by annualized sales times the number of days of the year.*

INVESTMENTS

Property, Plant and Equipment

Total investments by business unit were as follows:

	2019	2018	% VARIATION 19/18	LAST 5 YEARS INVESTMENT	%
Alpek	3,062	2,005	53%	16,255	21%
Sigma	3,351	3,499	(4%)	15,552	20%
Nemak	6,616	7,786	(15%)	34,131	43%
Axtel	612	2,359	(74%)	8,013	10%
Newpek	278	(495)	156%	3,854	5%
Other	140	448	(69%)	783	1%
TOTAL	**14,059**	**15,602**	**(10%)**	**78,588**	**100%**

Acquisitions and sale of businesses

In line with its strategy, during 2019 ALFA made investments to increase its capabilities, develop business lines with high potential, expand its presence and monetize some non-strategic investments to strengthen its financial position. Additionally, in line with its objective of promoting a circular economy, Alpek acquired a PET recycling plant in the United States that increased its recycling capacity of this material by 60%. In addition, Alpek completed the sale of non-strategic assets of its two cogeneration plants. Axtel signed an agreement with Equinix Inc. to sell a new entity that will house the operations and assets of three data centers, and also concluded the divestment process of the Mass Market Segment.

CASH FLOWS

Starting with the line item Cash Flows generated from operations, the chart below shows the main transactions for 2019 and 2018.

	2019	2018
Cash flows generated from operations	30,568	35,050
Property, plant and equipment and other	(14,059)	(15,602)
Investment in acquisitions of subsidiaries, associated companies and joint ventures	(909)	(12,974)
Increase in bank financing	(13,317)	(44)
Dividends paid by Alfa, S.A.B. de C.V.	(3,928)	(3,154)
Dividends paid to noncontrolling interest	(2,319)	(1,770)
Repurchase of shares	(830)	0
Interest paid	(8,616)	(9,485)
Cash flows from sale of businesses	16,550	4,671
Other	(3,156)	(2,023)
Decrease in cash	(16)	(5,331)
Adjustments in cash flows due to exchange rate variances	(1,200)	(1,071)
Cash and cash equivalents at the beginning of the year	26,411	32,813
TOTAL CASH AT THE END OF THE YEAR	**25,195**	**26,411**

MANAGEMENT'S DISCUSSION & ANALYSIS

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

CHANGES IN DEBT NET OF CASH US$	CONSOLIDATED	ALPEK	SIGMA	NEMAK	AXTEL	NEWPEK	OTHER
As of December 31, 2018	6,543	1,832	1,859	1,251	686	(18)	933
Long-term debt:							
Financing [(1)]	1,545	1,364	56	78	36	1	10
Payments	(1,447)	(1,246)	(28)	(59)	(62)	(0)	(52)
SHORT-TERM FINANCING, NET (1)	**(432)**	**(462)**	**0**	**30**	**0**	**0**	**-**
Total debt financing, net of payments	(334)	(344)	28	49	(26)	1	(42)
Exchange rate impacts	33	31	3	(14)	16	0	(3)
Debt variance in statements of cast flows	(301)	(313)	31	35	(10)	0	(44)
Debt from acquired businesses and other	(17)	(17)	(2)	0	0	0	2
Total debt changes	(319)	(330)	29	35	(9)	0	(44)
Decrease (increase) in cash and restricted cash	50	(174)	106	(80)	74	10	114
Changes in interest payable	1	2	0	(0)	(0)	0	(1)
Increase (decrease) in debt net of cash	(267)	(502)	135	(45)	64	11	70
AS OF DECEMBER 31, 2019	**6,276**	**1,330**	**1,994**	**1,206**	**750**	**(7)**	**1,003**

[(1)] *Includes the effect of adoption of IFRS 16 - Leases.*

SHORT-TERM AND LONG-TERM DEBT BY GROUP	ALPEK		SIGMA		NEMAK		AXTEL		OTHER	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Debt balance (US$)	1,700	2,030	2,482	2,455	1,515	1,480	789	798	1,069	1,113
Short-term debt or Long- term 1 year	4	25	2	10	8	4	3	2	1	4
2	2	8	1	0	2	3	2	2	1	5
3	41	17	1	0	2	3	11	3	0	1
4	19	35	1	0	1	2	2	11	5	0
5 years or more	34	15	95	90	87	88	82	82	93	90
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Average period long-term debt (years)	5.1	3.2	6.2	7.3	5.2	5.7	4.7	5.6	13.8	14.6
Average period total debt (years)	4.8	2.6	6.1	6.6	4.9	5.3	4.6	5.5	13.7	14.0

MANAGEMENT'S DISCUSSION & ANALYSIS

CONSOLIDATED SHORT-TERM AND LONG-TERM DEBT:

	US$			% OVERALL	
	2019	2018	VAR.	2019	2018
Short- term debt or Long-term 1 year	268	949	(681)	4	12
2	115	288	(173)	2	4
3	825	397	428	11	5
4	421	831	(410)	6	11
5 years or more	5,926	5,411	515	78	69
TOTAL	7,555	7,876	320	100	100
Average period long-term debt (years)	6.7	8.0			
Average period total debt (years)	6.5	7.3			

FINANCIAL RATIOS

SOLVENCY

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

BUSINESS UNITS	2019	2018
Alpek	1.56	1.72
Sigma	2.84	2.72
Nemak	1.94	1.70
Axtel	2.83	1.63
Newpek	0.08	(0.60)
CONSOLIDATED	2.73	2.29

LIQUIDITY

CURRENT ASSETS / CURRENT LIABILITIES (TIMES, BASE IN US DOLLARS)

BUSINESS UNITS	2019	2018
Alpek	2.14	1.34
Sigma	1.16	1.04
Nemak	1.00	1.03
Axtel	1.17	0.79
Newpek	0.61	0.64
Consolidated	1.27	1.13

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

				VARIATION DUE TO	
	2019	2018	19 VS 18	CASH FLOWS	FINANCIAL EXPENSES
Alpek	7.2	9.9	(2.6)	(2.0)	(0.7)
Sigma	6.2	5.3	0.9	0.2	0.7
Nemak	8.7	7.7	1.0	(1.3)	2.3
Axtel	3.6	4.4	(0.8)	(1.6)	0.8
Newpek	7.6	(7.8)	15.4	30.5	(15.1)
Consolidated	5.2	5.8	(0.6)	(1.1)	0.5

**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 2019, as illustrated in the following table:

FINANCIAL INDICATORS	2019	2018
Total Liabilities / Equity	2.58	2.77
Long-Term Debt / Total Debt (%)	98	92
Total Debt in Foreign Currency / Total Debt (%)	94	96

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF ALFA, S. A. B. DE C. V. AND SUBSIDIARIES

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, 2019 and 2018, 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 Alfa, S. A. B. de C. V. and Subsidiaries as of December 31, 2019 and 2018, and their consolidated financial performance and their cash flows for the years then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

BASIS FOR OPINION

We conducted our audits in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Independent Auditors´ *Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and with the ethical requirements that are relevant to our audit of the consolidated financial statements in accordance with the Ethics Code 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 maters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of 2019 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.

ASSESSMENT OF IMPAIRMENT OF INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES AND GOODWILL

As described in Notes 3l., 3m. and 13 to the consolidated financial statements, the Company performs impairment tests on their intangible assets with indefinite useful lives and goodwill on an annual basis.

We have identified the intangible assets with indefinite useful lives and goodwill impairment evaluation as a key audit matter, mainly due to the fact that impairment tests involve the application of judgments and significant estimates by the Company's management in determining the assumptions, premises, cash flows, revenue projections, and the selection of discount rates used to estimate the recoverable value of the cash generating units ("CGUs"), in addition to the importance of the goodwill consolidated balance of $21,820 million pesos and intangible assets with indefinite useful lives of $11,460 million pesos in the consolidated financial statements of the Company. Therefore, our review procedures require a high degree of professional judgment and the incorporation of valuation specialists.

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF ALFA, S. A. B. DE C. V. AND SUBSIDIARIES

We conducted the following audit procedures on the significant assumptions that the Company considered when estimating future projections to assess the recoverability of indefinite useful life intangible assets and goodwill, among others: industry growth rate, revenue projections, discount rate, comparison between expected gross profit margin and projected flows, as follows:

- We tested the design, implementation and the operating effectiveness of internal controls in the determination of CGUs, the determination of their recoverable value and the assumptions used in the valuation.
- With the assistance of our valuation specialists, we assessed the reasonableness of the i) methodology to determine the recoverable value of intangible assets with indefinite useful lives and goodwill and ii) reviewed the financial projections, comparing them with performance and historical business trends, corroborating the explanations of the variations with management. We assessed the internal processes used by management to calculate projections, including timely monitoring and analysis by the Board of Directors, and if the projections are consistent with the budgets approved by the Board of Directors.
- We reviewed the assumptions used in the impairment calculation model, specifically including cash flow projections, gross and operating margins, the multiple of Earnings before interest, taxes, depreciation and amortization ("EBITDA") and the projected long-term growth rate. Additionally, we tested the mathematical accuracy and integrity of the impairment model, the sensitivity calculations of the significant assumptions in the calculation for all CGUs, calculating an independent estimate to conclude whether the assumptions used would need to be modified and the probability that such modifications are submitted.
- We determined an estimate of the discount rates to independently perform the impairment test and we compared such rates with the estimates used by management.
- We evaluated the factors and variables used to determine the CGUs, among which were considered; the analysis of operating cash flows and indebtedness policies, analysis of the legal structure, allocation of production and understanding of the operation of the commercial and sales areas.

The results of our procedures were satisfactory, the determination of the recoverable value of the CGUs and the assumptions used in the valuation are reasonable.

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF ALFA, S. A. B. DE C. V. AND SUBSIDIARIES

DIVESTITURES OF ELECTRIC POWER COGENERATION COMPANIES (COGENERADORA DE ENERGÍA LIMPIA DE COSOLEACAQUE, S.A. DE C.V. ("CELCSA") AND COGENERACIÓN DE ALTAMIRA, S.A. DE C.V. ("CGA")

As mentioned in Note 2b., to the consolidated financial statements, on January 6, 2019, Alpek, S. A. B. de C. V. ("Alpek"), Company's subsidiary, signed an agreement for the direct sale to Contour Global Terra 3 S.a.r.l. ("CG Terra 3") of the entire shares of CGA, and the consequent indirect sale of CELCSA, under the basis that CGA holds 99.99% of CELCSA's share capital.

Alpek also signed with ContourGlobal Holding de Generación de Energía de México, S.A. de C.V. ("CG Mexico"), a subsidiary of ContourGlobal PLC, an option contract in which Alpek and its subsidiaries are required to sell the shares of Tereftalatos Mexicanos Gas, S. A. de C. V. ("Temex Gas"), whose assets include pipelines that transport natural gas from the point of interconnection of the integrated national transport system to the consumption point, in case CG Mexico exercises the call option within a maximum period of five years from the date of signature of the call option contract, which will be subject to compliance with certain conditions precedent under that option contract.

On November 25, 2019, Alpek completed the process of selling the cogeneration plants for US$801 million of dollars and is subject to non-significant adjustments in working capital and trading conditions.

Due to the importance of this transaction and the application of estimates to determine the liability provision by the Company's management; as part of our audit, we conducted, among others, the following procedures:

- We reviewed the share purchase agreement, as well as the option contract.
- We verified the documentation supporting the transaction and the accounting records.
- We challenged the assumptions and premises used by Management in determining the provision to cover the obligations set forth in the purchase agreement through the involvement of specialists, we also reviewed the tax effects of the transaction.
- We physically inspected the alienated assets to confirm their integrity and existence.

The results of our procedures were satisfactory, and we agree with the accounting records resulting from this transaction.

CHANGES IN ACCOUNTING PRINCIPLES

As mentioned in Notes 3 k. and 3 y., to the consolidated financial statements, the Company changed the methodology of lease recognition in the consolidated financial statements beginning January 1, 2019, derived from the adoption of IFRS 16, "Leases."

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF ALFA, S. A. B. DE C. V. AND SUBSIDIARIES

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND THE INDEPENDENT AUDITORS' REPORT THEREON

The Company's management is responsible for the additional information presented. Additional information includes: i) the Annual Stock Exchange Filing, ii) the information that will be incorporated in the Annual Report that the Company is required to prepare in accordance with article 33, section I, subsection b) of Title four, Chapter One of the General Provisions Applicable to Issuers and other Participants of the Stock Market in Mexico and the Instructions that accompany these provisions (the "Provisions"). It is expected that the Annual Stock Exchange Filing and the Annual Report to be available for reading after the date of this audit report; and iii) other additional information, which is a measure that is not required by IFRS and has been incorporated with the purpose of providing an additional explanation to its investors and main readers of its consolidated financial statements to evaluate the performance of each of the operating segments and other indicators on the capacity to meet obligations regarding the Earnings before interest, taxes, depreciation, amortization and asset impairment (adjusted "EBITDA") of the Company; this information is presented in Notes 17 and 30.

Our opinion of the consolidated financial statements will not cover the additional information and we will not express any form of assurance about it.

In connection to our audit of the consolidated financial statements, our responsibility will be to read the additional information, when available, and in doing so, consider whether the financial information contained is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit, or that seems to contain a material error. When we read the Annual Report we will issue the legend on the reading of the annual report, required in Article 33 Section I, subsection b) number 1.2. of the Provisions. Additionally, and in relation to our audit of the consolidated financial statements, our responsibility is to read the additional information, which, in this case, corresponds to the annual report and in doing so consider whether the other information contained therein is inconsistent in material form with the consolidated financial statements or with our knowledge obtained during the audit, or that seems to contain a material error. If based on the work we have performed, we conclude that there is a material error in the additional information, we are required to communicate the matter in a statement. We do not have anything to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's consolidated financial reporting process.

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF ALFA, S. A. B. DE C. V. AND SUBSIDIARIES

INDEPENDENT AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Company and subsidiaries audit. We remain solely responsible for our audit opinion.

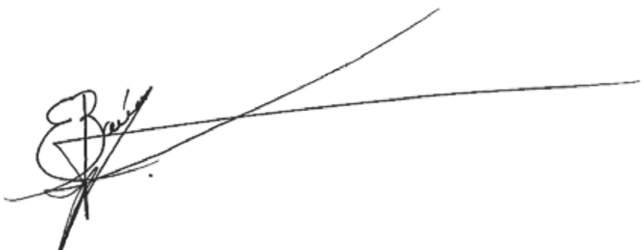
INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF ALFA, S. A. B. DE C. V. AND SUBSIDIARIES

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 2019 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



C. P. C. Emeterio Barrón Perales
Monterrey, Nuevo León, Mexico
January 31, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2019 and 2018. In millions of Mexican pesos.

	NOTE	2019	2018
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	6	$ 25,195	$ 26,411
Restricted cash	7	347	672
Trade and other accounts receivable, net	8	35,538	43,419
Inventories	9	45,826	51,790
Derivative financial instruments	4	41	39
Other current assets	10	6,681	5,053
Total current assets		**113,628**	**127,384**
NON-CURRENT ASSETS:			
Property, plant and equipment, net	11	134,695	153,389
Right-of-use asset, net	12	8,074	-
Goodwill and intangible assets, net	13	49,112	52,311
Deferred income taxes	19	17,689	17,408
Derivative financial instruments	4	362	1,082
Investments accounted for using the equity method and other non-current assets	14	16,149	18,254
Total non-current assets		**226,081**	**242,444**
TOTAL ASSETS		**$ 339,709**	**$ 369,828**

	NOTE	2019	2018
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Debt	17	$ 4,283	$ 20,322
Lease liability	18	2,186	-
Trade and other accounts payable	16	72,501	83,959
Income taxes payable	19	3,643	3,516
Derivative financial instruments	4	991	1,086
Provisions	20	1,502	1,175
Other current liabilities	21	2,840	2,663
Total current liabilities		**87,946**	**112,721**
NON-CURRENT LIABILITIES:			
Debt	17	130,337	135,227
Lease liability	18	6,195	-
Derivative financial instruments	4	96	283
Provisions	20	1,407	1,417
Deferred income taxes	19	10,913	13,112
Income taxes payable	19	1,571	3,221
Employee benefits	22	5,824	4,973
Other non-current liabilities	21	494	650
Total non-current liabilities		**156,837**	**158,883**
TOTAL LIABILITIES		**244,783**	**271,604**
STOCKHOLDERS' EQUITY:			
Controlling interest:			
Capital stock	23	209	211
Retained earnings		60,570	59,999
Other reserves		10,983	13,181
Total controlling interest		**71,762**	**73,391**
Non-controlling interest	15	23,164	24,833
Total stockholders' equity		**94,926**	**98,224**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**$ 339,709**	**$ 369,828**

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

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except for earnings per share amounts.

	NOTE	2019	2018
Revenues	30	$ 337,750	$ 366,432
Cost of sales	25	(273,748)	(292,574)
Gross profit		64,002	73,858
Selling expenses	25	(23,613)	(23,545)
Administrative expenses	25	(20,847)	(22,666)
Other income, net	26	4,052	8,058
Operating income		**23,594**	**35,705**
Financial income	27	1,730	1,416
Financial expenses	27	(9,978)	(10,486)
(Loss) gain due to exchange fluctuation, net	27	(725)	332
Financial result, net		**(8,973)**	**(8,738)**
Equity in (loss) income of associates recognized using the equity method		(271)	121
Income before taxes		**14,350**	**27,088**
Income taxes	19	(5,586)	(9,128)
NET CONSOLIDATED INCOME		**$ 8,764**	**$ 17,960**
Income attributable to:			
Controlling interest		$ 5,807	$ 13,143
Non-controlling interest		2,957	4,817
		$ 8,764	$ 17,960
Earnings per basic and diluted shares, in Mexican pesos		$ 1.15	$ 2.60
Weighted average outstanding shares (thousands of shares)		5,036,993	5,055,111

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2019 and 2018. In millions of Mexican pesos.

	NOTE	2019	2018
Net consolidated income		$ 8,764	$ 17,960
Other comprehensive (loss) for the year:			
Items that will not be reclassified to the consolidated statement of income			
Remeasurement of employee benefit obligations, net of taxes	22	(555)	122
Items that will be reclassified to the consolidated statement of income			
Effect of derivative financial instruments designated as cash flow hedges, net of taxes		629	(554)
Translation effect of foreign entities		(4,650)	(5,226)
Total comprehensive (loss) of the year		(4,576)	(5,658)
CONSOLIDATED COMPREHENSIVE INCOME		**$ 4,188**	**$ 12,302**
Attributable to:			
Controlling interest		$ 2,788	$ 8,301
Non-controlling interest		1,400	4,001
COMPREHENSIVE INCOME FOR THE YEAR		**$ 4,188**	**$ 12,302**

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2019 and 2018. In millions of Mexican pesos.

