Grupo Lala, S. A. B. de C. V. and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2018 and 2017, and Independent Auditors' Report Dated February 28, 2019

Grupo Lala, S. A. B. de C. V. and Subsidiaries

Independent Auditors’ Report and Consolidated Financial Statements 2018 and 2017

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Independent Auditors’ Report to the Board of Directors and Stockholders of Grupo Lala, S. A. B. de C. V.

Opinion

We have audited the accompanying consolidated financial statements of Grupo Lala, S. A. B. de C. V. and Subsidiaries (the "Entity" or "Grupo Lala"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the consolidated statements of profit (loss) and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board.

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *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) together with the Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit matters which should be communicated in our report.

a. **Business Combinations and valuation under the acquisition method**

As disclosed in Notes 1 and 5 to the consolidated financial statements, in October 2017, Grupo Lala S. A. B. de C.V. acquired, through one of its subsidiaries, 99.9989% of the shares of Vigor Alimentos S. A. ("Vigor") from FB Participações S. A., JBS S. A. and Arla Foods International A/S ("Buyers") and indirectly 100% of Dan Vigor Indústria e Comércio de Laticínios Limitada ("Dan Vigor"), as a subsidiary entity of Vigor, and 50% of the shares of Itambé Alimentos S. A. ("Itambé"), as an associated company of Vigor. This transaction was relevant to our audit due to the requirements of IFRS 3, *Business Combinations*, which requires an acquiring entity to apply the acquisition method and recognize the identifiable net assets acquired of the acquired entity at fair value, on the date of acquisition.

During 2018 within the 12 month period established by IFRS 3, Grupo Lala finalized the final purchase price allocation of the net assets acquired, utilizing the work performed by independent appraisers to determine the fair value of the net assets at the date of acquisition. As the Entity had reported preliminary fair values as of December 31, 2017, during 2018 it retrospectively adjusted the purchase price allocation of the net assets acquired, including goodwill as of that date.

Due to the above, as the application of the acquisition method over a business combination is considered complex, due to the degree of estimates applied by management, for our audit purposes, our procedures included, among others:

i. Reviewed the shares purchase agreement to identify the date of acquisition of control, the price paid, the entities acquired and the acquiring entity, as required by the acquisition method of IFRS 3.
ii. With the support of valuation specialists, reviewed the reasonableness of the fair value measurement and the criteria used to identify the net assets acquired on the acquisition. In addition, with the support of tax specialists in Brazil, reviewed the reasonableness of the application of the fiscal particularities of that environment to the acquired and assumed balances related to taxes in the jurisdiction.
iii. Reviewed the accounting of the acquisition method from the acquisition date and as of December 31, 2017.
iv. Reviewed the compliance with the presentation and disclosure requirements established by IFRS 3.

The results of our procedures were satisfactory and we concluded that the values at the date of acquisition and the disclosures are reasonable.

b. **Impairment in the value of long lived assets, brands and goodwill**

As described in Notes 3.i, 3.j and 11 to the consolidated financial statements, the Entity performs impairment tests on its long lived assets, intangible assets with indefinite life and goodwill.

Given the importance of the balance of long lived assets, intangible assets with indefinite life (brands) and goodwill in the consolidated financial statements, and because the impairment tests required by IAS 36, *Impairment of Assets*, involve the application of significant judgments by the Entity's management in determining the assumptions and premises related to the estimation of the recoverable value of its cash-generating units ("CGUs"), we have determined that these tests represent a relevant issue for our audit.

As part of our audit, we conducted procedures to review the evaluations made by the Entity's management regarding the existence of signs of impairment of long lived assets, as well as procedures focused to the significant assumptions that the Entity considered when estimating future projections to assess the recoverability of long lived assets, intangible assets by brands and goodwill, among which are the following: growth rate of the industry, new projects and significant customers, estimated revenues, discount rates, expected gross profit margin and projected flows. With support from our expert appraisers, our procedures, among other included:

i. Reviewed the models applied to determine the recoverable value of assets as well as the methods used and accepted for valuing assets with similar characteristics.

ii. Evaluated the factors and variables used to determine the CGUs, among which were considered the analysis of operating cash flows and borrowing policies, analysis of the legal structure, production of allocation and understanding of the operation of commercial area and sales.

iii. Reviewed the financial projections, comparing with the business performance and historical trends, verifying the explanations of the variations with management. In addition, we assessed the internal processes used by management to make projections, including timely monitoring and analysis by the Board of Directors, and if the projections are consistent with the budgets approved by the Board.

iv. Analyzed the assumptions used in the impairment model, specifically including the cash flow projections, EBITDA multiple and long-term growth plans. The key assumptions used to estimate cash flows in impairment tests of the Entity are those related to revenue growth and operating margin.

v. Carried out an independent assessment of discount rates used and the methodology used in the preparation of the impairment test model. In addition, tested the integrity and accuracy of the impairment model.

vi. Reviewed and discussed with management the sensitivity calculations for all the CGUs, calculating the degree to which the assumptions used will need to be modified and the likeliness these modifications may arise.

The results of our procedures were satisfactory and we believe the assumptions used, including the discount rate, are reasonable.

Information other than the Consolidated Financial Statements and Auditors' Report thereon

Management is responsible for the other information presented. The other information includes two documents, the Annual Report and the information that will be incorporated in the Annual Report that the Entity must prepare pursuant to the General Provisions Applicable to Issuers and other Participants in the Mexican Stock Exchange and file it with the National Banking and Securities Commission ("CNBV" for its acronym in Spanish). The Annual Stock Exchange Filing and the Annual Report are expected to be made available to us after the date of this auditors' report.

Our opinion of the consolidated financial statements does not cover the other information and we do not express any form of assurance over it.