	CAPITAL STOCK	RETAINED EARNINGS	OTHER RESERVES	TOTAL CONTRONLLING INTEREST	TOTAL NON-CONTROLLING INTEREST	TOTAL STOCKHOLDERS' EQUITY
BALANCES AS OF JANUARY 1, 2018	**$ 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 (loss) for the year	-	-	(4,842)	(4,842)	(816)	(5,658)
Comprehensive income	-	13,143	(4,842)	8,301	4,001	12,302
BALANCES AS OF DECEMBER 31, 2018	**211**	**59,999**	**13,181**	**73,391**	**24,833**	**98,224**
Transactions with stockholders:						
Dividends declared	-	(3,949)	-	(3,949)	(2,319)	(6,268)
Repurchase of own shares	(2)	(790)	-	(792)	(38)	(830)
Acquisition on non-controlling interest	-	(13)	624	611	(611)	-
Other	-	(287)	197	(90)	(36)	(126)
Total transactions with stockholders	**(2)**	**(5,039)**	**821**	**(4,220)**	**(3,004)**	**(7,224)**
Effect of adoption of IFRIC 23	-	(197)	-	(197)	(65)	(262)
Consolidated net income	-	5,807	-	5,807	2,957	8,764
Total other comprehensive (loss) for the year	-	-	(3,019)	(3,019)	(1,557)	(4,576)
Comprehensive income	-	5,807	(3,019)	2,788	1,400	4,188
BALANCES AS OF DECEMBER 31, 2019	**$ 209**	**$ 60,570**	**$ 10,983**	**$ 71,762**	**$ 23,164**	**$ 94,926**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2019 and 2018. In millions of Mexican pesos.

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income taxes	$ 14,350	$ 27,088
Depreciation and amortization	19,449	18,957
Impairment of long-lived assets	1,238	517
Allowance for doubtful accounts	(1,513)	690
Gain on sale of property, plant and equipment	(104)	(764)
Gain on sale of business	(4,372)	(2,256)
Gain on joint ventures	-	(4,597)
Effect of changes in the fair value of derivative financial instruments	(6)	5
Financial expenses, net	8,248	9,070
Exchange fluctuation, net	725	(332)
Equity in results of associates, provisions and others	2,390	(1,509)
Movements in working capital:		
Decrease (increase) in trade and other accounts receivable	6,357	(4,516)
Decrease (increase) in inventories	4,189	(7,220)
(Decrease) increase in trade and other accounts payable	(11,152)	7,020
Income taxes paid	(9,231)	(7,103)
Net cash flows generated by operating activities	**30,568**	**35,050**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest collected	783	768
Cash flows in acquisition of property, plant and equipment	(14,243)	(15,625)
Cash flows in sale of property, plant and equipment	2,522	2,012
Cash flows in acquisition of intangible assets	(2,338)	(1,989)
Cash flows in business acquisitions, net of cash acquired	(909)	(12,974)
Advance payment for business acquisition	(1,312)	-
Cash flows in sale of businesses, net of transferred cash	16,550	4,671
Restricted cash	922	(485)
Other	(1,114)	(2,375)
Net cash flows generated by (used in) investing activities	**861**	**(25,997)**

Continue in next page.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2019 and 2018. In millions of Mexican pesos.

Continued from previous page.

	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceed from borrowings or debt	31,955	38,911
Payments of borrowings or debt	(45,272)	(38,955)
Lease payments	(2,764)	-
Interest paid	(8,616)	(9,485)
Dividends paid	(3,928)	(3,154)
Dividends paid to non-controlling interest	(2,319)	(1,770)
Repurchase of shares	(830)	-
Other	329	69
Net cash flows used in financing activities	**(31,445)**	**(14,384)**
Net (decrease) increase in cash and cash equivalents	(16)	(5,331)
Effect of changes in exchange rates	(1,200)	(1,071)
Cash and cash equivalents at beginning of year	26,411	32,813
Cash and cash equivalents at end of year	**$ 25,195**	**$ 26,411**

In 2018, there were no transactions that did require cash flows related to financial leases. As of January 1, 2019, any lease addition is recognized as a right-of-use asset and a lease liability without any flow through the initial recognition.

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

1. ALFA COMPANIES' ACTIVITIES

Alfa, S. A. B. de C. V. and subsidiaries (therein "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 (U.S.), 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 83,000 people.

When reference is made to the controlling entity Alfa S. A. B. de C. V. as an individual legal entity, it will be referred to as "Alfa SAB".

Alfa SAB'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

2019

A. ISSUANCE AND PREPAYMENT OF DEBT

Alpek

On September 11, 2019, Alpek issued Senior Notes on 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 $500, including issuance costs of US$ 4, including discounts of US$1. The Senior Notes mature in ten years at a coupon of 4.25%, payable semi-annually. The resources of the transaction were mainly used to prepay short-term debt and for general corporate purposes.

B. SALE OF TWO ELECTRIC POWER COGENERATION PLANTS

On January 6, 2019, Alpek signed an agreement with Contour Global Terra 3, S.a.r.l. ("CG Terra 3") for the sale of all the shares representing the capital stock of Cogeneración Altamira, S. A. de C. V. ("CGA"), and indirectly the sale of Cogeneración de Energia Limpia de Cosoleacaque, S. A. de C. V. ("CELCSA"), as CGA is the holder of 99.99% of the shares of the capital stock of CELCSA.

Alpek, SAB agreed to terms with ContourGlobal Holding de Generación de Energía de México, S. A. de C. V. ("CG México"), subsidiary of ContourGlobal PLC, into call option agreement in which Alpek and its subsidiaries undertake the obligation to sell all of its shares of the capital stock of Tereftalatos Mexicanos Gas, S. A. de C. V., whose assets include gas pipelines used to transport natural gas, in case CG México exercises the purchase option within five years maximum from the date of the signing of the option contract. The option will be subject to compliance with certain precedent conditions established in the contract.

On November 25, 2019, Alpek announced that it had concluded the sale process of its cogeneration power plants for US$801; however, the transaction price is subject to non-significant adjustments of working capital, which are expected to be in favor of Alpek.

The resources of the transaction will be used mainly to pay an extraordinary dividend and to reduce Alpek's debt obligations.

C. ACQUISITION OF PET RECYCLING PLANT PERPETUAL RECYCLING SOLUTIONS

On January 9, 2019, Alpek announced that one of its subsidiaries signed an agreement with Perpetual Recycling Solutions, LLC ("Perpetual"), to acquire a PET recycling plant in Richmond, Indiana. The Perpetual PET recycling plant has an installed capacity to produce approximately 45,000 tons per year of high quality recycled PET flakes. This complements the Company's existing food-grade PET recycling operations in Argentina and its fiber-grade PET recycling joint venture facility in Fayetteville, North Carolina. The operation was closed for the amount of US$34 in January 31, 2019.

The acquisition of Perpetual met the criteria of a business combination in accordance with the requirements of IFRS 3, *Business Combinations*, whereby Alpek applied the acquisition method to measure the assets acquired and the liabilities assumed in the transaction. Alpek recognized a goodwill for an amount of US$3. The purchase price allocation was determined in 2019 and the adjustments derived from the acquisition method accounting were recognized from the acquisition date.

The consolidated statement of cash flow in 2019 presents the incorporation of Perpetual operations in a single line within the investment activity, net of the cash acquired.

D. SALE OF DATA CENTER

On October 3, 2019, Axtel entered into an agreement with Equinix Inc. ("Equinix") in order to strengthen its co-location, interconnection and cloud solutions by signing 2 agreements subject to compliance with closing conditions. Equinix will acquire a new Axtel's subsidiary, which will house the operations and assets of three data centers that currently belong to Axtel; two located in Queretaro and other in Monterrey. Axtel maintained a non-controlling shareholding over the new subsidiary entity.

The amount of the transaction is US$175, which will be settled in cash, except US$13 that will be receivable in the short term. The rest of the data centers owned by Axtel, located in Monterrey, Nuevo León; Guadalajara, Jalisco and Tultitlán, Mexico City, are not part of this transaction. At yearend, the transaction had not been completed; therefore, the assets to be sold are presented as available for sale in the consolidated statement of financial position.

E. SALE OF THE REST OF AXTEL'S MASS SEGMENT

On May 1, 2019, Axtel divested the rest of the Mass Segment not contemplated in the transaction completed as of December 31, 2018, through the sale of the residential customers and microbusiness, optic fiber network and other assets to Megacable Holdings, S.A.B. de C.V. and subsidiaries ("Megacable") in the amount of $1,150.

For Alfa, the gain was $519, which was recognized in income of the year ended December 31, 2019 under the "Other income, net".

F. SIGN OF AGREEMENT FOR THE ACQUISITION OF PET PLANT OF LOTTE CHEMICAL

On October 29, 2019, Alpek announced that one of its subsidiaries signed an agreement with Lotte Chemical Corporation ("Lotte") for the purchase of all the shares of Lotte Chemical UK Limited ("Lotte UK"), which is owner of a PET production plant located in Wilton, United Kingdom. The plant has a capacity to produce approximately 350,000 tons per year.

During the month of December 2019, Alpek gave advance payments for the acquisition of Lotte UK for a total amount of US $ 69; however, the final transaction for the acquisition of the business occurred on January 1, 2020, considered as the moment from which Alpek gained control of Lotte UK.

G. GRUPO VIGAR ACQUISITION

On August 31, 2019, Sigma acquired the 100% of the shares of Praimint, S. A. de C. V. and Procesadora Laminin S. A. de C. V. (together "Grupo Vigar") for $253. Grupo Vigar is a company dedicated to the processing and commercialization of meat.

The acquisition was classified as a business combination in accordance with IFRS 3 *Business Combinations* requirements; therefore, Sigma applied the purchase method to measure the assets acquired and liabilities assumed in the transaction. Sigma recognized a goodwill of $104, which was recognized in 2019, when the company completed the allocation of fair values of the net assets acquired.

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

2018

H. ISSUANCE AND PREPAYMENT OF DEBT

Sigma

On March 22, 2018, Sigma Finance Netherlands B.V. issued Senior Notes on 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.

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 TIIE interest rate plus 2.10 basis points.

I. 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 Petrotemex, 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 reals 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.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

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. 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[1]	162
Recoverable taxes	115
Property, plant and equipment, net	353
Intangible assets[2]	21
Other non-current assets[3]	40
Current liabilities[4]	(87)
Provisions[5]	(50)
Net acquired assets	655
Gain on business combination	(220)
CONSIDERATION PAID	**US$ 435**

[1] *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.*
[2] *Intangible assets consist of customer relationships, which guarantee the existence and continuity of the business from the moment of acquisition.*
[3] *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.*
[4] *Current liabilities consist of suppliers and accounts payable for US$77 and others for US$10.*
[5] *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 26). 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.

J. 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").

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.

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).

K. 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 consolidated 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, net".

L. 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.

The acquisition 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.

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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the most significant accounting policies followed by Alfa, 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.

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 assured. 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.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

As of December 31, 2019 and 2018, the primary subsidiary companies of Alfa were as follows:

		SHAREHOLDING (%) [2]		
	COUNTRY [1]	2019	2018	FUNCTIONAL CURRENCY
ALPEK (PETROCHEMICALS AND SYNTHETIC FIBERS)				
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 [4]	Brazil	100	100	Real
Companhia Petroquímica de Pernambuco [4]	Brazil	100	100	Real
Indelpro, S. A. de C. V.		51	51	U.S. dollar
Polioles, S. A. de C. V. [3]		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 [6]	Canada	50	50	U.S. dollar

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

		SHAREHOLDING (%) [2]		
	COUNTRY [1]	2019	2018	FUNCTIONAL CURRENCY
SIGMA (REFRIGERATED FOOD)				
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.	Peru	100	100	Peruvian sol
Caroli Foods Group S. R. L.	Romania	100	100	Euro
Praimit, S. A. de C. V. [5]		100	-	Mexican peso
Procesadora Laminin, S. A. de C. V. [5]		100	-	Mexican peso
Alfa Subsidiaria Alimentos, S. A. de C. V.		100	100	Mexican peso
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 Ecarni S. A.	Ecuador	100	100	U.S. dollar
Campofrío Food Group, S. A.	Spain	100	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

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

		SHAREHOLDING (%) [2]		
	COUNTRY [1]	2019	2018	FUNCTIONAL CURRENCY
NEMAK (ALUMINUM AUTO PARTS)				
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
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	RenMinBi 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

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

		SHAREHOLDING (%) [2]		
	COUNTRY [1]	2019	2018	FUNCTIONAL CURRENCY
AXTEL (TELECOMMUNICATIONS)				
Axtel, S. A. B. de C. V.		**53**	**53**	**Mexican peso**
Avantel, S. de R. L. de C. V. [7]		-	100	Mexican peso
Servicios Axtel, S. A. de C. V.		100	100	Mexican peso
NEWPEK (NATURAL GAS AND HYDROCARBONS)				
Newpek, S. A de C. V.		**100**	**100**	**Mexican peso**
Oil and Gas Holding España, S. L. U. (Holding Co.)	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
OTHER COMPANIES				
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 Valores Corporativos, S. A. de C. V.		100	-	Mexican Peso

[1] Companies incorporated in Mexico, except those indicated.
[2] Ownership percentage that Alfa SAB 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.
[3] Alfa SAB owns 50% plus one share, see Note 5.
[4] Companies acquired in 2018, see Note 2.
[5] Companies acquired in 2019, see Note 2.
[6] 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.
[7] At the General Extraordinary Stockholders' Meeting held on February 26, 2019, Axtel stockholders agreed to merge Avantel, S. de R.L. de C.V. (as the absorbed company) with Axtel S.A.B. de C.V. (as the absorbing company); this merger took effect on June 22, 2019.

As of December 31, 2019 and 2018, there are no significant restrictions for investment in shares of subsidiaries 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.

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.

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"). For Alfa, SAB, as legal entity, the functional currency is determined to be the Mexican peso. The consolidated financial statements are presented in millions of 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 the IAS 21 - *Effects of changes in foreign exchange rates*, 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.

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 consolidated 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.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

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	
CURRENCY	2019	2018	2019	2018
U.S. dollar	**18.85**	19.68	**19.30**	19.20
Argentine peso	**0.31**	0.52	**0.32**	0.53
Real	**4.69**	5.07	**4.90**	5.24
Euro	**21.15**	22.51	**21.60**	22.62
RenMinBi yuan	**2.70**	2.86	**2.80**	2.90

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 IAS 29, *Financial Information in Hyperinflationary Economies*, 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;
  - 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, 2019 and 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

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.

i. 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.

ii. Financial assets at fair value through other comprehensive income ("OCI")

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, 2019 and 2018, the Company does not have financial assets at fair value through other comprehensive income.

iii. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss, in addition to those described in point i in this section, are 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, 2019 and 2018, the Company has not made any of the irrevocable designations described above.

Impairment of financial assets

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

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.

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, 2019 and 2018, the Company has no derivative financial instruments classified as fair value hedges.

Cash flow hedges

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

Net investment hedge in a foreign transaction

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

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

Suspension of hedge accounting

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

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

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 flows 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 properties, 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 2019 and 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 and represented a decrease in depreciation expense in Nemak, subsidiary of the Company, of $327 and $768 with respect to the previous year depreciation.

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

CLASSIFICATION AND VALUATION OF LEASES UNDER IAS 17, IN EFFECT THROUGH DECEMBER 31, 2018

The Company as lessee

As of December 31, 2018, the classification of leases as finance or operating depended 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 were classified as operating leases. Payments made under operating leases (net of incentives received by the lessor) were 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 were classified as finance leases. Finance leases were capitalized at the beginning of the lease, at the lower of the fair value of the leased property and the present value of the future minimum lease payments. If its determination is practical, in order to discount the future minimum lease payments to present value, the interest rate implicit in the lease was used; otherwise, the incremental borrowing rate of the lessee should be used. Any initial direct costs of the leases were added to the original amount recognized as an asset. Each lease payment was allocated between the liability and finance charges to achieve a constant rate on the outstanding balance. The corresponding rental obligations were included in the current portion of the non-current debt and in the non-current debt, net of finance charges. The interest element of the finance cost was 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 were depreciated over the shorter of the asset's useful life and the lease term.

The Company as lessor

Leases for which the Company is considered a lessor are classified as financial or operating. As long as the lease terms transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. The other leases are classified as operating leases.

Revenues arising from operating leases are recognized in straight-line over the term of the corresponding lease. The initial direct costs incurred in the negotiation and the organization of an operating lease are added to the book value of the leased asset and are recognized in a straight line over the term of the lease. Revenues arising from financial leases are recognized as accounts receivable for the amount of the net investment of the Company in the leases.

CLASSIFICATION AND VALUATION OF LEASES UNDER IFRS 16, IN EFFECT BEGINNING JANUARY 1, 2019

The Company as lessee:

The Company evaluates whether a contract is or contains a lease agreement at inception of a contract. A lease is defined as an agreement or part of an agreement that conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. The Company recognizes an asset for right-of-use and the corresponding lease liability, for all lease agreements in which it acts as lessee, except in the following cases: short-term leases (defined as leases with a lease term of less than 12 months); leases of low-value assets (defined as leases of assets with an individual market value of less than US$5,000 (five thousand dollars)); and, lease agreements whose payments are variable (without any contractually defined fixed payment). For these agreements, which exempt the recognition of an asset for right-of-use and a lease liability, the Company recognizes the rent payments as an operating expense in a straight-line method over the lease period.

The right-of-use asset comprises all lease payments discounted at present value; the direct costs to obtain a lease; the advance lease payments; and the obligations of dismantling or removal of assets. The Company depreciates the right-of-use asset over the shorter of the lease term and the useful life of the underlying asset; in this sense, when the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Depreciation begins on the lease commencement date.