In connection with our audit of the consolidated financial statements, our responsibility will be to read the other information, when available, and in doing so, consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or with our knowledge obtained in the audit, or otherwise appears to contain a material error. If based on the work we have performed, we conclude that there is a material misstatement therein, we are required to communicate the matter in a statement in the Annual Report required by the CNBV and those charged with governance in the Entity.

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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements 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 Grupo Lala 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 Grupo Lala 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 Grupo Lala to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of Grupo Lala, S. A. B. de C. V. and subsidiaries audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited

C. P. C. Roberto Benavides González
Monterrey, Nuevo León, México
February 28, 2019

Grupo Lala, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2018 and 2017
(In Thousands of Mexican pesos)

Assets	Note	2018 Thousands of US dollars (US$) Note 3b	2018	2017
Current assets:				
Cash and cash equivalents	6	$ 129,560	$ 2,550,118	$ 6,733,382
Accounts receivable:				
Trade receivable	7	327,457	6,445,296	6,946,619
Recoverable taxes	8	184,510	3,631,704	2,818,953
Other accounts receivable		20,943	412,226	644,074
Related parties	22	1,392	27,404	46,874
Inventories	9	265,148	5,218,883	5,429,270
Derivative financial instruments	19	14,299	281,443	6,422
Prepayments		23,888	470,173	383,706
Total current assets		967,197	19,037,247	23,009,300
Non-current assets:				
Non-current taxes receivable	8	82,100	1,615,950	1,737,579
Property, plant and equipment, net	10	1,131,813	22,277,358	23,579,009
Goodwill	11	972,372	19,139,103	22,196,198
Intangible assets	12	311,232	6,125,957	6,992,799
Other non-current assets, net		297,920	5,863,902	6,708,339
Investments measured under equity method and other non-current investments		6,596	129,839	126,507
Derivative financial instruments	19	7,694	151,452	-
Deferred income taxes	14	72,558	1,428,156	546,456
Total non-current assets		2,882,285	56,731,717	61,886,887
Total assets		$ 3,849,482	$ 75,768,964	$ 84,896,187

Liabilities and Stockholders' Equity	Notes	2018 Thousands of US dollars (US$) Note 3b	2018	2017
Current liabilities:				
Short-term loans	13	$ 84,035	$ 1,654,051	$ 26,353,649
Current portion of long-term debt	13	47,707	939,015	2,272,589
Suppliers		446,117	8,780,879	8,180,315
Related parties	22	79,117	1,557,251	460,350
Income taxes payable		39,497	777,417	680,178
Employee benefits	15	32,111	632,029	753,745
Taxes and other accounts payable		108,102	2,127,769	1,625,711
Derivative financial instruments	19	290	5,710	88,255
Total current liabilities		836,976	16,474,121	40,414,792
Non-Current liabilities:				
Long-term debt	13	1,214,565	23,906,156	2,345,224
Employee benefits	17	30,250	595,409	585,798
Deferred income taxes	14	113,000	2,224,168	2,997,204
Long-term taxes payable		36,923	726,743	898,718
Long-term other accounts payable	18	318,667	6,272,290	7,697,088
Total non-current liabilities		1,713,405	33,724,766	14,524,032
Total liabilities		2,550,381	50,198,887	54,938,824
Stockholders' equity:	20			
Capital stock		75,577	1,487,567	1,489,969
Net premium in share placement		646,982	12,734,483	13,088,939
Retained earnings		714,508	14,063,591	13,984,365
Other reserves		(156,010)	(3,070,732)	1,019,366
Total controlling interest		1,281,057	25,214,909	29,582,639
Non-controlling interest		18,044	355,168	374,724
Total Stockholders' equity		1,299,101	25,570,077	29,957,363
Total Stockholders' equity and liabilities		$ 3,849,482	$ 75,768,964	$ 84,896,187

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

Grupo Lala, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Profit (Loss) and Other Comprehensive Income

For the years ended December 31, 2018 and 2017
(In thousands of Mexican pesos, except for earnings per share amounts)

	Note	2018 $US Note 3b	2018	2017
Reveues		$ 3,831,699	$ 75,418,944	$ 62,540,248
Cost of sales	21	2,484,842	48,908,895	39,242,194
Gross profit		1,346,857	26,510,049	23,298,054
Other operating income		50,094	986,004	177,917
Distribution expenses	21	276,412	5,440,599	4,678,825
Operation expenses	21	809,152	15,926,463	13,177,893
Other operating expenses		36,456	717,566	19,099
Operating profit		274,931	5,411,425	5,600,154
Financial expenses		(133,440)	(2,626,479)	(544,801)
Financial income		12,277	241,646	146,714
Loss on financial instruments		(514)	(10,108)	(7,812)
Loss due to exchange fluctuation, net		(2,929)	(57,655)	(230,672)
Share of profit in investments measured under the equity method		(91)	(1,782)	2,393
		(124,697)	(2,454,378)	(634,178)
Income before income taxes		150,234	2,957,047	4,965,976
Income taxes	14	48,934	963,174	2,000,960
Net consolidated income		101,300	1,993,873	2,965,016
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Remeasurement of employee benefit obligations		1,449	28,512	(24,670)
Effect of deferred income taxes from the remeasurement of employee benefit obligations		(425)	(8,360)	7,090
		1,024	20,152	(17,580)
Items that will be reclassified to profit or loss:				
Cumulative translation adjustments of foreign operations		(216,523)	(4,258,136)	(423,860)
Gain on instruments designated as hedges in the acquisition of foreign operations		-	-	769,980
Gain on instruments designated as accounting hedges		10,961	212,081	-
Income tax related to the items that will be reclassified to profit or loss		(3,242)	(63,803)	(105,931)
Other comprehensive income, net		(207,780)	(4,089,706)	222,609
Net consolidated comprehensive income		$ (106,480)	$ (2,095,833)	$ 3,187,625

	Note	2018 $US Note 3b	2018	2017
Distribution of net income:				
Controlling interest		$ 96,936	$ 1,907,981	$ 2,866,001
Non-controlling interest		4,364	85,892	99,015
Net income		$ 101,300	$ 1,993,873	$ 2,965,016
Comprehensive income attributable to:				
Controlling interest		$ (110,864)	$ (2,182,117)	$ 3,088,845
Non-controlling interest		4,384	86,284	98,780
Consolidated comprehensive income		$ (106,480)	$ (2,095,833)	$ 3,187,625
Weighted average of outstanding shares (in thousands)		2,458,352	2,458,352	2,466,831
Basic and diluted earnings per share of controlling interest		$ 0.04	$ 0.78	$ 1.16

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

Grupo Lala, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2018 and 2017
(In thousands of pesos)

	Capital stock	Additional paid-in-capital	Retained earnings	Other reserves	Controlling interest	Non-controlling interest	Total Stockholders' equity
Balance as of December 31, 2016	$ 1,491,486	$ 13,408,351	$ 12,965,672	$ 796,522	$ 28,662,031	$ 324,843	$ 28,986,874
Net profit	-	-	2,866,001	-	2,866,001	99,015	2,965,016
Other comprehensive income, net of taxes	-	-	-	222,844	222,844	(235)	222,609
Total comprehensive income (Note 20)	-	-	2,866,001	222,844	3,088,845	98,780	3,187,625
Dividends declared (Note 20)	-	-	(1,857,444)	-	(1,857,444)	(49,000)	(1,906,444)
Increase in capital stock	-	-	10,136	-	10,136	101	10,237
Repurchase of capital stock	(1,589)	(336,025)	-	-	(337,614)	-	(337,614)
Reissuance of capital stock	72	16,613	-	-	16,685	-	16,685
Balance as of December 31, 2017	1,489,969	13,088,939	13,984,365	1,019,366	29,582,639	374,724	29,957,363
Net profit	-	-	1,907,981	-	1,907,981	85,892	1,993,873
Other comprehensive result, net from taxes	-	-	-	(4,090,098)	(4,090,098)	392	(4,089,706)
Total comprehensive result (Note 20)	-	-	1,907,981	(4,090,098)	(2,182,117)	86,284	(2,095,833)
Dividends declared (Note 20)	-	-	(1,523,193)	-	(1,523,193)	(105,840)	(1,629,033)
Increase in capital stock	-	-	6,237	-	6,237	-	6,237
Effect of IFRS 9 adoption (Note 2)	-	-	(168,695)	-	(168,695)	-	(168,695)
Effect of IFRS 15 adoption (Note 2)	-	-	(143,104)	-	(143,104)	-	(143,104)
Repurchase of capital stock	(4,304)	(633,295)	-	-	(637,599)	-	(637,599)
Reissuance of capital stock	1,902	278,839			280,741		280,741
Balance as of December 31, 2018	$ 1,487,567	$ 12,734,483	$ 14,063,591	$ (3,070,732)	$ 25,214,909	$ 355,168	$ 25,570,077
Convenience translation (Note 3b)	US$ 75,577	US$ 646,982	US$ 714,508	US$ (156,010)	US$ 1,281,057	US$ 18,044	US$ 1,299,101

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

Grupo Lala, S. A. B. de C. V. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017
(In thousands of pesos)

	Note	2018 US$ Note 3b	2018	2017
Cash flows from operating activities:				
Profit before income taxes		$ 150,234	$ 2,957,047	$ 4,965,976
Items that do not affect cash flow:				
Depreciation and amortization		117,110	2,305,082	1,878,561
Impairment of intangible assets		864	17,006	-
Impairment of financial assets		4,001	78,744	67,480
Loss on financial instruments		514	10,108	7,812
Share of profit in investments measured under the equity method		91	1,782	(2,393)
Financial expenses		133,440	2,626,479	544,801
Financial income		(12,277)	(241,646)	(146,714)
Other		2,748	54,079	(48,279)
Loss of unrealized foreign currency		2,929	57,655	230,672
		399,654	7,866,336	7,497,916
Changes in working capital:				
Decreases (increases) in receivables		(18,289)	(359,964)	(922,182)
Decreases (increases) in inventories		5,250	103,332	(293,612)
Related parties		56,168	1,105,558	56,641
Recoverable taxes		(41,927)	(825,240)	119,434
Decreases (increases) in other accounts receivables and prepayments		1,778	34,989	(479,361)
Increases (decreases) in suppliers		88,838	1,748,603	873,227
Employee benefits		7,309	143,864	17,999
Short term employee benefits		(4,797)	(94,417)	315,318
Increases (decreases) in other accounts payable		(12,840)	(252,733)	(243,210)
		481,144	9,470,328	6,942,170
Income taxes paid		(138,036)	(2,716,944)	(2,397,161)
Net cash flows generated by operating activities		343,108	6,753,384	4,545,009
Cash flows from investing activities:				
Cash flows from acquisition of property, plant and equipment		(123,708)	(2,434,936)	(3,711,550)
Cash flows from sale of property, plant and equipment		8,716	171,566	225,361
Cash flows from acquisition of intangible assets		(7,691)	(151,390)	(104,705)
Cash flows from business acquisition and purchase price adjustments, net of cash		13,019	256,243	(22,360,996)
Acquisition of financial instruments		(191)	(3,763)	(41,408)
Sale of financial instruments		-	-	1,794,980
Cash received from the sale of associates and price adjustments		(3,040)	(59,837)	3,222,652
Interest received		11,214	220,732	170,889
Net cash flows used in investing activities		(101,681)	(2,001,385)	(20,804,777)