The lease liability is initially measured at the present value of the future minimum lease payments that are not paid at that date, using a discount rate that reflects the cost of obtaining funds for an amount similar to the value of the lease payments, for the acquisition of the underlying asset, in the same currency and for a similar period to the corresponding contract (incremental borrowing rate). When lease payments contain non-lease components (services), the Company has chosen, for some class of assets, not to separate them and measure all payments as a single lease component; however, for the rest of the class of assets, the Company measures the lease liability only considering lease payments, while all of the services implicit in the payments, are recognized directly in the consolidated statement of income as operating expenses.

To determine the lease term, the Company considers the non-cancellable period, including the probability to exercise any right to extend and/or terminate the lease term.

Subsequently, the lease liability is measured increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and reducing the carrying amount to reflect the lease payments made.

When there is a modification in future lease payments resulting from changes in an index or a rate used to determine those payments, the Company remeasures the lease liability when the adjustment to the lease payments takes effect, without reassessing the discount rate. However, if the modifications are related to the lease term or exercising a purchase option, the Company reassesses the discount rate during the liability's remeasurement. Any increase or decrease in the value of the lease liability subsequent to this remeasurement is recognized as an adjustment to the right-of-use asset to the same extent.

Finally, the lease liability is derecognized when the Company fulfills all lease payments. When the Company determines that it is probable that it will exercise an early termination of the contract that leads to a cash disbursement, such disbursement is accounted as part of the liability's remeasurement mentioned in the previous paragraph; however, in cases in which the early termination does not involve a cash disbursement, the Company cancels the lease liability and the corresponding right-of-use asset, recognizing the difference immediately in the consolidated statement of income.

The Company as lessor

As of January 1, 2019, the Company, in those cases where it acts as a lessor, maintains its accounting policy consistent with that in effect during the year ended December 31, 2018, considering the new definition of lease established by IFRS 16.

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, 2019 and 2018, 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.

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

Development costs	5 to 20 years
Exploration costs [1]	
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

[1] *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.

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.

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.

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, Provisions, Contingent Liabilities and Contingent Assets, 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

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

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

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 remote.

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 SAB, Alpek, Axtel and Nemak 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 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

Alfa SAB 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 (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.

For Nemak, the Company evaluates whether agreements signed 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).

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, 2019 and 2018, there are no dilutive effects for instruments potentially convertible to shares.

y. Changes in accounting policies and disclosures

i. New standards adopted by the Company.s

The Company adopted IFRS 16, Leases and IFRIC 23, *Interpretation on Uncertainty over Income Tax Treatments*, in effect as of January 1, 2019:

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, therefore, the financial information at and for the year ended December 31, 2018 it is not comparative in some terms or indicators of the statement of financial position and the statement of income for the year ended December 31, 2019.

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 $6,962.

The weighted average incremental rate on which the minimum payments of the lease agreements within the scope of IFRS 16 were discounted at present value was 6.9%.

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

- 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.
- For operative leases that as of December 31, 2018, contain direct costs to obtain a lease, maintain the recognition of such costs, that is, without capitalizing them to the initial value of the right-of-use-assets.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

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

The following is a reconciliation of the total commitments of operating leases as of December 31, 2018 and the lease liability at the date of the initial adoption:

Operating lease commitments as of December 31, 2018	$8,353
Amount discounted using the incremental borrowing rate as of January 1, 2019	7,662
Lease liabilities as of December 31,2018	
(-): Short-term leases not recognized as lease liability	255
(-): Low value assets not recognized as lease liability	445
Lease liability as of January 1, 2019	**$6,962**

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 current 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.

In assessing how an uncertain tax treatment affects the determination of the fiscal gain (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, the Company assumes that all the amounts that the Authority is entitled to be inspected and that it will have full knowledge of all the information related when conducting such inspections.

The Company applied IFRIC 23 on January 1, 2019, recognizing a liability of $262 against retained earnings at that date, without modifying the comparative periods presented. To determine such liability, the administration applied its professional judgement and considered the prevailing conditions of the tax treatments it has taken at the date of adoption in its different subsidiaries and the power of the corresponding authorities to evaluate the fiscal positions held at that date, using the most probable account method, which predicts the best resolution of uncertainty when the possible results are concentrated in a single value.

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

The Company has reviewed the new IFRS and improvements issued by IASB not yet effective for the reporting period, and in its evaluation process did not visualize potential impacts due to its adoption, considering that they are not of significant applicability:

- IFRS 17, *Insurance Contracts* (1)
- Amendments to IFRS 3, *Definition of a business* (2)
- Amendments to IAS 1 and IAS 8- *Definition of material* (2)
- Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest rate benchmark reform* (2)

(1 Effective for annual periods beginning January 1, 2021

(2) Effective for annual periods beginning January 1, 2020

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.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

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:

	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 2.58 and 2.77 as of December 31, 2019 and 2018, respectively, resulting in a leverage ratio that meets the Company's management and risk policies.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

FINANCIAL INSTRUMENTS BY CATEGORY

Below are the Company's financial instruments by category:
As of December 31, 2019 and 2018, financial assets and liabilities consist of the following:

	AS OF DECEMBER 31,	
	2019	**2018**
Cash and cash equivalents	$ 25,195	$ 26,411
Restricted cash	558	1,480
FINANCIAL ASSETS MEASURED AT AMORTIZED COST:		
Trade and other accounts receivable	33,460	41,107
Accounts receivable - affiliates	2,189	2,712
Other non-current assets	3,423	4,077
FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS:		
Derivative financial instruments [1]	403	1,121
	$ 65,228	**$ 76,908**
FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST:		
Debt	$ 134,620	$ 155,549
Lease liability	8,381	-
Trade and other accounts payable	65,521	76,230
Accounts payable-affiliates	2,644	2,481
Other non-current liabilities	112	90
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE:		
Derivative financial instruments[1]	1,087	1,369
	$ 212,365	**$ 235,719**

[1]The Company designated the derivative financial instruments that comprise this balance, as hedges for accounting purposes, in accordance with what is described later in this Note..

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

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, 2019 and 2018.

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

	AS OF DECEMBER 31, 2019		AS OF DECEMBER 31, 2018	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets:				
Non-current accounts receivable	$ 3,423	$ 3,423	$ 4,077	$ 4,077
Financial liabilities:				
Non-current debt (1)	131,597	139,718	142,899	139,585

(1) *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, 2019 and 2018 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 U.S. 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 (subsidiary entities that have a functional currency other than that of the last holding); 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 sub-holding.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

The behavior of the exchange rates fluctuations between the Mexican peso, U.S. 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 U.S. 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.

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 U.S. dollars, there is a natural hedge against its obligations in U.S. 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, 2019:

	MXN	USD	EUR
Financial assets	$ 17,615	$ 30,404	$ 686
Financial liabilities	(17,500)	(43,715)	(12,903)
FOREIGN EXCHANGE MONETARY POSITION	**$ 115**	**$ (13,311)**	**$ (12,216)**

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 $ 2,541 in the consolidated statement of income and stockholders' equity as of December 31, 2019.

FINANCIAL INSTRUMENTS TO HEDGE NET INVESTMENTS IN FOREIGN TRANSACTIONS

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

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

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.

The Company maintains the following hedging relationships:

AS OF DECEMBER 31, 2019

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$ 1
		Senior Notes Fixed Rate	500	Polioles, S. A. de C. V.	12
		Bank loan	-	Styropek Mexico, S. A. de C. V.	110
				Dak Americas, L. L. C.	689
				Nemak Mexico, S. A.	228
				Nemak USA, Inc.	370
				Nemak Automotive S. A. de C. V.	32
				Alestra USA, Inc.	1
			US$ 1,000		**US$ 1,443**

AS OF DECEMBER 31, 2018

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, L. L. C..	666
				Nemak Mexico, S. A.	212
				Nemak USA, Inc.	367
				Nemak Automotive S. A. de C. V.	18
				Alestra USA, Inc.	1
			US$ 1,050		**US$ 1,368**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

The average hedging ratio of the Company from the designation date until December 31, 2019 and 2018 amounted to 138.6% and 96.5%, respectively. Therefore, the exchange fluctuation generated by the hedging instrument from the date of designation until December 31, 2019 and 2018 amounted to a net loss of $853 and $1,068, respectively, which was recognized in other comprehensive income, offsetting the translation effect generated by each foreign subsidiary. The hedging effectiveness results confirm that the hedging relationships are highly effective due to the economic relationship between the hedging instrument and the hedged items.

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

SUB-HOLDING	FUNCTIONAL CURRENCY	HEDGING INSTRUMENT	NOTIONAL VALUE	HEDGED ITEM	CHANGE IN NET ASSETS OF HEDGED ITEM
AS OF DECEMBER 31, 2019					
Nemak, S. A. B. de C. V.(1)	USD	Senior Notes and bank loans	€ 215	Subsidiaries of Nemak, S. A. B. de C.V.	€565
Alpek, S. A. B. de C. V.(2)	MXN	Senior Notes and bank loans	US$304	Subsidiaries of Alpek, S. A. B. de C. V.	US$821
Sigma Alimentos, S. A. de C. V.(3)	USD	Fixed rate 144A Bond	€ 600	Subsidiaries of Sigma Alimentos, S. A. de C. V.	€529
Campofrio Food Group, S. A.U.(4)	EUR	Fixed rate 144A Bond	US$100	Subsidiaries of Campofrio Food Group, S. A. U.	US$100
Sigma Alimentos Exterior, S. L.(5)	EUR	Fixed rate 144A Bond	US$396	Subsidiaries of Sigma Alimentos Exterior, S. L.	US$420

SUB-HOLDING	FUNCTIONAL CURRENCY	HEDGING INSTRUMENT	NOTIONAL VALUE	HEDGED ITEM	CHANGE IN NET ASSETS OF HEDGED ITEM
AS OF DECEMBER 31, 2018					
Nemak, S. A. B. de C. V.(1)	USD	Senior Notes and bank loans	€ 210	Subsidiaries of Nemak, S. A. B. de C.V.	€576
Alpek, S. A. B. de C. V.(2)	MXN	Senior Notes and bank loans	US$ 502	Subsidiaries of Alpek, S. A. B. de C. V.	US$873
Sigma Alimentos, S. A. de C. V.(3)	USD	Fixed rate 144A Bond	€ 600	Subsidiaries of Sigma Alimentos, S. A. de C. V.	€519
Campofrio Food Group, S. A.U.(4)	EUR	Fixed rate 144A Bond	US$ 86	Subsidiaries of Campofrio Food Group, S. A. U.	US$86
Sigma Alimentos Exterior, S. L.(5)	EUR	Fixed rate 144A Bond	US$ 368	Subsidiaries of Sigma Alimentos Exterior, S. L.	US$368
Sigma Alimentos, S. A. de C. V.(6)	USD	Debt securities	$ 1,747	Subsidiaries of Sigma Alimentos, S. A. de C. V.	$2,140

(1) The average hedging ratio of Nemak as of December 31, 2019 and 2018 amounted to 35.4% and 30.8%, respectively. Therefore, the exchange fluctuation generated by the hedging instruments from the date of designation until December 31, 2019 and 2018 amounted to a net (loss) gain of $(84) and $304, respectively, which was recognized in the other comprehensive income items.

(2) The average hedging ratio of Alpek as of December 31, 2019 and 2018 amounted to 59.3% and 55.2%, respectively. Therefore, the exchange fluctuation generated by the hedging instruments from the date of designation until December 31, 2019 and 2018 amounted to a net gain (loss) of $264 and $(324), respectively, which was recognized in the other comprehensive income items.

(3) The average hedging ratio of Sigma Alimentos as of December 31, 2019 and 2018 amounted to 116.4% and 97.0%, respectively. Therefore, the exchange fluctuation generated by the hedging instruments from the date of designation until December 31, 2019 and 2018 amounted to a net gain of $151 and $885, respectively, which was recognized in the other comprehensive income items. The hedging effectiveness results confirm that the hedging relationship is highly effective due to the economic relationship between the hedging instruments and the hedged items; however, the effects of ineffectiveness that caused the need to rebalance the hedging relationship during the period were recognized immediately in profit or loss as a net gain of $41 in 2019 and a net loss of $18 in 2018.

[4] The average hedging ratio of Campofrio Food Group as of December 31, 2019 and 2018 amounted to 100%, respectively, from the date of designation, because the Company maintains a bond for US$495, of which it designated only US $100 and US$86 as of December 31, 2019 and 2018, respectively, 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, 2019 and 2018 amounted to a net loss of $30 and $120, respectively, which was recognized in the other comprehensive income items, offsetting the conversion effect generated by the foreign investment. The hedging effectiveness results confirm that the hedging relationship is highly effective due to the economic relationship between the hedging instruments and the hedged items; however, the effects of ineffectiveness that caused the need to rebalance the hedging relationship during the period were recognized immediately in profit or loss as a net loss of $147 and $638 in 2019 and 2018, respectively.

[5] The average hedging ratio of Sigma Alimentos Exterior as of December 31, 2019 and 2018 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$396 and US$368 as of December 31, 2019 and 2018, respectively, 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, 2019 and 2018 amounted to a net loss of $139 and $571, which was recognized in the other comprehensive income items, offsetting the conversion effect generated by each foreign investment. The hedging effectiveness results confirm that the hedging relationship is highly effective due to the economic relationship between the hedging instruments and the hedged items; however, the effects of ineffectiveness that caused the need to rebalance the hedging relationship during the period were recognized immediately in profit or loss as a net loss of $7 and $66 in 2019 and 2018, respectively.

[6] The average hedging ratio of Sigma Alimentos as of December 31, 2018 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

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, 2019 and 2018, it has designated forward contracts as accounting hedges, where the hedged item is represented by the payments of the USD debt.

As of December 31, 2019 and 2018, Alpek, a subsidiary of the Company, maintains forwards (EUR/USD) to cover different needs. Additionally, as of December 31, 2018 it maintained forwards (USD/MXN). 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.

Sigma, subsidiary of the Company, maintains two currency swaps ("CCS") of hedge accounting with the objective of mitigating the risk of exposure to the USD/MXN exchange rate derived from the operations of its subsidiaries with peso functional currency. As of December 31, 2019, for this same strategy described above, Sigma maintained three CCS of cash flow accounting hedge. 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.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

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
AS OF DECEMBER 31, 2019				
Notional amount	US$16	US$410	€2	US$220
Currency	USD	USD	EUR	USD
Average strike / Coupon	19.6560 MXN/USD	19.6589 MXN/USD	1.1756 EUR/USD	4.125%
Notional amount	-	-	-	US$4,013
Currency	-	-	-	MXN
Average strike / Coupon	-	-	-	8.88%-8.90%
Maturity	12/05/2020	11/06/2020	31/03/2020	02/05/2026
Net position of the carrying amount of the Forward / CCS [1]	$(7)	$(220)	$1	$148
Change in the fair value of the Forward / CCS, to measure ineffectiveness	$(7)	$(235)	$1	$63
Recognized in OCI net of reclassifications	$(4)	$(155)	$2	$(173)
Ineffectiveness recognized in profit or loss	$-	$-	$-	$ -
Reclassification from OCI to profit or loss	$(3)	$(65)	$-	$(270)
Carrying amount of the liability in USD	$-	$-	$-	$(758)
Change in the fair value of the hedged item to measure ineffectiveness	$7	$(123)	$(1)	$111
Change in the fair value of the DFI vs.2018	$32	$-	$-	$(615)

[1] *The carrying amount of the CCS of USD/MXN as of December 31, 2019 consists of an asset position of $326 and a liability position of $(178).*

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

CHARACTERISTICS	FORWARDS MXN/USD	FORWARDS USD/MXN	FORWARDS EUR/USD	CCS USD/MXN	CCS USD/MXN
AS OF DECEMBER 31, 2018					
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	-	-	-	US/MXN	US/MXN
Average strike / Coupon	-	-	-	12.29%	8.88%-8.90%
Maturity	24/07/2019	27/02/2019	31/03/2020	16/12/2019	02/05/2026
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 items 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 as of December 31, 2019 and 2018, for the MXN/USD exchange rate is 100% and 46%, for the USD/MXN ratio it is 97% and 100 %, of 100% and 100% for the EUR/USD ratio; while, for CCS, the average coverage ratio is 27% and 25%, respectively.

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, 2019 and 2018, no ineffectiveness was recognized in profit or loss.

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 2019 and 2018 was US$2.60 and US$3.20, respectively.

As of December 31, 2019 and 2018, 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, mono ethylene glycol ("MEG"), ethane and terephthalic acid ("PTA"), which causes an increase in the prices of natural gas, crude WTI, paraxylene, ethylene, ethane, MEG or PTA 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 2020.

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, expired in January 2019.

As of December 31, 2019, Sigma, a subsidiary of the Company, is a producer of sausages; therefore, a drop in pork leg prices negatively affects cash flows. The objective of the hedging is to mitigate the risk of exposure to pork leg price variability. Currently, the contracted accounting hedge is maintained through April 2020.

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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:

AS OF DECEMBER 31, 2019

CHARACTERISTICS OF THE SWAPS	NATURAL GAS	PARAXYLENE	PTA	ETHYLENE	MEG	ETHANE	LEAN HOGS
Notional amount	7,800,000	327,250	22,500	110,000,000	58,000	9,400,000	9,980,000
Units	MMBtu	MT	MT	lb	MT	gal	lb
Price received	Mercado	Mercado	Mercado	Mercado	Mercado	Mercado	Mercado
Price paid (average)	$4.35/MMBtu	$856/MT	$627/MT	$0.17/lb	$564/MT	$0.22/gal	81.99 c/lb
Maturity (monthly)	Dec-2020	Dec-2020	Dec-2020	Dec-2020	Dec-2020	Dec-2020	15/04/2020
Net position of the swap (1)(2)	$(302)	$(154)	$8	$(4)	$5	$(9)	$(12)
Change in the fair value to measure ineffectiveness	$(302)	$(181)	$38	$(14)	$2	$(8)	$(12)
Recognized in OCI, net of reclassifications	$(302)	$(34)	$8	$2	$8	$(7)	$(12)
Efficiency test results	99%	99%	99%	99%	99%	99%	114%

AS OF DECEMBER 31, 2018

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 (1)(2)	$(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)

(1) 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.
(2) The change in the fair value of the derivative financial instruments recognized in OCI for the year ended December 31, 2018 is $(669).

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

The fair value of the financial instruments as of December 31, 2019, is presented below:

SWAPS	ASSET	LIABILITY	TOTAL
Natural Gas	$29	$(331)	$(302)
Paraxylene	30	(184)	(154)
PTA	8	-	8
Ethylene	4	(8)	(4)
MEG	5	-	5
Ethane	-	(9)	(9)
Lean hog	-	(12)	(12)

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 hedge of the hedged item.

According to the notional amounts described and the way in which the flows of the derivatives are exchanged, the average coverage ratio as of December 31, 2019 and 2018 for the natural gas ratio is 40% and 30%, 79% and 72% for the paraxylene, 54% and 44% for the ethylene, 2% and 33% for ethane, respectively. As of December 31, 2019, the average coverage ratio for the PTA is 5% and for Lean Hogs 50%, respectively. As of December 31, 2018, the average coverage ratio for the WTI crude is 0%. 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, 2019 and 2018, there was no ineffectiveness recognized in profit or loss.

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, 2019, 90% of the financings are denominated at a fixed rate and 10% at a variable rate.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

As of December 31, 2019, 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 $141.

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. On December 26, 2019, Alpek, Company's subsidiary, performed the interest rate swap unwind in USD, due to advance payments of the covered debt.

The conditions of the derivative financial instrument and the considerations of its valuation as a hedging instrument are mentioned below:

AS OF DECEMBER 31, 2019

CHARACTERISTICS OF THE SWAP	INTEREST RATE SWAP
Currency	MXN
Notional	$3,380
Coupon received	TIIE28
Coupon paid	8.355%
Maturity (MM/DD/YYYY)	15/12/2022
Carrying value of the swap	$(138)
Change in the fair value to measure ineffectiveness	$(135)
Recognized in OCI, net of reclassifications	(137)
Reclassification from OCI to profit or loss	$1
Change in the fair value of the hedged item to measure ineffectiveness	$147
Change in fair value of DFI vs. 2018	$(161)

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

AS OF DECEMBER 31, 2018

CHARACTERISTICS OF THE SWAP	INTEREST RATE SWAP	INTEREST RATE SWAP
Currency	MXN	USD
Notional	$3,380	US$290
Coupon received	TIIE28	Libor 3m
Coupon paid	8.355%	2.897%
Maturity /MM/DD/YYYY)	15/12/2022	26/03/2021
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, 2019 and 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 as of December 31, 2019 and 2018, resulted in 100% and 99%, respectively, confirming that there is an economic relationship between the hedging instruments and the hedged instrument.

In accordance with the notionals described and the way in which the flows of derivative financial instruments are exchanged, the average coverage ratio as of December 31, 2019 for the interest rate ratio is 93% and as of December 31, 2018 is 95% and 100%. If necessary, a rebalancing will be performed 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, 2019 and 2018, there were no ineffectiveness recognized in profit or loss.

As of December 31, 2019 and 2018, the net position of the fair value of the aforementioned financial derivative instruments amounts to $ 684 and $ 248, respectively.

CREDIT RISK

Credit risk represents the potential loss due to non-compliance with the counterparties of their payment obligations. 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 2019 and 2018, 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, 2019, 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.

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.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

	LESS THAN A YEAR	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS
AS OF DECEMBER 31, 2019			
Trade and other accounts payable	$ 65,621	$ -	$ -
Current and non-current debt (excluding debt issuance costs)	4,283	64,989	66,402
Lease liabilities	2,186	6,195	
Derivative financial instruments	991	96	
Other liabilities	2,840	494	
AS OF DECEMBER 31, 2018			
Trade and other accounts payable	$ 76,230	$ -	$ -
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	-

As of December 31, 2019, the Company has uncommitted short-term credit lines, unused for US$2,437 ($45,938). Additionally, as of December 31, 2019, the Company has committed medium-term credit lines for US$1,739 ($32,780).

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, 2019 and 2018 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.

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 live have suffered any impairment (see Note 13). For impairment testing purposes, goodwill and intangible assets with indefinites 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. 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. When technological changes to occur faster than estimated, or differently than anticipated, the useful lives assigned to these assets could have to be reduced. This would lead to the recognition of a greater depreciation and amortization expense in future periods. Alternatively, these types of technological changes could result in the recognition of a charge for impairment to reflect the reduction in the expected future economic benefits associated with the assets.

The Company reviews depreciable and amortizable assets on an annual basis for signs of impairment, or when certain events or circumstances indicate that the book value may not be recovered during the remaining useful life of the assets. For intangible assets with an indefinite useful life, the Company performs impairment tests annually and at any time that there is an indication that the asset may be impaired.

To test for impairment, the Company uses projected cash flows, which consider the estimates of future transactions, including estimates of revenues, costs, operating expenses, capital expenditures and debt service. In accordance with IFRS, discounted future cash flows associated with an asset or CGU are compared to the book value of the asset or CGU being tested to determine if impairment exists 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.

g. Estimation of the discount rate to calculate the present value of future minimum lease payments

The Company estimates the discount rate to use in the determination of the lease liability, based on the incremental borrowing rate ("IBR").

The Company uses a three-tier model, with which it determines the three elements that comprises the discount rate: (i) reference rate, (ii) credit risk component and (iii) adjustment for characteristics of the underlying asset. In this model, management also considers its policies and practices to obtain financing, distinguishing between the one obtained at the corporate level (that is, the holding company), or at the level of each subsidiary. Finally, for real estate leases, or in which there is significant and observable evidence of their residual value, the Company estimates and evaluates an adjustment for characteristics of the underlying asset, based on the possibility that such asset is granted as collateral or guarantee against the risk of default.

h. Estimation of the lease term

The Company defines the lease term as the period for which there is a contractual payment commitment, considering the non-cancelable period of the contract, as well as the renewal and early termination options that are probable to be exercised. The Company participates in lease contracts that do not have a defined non-cancellable term, a defined renewal period (in case it contains a renewal clause), or automatic annual renewals, so, to measure the lease liability, it estimates the contracts term considering their contractual rights and limitations, their business plan, as well as management's intentions for the use of the underlying asset.

Additionally, the Company considers the clauses of early termination of its contracts and the probability of exercising them, as part of its estimate of the lease term.

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 analyzes whether it has substantive rights that affect the variable returns from its participation in the entity and 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.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

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.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents presented in the consolidated statements of financial position consist of the following:

	DECEMBER 31,	
	2019	**2018**
Cash on hand and in banks	$ 17,612	$ 14,553
Short-term bank deposits	7,583	11,858
TOTAL CASH AND CASH EQUIVALENTS	**$ 25,195**	**$ 26,411**

7. RESTRICTED CASH AND CASH EQUIVALENTS

The value of restricted cash is composed as follows:

	DECEMBER 31,	
	2019	**2018**
Current [3]	$ 347	$ 672
Non-current (see Note 14) [1] [2]	211	808
TOTAL RESTRICTED CASH	**$ 558**	**$ 1,480**

[1] For 2018, this restricted cash is for the proceedings before the Federal Telecommunications Institute (in spanish"IFT") 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 balance of the trust was $94, composed of contributions by Alestra and corresponding yields. On February 28, 2019, a judgement was issued in favor of Axtel, which allowed the withdrawal of the trust's contributions and the corresponding returns.

[2] Corresponds to judicial deposits that Nemak has made, whose balance as of December 31, 2018, is $677, which was reimbursed to Nemak in 2019.

[3] Corresponds mainly to the agreement on which Alpek entered into, on which it undertakes to maintain restricted cash for the acquisition of machinery and equipment.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

8. TRADE AND OTHER ACCOUNTS RECEIVABLE, NET

	December 31 2019	December 31 2018
Trade accounts receivable	$ 27,627	$ 37,078
Recoverable taxes	2,078	2,312
Interest receivable	200	19
Other debtors:		
Sundry debtors	9,318	9,247
Notes receivable	4,042	4,657
Allowance for impairment of trade and other accounts receivable	(4,304)	(5,817)
	38,961	47,496
Less: non-current portion [1]	3,423	4,077
CURRENT PORTION	**$ 35,538**	**$ 43,419**

[1] *The non-current accounts receivable represents long-term receivables and other non-current assets, which are presented in the consolidated statement of financial position in other non-current assets (see Note 14).*

As of December 31, 2019 and 2018, trade and other accounts receivable of $35,538 and $43,419, respectively have an impairment provision. The amount of the impairment provision as of December 31, 2019 and 2018 amounts to $4,304 and $5,817, respectively.

Movements in the provision for impairment during 2019 and 2018 of customers and other receivables, with the impairment model used by the Company, are analyzed as follows:

	December 31, 2019	December 31, 2018
Opening balance as of January 1	$ 5,817	$ 5,640
Increase in allowance of trade and other accounts receivable	387	1,144
Receivables written off during the year	(1,900)	(967)
ENDING BALANCE AS OF DECEMBER 31	**$ 4,304**	**$ 5,817**

The net change in the allowance for impairment of trade and other accounts receivable of $1,513 for the year ended December 31, 2019, was mainly due to changes in the estimation of probabilities of default and percentage of recovery, assigned to the different risk groups and customers of the segments in which the Company operates, which reflected a decrease in credit risk on financial assets.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

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,	
	2019	**2018**
Finished goods	$16,945	$20,539
Raw material and other consumables	19,412	21,437
Work in process	9,469	9,814
TOTAL INVENTORIES	**$45,826**	**$51,790**

For the years ended on December 31, 2019 and 2018 damaged, slow-moving and obsolete inventory was charged to cost of sales in the amount of $101 and $9, respectively.

As of December 31, 2019 and 2018, there were no inventories pledged as collateral.

10. OTHER CURRENT ASSETS

Other current assets consist of the following:

	DECEMBER 31,	
	2019	**2018**
Prepayments [1]	$3,177	$1,904
Accounts receivable – affiliates (Note 29)	2,189	2,712
Other	1,315	437
TOTAL OTHER CURRENT ASSETS	**$6,681**	**$5,053**

[1] This item comprises mainly advertising and insurance paid in advance; for 2019, it includes an advance payment made by Alpek for the purchase of Lotte shares, see Note 2.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

11. PROPERTY, PLANT AND EQUIPMENT

	LAND	BUILDINGS AND CONSTRUC-TIONS	MACHINERY AND EQUIPMENT	VEHICLES	TELECOMMUNICATION NETWORK	LAB AND IT FURNITURE AND EQUIPMENT	TOOLING AND SPARE PARTS	CONSTRUC-TIONS IN PROGRESS	LEASEHOLD IMPROVE-MENTS	OTHER FIXED ASSETS	TOTAL
FOR THE YEAR ENDED DECEMBER 31, 2018											
Opening balance, net	$ 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)	-	(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	-
FINAL BALANCE AS OF DECEMBER 31, 2018	**$ 11,696**	**$ 27,447**	**$ 76,811**	**$ 1,827**	**$ 13,544**	**$ 2,305**	**$ 890**	**$ 18,128**	**$ 571**	**$ 170**	**$ 153,389**
AS OF DECEMBER 31, 2018											
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)
NET CARRYING AMOUNT AS OF DECEMBER 31, 2018	**$ 11,696**	**$ 27,447**	**$ 76,811**	**$ 1,827**	**$ 13,544**	**$ 2,305**	**$ 890**	**$ 18,128**	**$ 571**	**$ 170**	**$ 153,389**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

	LAND	BUILDINGS AND CONSTRUC-TIONS	MACHINERY AND EQUIPMENT	VEHICLES	TELECOMMUNICATION NETWORK	LAB AND IT FURNITURE AND EQUIPMENT	TOOLING AND SPARE PARTS	CONSTRUC-TIONS IN PROGRESS	LEASEHOLD IMPROVE-MENTS	OTHER FIXED ASSETS	TOTAL
FOR THE YEAR ENDED DECEMBER 31, 2019											
Reclassifications to right-of-use asset	$ -	$ (450)	$ (152)	$ (166)	$ -	$ -	$ -	$ -	$ -	$ (292)	$ (1,060)
Opening balance, net	11,696	27,447	76,811	1,827	13,544	2,305	890	18,128	571	170	153,389
Translation effect	(346)	(1,171)	(3,259)	(22)	(3)	(131)	(178)	(520)	2	26	(5,602)
Additions	253	326	2,112	373	9	174	18	11,360	42	42	14,709
Additions from business acquisitions	35	37	415	162	-	1	-	76	-	292	1,018
Disposals	(123)	(1,193)	(8,844)	(31)	(291)	(41)	(11)	(833)	(131)	(3)	(11,501)
Impairment charges and reversals recognized in the year	-	(111)	(637)	(1)	-	-	-	-	-	(9)	(758)
Depreciation charge recognized in the year	-	(1,348)	(7,983)	(508)	(3,278)	(700)	(402)	-	(77)	(79)	(14,375)
Transfers	5	1,424	15,352	253	1,590	291	267	(19,288)	90	16	-
Transfers available for sale	(21)	(761)	-	-	(338)	(5)	-	-	-	-	(1,125)
FINAL BALANCE AS OF DECEMBER 31, 2019	**$11,499**	**$ 24,200**	**$ 73,815**	**$ 1,887**	**$ 11,233**	**$ 1,894**	**$ 584**	**$ 8,923**	**$ 497**	**$ 163**	**$134,695**
AS OF DECEMBER 31, 2019											
Cost	$ 11,499	$ 51,745	$ 190,804	$ 5,355	$ 55,996	$ 11,290	$ 2,350	$ 8,923	$ 1,447	$ 594	$ 340,003
Accumulated depreciation	-	(27,545)	(116,989)	(3,468)	(44,763)	(9,396)	(1,766)	-	(950)	(431)	(205,308)
NET CARRYING AMOUNT AS OF DECEMBER 31, 2019	**$ 11,499**	**$ 24,200**	**$ 73,815**	**$ 1,887**	**$ 11,233**	**$ 1,894**	**$ 584**	**$ 8,923**	**$ 497**	**$ 163**	**$ 134,695**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

Of the total depreciation expense, $12,788 and $13,889 was charged to cost of sales, $763 and $804 to selling expenses and $824 and $754 to administrative expenses, in 2019 and 2018, respectively.

As of December 31, 2019 and 2018, there were no property, plant and equipment pledged as collateral, except for what is mentioned in Note 17.

12. RIGHT-OF-USE ASSET

The Company leases a different set of fixed assets including, buildings, machinery and equipment, vehicles, and computer equipment. The average term of the lease contracts is 7 years.

The right of use recognized in the consolidated statement of financial position as of December 31, 2019, is integrated as follows:

	LAND	BUILDINGS	MACHINERY AND EQUIPMENT	TRANSPORT EQUIPMENT	RAILCARS	OTHER FIXED ASSETS	TOTAL
Effect of adoption	$ 123	$ 3,214	$ 1,090	$ 486	$ 2,005	$ 44	$ 6,962
Property, plant and equipment reclassifications	-	450	152	166	-	292	1,060
INITIAL BALANCE AS OF JANUARY 1, 2019	**$ 123**	**$ 3,664**	**$ 1,242**	**$ 652**	**$ 2,005**	**$ 336**	**$ 8,022**
FINAL BALANCE AS OF DECEMBER 31, 2019	**$ 111**	**$ 3,479**	**$ 1,243**	**$ 841**	**$ 1,975**	**$ 425**	**$ 8,074**
Depreciation expense 2019	$ 8	$ 778	$ 424	$ 366	$ 409	$ 193	$ 2,178

During the year ended December 31, 2019, the Company recognized rent expenses of $2,406 associated with expenses from low-value asset leases and short-term lease in the consolidated income statement.

Additions to the net book value of the right-of-use asset for leases as of December 31, 2019 amounted to $ 2,549.

As of December 31, 2019, the Company has no commitments arisen from short-term lease agreements.

The Company has not signed lease contracts that at the date of the consolidated financial statements have not started.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

During the year, the Company has not realized significant extensions to the term of its lease contracts.

13. GOODWILL AND INTANGIBLE ASSETS

	FINITE LIFE							INDEFINITE LIFE			
	DEVELOPMENT COSTS	EXPLORATION COSTS	TRADEMARKS	CUSTOMERS RELATIONSHIPS	SOFTWARE AND LICENSES	INTELLECTUAL PROPERTY RIGHTS	OTHERS	GOODWILL	TRADEMARKS	OTHER	TOTAL
COST											
As of January 1, 2018	$ 8,342	$ 7,621	$ 2,601	$ 9,670	$ 5,811	$ 3,765	$ 3,886	$ 24,848	$ 11,882	$ 14	$ 78,440
Translation effect	(176)	(69)	45	(433)	(167)	(9)	265	(719)	819	-	(444)
Additions	1,227	75	-	-	390	224	266	-	103	16	2,301
Additions from business acquisitions	-	-	200	384	89	-	-	(661)	655	-	667
Impairment charges recognized in the year	-	(314)	-	-	-	-	-	-	(1,289)	-	(1,603)
Transfers	2	-	7	139	57	15	(220)	-	-	-	-
Disposals	(24)	(1,118)	-	(1,079)	(173)	-	(94)	(670)	-	-	(3,158)
AS OF DECEMBER 31, 2018	**9,371**	**6,195**	**2,853**	**8,681**	**6,007**	**3,995**	**4,103**	**22,798**	**12,170**	**30**	**76,203**
Translation effect	(614)	(256)	28	(274)	(327)	(157)	(78)	(1,135)	(753)	-	(3,566)
Additions	1,574	226	6	35	444	1	75	157	-	4	2,522
Additions and movements from business acquisitions	-	-	69	-	-	-	-	-	31	-	100
Impairment charges recognized in the year	-	(18)	-	-	-	-	-	-	-	-	(18)
Transfers	(361)	-	(7)	367	16	8	(110)	-	-	(22)	(109)
Disposals	(12)	(64)	-	(53)	(49)	(296)	(2)	-	-	-	(476)
AS OF DECEMBER 31, 2019	**$ 9,958**	**$ 6,083**	**$ 2,949**	**$ 8,756**	**$ 6,091**	**$ 3,551**	**$ 3,988**	**$ 21,820**	**$ 11,448**	**$ 12**	**$ 74,656**
NET CARRYING AMOUNT											
Cost	$ 9,371	$ 6,195	$ 2,853	$ 8,681	$ 6,007	$ 3,995	$ 4,103	$ 22,798	$ 12,170	$30	$ 76,203
Accumulated amortization	(5,116)	(4,746)	(934)	(4,119)	(4,629)	(1,202)	(3,146)	-	-	-	(23,892)
AS OF DECEMBER 31, 2018	**$ 4,255**	**$ 1,449**	**$ 1,919**	**$ 4,562**	**$ 1,378**	**$ 2,793**	**$ 957**	**$ 22,798**	**$ 12,170**	**$ 30**	**$ 52,311**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

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 since 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 more under the terms of applicable laws and regulations.