	Note	2018 US$ Note 3b	2018	2017
Cash flows from financing activities:				
Amounts from loans		2,286,607	45,007,049	31,101,674
Interest paid		(123,747)	(2,435,694)	(618,769)
Cash from factoring operations		-	-	2,538,167
Payments from factoring operations		-	-	(1,910,642)
Payments of short and long term loans		(2,493,311)	(49,075,597)	(10,402,417)
Repurchase of capital stock		(32,394)	(637,599)	(337,614)
Reissuance of capital stock		14,263	280,741	16,685
Payments of finance leases		(240)	(4,731)	(22,538)
Dividends paid to controlling interest		(76,511)	(1,505,963)	(1,463,210)
Dividends paid to non-controlling interest		(5,377)	(105,840)	(49,000)
Net cash flows used in financing activities		(430,710)	(8,477,634)	18,852,336
Net increase (decrease) in cash and cash equivalents		(189,283)	(3,725,635)	2,592,568
Variation in the exchange rate on cash and cash equivalents		(23,250)	(457,629)	(125,287)
Cash and cash equivalents at the beginning of the year		342,093	6,733,382	4,266,101
Cash and cash equivalents at the end of the year		$ 129,560	$ 2,550,118	$ 6,733,382

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

1. Business description

Grupo Lala, S.A.B. de C.V. and subsidiaries (hereinafter the "Entity", the "Group" or "Grupo Lala") is one of the leading milk producers in Mexico and currently has a significant presence in the Brazilian markets, Central America and the United States. The Entity is engaged in the production, transportation and marketing of flavored milk and beverages with added value for health and well-being, as well as other dairy products such as yogurt and cheese.

The Entity is a public limited stock company with variable capital in Mexico. The Entity's corporate offices located in Avenida Javier Barros Sierra 495, Park Plaza 3, 6th floor, Colonia Zedec Santa Fe, Alvaro Obregon, Zip Code 01219, Mexico City.

In the following notes to the consolidated financial statements when reference is made to pesos, Mexican pesos or "$", mean thousands of Mexican pesos. When referring to "USD" or dollars, mean thousands of dollars of the United States. In case of information in thousands of Brazilian reales, reference will be made to "R$" or Reales.

The Entity carries out its operations mainly through its subsidiaries. The following is a list of the main subsidiaries and their activities, as well as the percentages of shareholding as of December 31, 2018 and 2017.

Subsidiaries	Percentage of share	Country	Activity
Comercializadora de Lácteos y Derivados, S. A. de C. V.	100%	Mexico	Marketer of milk and dairy products in Mexico
Abastecedora de Alimentos de México, S. A. de C. V.	100%	Mexico	Entity dedicated to the purchase of fluid milk
Productos Lácteos de Centroamérica, S. A. and Subsidiaries	100%	Guatemala	Marketer of milk and milk products in Central America
Lala Nicaragua, S. A.	100%	Nicaragua	Marketer of milk and milk products in Central America
Lala Branded Products, LLC and Subsidiaries	100%	United States of America	Marketer of milk and milk products in the United States of America
Productos Lácteos La Perfecta, S. A.	100%	Nicaragua	Marketer of milk and milk products in Central America
Vigor Alimentos, S. A. and Subsidiaries (acquired in 2017, Note 5)	99.9989%	Brazil	Marketer of milk and dairy products in Brazil

Significant events

Designation of new CEO– On September 1, 2018, Mr. Mauricio Leyva Arboleda assumed the position of general director. The appointment confirms the Entity's confidence in the beginning of the next stage that will capitalize the investments made in recent years, resume growth and reactivate the Entity's profitability. He has over 25 years of experience in consolidating and profitably growing businesses.

Placement of Debt Certificates– The Entity made the initial placement of Debt Certificates in the Mexican market for a total amount of $13,000 million pesos. The transaction was placed among a diversified investor base and was overwritten 2.0 times.

	LALA 18	LALA 18-2	LALA 18-3
Amount (MXN$)	$6,000 millions	$4,000 millions	$3,000 millions
Maturity	February 2028	March 2023	April 2021
Total term	10 years	5 years	3 years
Rate	Fixed 9.17%	Variable TIIE 28 + 50 bp	Variable TIIE 28 + 40 bp
Payment of capital	To maturity	To maturity	To maturity
Interest payment	182 days	28 days	28 days
Date of placement	March 12, 2018	March 12, 2018	April 17, 2018

The issues are rated "AA (mex)" by Fitch Ratings and "HR AA" by HR Ratings.

The proceeds from these issues will be used to refinance part of the debt incurred in October of last year for the acquisition of Vigor Alimentos, S. A. (“Vigor”).

Acquisition of Vigor in 2017 and conclusion of the acquisition method in 2018 – On October 26, 2017, Grupo Lala acquired, through one of its subsidiaries, 99.9989% of the shares of Vigor Alimentos, S. A. ("Vigor") to FB Participaçiones, S. A., JBS, S. A. and Arla Foods International A/S (“Vendedores”) and indirectly, 100% of Dan Vigor Indústria e Comércio de Laticínios Limitada (“Dan Vigor”), as a subsidiary of Vigor, and 50% of the shares of Itambé Alimentos S. A. (“Itambé”), as an associated investment by Vigor.

Vigor is engaged to the production and marketing of milk and dairy prouducts in Brazil, of the brands “Vigor”, “Danubio”, “Amelia”, “Leco”, “Fong”, “Carmelita”, “Mesa”, “Serrabella”, “Faixa Azul” and “Doriana”, in addition to including a total of 9 production plants, 3 milk collection centers and 19 distribution centers, with which it covers 47,000 points of sale, with a strong presence in Sao Paulo, Minas Gerais and Rio de Janeiro. In 2018, the Entity completed the application of the acquisition method required by IFRS 3, *Business Combinations* (see Note 5).