Of the total amortization expense, $1,189 and $1,383 were charged to cost of sales, $389 and $413 to selling expenses and $1,318 and $1,714 to administrative expenses in 2019 and 2018, respectively.

Research expenses incurred and recorded in the results of 2019 and 2018 were $40 and $70, respectively.

IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE ASSETS OF INDEFINITE LIFE

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,	
	2019	**2018**
Alpek	$ 377	$ 339
Sigma	13,095	13,567
Nemak[2]	5,587	6,054
Axtel[1]	2,687	2,687
Other	74	151
	$ 21,820	**$ 22,798**

[1] As mentioned in Note 2, 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 statement of income, as part of the determination of the gain on the sale.

[2] As part of the impairment analysis over Nemak in the Asia region, an impairment of goodwill was recognized for the amount of $91, which is presented in "Other income, net", in the consolidated statement of income.

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.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

The key assumptions used in calculating the value in use in 2019 and 2018, were as follows:

2019	ALPEK	SIGMA	NEMAK	AXTEL
Long-term perpetual growth rate	1.8%	2.4%	1.6%	3.6%
Discount rate	8.9%	10.6%	9.1%	10.5%

2018	ALPEK	SIGMA	NEMAK	AXTEL
Long-term perpetual growth rate	1.0%	2.8%	1.8%	3.9%
Discount rate	8.9%	7.9%	10.3%	10.5%

In relation to the calculation of the value in use of groups of cash-generating units, the Alfa Management performed a sensibility analysis that considers a possible increase in the discount rate in 100 basis points and a possible decrease in the long-term growth rate. The result of this sensibility analysis did not reflect impairment losses in goodwill in the cash-generating units.

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AND OTHER NON-CURRENT ASSETS

	DECEMBER 31, 2019	2018
Portion of trade and other non-current accounts receivable [(1)] (Note 8)	$ 3,423	$ 4,077
Other capital instruments	504	489
Other assets	2,833	3,010
Restricted cash (Note 7)	211	808
Other non-current financial assets	**6,971**	**8,384**
Investments in associates	1,134	1,283
Joint ventures [(2)]	8,044	8,587
TOTAL OTHER NON-CURRENT ASSETS	**$ 16,149**	**$ 18,254**

[(1)] As of December 31, 2019 and 2018, this item mainly includes financing granted by Alpek, a subsidiary of the Company, to M&G Mexico.
[(2)] The main effects arise from the significant event described in Note 2.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

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, 2019 and 2018.

The other equity investments are denominated in Mexican pesos.

Investment in associates

The following includes the investments in associates that the Company has as of December 31, 2019 and 2018:

NAME	SEGMENT	PERCENTAGE OF OWNERSHIP
Starcam sro	Nemak	49.0%
Nanjing Loncin Nemak 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, 2019 and 2018.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

Joint ventures

The following includes the joint ventures that the Company has as of December 31, 2019 and 2018:

NAME	SEGMENT	PERCENTAGE OF OWNERSHIP
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, 2019, 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, 2019 and 2018.

15. 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,	
		2019	2018	2019	2018
Axtel, S. A. B. de C. V.	47%	$ (334)	$ 313	$ 2,690	$ 3,117
Alpek, S. A. B. de C. V.	18%	2,153	3,747	11,887	11,851
Nemak, S. A. B. de C. V.	25%	1,285	851	8,675	9,231
Other		(147)	(94)	(88)	634
		$ 2,957	**$ 4,817**	**$ 23,164**	**$ 24,833**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

The summarized financial information as of December 31, 2019 and 2018 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.		NEMAK, S. A. B. DE C. V.		ALPEK, S. A. B. DE C. V.	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
STATEMENTS OF FINANCIAL POSITION						
Current assets	$ 6,035	$ 6,944	$ 25,403	$ 27,405	$ 43,575	$ 51,792
Non-current assets	18,296	21,211	63,341	65,853	59,219	68,105
Current liabilities	5,178	8,778	25,332	26,544	20,321	38,567
Non-current liabilities	15,742	15,757	29,468	30,610	37,415	38,167
Stockholders' equity	3,411	3,620	33,944	36,104	45,058	43,163
STATEMENTS OF INCOME						
Revenues	12,784	12,788	77,363	90,327	119,685	134,523
Net income (loss)	(14)	1,095	2,493	3,464	7,524	14,934
Comprehensive income (loss) of the year	(155)	1,129	532	2,300	6,357	12,505
Comprehensive income attributable to non-controlling interest	-	-	-	-	735	1,264
Dividends paid to non-controlling interest	-	-	-	-	(1,182)	(981)
CASH FLOWS						
Cash flows from operating activities	2,957	5,411	11,833	12,958	10,001	8,262
Net cash used in investing activities	(528)	(2,376)	(4,674)	(8,237)	10,948	(15,501)
Net cash used in financing activities	(3,821)	(6,812)	(4,629)	(4,647)	(17,701)	3,001

The information above does not include the elimination of intercompany balances and transactions.

16. TRADE AND OTHER ACCOUNTS PAYABLE

	DECEMBER 31,	
	2019	**2018**
Trade accounts payable	$ 55,479	$ 64,921
Short-term employee benefits	1,824	1,673
Customer advance payments	602	506
Other payable taxes	4,554	5,550
Other accounts and accrued expenses payable	10,042	11,309
	$ 72,501	**$ 83,959**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

17. DEBT

	AS OF DECEMBER 31	
	2019	**2018**
CURRENT:		
Bank loans [1][2]	$ 2,350	$ 12,009
Current portion of non-current debt	1,800	8,161
Notes payable [1][2]	133	152
CURRENT DEBT	**$ 4,283**	**$ 20,322**
NON-CURRENT:		
In U.S. dollars:		
Senior Notes	$ 93,490	$ 92,698
Unsecured bank loans	6,082	17,497
Finance lease	-	809
Other	240	144
In Mexican pesos:		
Secured bank loans	25	-
Unsecured bank loans	8,172	5,333
In euros:		
Senior Notes	23,460	24,978
Unsecured bank loans	624	979
Finance leases	-	585
Other	30	100
Other currencies:		
Unsecured bank loans	5	25
Secured bank loans	9	69
Finance leases	-	171
	132,137	143,388
Less: current portion of non-current debt	(1,800)	(8,161)
NON-CURRENT DEBT	**$ 130,337**	**$ 135,227**

[1] As of December 31, 2019 and 2018, short-term bank loans and notes payable cause interest at an average rate of 4.22%, and 3.77%, respectively.
[2] The fair value of bank loans and notes payable approximates their current book value, due to their short maturity.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

The carrying amounts, terms and conditions of long-term debt were as follows:

DESCRIPTION	CONTRACTUAL CURRENCY	VALUE IN MX PESOS	DEBT ISSUANCE COSTS[1]	INTEREST PAYABLE [1]	BALANCE AS OF DECEMBER 31, 2019	BALANCE AS OF DECEMBER 31, 2018[1]	MATURITY DATE MM/DD/YYYY	INTEREST RATE %
Bilateral	MXN	$ 25	$ -	$ -	$ 25	$ -	12/31/2022	10.28%
Banking	BRL	9	-	-	9	69	01/20/2025	6.00%
Total secured bank loans					**34**	**69**		
Bilateral	ARS	2	-	-	2	20	04/01/2020	45.69%
Bilateral	ARS	3	-	-	3	5	12/08/2020	25.00%
Banking	USD	-	-	-	-	2,969	11/30/2020	3.60%
Banking	USD	-	-	-	-	1,989	10/25/2022	5.75%
Banking	USD	829	-	2	831	986	12/15/2022	3.34%
Banking	USD	87	-	-	87	-	04/20/2024	1.42%
Banking	USD	289	-	-	289	-	12/21/2025	1.14%
Banking	USD	163	-	-	163	-	12/21/2025	1.35%
Bilateral	USD	3,580	21	4	3,563	2,307	12/23/2029	4.66%
Bilateral	USD	-	-	-	-	1,535	12/29/2025	5.19%
Bilateral	MXN	3,264	15	28	3,277	3,277	08/30/2028	10.37%
Bilateral	MXN	79	-	-	79	79	11/29/2020	10.84%
Bilateral	USD	80	-	-	80	84	11/29/2020	6.35%
Club Deal	EUR	-	-	-	-	91	11/13/2020	1.25%
Club Deal	USD	-	-	-	-	450	12/13/2020	3.86%
Bilateral	MXN	1,320	8	6	1,318	1,524	12/15/2022	10.27%
Bilateral	EUR	529	-	1	530	765	10/29/2024	1.06%
Banking	EUR	15	-	-	15	18	03/10/2022	0.30%
Banking	EUR	11	-	-	11	13	07/31/2026	-
Banking	EUR	67	-	1	68	92	03/01/2020	1.50%
Banking	MXN	-	-	-	-	300	06/01/2021	10.43%
Banking	USD	-	-	-	-	5,737	03/28/2021	3.86%
Banking	USD	-	-	-	-	993	12/21/2020	3.60%
Bilateral	USD	122	-	-	122	153	10/09/2021	3.68%

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

DESCRIPTION	CONTRACTUAL CURRENCY	VALUE IN MX PESOS	DEBT ISSUANCE COSTS[1]	INTEREST PAYABLE [1]	BALANCE AS OF DECEMBER 31, 2019	BALANCE AS OF DECEMBER 31, 2018[1]	MATURITY DATE MM/DD/YYYY	INTEREST RATE %
Banking	USD	-	-	-	-	447	06/24/2024	1.42%
Banking	MXN	3,500	23	21	3,498	-	10/20/2025	8.77%
Banking	USD	942	-	5	947	-	01/19/2023	2.93%
Total unsecured bank loans					**14,883**	**23,834**		
Senior Notes - Fixed rate	USD	12,234	48	61	12,247	12,778	11/20/2022	4.50%
Senior Notes - Fixed rate	USD	5,654	25	120	5,749	5,999	08/08/2023	5.38%
Senior Notes - Fixed rate	USD	9,414	45	131	9,500	9,909	03/25/2024	5.25%
Senior Notes - Fixed rate	USD	9,384	99	170	9,455	9,873	03/25/2044	6.88%
Senior Notes - Fixed rate	USD	9,397	80	114	9,431	-	09/18/2029	4.25%
Senior Notes - Fixed rate	EUR	10,577	114	102	10,565	11,278	03/15/2024	3.25%
Senior Notes - Fixed rate	USD	9,423	127	78	9,374	9,775	11/14/2024	6.38%
Senior Notes - Fixed rate	EUR	12,663	71	303	12,895	13,700	02/07/2024	2.63%
Senior Notes - Fixed rate	USD	-	-	-	-	4,917	12/16/2019	6.88%
Senior Notes - Fixed rate	USD	18,819	118	127	18,828	19,648	02/05/2026	4.13%
Senior Notes - Fixed rate	USD	9,423	152	196	9,467	9,959	01/25/2025	4.75%
Senior Notes - Fixed rate	USD	9,423	108	124	9,439	9,840	03/27/2028	4.88%
Total Senior Notes – Fixed rate					**116,950**	**117,676**		
Other loans	USD	240	-	-	240	144	Various	Various
Other loans	EUR	30	-	-	30	100	Various	Various
Total other loans					**270**	**244**		
Finance leases	RMB	-	-	-	-	161	02/01/2026	6.45%
Finance leases	USD	-	-	-	-	809	Various	Various
Finance leases	EUR	-	-	-	-	585	Various	Various
Finance leases	CAD	-	-	-	-	3	03/01/2020	0.83%
Finance leases	SOL	-	-	-	-	7	Various	Various
Total finance leases[2]		**-**	**-**	**-**	**-**	**1,565**		
TOTAL		**$131,597**	**$ 1,054**	**$ 1,594**	**$ 132,137**	**$ 143,388**		

[1] For the year ended December 31, 2019 and 2018, the debt issuance costs were $1,054 and $1,145, respectively.
[2] Finance leases are presented within Note 18 for year ended December 31, 2019.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

Maturities:
As of December 31, 2019, the annual maturities of long-term debt (including the current portion, interest payable and issuance costs), are as follows:

	2020	2021	2022	2023	2024 AND THEREAFTER	TOTAL
Bank and other loans	$ 206	$ 798	$ 2,194	$ 1,368	$ 10,621	$ 15,187
Senior Notes	-	-	12,234	5,654	98,522	116,410
Non accrued future interests	6,090	6,372	6,326	5,592	24,691	49,071
	$ 6,296	$ 7,170	$ 20,754	$ 12,614	$ 133,834	$ 180,668

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 30) 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 (See Note 30) for the period of the last four complete quarters, which shall not be more than 3.5 times.

During 2019 and 2018, 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; the main ones are listed below:

- 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, 2019 and 2018, and the date of issuance of these consolidated financial statements, the Company and its subsidiaries complied satisfactorily with such covenants and restrictions.

Pledged assets:
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 Nemak segment has assets under guarantee under long-term financing granted by a Brazilian government entity to promote investment. The outstanding balance of the loan as of December 31, 2019, as well as the value of the pledged assets is approximately $8.8 (US$0.5) and $11 (US$0.6), respectively. As of December 31, 2018, the outstanding balance and the value of the pledged assets are approximately $69 (US$3.4) and $84.6 (US$4.3), respectively. Colombin, subsidiary of the Company, has assets given as collateral under long term financing granted by a financial institution. The outstanding balance of the loan as of December 31, 2019 as well as the value of the pledged assets is approximately $25 (US$1.3) and $49 US ($2.6), respectively.

Significant debt issuances and payments in 2019

a. On May 7, 2019, Axtel prepaid a portion of the syndicated loan of $250 held with HSBC as the leader of the participating financial institutions, and the disposed portion of the Committed Line with Export Development Canada of $300. It also made payments to Alfa SAB of $917 and $320, for principal and interest, respectively. As a result of this prepayment, Axtel immediately recognized the outstanding debt costs as of that date of $8.

b. On May 10, 2019, Alpek entered into an agreement to obtain an unsecured loan in the amount of up to US$250 with Export Development Canada. The term of the loan is 5 years, and has a disposal period maturing in May 2021. The loan bears interest at a variable rate of LIBOR plus a spread based on the leverage levels, and can be prepaid at any time, in whole or in part, without penalty.

c. On September 11, 2019, Alpek issued Senior Notes on 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$4 and discounts of US$1. The Senior Notes mature in ten years at a coupon of 4.25%. The transaction resources were mainly used to prepay short-term debt and for general corporate purposes.

d. On December 16, 2019, Sigma paid the entire Senior Notes maturing on that date in the amount of US$250. The Senior Notes were issued in 2009 in accordance with Rule 144A and Regulation S at an annual coupon of 6.875%.

e. On December 23, 2019, Nemak obtained financing with Bancomext for an amount of US$190 at a rate LIBOR +2.70% with a 10-year maturity; the resources were used to prepay the existing debt held with Bancomext for US$115 and with NAFIN for US$77.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

Significant debt issuances and payments in 2018

f. On March 22, 2018, Sigma Finance Netherlands B.V. issued Senior Notes on 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$3.6, 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.

g. 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.

h. 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.

i. 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 TIIE interest rate plus +2.10%.

j. 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.

k. 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.

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 un-accrued interest is analyzed as follows:

	DECEMBER 31, 2018
Less than 1 year	$ 526
Over 1 year and less than 5 years	865
Over 5 years	393
TOTAL	**$ 1,784**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

The present value of finance lease liabilities is analyzed as follows:

	DECEMBER 31, 2018[1]
Less than 1 year	$ 467
Over 1 year and less than 5 years	755
Over 5 years	336
TOTAL	**$ 1,558**

[1] *Financial leases as of December 31 2018 accrued interest payable for $7..*

18. LEASE LIABILITY

	DECEMBER 31, 2019
CURRENT PORTION	
USD	$ 882
MXP:	695
EUR:	402
Other currencies:	207
Current lease liability	$ 2,186
NON-CURRENT PORTION:	
USD:	$ 2,269
MXP:	1,592
EUR:	1,443
Other currencies:	891
NON-CURRENT LEASE LIABILITY	**$ 6,195**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

As of December 31, 2019, changes in the lease liability related to the finance activities in accordance with the consolidated statement of cash flows are integrated as follows:

Effect on adoption of IFRS 16	$ 6,962
Reclassification of finance leases	1,558
Beginning balance as of January 1, 2019	**8,520**
New contracts	2,468
Write-offs	(197)
Adjustments to the liability balance	112
Interest expense of lease payments	586
Lease payments	(2,764)
Exchange (loss)	(344)
END BALANCE	**$ 8,381**

The total of future fixed payments of leases that include un-accrued interest is analyzed as follows:

	DECEMBER 31, 2019
- Less than 1 year	$ 2,208
- Over 1 year and less than 3 years	3,107
- Over 3 year and less than 5 years	1,361
- Over 5 years	1,705
TOTAL	**$ 8,381**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

19. INCOME TAXES

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

	2019	2018
Germany	30.0%	30.0%
United States	21.0%	21.0%
Spain	25.0%	25.0%

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 2013 and prior years in conformity with the abovementioned provisions, until payment is concluded.

Income tax from deferred tax consolidation at as of December 31, 2019 and 2018 amounts to $997 and $1,708, respectively, and will be paid off in installments in accordance with the table shown below:

	PAYMENT YEAR				
	2020	2021	2022	2023 AND SUBSEQUENT	TOTAL
Total deferred tax consolidation	$ 450	$ 289	$ 162	$ 96	$ 997

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 the fourth subsequent year, in March 2018 (2014), 2019 (2015) and 2020 (2016); the deferral percentage is calculated using a factor determined in accordance to the amount of tax profit and losses of the year by which the tax deferral is determined.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

a. Income taxes recognized in the consolidated statement of income:

	2019	2018
Current tax expense	$(7,587)	$(7,564)
Deferred income tax benefit	2,001	(1,564)
INCOME TAXES EXPENSE	**$(5,586)**	**$(9,128)**

b. The reconciliation between the statutory and effective income tax rates was as follows:

	2019	2018
Income before taxes	$14,350	$27,088
Equity in losses of associates recognized through the equity method	271	(121)
INCOME BEFORE INTEREST IN ASSOCIATES	**14,621**	**26,967**
Statutory rate	30%	30%
Taxes at statutory rate	(4,386)	(8,090)
(Add) less tax effect on:		
Differences based on comprehensive financial cost	(2,512)	(2,333)
Effect of difference of tax rates and other differences, net	1,312	1,295
TOTAL PROVISION FOR INCOME TAXES CHARGED TO INCOME	**$(5,586)**	**$(9,128)**
Effective rate	38%	34%

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

c. The detail of deferred income tax asset and liability is as follows:

	December 31,	
	2019	**2018**
Inventories	$ 140	$ 85
Intangible assets	6,237	5,702
Property, plant and equipment	10,823	11,046
Provisions	(1,603)	(1,402)
Other temporary differences, net	(4,684)	(2,319)
DEFERRED TAX LIABILITY	**$ 10,913**	**$ 13,112**
Inventories	$ 71	$ 49
Property, plant and equipment	(595)	(1,794)
Intangible assets	(1,304)	(1,229)
Valuation of derivative instruments	-	350
Provisions	1,422	951
Tax cost of shares	7,527	7,544
Tax loss carryforwards	6,523	6,903
Other temporary differences, net	4,045	4,634
DEFERRED TAX ASSETS	**$ 17,689**	**$ 17,408**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

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.