Sale of Itambé – Based on the terms of the agreement signed between Grupo Lala and the Sellers, Cooperativa Central dos Productores Rurais de Minas Gerais Ltda. (“CCPR”), had a right of preference (*right of first refusal*) to acquire the shares of Itambé held by Vigor, in case of a change of control over Vigor. Therefore, on September 21, 2017, CCPR notified Vigor of its intention to exercise its preemptive right to acquire 50% of the shares of Itambé owned by Vigor, which was formalized on December 4, 2017. The sale price of these shares was R$552,543 (equivalent to $3,222,652). Upon completion of the acquisition method of the purchase of Vigor in 2018, the profit recorded for this operation was restructured in 2017, considering the sale value of Itambé as the fair value of the investment in shares recognized at the time of the purchase of Vigor (see Note 5).

Restructuring reserve – The Entity recognized an extraordinary expense of $168,182 related to the reorganization of businesses in the United States and Central America, mainly. The expectation is that such reorganization will generate efficiencies in the business during the following years.

2. Adoption of new and revised International Financial Reporting Standards

In the current year, the Entity adopted a series of new and modified IFRS, issued by the International

Accounting Standards Broad (“IASB”), which are mandatory and become effective for periods beginning on or after January 1, 2018.

IFRS 9, Financial Instruments

IFRS 9, *Financial Instruments*, replaces IAS 39, *Financial Instruments: Recognition and Measurement*. This standard is mandatorily effective for periods beginning on or after January 1, 2018 and introduces a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or fair value through other comprehensive income (FVTOCI), lease receivables, contract assets and certain written loan commitments and financial guarantee contracts.

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

Regarding the new impairment model based on expected losses, management of Grupo Lala decided to adopt the standard retrospectively, recognizing the effects on retained earnings as of January 1, 2018. On this date, due to the new requirements, Grupo Lala recognized an adjustment of $168,695, net of deferred taxes, for increasing the allowance for impairment of accounts receivable.

In relation to the requirements of classification and measurement of financial assets, until December 31, 2017, Grupo Lala classified its financial assets in the following categories: at fair value through profit or loss, loans and receivables, investments held to maturity and available for sale. Such classification depended on the purpose for which the financial assets were acquired. However, as of January 1, 2018, based on the adoption of IFRS 9, Grupo Lala subsequently classifies and measures its financial assets based on the business model to manage its financial assets, and on the characteristics of the contractual cash flow of such assets. Under this approach, financial assets can be classified at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss.

Grupo Lala did not have any impacts associated with the new category of fair value measurement through other comprehensive income, since it currently does not have any instrument that qualifies for this treatment; its financial instruments qualify within the categories to be measured at amortized cost and at fair value through profit or loss. See Note 3 e), where more details on the categories of financial assets are described.

Moreover, IFRS 9 also introduces some changes in hedge accounting in relation to how to evaluate the effectiveness of hedging relationships, which must be aligned with the objectives and risk management strategies of the Entity. The requirements of IFRS 9 were adopted prospectively without representing impacts in the transition, since they are consistent with the accounting policy applied by the Entity under IAS 39, which means that all derivative financial instrument contracts designated under hedge accounting before January 1, 2018 and effective as of that date, only suffered a change in documentation, in line with the new requirements of IFRS 9; while all new derivative financial instruments entered into from January 1, 2018 onwards and that are designated as accounting hedges, are directly subject to the requirements of the new standard.

In addition, the introduction of IFRS 9 does not imply significant changes related to the classification and measurement of financial liabilities, except for the treatment of changes in terms of a financial liability, which require an adjustment to amortized cost when a refinancing transaction does not imply an extinguishment of the liability. These changes were not applicable to Grupo Lala in the period reported.

Lastly, the adoption of IFRS 9 resulted in new disclosures in response to the requirements of IFRS 7, *Financial Instruments: Disclosures*.

IFRS 15, Revenues from contracts with customers

IFRS 15, *Revenues from Contracts with Customers*, is effective for periods beginning January 1, 2018. Under this standard, revenue recognition is based on the transfer of control, i.e. notion of control is used to determine when a good or service is transferred to the customer.

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

The Entity adopted this standard using the modified retrospective approach applied to contracts in effect at the date of initial adoption on January 1, 2018, thus any impacts in the transition are recognized directly against retained earnings as of that date, without affecting the comparative periods. Based on its analysis, management determined that the main impacts derived from the adoption of IFRS 15, correspond to the valuation of the rights granted to its customers to accept substitutions of products near their expiration date and to the time control of the products is transferred to the customers, in order to justify that the performance obligations have been satisfied. Therefore, at the transition date the Entity recognized a liability corresponding to the rights granted against retained earnings for $99,797, net of deferred taxes; in addition, it recognized an adjustment for $ 43,307, net of deferred taxes, related to products whose control was transferred in days after January 1, 2018.

Additionally, the amount of disclosures required in the Entity's consolidated financial statements was increased, specifically in relation to the time of compliance with the identified performance obligation, significant payment terms, the method to determine the price of the contracts, including the significant variable considerations, and the method used to recognize revenue.

IFRIC 22, Interpretation on foreign currency transactions and advance consideration

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

The Entity translates advance considerations at the exchange rate on the date of the transaction, either received or paid, and recognizes them a non-monetary items; therefore, it did not have significant impacts in the adoption of this interpretation in its consolidated financial statements.

New standards and interpretations, not effective in the reporting period

A series of new standards, amendments and interpretations have been issued, which are not yet effective for reporting periods ended in December 31, 2018, and have not been early adopted by the Entity. Below is a summary of these new standards and interpretations as well as the Entity’s assessment as to the potential impacts on the consolidated financial statements:

IFRS 16, Leases

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

Under this standard, lessees will recognize the right of use of an asset and the corresponding lease liability. The right-of-use asset 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 Entity will apply the exemptions to not to recognize an asset and a liability as described above, for leases 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 US$5,000 (five thousand dollars). Therefore, payment for such leases will continue to be recognized as expenses within operating income.