Tax losses as of December 31, 2019 expire in the following years:

LOSS YEAR	TAX LOSSES TO BE AMORTIZED	EXPIRATION YEAR
2010	$ 87	2020
2011	493	2021
2012	130	2022
2013	808	2023
2014	4,500	2024
2015	1,650	2025
2016	16,025	2026 and later
No maturity	4,425	
	$ 28,118	

d. The tax charge (credit) related to comprehensive income is as follows

	2019			2018		
	BEFORE TAXES	TAX CHARGED (CREDITED)	AFTER TAXES	BEFORE TAXES	TAX CHARGED (CREDITED)	AFTER TAXES
Effect of derivative financial instruments contracted as cash flow hedge	$ 797	$ (168)	$ 629	$ (791)	$ 237	$ (554)
Remeasurement of employee benefit obligations	(829)	274	(555)	174	(52)	122
Translation effect of foreign entities	(4,650)	-	(4,650)	(5,226)	-	(5,226)
OTHER COMPREHENSIVE INCOME	**$ (4,682)**	**$ 106**	**$ (4,576)**	**$ (5,843)**	**$ 185**	**$ (5,658)**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

e. Income tax payable consists of the following:

	DECEMBER 31,	
	2019	2018
Current income tax	$ 3,640	$ 2,781
Income tax from tax consolidation (regime in effect through 2013)	997	1,708
Income tax from optional regime for group of entities in Mexico	577	2,248
TOTAL INCOME TAX PAYABLE	**$ 5,214**	**$ 6,737**
Current portion	$ 3,643	$ 3,516
Non-current portion	1,571	3,221
TOTAL INCOME TAX PAYABLE	**$ 5,214**	**$ 6,737**

20. PROVISIONS

	DISPUTES	RESTRUCTURING AND DEMOLITION[1] [2]	CONTINGENCIES	GUARANTEES [3]	OTHER	TOTAL
At January 1, 2018	$ 177	$ 271	$ 446	$ -	$ 373	$ 1,267
Business acquisitions[1]	70	289	893	-	529	1,781
Additions	18	79	-	-	7	104
Exchange effects	(8)	(8)	13	-	(34)	(37)
Cancelation of provisions[2]	(14)	(24)	(15)	-	(137)	(190)
Payments	(46)	(148)	(68)	-	(71)	(333)
At December 31, 2018	**197**	**459**	**1,269**	**-**	**667**	**2,592**
Business acquisitions	26	86	105	-	12	229
Additions	54	-	-	544	15	613
Exchange effects	(33)	(3)	(86)	-	5	(117)
Cancelation of provisions	(4)	(11)	(20)	-	(56)	(91)
Payments	(69)	(229)	(9)	-	(10)	(317)
AT DECEMBER 31, 2019	**$ 171**	**$ 302**	**$ 1,259**	**$ 544**	**$ 633**	**$ 2,909**

[1] 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.
[2] Corresponds to the cancellation of provisions of the telecommunications segment due to a favorable resolution of a litigation related to interconnection rates.
[3] As of December 31, 2019, it corresponds to a guarantee provision related to the transaction of two cogeneration plants sold by Alpek, see Note 2.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

	2019	2018
Short-term provisions	$1,502	$1,175
Long-term provisions	1,407	1,417
AS OF DECEMBER 31	**$2,909**	**$2,592**

21. OTHER LIABILITIES

	DECEMBER 31,	
	2019	2018
Share-based employee benefits (Note 24)	$ 286	$ 311
Dividends payable	112	90
Deferred credits	292	431
Accounts payable - Affiliates (Note 29)	2,644	2,481
TOTAL OTHER LIABILITIES	**$3,334**	**$3,313**
Current portion	$2,840	$2,663
Non-current portion	494	650
TOTAL OTHER LIABILITIES	**$3,334**	**$3,313**

22. 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,	
	2019	2018
COUNTRY		
Mexico	$3,615	$2,550
United States	1,005	997
Other	1,204	1,426
TOTAL	**$5,824**	**$4,973**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

Below is a summary of the primary financial data of these employee benefits:

	DECEMBER 31, 2019	DECEMBER 31, 2018
Obligations in the consolidated statement of financial position:		
Pension benefits	$5,010	$4,457
Post-employment medical benefits	814	516
LIABILITY RECOGNIZED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	**$5,824**	**$4,973**
Charge in the statement of income for:		
Pension benefits	$ (383)	$ (353)
Post-employment medical benefits	(52)	(61)
	$ (435)	**$ (414)**
REMEASUREMENTS FOR EMPLOYEE BENEFIT OBLIGATIONS RECOGNIZED IN OTHER COMPREHENSIVE INCOME FOR THE YEAR	**$ (555)**	**$ 122**
REMEASUREMENTS FOR ACCRUED EMPLOYEE BENEFIT OBLIGATIONS RECOGNIZED IN OTHER COMPREHENSIVE INCOME	**$ (832)**	**$ (277)**

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, 2019	DECEMBER 31, 2018
Present value of obligations	$11,178	$10,048
Fair value of plan assets	(6,394)	(6,049)
Present value of defined benefit obligations	4,784	3,999
Liability for defined contributions	1,040	974
LIABILITIES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	**$ 5,824**	**$ 4,973**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

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

	2019	2018
AS OF JANUARY 1	**$ 10,048**	**$ 10,563**
Current service cost	233	276
Interest cost	467	415
Contributions from plan participants	22	73
Remeasurements loss/(gains) for changes in personnel experience	1,226	(614)
Exchange differences	(344)	10
Benefits paid	(404)	(663)
Acquired in business combinations	-	2
Curtailments	(70)	(14)
AS OF DECEMBER 31,	**$ 11,178**	**$ 10,048**

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

	2019	2018
AS OF JANUARY 1	**$ (6,049)**	**$ (6,692)**
Remeasurements – expected return on plan assets, excluding interest in income	(397)	174
Exchange differences	(246)	208
Contributions from plan participants	49	(2)
Employee contributions	(56)	(47)
Benefits paid	305	310
AS OF DECEMBER 31,	**$ (6,394)**	**$ (6,049)**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

The primary actuarial assumptions were as follows:

	DECEMBER 31,	
	2019	**2018**
Discount rate	MX 7.00%	MX 9.50%
Discount rate	US 3.10%	US 4.10%
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 $566	Increase by $644

Pension benefit assets

Plan assets are comprised of the following:

	AS OF DECEMBER 31,	
	2019	**2018**
Equity instruments	$ 3,171	$ 3,040
Short and long-term fixed-income securities	3,223	3,009
	$ 6,394	**$ 6,049**

23. STOCKHOLDERS' EQUITY

At December 31, 2019 and 2018, the capital stock is variable, with a fixed minimum without withdrawal rights of $209 and $211, respectively, represented by 5,055,111,020 and 5,200,000,000 "Class I" Series "A" shares, respectively, 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.

As of December 31, 2019, Alfa SAB repurchased 40,070,000 shares equivalent to $830 and held them as treasury shares. For the year ended December 31, 2018, Alfa SAB did not repurchase shares. As of December 31, 2019 and 2018, Alfa SAB held 40,070,000 and 144,888,990 treasury shares, respectively, and the market value of the shares was $15.68 and $23.38, respectively. In the Extraordinary Assembly held on February 28, 2019, the Shareholders approved the cancellation of 144,888,990 shares that the company maintained as treasury shares.

The consolidated 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, 2019 and 2018, the legal reserve amounted to $60, which is included in retained earnings.

On February 28, 2019, the Ordinary General Stockholders' Meeting approved the payment of an ordinary cash dividend of $0.040 dollars for each of the outstanding shares, equivalent to approximately $3,949. Also, on February 28, 2018, the Ordinary General Shareholders' Meeting approved the payment of an ordinary cash dividend of $0.0332 dollars for each outstanding share, equivalent to approximately $3,154.

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, 2019, the tax value of the CUFIN and tax value of the Capital Contribution Account (CUCA) amounted to $41,596 ($38,371 in 2018) and $ 43,373 ($42,183 in 2018), 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.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

24. SHARE-BASED PAYMENTS

The Company has a compensation scheme referenced to the value of Alfa SAB 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 Alfa SAB, Alpek, Axtel and Nemak
- Improvement in consolidated 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 2019 and 2018 was $15.72 and $22.11, respectively. These payments are measured at the fair value of the consideration, so, because they are based on the price of Alfa SAB shares, the measurement is considered to be within level 1 of the fair value hierarchy.

As of December 31, 2019 and 2018, the liability for share-based payments amounted to $286 and $311, respectively.

The short-term and long-term liability is as follows:

	DECEMBER 31,	
	2019	**2018**
Short term	$ 83	$ 92
Long term	203	219
TOTAL CARRYING AMOUNT	**$ 286**	**$ 311**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

25. EXPENSES AND COSTS CLASSIFIED BY THEIR NATURE

The total cost of sales, selling and administrative expenses, classified by nature of the expense, were as follows:

	2019	2018
Raw material and service costs	$ (196,877)	$ (204,937)
Maquila (production outsourcing)	(6,068)	(8,507)
Employee benefit expenses	(51,134)	(50,941)
Maintenance	(10,892)	(11,076)
Depreciation and amortization	(19,449)	(18,957)
Freight charges	(8,071)	(8,865)
Advertising expenses	(2,562)	(2,782)
Lease expenses[1]	(2,406)	(3,969)
Consumption of energy and fuel	(5,514)	(11,732)
Travel expenses	(1,154)	(1,244)
Technical assistance, professional fees and administrative services	(3,909)	(5,382)
Other items	(10,172)	(10,393)
TOTAL	**$ (318,208)**	**$ (338,785)**

[1] *As of January 1, 2019, this concept includes the expense of those short term leases and low-value asset leases, which, in accordance with the Company's accounting policy, do not result in the recognition of a right-of-use asset and a lease liability.*

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

26. OTHER INCOME, NET

	2019	2018
Gain on sale of property, plant and equipment	$ 104	$ 764
Gain on sale of business [1]	4,372	2,256
Gain on business combinations [2]	-	4,597
	4,476	**7,617**
Valuation of derivative financial instruments	675	559
Impairment of long-lived assets [3] [4]	(1,238)	(517)
Other income	139	399
	(424)	**441**
TOTAL OTHER INCOME, NET	**$ 4,052**	**$ 8,058**

[1] For 2019, corresponds to the gain generated from the sale of the cogeneration plants of Alpek and the sale of the remaining mass segment of Axtel, see Note 2. For 2018, corresponds to the gain generated through the sale of a mass segment of Axtel, see Note 2.
[2] For 2018, corresponds to the gain generated in the business combination of PQS and Citepe from Alpek, see Note 2.
[3] For 2018, comprised mainly from $3,936 of the reversal of part of the impairment expense recorded in 2017 on intangible assets by Alpek, see Note 2; $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.
[4] For 2019, corresponds mainly to the impairment expense of Nemak's fixed assets for $915, mainly generated by the decrease in the recoverable amount of the cash-generating unit in Asia and the closure of manufacturing operations in Canada.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

27. FINANCIAL INCOME AND EXPENSES

	2019	2018
FINANCIAL INCOME:		
Interest income on short-term bank deposits	$ 457	$ 445
Other financial income	1,240	971
Valuation effect of derivative financial instruments	33	-
Total financial income	**$ 1,730**	**$ 1,416**
FINANCIAL EXPENSES:		
Interest expense on bank loans	$ (4,054)	$ (4,441)
Interest expense on debt securities	(3,976)	(4,839)
Interest expense on portfolio sale	(578)	(453)
Financial cost of employee benefits	(317)	(252)
Supplier interest expense	(87)	(129)
Other financial expenses	(966)	(372)
Total financial expenses and other financial expenses	**$ (9,978)**	**$(10,486)**
EXCHANGE FLUCTUATION (LOSS) GAIN, NET:		
Exchange fluctuation gain	$14,793	$ 8,612
Exchange fluctuation loss	(15,518)	(8,280)
Exchange fluctuation (loss) gain, net:	**$ (725)**	**$ 332**
FINANCIAL RESULT, NET	**$ (8,973)**	**$ (8,738)**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

28. EMPLOYEE BENEFIT EXPENSES

	2019	2018
Salaries, wages and benefits	$ 45,130	$ 44,746
Social security fees	4,871	4,965
Employee benefits	766	823
Other fees	367	407
TOTAL	**$ 51,134**	**$ 50,941**

29. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties during the years ended December 31, 2019 and 2018, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

	2019	2018
SALE OF GOODS AND SERVICES:		
Affiliates	$ 30,898	$ 23,681
Stockholders with significant influence over subsidiaries (1)	1,683	1,708
PURCHASE OF GOODS AND SERVICES:		
Affiliates	$ 27,905	$ 62,026
Stockholders with significant influence over subsidiaries (1)	-	1,016

(1) Includes the effects of the agreements between Alpek and BASF on the polyurethane (PU) businesses.

For the years ended December 31, 2019 and 2018, wages and benefits received by top officials of the Company were $886 and $629, 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.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

At December 31, 2019 and 2018, the balances with related parties were as follows:

	NATURE OF THE TRANSACTION	2019	2018
RECEIVABLES:			
Affiliates	Sale of goods	$ 1,753	$ 2,087
Affiliates	Loans	436	625
PAYABLE:			
Affiliates	Purchase of raw materials	$ 2,516	$ 2,333
Affiliates	Loans	128	148

Balances payable to related parties at December 31, 2019 are payable in 2020 and do not bear interest.

The Company and its subsidiaries did not have significant transactions with related parties or significant conflicts of interest to be disclosed.

30. 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.

During the year ended December 31, 2019, the EBITDA had a benefit of $2,570, derived from the rent expense, which in compliance with the requirements of IFRS 16, *Leases*, is part of the depreciation and interest expense of the right of use asset and lease liability, respectively, items that do not decrease such indicator.

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

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, 2019:

	ALPEK	SIGMA	NEMAK	AXTEL	NEWPEK	OTHER SEGMENTS AND ELIMINATIONS	TOTAL
CONSOLIDATED STATEMENT OF INCOME							
Income by segment	$ 119,685	$ 124,498	$ 77,363	$ 13,086	$ 1,472	$ 4,580	$ 340,684
Inter-segment income	(346)	-	-	(163)	-	(2,425)	(2,934)
INCOME FROM EXTERNAL CUSTOMERS	**$ 119,339**	**$ 124,498**	**$ 77,363**	**$ 12,923**	**$ 1,472**	**$ 2,155**	**$ 337,750**
Adjusted EBITDA	16,395	13,543	11,958	5,092	(1,745)	(962)	44,281
Depreciation and amortization	(4,005)	(4,271)	(6,079)	(4,739)	(187)	(168)	(19,449)
Impairment of assets	(29)	(124)	(915)	(105)	(45)	(20)	(1,238)
OPERATING INCOME	**$ 12,361**	**$ 9,148**	**$ 4,964**	**$ 248**	**$ (1,977)**	**(1,150)**	**23,594**
Financial result, net	(2,635)	(2,629)	(1,368)	(1,127)	420	(1,634)	(8,973)
Equity in results of associates	(313)	10	41	-	64	(73)	(271)
INCOME (LOSS) BEFORE TAXES	**$ 9,413**	**$ 6,529**	**$ 3,637**	**$ (879)**	**$ (1,493)**	**$ (2,857)**	**$ 14,350**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION							
Investment in associates	8,197	66	544	-	603	(232)	9,178
Other assets	94,597	98,863	88,200	27,598	11,854	9,419	330,531
Total assets	102,794	98,929	88,744	27,598	12,457	9,187	339,709
Total liabilities	57,736	81,728	54,800	21,900	5,893	22,726	244,783
NET ASSETS	**$ 45,058**	**$ 17,201**	**$ 33,944**	**$ 5,698**	**$ 6,564**	**$ (13,539)**	**$ 94,926**
CAPITAL INVESTMENT (CAPEX)	**$ (3,062)**	**$ (3,351)**	**$ (6,616)**	**$ (602)**	**$ (278)**	**$ (140)**	**$ (14,049)**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

For the year ended December 31, 2018

	ALPEK	SIGMA	NEMAK	AXTEL	NEWPEK	OTHER SEGMENTS AND ELIMINATIONS	TOTAL
CONSOLIDATED STATEMENT OF INCOME							
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)
INCOME FROM EXTERNAL CUSTOMERS	**$ 134,139**	**$ 121,900**	**$ 90,327**	**$ 15,394**	**$ 2,060**	**$ 2,612**	**$366,432**
Adjusted EBITDA	20,607	13,154	14,105	8,241	571	(1,500)	55,179
Depreciation and amortization	(2,885)	(3,990)	(6,166)	(4,469)	(413)	(1,034)	(18,957)
Impairment of assets	3,480	(1,726)	(116)	(75)	(2,073)	(7)	(517)
OPERATING INCOME	**21,202**	**7,438**	**7,823**	**3,697**	**(1,914)**	**(2,541)**	**35,705**
Financial result, net	(2,783)	(1,875)	(2,220)	(1,665)	359	(554)	(8,738)
Equity in results of associates	(31)	15	136	-	27	(26)	121
INCOME (LOSS) BEFORE TAXES	**$ 18,388**	**$ 5,578**	**$ 5,739**	**$ 2,032**	**$ (1,528)**	**$ (3,121)**	**$ 27,088**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION							
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
NET ASSETS	**$ 43,164**	**$ 17,062**	**$ 36,103**	**$ 3,621**	**$ 7,441**	**$ (9,167)**	**$ 98,224**
CAPITAL INVESTMENT (CAPEX)	**$ (2,005)**	**$ (3,499)**	**$ (7,786)**	**$ 2,311**	**$ 495**	**$ (447)**	**$ (10,931)**

As of and for the years ended December 31, 2019 and 2018. In millions of Mexican pesos, except where otherwise indicated.