The Entity adopted IFRS 16 on January 1, 2019; therefore, it recognized a right-of-use asset of $1,951,324 and a lease liability of $1,950,454, as its initial adoption effect. The resulting difference between the right-of-use asset and the lease liability was recognized in retained earnings for all those initial payments to get into an effective lease agreement in effect as of January 1, 2019, and that had been previously recognized as an expense in profit or loss; if not, and if they had been capitalized from their origin, that difference would be reclassified as part of the asset by right of use without impacting retained earnings.

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

- Account for as leases the payments made in conjunction with the rent, and that represent services (for example, maintenance and insurance).
- Create portfolios of contracts that are similar in terms, economic environment and characteristics of assets, and use of a funding rate by portfolio to measure leases.
- Not to revisit the previously reached conclusions for service agreements which were analyzed as of December 31, 2018 under IFRIC 4, *Determining Whether a Contract Contains a Lease*, and where it had been concluded that there was no implicit lease.

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

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

IFRIC 23, Interpretation of uncertain tax positions

This interpretation seeks to clarify the application of the recognition and measurement criteria established by IAS 12, *Income Taxes*, when there are uncertain tax positions. Uncertain tax positions are those tax positions where there is uncertainty about whether the competent tax authority will accept the tax position under current tax laws. In such cases, the Entity will recognize and measure its asset or liability for current or deferred taxes applying the requirements of IAS 12 based on tax profits (losses), tax bases, unused fiscal losses, unused tax credits and tax rates determined by applying this Interpretation.

The Entity will apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Early application is permitted and the event must be disclosed. In its initial application, it is applied retrospectively under the requirements of IAS 8, modifying comparative or retrospective periods with the accumulated effect of its initial application as an adjustment in the initial balance of retained earnings, without modifying comparative periods.

The Entity does not expect to have a significant impact from the adoption of this interpretation in its consolidated financial statements, because it does not maintain uncertain tax positions that could be considered important.

3. Significant accounting policies

a. Statement of compliance

The Entity's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Financial Reporting Standards Board ("IASB")

b. Basis of preparation

The Entity's consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are valued at their fair value at the end of each period, as explained in the accounting policies included below. The consolidated financial statements are presented in thousands of Mexican pesos ($), unless otherwise indicated.

i. Historic cost

The historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

ii. Fair value

Fair value is defined as the price that would be received for selling an asset or that would be paid for transferring a liability in an orderly transaction between participants in the market at the valuation date, regardless of whether that price is observable or estimated using another technique of valuation directly. When estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability, if the market participants would take those characteristics at the time of fixing the price of the asset or liability at the measurement date. The fair value for measurement and / or disclosure purposes of these consolidated financial statements is determined in such a manner, except for transactions with share-based payments that are within the scope of IFRS 2, the leasing operations that are within the scope of IAS 17, and valuations that have some similarities to fair value, but is not a fair value, such as the net realizable value of IAS 2 or the value in use of IAS 36.

In addition, for financial reporting purposes, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which the input data are observable in the measurements and their importance in determining the fair value in its entirety, which are described as follows:

- Level 1 Quoted prices in an active market for identical assets or liabilities that the entity can obtain at the valuation date;
- Level 2 Observable input data other than the quoted prices of Level 1, either directly or indirectly,
- Level 3 Considers unobservable input data.

<u>Convenience translation</u>

The amounts expressed in US dollars as of December 31, 2018 shown in the consolidated financial statements are included only for the convenience of the reader and are considered complementary information to that required by IFRS. Said amounts are translated from Mexican pesos at the exchange rate of $ 19.68 per US dollar, which is the exchange rate published on December 31, 2018 in the Official Gazette of the Federation. Such translation should not be construed as a declaration that the amounts in Mexican pesos have been translated, may have been translated or may be translated in the future to US dollars at this or any other exchange rate.

c. *Basis of consolidation of financial statements*

The consolidated financial statements include those of Grupo Lala, S.A.B. of C.V. and those of its subsidiaries at and for the years ended December 31, 2018 and 2017. The subsidiaries are consolidated as of the date of acquisition, which is the date on which the Entity acquires control, and they continue to consolidate until the date in which said control ends.

The control is acquired when the Entity:

- Has power over the investment;
- Is exposed, or has the right, to variable returns derived from its interest with said entity and
- Has the ability to affect such returns through its power over the entity in which it invests.

The Entity reassesses whether or not it has control over the investment based on the facts and circumstances that have changed one or more of the three control elements that were listed above.

When the Entity does not have the majority of the voting rights, or similar rights of the investment, it has power over the same when the voting rights are sufficient to grant it the practical ability to direct its relevant activities, unilaterally. The Entity considers all relevant facts and circumstances to ensure that it has the power to invest, including:

- The percentage of interest of the Entity in the voting rights in relation to the percentage and dispersion of the voting rights of the other holders thereof;
- Potential voting rights held by the Entity, by other stockholders or by third parties;
- The rights that arise from other contractual agreements, and
- Any additional fact and circumstance that indicates that the Entity has, or does not have, the current capacity to direct the relevant activities at the time the decisions must be made, including the voting tendencies of the stockholders in the previous assemblies.

The subsidiaries are consolidated from the date on which the control is transferred to the Entity, and are no longer consolidated from the date when control is lost. The gains and losses of the subsidiaries acquired or sold during the year are included in the consolidated statements of income and other comprehensive income from the date on which the parent obtains control or until the date that is lost, as the case may be.

The item "Non-controlling interest" refers to the interest of minority stockholders in the Entity's subsidiaries over which 100% of the shareholding is not held.