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, 2019

	SALES TO EXTERNAL CUSTOMERS	PROPERTY, PLANT AND EQUIPMENT	GOODWILL	INTANGIBLE ASSETS
Mexico	$ 107,115	$ 69,447	$ 7,477	$ 11,659
United States	87,812	15,001	84	3,476
Canada	4,066	1,258	-	51
Central and South America	48,170	9,743	-	805
Europe and other countries	90,587	39,246	14,259	11,301
TOTAL	**$ 337,750**	**$ 134,695**	**$ 21,820**	**$ 27,292**

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
TOTAL	**$ 366,432**	**$ 153,389**	**$ 22,798**	**$ 29,513**

31. COMMITMENTS AND CONTINGENCIES:

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, 2019, 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, 2019, the Company and its subsidiaries had the following commitments:

a. The Company's subsidiaries had entered into various agreements with suppliers and customers for purchases of raw materials used for production and the sale of finished goods, respectively. The term of these agreements varies between one and five years and generally contain price adjustment clauses

b. Alpek, subsidiary of the Company, entered into agreements to cover the supply of propylene, those contracts establish the obligation to purchase the maximum level of production available at a referenced market prices for a certain period.

c. Newpek, 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 or greater than US$250 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. Nemak, subsidiary of the Company, received from the Canada Revenue Agency (CRA) the claim for a tax credit for refunds of Goods and Services Tax (GST) and the Harmonized Sales Tax (HST) for an approximate total amount, including interest, for US$82. The CRA alleges that Nemak delivered certain assets in Canada that were subject to GST and HST. However, the Company filed an objection to the CRA's Audit Division arguing that its clients acted as importers in Canada and that Nemak Mexico delivered the goods to them outside of such country. Based on a face-to-face meeting with the CRA where the evidences and arguments required to support our objection are presented, the administration considers that the case will be concluded favorably so it has not recognized any provision in its statement of financial position

e. Alpek, Company's subsidiary, is in a tax litigation process with one of its subsidiaries in Brazil, in relation to the payment of Tax on the Circulation of Goods and Services ("ICMS") that the Ministry of Finance of the State of Sao Paulo ("SFSP" for its Portuguese initials) has demanded from 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 would exempt it from paying $416 in taxes, fines and interest that the SFSP demands. In addition, for ICMS crediting purposes, the amount demanded amounts to $83, and management and its advisors believe that it is possible for the authorities to issue an unfavorable resolution for Alpek.

32. SUBSEQUENT EVENTS

In preparing the consolidated financial statements the Company has evaluated the events and transactions for recognition or disclosure subsequent to December 31, 2019, and through January 31, 2020 (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 1, 2020, Alpek completed the Transaction described in Note 2, and as of that date, the financial information of Lotte UK, now called Alpek Polyester UK LTD, will be consolidated in the consolidated financial statements of the Company.

b. On January 8, 2020, Axtel announced the final agreement with Equinix (see note 2d) to strengthen its offer of IT and cloud solutions. Excluding operating expenses and the balance in custody, the resources obtained, for approximately US $157 will be used to strengthen Axtel's financial structure.

c. On January 20, 2020, Alpek held an Ordinary General Shareholders' meeting, in which a cash dividend payment of US$143 was approved, to be paid in a single disbursement on January 29, 2020.

33. AUTHORIZATION TO ISSUE THE CONSOLIDATED FINANCIAL STATEMENTS

On January 31, 2020, 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 petroleum used for the production of nylon.

CLOUD SERVICES
Business model where applications are accessed via the Internet and are not physically at the customer's premises.

EXPANDED POLYSTYRENE
Thermoplastic used for thermal insulation and packaging.

INDEPENDENT BOARD MEMBER
Does not own shares of a company and is not related to the day-to-day administration of the company.

INDEPENDENT PROPRIETARY BOARD MEMBER
Owns shares of a company, but is not related to the day-to-day administration of the company.

PET (POLYETHYLENE TEREPHTHALATE)
Plastic resin used mainly in the production of packaging.

POLYESTER
Plastic resin that is used in the manufacture of textile fibers, films and packaging.

POLIESTIRENO EXPANDIBLE
Termoplástico utilizado para aislamiento térmico y empaque.

POLYPROPYLENE
Derived from the propylene used in the production of plastics and fibers, among others.

PTA
(Purified Terephtalic Acid) Raw material used for the manufacture of polyester.

RELATED PROPRIETARY BOARD MEMBER
Owns shares of a company and that is also related to the daily administration of it.

RPET
Recycled PET.

SCALEUPS
Companies that started their activity as startups but that intend to expand, reach new markets, new customers and improve their products to make them modern and innovative.

SYSTEMS INTEGRATION
Service practice that consists of designing and building custom computing solutions, combining and connecting hardware and/or software products from one or more manufacturers.

STARTUPS
Newly created and technology-based company.

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Deloitte.

MEXICAN STOCK EXCHANGE

ALFA
Date Listed:
August 1978

LATIBEX (MADRID STOCK EXCHANGE)

ALFA C/I-s/A
Date listed:
December 2003

ALFA, S.A.B. DE C.V.
Av. Gómez Morín 1111 sur, Col. Carrizalejo
San Pedro Garza García, N.L. C.P. 66254, México
www.alfa.com.mx

Design: FHDS

alfa

GRI INDEX

GRI STANDARDS		CONTENT	PAGE OR ANSWER	MATERIAL ASPECT	CONTRIBUTION TO THE SDGS	STATUS
GRI 101: FOUNDATIONAL ASPECTS						
GRI 102: GENERAL CONTENT						
ORGANIZATIONAL PROFILE						
1. Strategy and Analysis						
GRI 102: GENERAL DISCLOSURES 2016	102-14	Statement from senior decision-maker.	Pages 4-9.	Operational and risks strategy		Fully
	102-15	Key impacts, risks, and opportunities.	Pages 4-9.	Operational and risks strategy		Fully
	2. Organizational profile					
	102-1	Name of the organization.	ALFA, S.A.B. de C.V			Fully
	102-2	Activities, brands, products, and services.	ALFA is a holding company with a portfolio of diversified businesses: 1) Alpek, 2) Sigma, 3) Nemak, 4) Axtel y 5) Newpek			Fully
	102-3	Location of headquarters.	Av. Gómez Morín 1111 Sur, Col. Carrizalejo, San Pedro Garza García, N.L., C.P. 66254, México.			Fully
	102-4	Location of operations.	29 countries.			Fully
	102-5	Ownership and legal form.	ALFA is a Variable Capital Stock Company.			Fully
	102-6	Markets served.	Food, beverages, consumer products, automotive, packaging, textiles, construction, information technology, communication, among others.			Fully
	102-7	Scale of the organization.	ALFA is a global company, with 70% of its operations outside of Mexico. It has 136 plants, in 29 countries, across the American, European and Asian continents. Its workforce consists of +83,400 employees, from 65 different nationalities.			Fully

GRI 102: GENERAL DISCLOSURES 2016	102-8	Information on employees and other workers.	Pages 25 and 26.			Fully
	102-9	Supply chain.	Pages 10-19. Due to the diverse natures of its businesses, ALFA's supply chains are very different. For more information about these, please visit: ALPEK: http://www.alpek.com/reports.html; NEMAK: https://investors.nemak.com/financial-information/annual-reports; SIGMA: https://www.sigma-alimentos.com/sustainability-report/ ; AXTEL: https://www.axtelcorp.mx/repositorio/informe-de-sustentabilidad/INFORME-ANUAL-INTEGRADO-AXTEL-2019.pdf	Relations with costumers and suppliers		Fully
	102-10	Significant changes to the organization and its supply chain.	Pages 4-9.			Fully
	102-11	Precautionary Principle or approach.	The actual and potential risks of operations, products and services are identified through impact, health, safety and communication studies with stakeholders. The identified risks are taken care of to eliminate or mitigate them.	Operational and risks strategy		Fully
	102-12	External initiatives.	Pages 24 and 33. COMPLEMENT: The company also subscribes to different international and local initiatives such as the UN Global Compact, United Way and ANSPAC.	Relations with NGOs and regulatory agencies	Goal 17: Partnerships for the goals	Fully
	102-13	Membership of associations.	Page 24. For more information, please visit: ALPEK: http://www.alpek.com/reports.html; NEMAK: https://investors.nemak.com/financial-information/annual-reports; SIGMA: https://www.sigma-alimentos.com/sustainability-report/ ; AXTEL: https://www.axtelcorp.mx/repositorio/informe-de-sustentabilidad/INFORME-ANUAL-INTEGRADO-AXTEL-2019.pdf	Relations with NGOs and regulatory agencies	Goal 17: Partnerships for the goals	Fully

GRI 102: GENERAL DISCLOSURES 2016	3. Ethics and Integrity					
	102-16	Values, principles, standards, and norms of behavior.	Page 22.		Goal 16: Peace, justice and strong institutions	Fully
	102-17	Internal and external pro ethics mechanisms related to enhance the integrity of the organization.	Page 22.		Goal 16: Peace, justice and strong institutions	Fully
	4. Governance					
	102-18	Governance structure .	Pages 35 - 37.	Corporate Governance		Fully
	102-19	Delegating authority.	Pages 35 - 37.	Corporate Governance		Fully
	102-20	Executive-level responsibility for economic, environmental, and social topics.	Pages 35 - 37.	Corporate Governance		Fully
	102-21	Consulting stakeholders on economic, environmental, and social topics.	Pages 35 - 37.	Corporate Governance; Relations with shareholders	Goal 16: Peace, justice and strong institutions	Fully
	102-22	Composition of the highest governance body and its committees.	Page 35.	Corporate Governance; Relations with shareholders	Goal 5: Gender equality Goal 16: Peace, justice and strong institutions	Fully
	102-23	Chair of the highest governance body.	Page 35.	Corporate Governance	Goal 16: Peace, justice and strong institutions	Fully

GRI 102: GENERAL DISCLOSURES 2016	102-24	Nominating and selecting the highest governance body.	Page 37.	Corporate Governance	Goal 5: Gender equality Goal 16: Peace, justice and strong institutions	Fully
	102-25	Conflicts of interest.	Page 37. ALFA has a Conflict of Interest Policy for the members of the Board of Directors and for its employees. This establishes that the responsibilities and duties of the members of the Board are governed under the Mexican Securities Market Law (LMV), applicable in Mexico to issuers of securities, 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 society. They must keep confidentiality with respect to the information and / or matters of a public nature of the company, as well as refrain from participating and be present in the deliberation and voting of 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 President and the other members, as well as refrain from participating in the discussion and exercising their vote in 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 clients should inform their immediate boss.	Corporate Governance; Relations with shareholders	Goal 16: Peace, justice and strong institutions	Fully

GRI 102: GENERAL DISCLOSURES 2016	102-26	Role of highest governance body in setting purpose, values, and strategy.	Pages 36 and 37.	Corporate Governance; Relations with shareholders		Fully
	102-27	Collective knowledge of highest governance body.	Page 37. COMPLEMENT: Every year the learning dynamic is strengthened in all areas of the company, including the Management Team. This year, thanks to the materiality process carried out in 2015, which directly involved managers, and the results of which were presented to them as a way to inform the future strategy of ALFA as a whole, the sustainability strategy has been strengthened in all the business units of the company.	Corporate Governance	Goal 4: Quality education	Fully
	102-28	Evaluating the highest governance body's performance.	Page 37.	Corporate Governance		Fully
	102-29	Identifying and managing economic, environmental, and social impacts.	This information is considered confidential.	Corporate Governance; Relations with shareholders	Goal 16: Peace, justice and strong institutions	Fully
	102-30	Effectiveness of risk management processes.	Page 37.	Corporate Governance; Relations with shareholders; Operations and Risks Strategy		Fully
	102-31	Review of economic, environmental, and social topics.	Page 37.	Corporate Governance		Fully
	102-32	Highest governance body's role in sustainability reporting.	ALFA's communication department.	Corporate Governance; Relations with shareholders		Fully

GRI 102: GENERAL DISCLOSURES 2016	102-33	Communicating critical concerns.	Page 37.	Corporate Governance		Fully
	102-34	Nature and total number of critical concerns.	This information is considered confidential.	Corporate Governance		Fully
	102-35	Remuneration policies.	This information is considered confidential.	Corporate Governance		Fully
	102-36	Process for determining remuneration.	This information is considered confidential.	Corporate Governance		Fully
	102-37	Stakeholders' involvement in remuneration.	This information is considered confidential.	Corporate Governance; Relations with shareholders	Goal 16: Peace, justice and strong institutions	Fully
	102-38	Annual total compensation ratio.	This information is considered confidential.	Corporate Governance		Fully
	102-39	Percentage increase in annual total compensation ratio.	This information is considered confidential.	Corporate Governance		Fully
GRI 102: GENERAL DISCLOSURES 2016	5. Stakeholder Engagement					
	102-40	List of stakeholder groups.	Page 22.	Relationship with NGOs and regulatory agencies	Goal 17: Partnerships for the goals	Fully
	102-41	Percentage of employees in collective bargaining agreements.	42% globally.	Labor practices	Goal 8: Decent work and economic growth	Fully
	102-42	Identifying and selecting stakeholders.	Page 23.	Relationship with NGOs and regulatory agencies	Goal 17: Partnerships for the goals	Fully
	102-43	Approach to stakeholder engagement.	Pages 23, 33, 34.	Relationship with NGOs and regulatory agencies	Goal 17: Partnerships for the goals	Fully
	102-44	Key topics and concerns raised.	Pages 23 and 34.	Relationship with NGOs and regulatory agencies	Goal 17: Partnerships for the goals	Fully

	6. Reporting Practices					
GRI 102: GENERAL DISCLOSURES 2016	102-45	Entities included in the consolidated financial statements.	ALFA reports its financial statements and sustainability progress in a single integrated report. ALFA's consolidated financial statements can be consulted starting on page 38 of this report.	Relations with stakeholders		Fully
	102-46	Defining report content and topic Boundaries.	Page 23.			Fully
	102-47	List of material topics.	Page 23.			Fully
	102-48	Reestatements of information.	There were no restatements of information.			Fully
	102-49	Changes in reporting.	None.			Fully
	102-50	Reporting period.	Jan 1st to Dec 31st, 2019.			Fully
	102-51	Date of most recent report.	February 28th, 2018.			Fully
	102-52	Reporting cycle.	Annual.			Fully
	102-53	Contact point for questions regarding the report.	comunicación@alfa.com.mx			Fully
	102-54	Claims of reporting in accordance with the GRI Standards.	The reporting option chosen for 2019 is CORE, according to GRI standards. This means that we fully cover at least one standard of the identified material issues.			Fully
	102-55	GRI content index.	Present.			Fully
	102-56	External assurance.	This report does not have external verification.			Fully

ECONOMIC PERFORMANCE						
201: Economic Performance						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Pages 1, 10-19, 29-33.	Wealth distribution; Climate change and emissions strategy; Labor practices; Relationship with NGOs and regulatory agencies	Goal 2: Zero Hunger Goal 5: Gender equality Goal 7: Affordable and clean energy Goal 8: Decent work and economic growth Goal 9: Industy, innovation and infrastructure	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	201-1	Direct economic value generated and distributed.	Page 1.	Wealth distribution; Operational and risks strategy	Goal 2: Zero Hunger Goal 5: Gender equality Goal 7: Affordable and clean energy Goal 8: Decent work and economic growth Goal 9: Industy, innovation and infrastructure	Fully
	201-2	Financial implications and other risks and opportunities due to climate change.	Pages 29-33.	Operational and risks strategy; Wealth distribution; Climate change and emissions strategy	Goal 13: Climate action	Fully
	201-3	Defined benefit plan obligations and other retirement plans.	Pension plans, education supports and medical assistance are available to 100% of ALFA plant employees. The pension system is a fixed contribution plan to which the company and employees contribute the same amount, which ranges from 4 to 17% of the employee's total salary and varies according to applicable labor regulations. The resources to cover these benefits are contributed 100% by the company.	Labor practices	Goal 8: Decent work and economic growth	Fully
	201-4	Financial assistance received from government.	ALFA does not receive significant financial assistance from government agencies.	Relationship with NGOs and regulatory agencies		Fully

202: Market Presence						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Pages 25-29.	Wealth distribution	Goal 1: End poverty, Goal 5: Gender equality, Goal 8: Decent work and economic growth, Goal 10: Reduced inequalities	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	202-1	Ratios of standard entry level wage by gender compared to local minimum wage.	Page 25.	Wealth distribution	Goal 5: Gender equality, Goal 8: Decent work and economic growth	Fully
	202-2	Proportion of senior management hired from the local community.	Approximately 70% of senior management bodies come from the same community where the operation is located.	Wealth distribution	Goal 8: Decent work and economic growth	Fully
203: Indirect Economic Impacts						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Pages 27 and 28.	Wealth distribution	Goal 2: Zero Hunger Goal 5: Gender equality Goal 7: Affordable and clean energy Goal 9: Industy, innovation and infrastructure Goal 11: Sustainable cities and communities	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	203-1	Infrastructure investments and services supported.	Pages 27 and 28.	Wealth distribution	Goal 2: Zero Hunger Goal 5: Gender equality Goal 7: Affordable and clean energy Goal 9: Industy, innovation and infrastructure Goal 11: Sustainable cities and communities	Fully
	203-2	Significant indirect economic impacts.	Pages 27 and 28.	Wealth distribution	Goal 1: No poverty Goal 2: Zero Hunger Goal 3: Good health and well-being Goal 8: Decent work and economic growth Goal 10: Reduced inqualities Goal 17: Partnerships for the goals	Fully

204: Procurement Practices						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Pages 33 and 34.	Relations with costumers and suppliers	Goal 12: Responsible consumption and production	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	204-1	Proportion of spending on local suppliers.	In 2019, ALFA's business units dedicated an average of 60% of their purchases to local suppliers. However, in some plants the percentage was higher. Under conditions of price, quality and availability equality, priority is given to local suppliers.	Relations with costumers and suppliers	Goal 12: Responsible consumption and production	Fully
205: Anti-corruption						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Page 22.	Corporate Governance	Goal 16: Peace, justice and strong institutions	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	205-1	Operations assessed for risks related to corruption.	Page 22.	Corporate Governance	Goal 16: Peace, justice and strong institutions	Fully
	205-2	Communication and training about anti-corruption policies and procedures.	Page 22.	Corporate Governance	Goal 16: Peace, justice and strong institutions	Fully
	205-3	Confirmed incidents of corruption and actions taken.	Page 22.	Corporate Governance	Goal 16: Peace, justice and strong institutions	Fully
206: Anti-competitive Behaviour						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.		Relationship with NGOs and regulatory agencies	Goal 16: Peace, justice and strong institutions	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices.	In 2019 there were no fines or legal actions against ALFA related to this issue.	Relationship with NGOs and regulatory agencies	Goal 16: Peace, justice and strong institutions	Fully

ENVIRONMENT						
301: Materials						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Page 32.	Climate change and emissions strategy	Goal 8: Decent work and economic growth Goal 12: Responsible consumption and production	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	301-1	Materials used by weight or volume.	It is not a material aspect for ALFA's operations. For more information about ALFA companies on the subject, please visit: ALPEK: http://www.alpek.com/reports.html; NEMAK: https://investors.nemak.com/financial-information/annual-reports; SIGMA: https://www.sigma-alimentos.com/sustainability-report/ ; AXTEL: https://www.axtelcorp.mx/repositorio/informe-de-sustentabilidad/INFORME-ANUAL-INTEGRADO-AXTEL-2019.pdf	Climate change and emissions strategy	Goal 8: Decent work and economic growth Goal 12: Responsible consumption and production	Fully
	301-2	Recycled input materials used.	Page 32.	Climate change and emissions strategy	Goal 8: Decent work and economic growth Goal 12: Responsible consumption and production	Fully
	301-3	Reclaimed products and their packaging materials.	It is not a material aspect for ALFA's operations. For more information about ALFA companies on the subject, please visit: ALPEK: http://www.alpek.com/reports.html; NEMAK: https://investors.nemak.com/financial-information/annual-reports; SIGMA: https://www.sigma-alimentos.com/sustainability-report/ ; AXTEL: https://www.axtelcorp.mx/repositorio/informe-de-sustentabilidad/INFORME-ANUAL-INTEGRADO-AXTEL-2019.pdf	Climate change and emissions strategy	Goal 8: Decent work and economic growth Goal 12: Responsible consumption and production	Fully

302: Energy						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Pages 29-32.	Energy efficiency	Goal 7: Affordable and clean energy Goal 8: Decent work and economic growth Goal 12: Responsible consumption and production Goal 13: Climate action	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	302-1	Energy consumption within the organization.	Page 30.	Energy efficiency	Goal 7: Affordable and clean energy Goal 8: Decent work and economic growth Goal 12: Responsible consumption and production Goal 13: Climate action	Fully
	302-2	Energy consumption outside of the organization.	Page 30.	Energy efficiency	Goal 7: Affordable and clean energy Goal 8: Decent work and economic growth Goal 12: Responsible consumption and production Goal 13: Climate action	Fully
	302-3	Energy intensity.	The average energy intensity in 2019 was 7.79 GJ per ton of product.	Energy efficiency	Goal 7: Affordable and clean energy Goal 8: Decent work and economic growth Goal 12: Responsible consumption and production Goal 13: Climate action	Fully
	302-4	Reduction of energy consumption.	Page 30.	Energy efficiency	Goal 7: Affordable and clean energy Goal 8: Decent work and economic growth Goal 12: Responsible consumption and production Goal 13: Climate action	Fully

303: Water and Effluents						
GRI 303: MANAGEMENT APPROACH 2018	GRI 303-1	Interactions with water as a shared resource.	Page 31.	Water management	Goal 6: Clean water and sanitation, Goal 8: Decent work and economic growth, Goal 12: Responsible consumption and production, Goal 16: Life below water	Fully
	GRI 303-2	Management of water discharge-related impacts.				
	303-3	Water withdrawal.	Page 31.	Water management	Goal 6: Clean water and sanitation, Goal 8: Decent work and economic growth, Goal 12: Responsible consumption and production, Goal 16: Life below water	Fully
	303-4	Water discharge.	Page 31.	Water management	Goal 6: Clean water and sanitation, Goal 8: Decent work and economic growth, Goal 12: Responsible consumption and production, Goal 16: Life below water	Fully
	303-5	Water consumption.	9,708 ML.	Water management	Goal 6: Clean water and sanitation, Goal 8: Decent work and economic growth, Goal 12: Responsible consumption and production, Goal 16: Life below water	Fully
304: Biodiversity						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Page 32.		Goal 6: Clean water or sanitation Goal 14: Life below water Goal 15: Life on land	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	304-1	"Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas."	Page 32.		Goal 6: Clean water or sanitation Goal 14: Life below water Goal 15: Life on land	Fully

	304-2	Significant impacts of activities, products, and services on biodiversity.	Page 32.		Goal 6: Clean water or sanitation Goal 14: Life below water Goal 15: Life on land	Fully
	304-3	Habitats protected or restored.	Page 32.		Goal 6: Clean water or sanitation Goal 14: Life below water Goal 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 these species.		Goal 6: Clean water or sanitation Goal 14: Life below water Goal 15: Life on land	Fully
305: Emissions						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Page 30.	Climate change and emissions strategy	Goal 3: Good health and well-being Goal 12: Responsible consumption and production Goal 13: Climate action Goal 14: Life below water Goal 15: Life on land	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	305-1	Direct (Scope 1) GHG emissions.	Page 30.	Climate change and emissions strategy	Goal 3: Good health and well-being Goal 12: Responsible consumption and production Goal 13: Climate action Goal 14: Life below water Goal 15: Life on land	Fully
	305-2	Energy indirect (Scope 2) GHG emissions.	Page 30.	Climate change and emissions strategy	Goal 3: Good health and well-being Goal 12: Responsible consumption and production Goal 13: Climate action Goal 14: Life below water Goal 15: Life on land	Fully

	305-3	Other indirect (Scope 3) GHG emissions.	There is no information at the end of 2019.	Climate change and emissions strategy	Goal 3: Good health and well-being Goal 12: Responsible consumption and production Goal 13: Climate action Goal 14: Life below water Goal 15: Life on land	Fully
	305-4	GHG emissions intensity.	The intensity of GHG emissions was 0.67 tons of CO_2e.	Climate change and emissions strategy	Goal 3: Good health and well-being Goal 12: Responsible consumption and production Goal 13: Climate action Goal 14: Life below water Goal 15: Life on land	Fully
	305-5	Reduction of GHG emissions.	Page 30.	Climate change and emissions strategy	Goal 3: Good health and well-being Goal 12: Responsible consumption and production Goal 13: Climate action Goal 14: Life below water Goal 15: Life on land	Fully
	305-6	Emissions of ozone-depleting substances (ODS).	ALFA's operations do not emmit this type of emissions.	Climate change and emissions strategy	Goal 3: Good health and well-being Goal 12: Responsible consumption and production Goal 13: Climate action Goal 14: Life below water Goal 15: Life on land	Fully
	305-7	Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions.	Page 30.	Climate change and emissions strategy	Goal 3: Good health and well-being Goal 13: Climate action Goal 14: Life below water Goal 15: Life on land	Fully

306: Effluents and Waste						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Page 32.		Goal 3: Good health and well-being Goal 6: Clean water or sanitation Goal 12: Responsible consumption and production	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	306-2	Waste by type and disposal method.	Page 32.		Goal 3: Good health and well-being Goal 6: Clean water or sanitation Goal 12: Responsible consumption and production	Fully
	306-3	Significant spills.	In 2019 there were no significant spills of ALFA's operations.		Goal 3: Good health and well-being Goal 6: Clean water or sanitation Goal 12: Responsible consumption and production Goal 14: Life below water	Fully
	306-4	Transport of hazardous waste.	Page 32.		Goal 3: Good health and well-being Goal 12: Responsible consumption and production	Fully
	306-5	Water bodies affected by water discharges and/or runoff.	ALFA's operations do not affect water bodies or habitats due to spills or runoff from the organization.		Goal 6: Clean water or sanitation Goal 12: Responsible consumption and production Goal 15: Life on land	Fully
307: Environmental Compliance						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Page 29.	Environmental management	Goal 12: Responsible consumption and production Goal 16: Peace, justice and strong institutions	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	307-1	Non-compliance with environmental laws and regulations.	In 2019 there were no significant fines in environmental matters.	Environmental management	Goal 12: Responsible consumption and production Goal 16: Peace, justice and strong institutions	Fully

308: Supplier Environmental Assesment						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Page 33.	Relations with costumers and suppliers	Goal 8: Decent work and economic growth, Goal 12: Responsible consumption and production	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	308-1	New suppliers that were screened using environmental criteria.	Page 33.	Relations with costumers and suppliers	Goal 8: Decent work and economic growth, Goal 12: Responsible consumption and production	Fully
	308-2	Negative environmental impacts in the supply chain and actions taken.	Page 33.	Relations with costumers and suppliers	Goal 8: Decent work and economic growth, Goal 12: Responsible consumption and production	Fully
SOCIAL						
401: Employment						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Pages 25 and 26.	Labor practices	Goal 5: Gender equality Goal 8: Decent work and economic growth	Partially
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	401-1	New employee hires and employee turnover.	10,238 hires; 1.35% hiring rate; 16,674 rotating employees; 2.20% turnover rate.	Labor practices	Goal 5: Gender equality Goal 8: Decent work and economic growth	Fully
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees.	Pages 25 and 26.	Labor practices	Goal 8: Decent work and economic growth	Fully
	401-3	Parental leave.	130 men and 801 women. This information does not include all operations.	Labor practices	Goal 5: Gender equality Goal 8: Decent work and economic growth	Partially

402: Labor / management realtions						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.		Labor practices	Goal 8: Decent work and economic growth	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	402-1	Minimum notice periods regarding operational changes.	The minimum period of general notice is two weeks in advance.	Labor practices	Goal 8: Decent work and economic growth	Fully
403: Occupational Health and Safety						
GRI 403: MANAGEMENT APPROACH 2018	403-1	Occupational health and safety management system.	Pages 25 and 26. For more information, please visit: ALPEK: http://www.alpek.com/reports.html; NEMAK: https://investors.nemak.com/financial-information/annual-reports; SIGMA: https://www.sigma-alimentos.com/sustainability-report/ ; AXTEL: https://www.axtelcorp.mx/repositorio/informe-de-sustentabilidad/INFORME-ANUAL-INTEGRADO-AXTEL-2019.pdf	Health and safety	Goal 8: Decent work and economic growth	Fully
	403-2	Hazard identification, risk assessment, and incident investigation.	Page 26.	Health and safety	Goal 3: Good health and well-being Goal 8: Decent work and economic growth	Fully
	403-3	Occupational health services.	Page 26.	Health and safety	Goal 3: Good health and well-being Goal 8: Decent work and economic growth	Fully
	403-4	Worker participation, consultation, and communication on occupational health and safety.	Page 26.	Health and safety	Goal 8: Decent work and economic growth	Fully
	403-5	Worker training on occupational health and safety.	Page 26.	Health and safety	Goal 3: Good health and well-being Goal 8: Decent work and economic growth	Fully
	403-6	Promotion of worker health.	Page 26.	Health and safety	Goal 3: Good health and well-being Goal 8: Decent work and economic growth	Fully
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships.	Page 26.	Health and safety	Goal 3: Good health and well-being Goal 8: Decent work and economic growth	Fully

	403-8	Workers covered by an occupational health and safety management system.	All of ALFA companies have a health and safety management system, such as OSHAS, ISO 45001, etc., and / or according to the regulations of the country where they operate. 100% of Scope 1 workers are covered by these health and safety management systems.	Health and safety	Goal 3: Good health and well-being Goal 8: Decent work and economic growth	Fully
	403-9	Work-related injuries.	Page 26.	Health and safety	Goal 3: Good health and well-being Goal 8: Decent work and economic growth	Fully
	403-10	Work-related ill health.	Page 26.	Health and safety	Goal 3: Good health and well-being Goal 8: Decent work and economic growth	Fully
404: Training and Education						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Pages 25-26.	Labor practices	Goal 4: Quality education Goal 5: Gender equality Goal 8: Decent work and economic growth	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	404-1	Average hours of training per year per employee.	Page 26.	Labor practices	Goal 4: Quality education Goal 5: Gender equality Goal 8: Decent work and economic growth	Fully
	404-2	Programs for upgrading employee skills and transition assistance programs.	Page 26.	Labor practices	Goal 8: Decent work and economic growth	Fully
	404-3	Percentage of employees receiving regular performance and career development reviews.	Page 26.	Labor practices	Goal 5: Gender equality Goal 8: Decent work and economic growth	Fully

405: Diversity and Equal Opportunities						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Pages 25-26.	Labor practices	Goal 1: No poverty, Goal 5: Gender equality Goal 8: Decent work and economic growth Goal 10: Reduced inqualities	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	405-1	Diversity of governance bodies and employees.	Page 25.	Labor practices	Goal 1: No poverty, Goal 5: Gender equality Goal 8: Decent work and economic growth	Fully
	405-2	Ratio of basic salary and remuneration of women to men.	Page 25.	Labor practices	Goal 1: No poverty, Goal 5: Gender equality Goal 8: Decent work and economic growth Goal 10: Reduced inqualities	Fully
406: Non-discrimination						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Pages 22, 25-26.	Labor practices	Goal 5: Gender equality Goal 8: Decent work and economic growth Goal 16: Peace, justice and strong institutions	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	GRI 406-1	Incidents of discrimination and corrective actions taken.	Page 22.	Labor practices	Goal 5: Gender equality Goal 8: Decent work and economic growth Goal 16: Peace, justice and strong institutions	Fully

407: Freedom of associations and collective bargaining						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.		Relations with costumers and suppliers	Goal 8: Decent work and economic growth	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	407-1	Operations and suppliers at significant risk for incidents of child labor.	In 2019, this type of risks in operations and suppliers were not identified.	Relations with costumers and suppliers	Goal 8: Decent work and economic growth	Fully
408: Child Labor						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.		Relations with costumers and suppliers	Goal 8: Decent work and economic growth Goal 16: Peace, justice and strong institutions	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	408-1	Operations and suppliers at significant risk for incidents of child labor.	In 2019, this type of risks in operations and suppliers were not identified.	Relations with costumers and suppliers	Goal 8: Decent work and economic growth Goal 16: Peace, justice and strong institutions	Fully
409: Forced or Compulsory Labor						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.		Relations with costumers and suppliers	Goal 8: Decent work and economic growth	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	GRI 409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor.	In 2019, this type of risks in operations and suppliers were not identified.	Relations with costumers and suppliers	Goal 8: Decent work and economic growth	Fully

410: Security Practices						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.			Goal 8: Decent work and economic growth	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	410-1	Security personnel trained in human rights policies or procedures.	In 2019, 43% of security personnel were trained in human rights issues.		Goal 8: Decent work and economic growth	Fully
411: Rights of Indigenous People						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.			Goal 2: Zero Hunger	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	GRI 411-1	Incidents of violations involving rights of indigenous peoples.	In 2019, these types of cases were not identified.		Goal 2: Zero Hunger	Fully
412: Human Rights Assesments						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.				Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	GRI 412-2	Employee training on human rights policies or procedures.	In 2019, 41% of the workforce received training in human rights.			Fully

413: Local Communities						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Pages 27 and 28.		Goal 1: No poverty Goal 2: Zero Hunger	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	413-1	Operations with local community engagement, impact assessments, and development programs.	Pages 27 and 28.			Fully
	413-2	Operations with significant actual and potential negative impacts on local communities.	Pages 27 and 28.		Goal 1: No poverty Goal 2: Zero Hunger	Fully
414: Supplier Social Assesment						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Page 33.	Relations with costumers and suppliers	Goal 5: Gender equality Goal 8: Decent work and economic growth Goal 16: Peace, justice and strong institutions	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	414-1	New suppliers that were screened using social criteria.	Page 33.	Relations with costumers and suppliers	Goal 5: Gender equality Goal 8: Decent work and economic growth Goal 16: Peace, justice and strong institutions	Fully
	414-2	Negative social impacts in the supply chain and actions taken.	Page 33.	Relations with costumers and suppliers	Goal 5: Gender equality Goal 8: Decent work and economic growth Goal 16: Peace, justice and strong institutions	Fully

415: Public Policy						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.			Goal 16: Peace, justice and strong institutions	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	415-1	Political contributions.	ALFA does not grant contributions of any kind to political parties and / or representatives.		Goal 16: Peace, justice and strong institutions	Fully
416: Customer Health and Safety						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.		Relations with costumers and suppliers	Goal 16: Peace, justice and strong institutions	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	416-1	Assessment of the health and safety impacts of product and service categories.	All ALFA products and services are regularly evaluated to identify opportunities for improvement.	Relations with costumers and suppliers		Fully
	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services.	In 2019, these types of cases were not identified.	Relations with costumers and suppliers	Goal 16: Peace, justice and strong institutions	Fully
417: Marketing and Labeling						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.	Page 34.		Goal 12: Responsible consumption and production Goal 16: Peace, justice and strong institutions	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	417-1	Requirements for product and service information and labeling.	Page 34.		Goal 12: Responsible consumption and production Goal 16: Peace, justice and strong institutions	Fully
	417-2	Incidents of non-compliance concerning product and service information and labeling.	In 2019, these types of cases were not identified.		Goal 16: Peace, justice and strong institutions	Fully
	417-3	Incidents of non-compliance concerning marketing communications.	In 2019 there were no cases of non-compliance with marketing communications.			Fully

418: Customer Privacy						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.		Relations with costumers and suppliers	Goal 16: Peace, justice and strong institutions	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data.	In 2019 there were no such claims.	Relations with costumers and suppliers	Goal 16: Peace, justice and strong institutions	Fully
419: Social-economic compliance						
GRI 103: MANAGEMENT APPROACH 2016	GRI 103-1	Explanation of the material topic and its Boundary.			Goal 16: Peace, justice and strong institutions	Fully
	GRI 103-2	The management approach and its components.				
	GRI 103-3	Evaluation of the management approach.				
	419-1	Non-compliance with laws and regulations in the social and economic area.	In 2019 there were no cases of regulatory non-compliance in the social and economic fields.		Goal 16: Peace, justice and strong institutions	Fully

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Empresa Sustentable

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