Profit and each component of other comprehensive income are attributed to controlling and non-controlling interests. The comprehensive result of the subsidiaries is attributed to the controlling and non-controlling interests even if it results in a deficit in the latter.

The financial statements of the subsidiaries are prepared for the same period of information as that of the controlling entity, applying uniform accounting policies.

All balances, transactions and intercompany transactions, unrealized profits and losses resulting from intercompany transactions, as well as dividends, have been eliminated from consolidation.

<u>Changes in the Entity's interest in existing subsidiaries</u>

Changes in the Entity's investments in subsidiaries that do not result in a loss of control are recorded as capital transactions. The book value of the investments and non-controlling interests of the Entity is adjusted to reflect changes in the corresponding investments in subsidiaries. Any difference between the amount for which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized in Stockholders' equity and attributed to the owners of the Entity.

When the Entity loses control of a subsidiary, the gain or loss in the provision is calculated as the difference between (i) the sum of the fair value of the consideration received and the fair value of any retained interest and (ii) the value in previous books of assets (including goodwill) and liabilities of the subsidiary and any non-controlling interest. The amounts previously recognized in other comprehensive income items related to the subsidiary are recorded in the same manner established for the case where the relevant assets or liabilities are available (that is, they are reclassified to profit or loss or directly transferred to other comprehensive income as specified or allowed by IFRS). The fair value of any investment retained in the subsidiary on the date that control is lost is considered as the fair value for the initial recognition, in accordance with IAS 39 or, as the case may be, the cost in the initial recognition of an investment in an associate or joint venture.

d. Financial instruments

Financial assets and liabilities are recognized when the Entity becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially valued at their fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and liabilities (other than financial assets at fair value through profit or loss) are added to or reduced from the fair value of financial assets or liabilities, where applicable, in the initial recognition. Transaction costs directly attributable to the acquisition of financial assets and liabilities at fair value through profit or loss are recognized immediately in profit or loss.

For financial assets and liabilities that the Entity measures at amortized cost, as explained below, it uses the effective interest rate method ("TIE" or "EIR"), with the objective of allocating the income or financial cost of the instrument during the relevant period. The effective interest rate is the rate that discounts estimated future cash income (including all fees and base points paid or received that are an integral part of the effective interest rate, transaction costs and other premiums or discounts) during the expected life of the debt instrument or, when appropriate, a shorter period, at net book value at the time of initial recognition.

e. Financial assets

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

Through December 31, 2017, the Entity classified its financial assets into the following categories: cash and cash equivalents, financial assets at fair value through profit or loss ("FVTPL"), loans and accounts receivable, investments held to maturity, financial assets available for sale and other capital investments. The classification depended on the nature and purpose of the financial asset and was determined at the time of initial recognition.

1. Financial assets at FVTPL

Financial assets are classified as FVTPL assets are (i) the contingent consideration that would be paid by an acquirer as part of a business combination in which IFRS 3 applies, (ii) when they are held for trading or (iii) they are designated as FVTPL.

A financial asset was classified as held for trading purposes if:

- It was bought mainly with the aim of selling it in a short period; or
- In its initial recognition, it was part of a portfolio of identified financial instruments that the Entity manages jointly, and for which there was a recent real pattern of short-term profit taking; or
- It was a derivative that's not designated and is effective as a hedging instrument.

Financial assets at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated statement of profit (loss). Gains or losses from changes in fair value of these assets are presented in the consolidated statements of profit (loss) and other comprehensive income as incurred.

As of January 1, 2018, the financial assets at FVTPL held by the Entity maintained the fair value classification with changes in results, according to its business model, without this representing measurement impacts

2. Investments held to maturity

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Entity has the intention and ability to hold to maturity. Subsequent to initial recognition, investments held to maturity are valued at amortized cost using the effective interest method less any impairment loss.

As of January 1, 2018, held-to-maturity investments that are found in cash equivalents and as short-term investments are classified within the category of financial assets at amortized cost, according to their business model, without this represents measurement impacts.

3. Investments available for sale

Available for sale investments include capital investments. Investments in equity securities classified as available for sale are those that are not classified or held for trading or to be recognized at fair value through profit or loss.

After initial recognition, investments available for sale are measured at fair value, and unrealized gains or losses are recognized as another item of comprehensive income for financial assets classified as available for sale, until the investment is derecognized, and at that moment, the cumulative gain or loss is recognized as financial products, or if it is considered impaired the accumulated loss is reclassified to the statement of profit (loss) and other comprehensive income in the financial expenses and is eliminated from the other comprehensive income items. Interest earned on investments in debt securities classified as available for sale are calculated using the effective interest rate method and are recognized in profit or loss.

The Entity did not maintain this type of financial instruments as of December 31, 2017; therefore, it did not have impacts related to a new classification due to the adoption of IFRS 9.

4. Loans and accounts receivable

Loans and accounts receivable are non-derivative financial instruments with fixed or determinable payments that are not traded in an active market. Loans and accounts receivable (including customers, miscellaneous debtors, accounts receivable from related parties and other accounts receivable) are valued after their final recognition at amortized cost, using the effective interest rate method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term accounts receivable if the recognition of interests is immaterial.

As of January 1, 2018, financial assets for loans and accounts receivable are classified within the category of financial assets at amortized cost, according to their business model, without this representing measurement impacts.

Classes of financial assets under IFRS 9, effective as of January 1, 2018

Beginning January 1, 2018, in accordance to the adoption of IFRS 9, *Financial Instruments*, the Entity subsequently classifies and measures its financial assets based on the Entity’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.

5. Financial assets at amortized cost

Financial assets at amortized cost are those 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.

6. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are those whose business model is based on both collecting contractual cash flows and selling the financial assets; and their contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal. As of December 31, 2018, the Entity does not hold financial assets to be measured at fair value through other comprehensive income.

7. 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 those 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 previously mentioned classifications, the Entity may make the following irrevocable elections in the initial recognition of a financial asset:

a. 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, or is a contingent consideration recognized as a result of a business combination.
b. Assign a debt instrument to be measured at fair value in profit or loss, if such election eliminates or significantly reduces an accounting mismatch that would arise from the measurement of assets or liabilities or the recognition of profits and losses on them in different bases.

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

8. Impairment of financial assets

Through December, 31, 2017, the Entity determined the existence of impairment in financial instruments following different mechanisms, according to the type of financial instrument to be evaluated, as follows:

a. Financial assets measured at amortized cost

The Entity evaluates at the end of each year if there was objective evidence of impairment of each financial asset or group of financial assets. An impairment loss was recognized if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and provided that the event of loss (or events) had an impact on the estimated future cash flows derived from the financial asset or group of financial assets that could be reliably estimated.

b. Available for sale financial assets

In the case of available for sale financial assets, the impairment loss determined by computing the difference between the cost of acquisition and the asset's current fair value, less any previously recognized impairment loss, was reclassified from other comprehensive income and expense accounts. It was recorded in the statement of profit and loss within financial result, net.

New impairment policy from the adoption of IFRS 9

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

The Entity adopted a simplified model to calculate the expected losses, through which it recognizes expected credit losses during the life of its financial assets; in this regard, accounts receivable from customers represent the most significant assets subject to impairment tests.

Therefore, in order to apply the new impairment model as of 2018, the management makes an analysis of its portfolio of accounts receivable, in order to determine if there are significant customers for which it requires an individual evaluation; on the other hand, customers with similar characteristics that share credit risks (participation in the portfolio of accounts receivable, market type, sector, geographic area, etc.), are grouped to be evaluated collectively.

In its impairment assessment, management may include evidence that debtors or a group of debtors are experiencing significant financial difficulties, as well as observable data indicating that there is a significant decrease in the estimate of cash flows to be received, including arrears.

For purposes of the historical estimate, the Entity's management 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 Entity, in its entirety (without considering any guarantee held by the Entity).

The Entity defined the breach threshold as the period from which the recovery of the account receivable subject to analysis is marginal; in this case, 180 days of delay in Mexico and Brazil, while in the United States and Central America 90 days of delay were defined, which is in line with internal risk management.

9. Derecognition of a financial asset

The Entity ceases to recognize a financial asset only when the contractual rights on the cash flows of the financial asset expire or when control of the financial asset is transferred. If the Entity does not transfer or substantially retain all the risks and benefits inherent to the property and continues to retain control of the transferred asset, the Entity will recognize its participation in the asset and the associated obligation for the amounts it would have to pay. If the Entity retains substantially all the risks and benefits inherent to the ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateral loan for the resources received.

On the derecognition of a financial asset in its entirety, the difference between the book value of the asset and the sum of the consideration received and receivable and the accumulated gain or loss that has been recognized in other comprehensive income and accumulated results are recognized in results.

In the case of the derecognition of a financial asset that is not in its entirety (for example, when the Entity retains an option to repurchase part of a transferred asset), the Entity distributes the previous carrying amount of the financial asset among the party that continues to recognize in virtue of its continuous involvement, and the party that no longer recognizes on the basis of the relative reasonable values of said parties on the date of the transfer. The difference between the carrying amount attributable to the party that is no longer recognized and the sum of the consideration received by the unrecognized party and any accumulated gain or loss that is assigned to it that has been recognized in other comprehensive income is recognized in the result of the period. The accumulated profit or loss that has been recognized in other comprehensive income will be distributed between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of the mentioned parties.

f. Inventories

Inventories of raw materials and packaging, production in process and finished products are presented at their cost or net realizable value, whichever is less. The cost of the inventories includes all the purchase and production costs incurred to give them their current location and condition and are accounted for as follows:

<u>Raw material and packaging</u>: at acquisition cost according to the standard costing formula, which is revalued at average cost at the close of each month.

<u>Finished and in process products:</u> the real cost of the materials, direct labor, as well as the indirect expenses of production; considering an estimated normal production capacity.

The net realization value is the estimated sale price in the normal course of business less the disposal costs and, if applicable, the estimated termination costs.

Spare parts, pallets and baskets are considered part of the inventories, are presented at their cost or net realization value, whichever is less and are recognized in the result at the time of consumption or loss, respectively.

The Entity records the necessary estimates to recognize the decreases in the value of its inventories due to deterioration, obsolescence, slow movement and other causes that indicate that the use or realization of the items that are part of the inventory will be lower than the registered value.

g. Property, plant and equipment

Property, plant and equipment are presented at acquisition cost less accumulated depreciation and any recognized impairment loss. In the case of assets that require a substantial period of time to be ready for possible use or sale, borrowing costs are capitalized as part of the cost of the respective assets. All other borrowing costs are charged to income in the period in which they are incurred. The costs for loans include interest and other costs incurred by the Entity in relation to the loans obtained. The cost of capitalized loans is determined by applying the weighted average capitalization rate of the loans, to the weighted average of the investments in qualifying assets during the acquisition period.

Leasehold improvements in which the Entity acts as a lessee are recognized at its cost reduced from the respective depreciation.

Properties that are under construction or installation for production, supply or management purposes are recorded at cost less any recognized impairment loss. The cost includes professional fees and, in the case of qualifying assets, the costs for loans capitalized in accordance with the accounting policy of the Entity. These properties are classified to the appropriate categories of property, plant and equipment when they are complete for their intended use. The depreciation of these assets, as in other properties, begins when the assets are ready for their planned use.
Depreciation is recognized as a decrease in the cost of net assets to bring it to its residual value during its estimated useful life, using the straight-line method (see Note 11). The estimated useful life, the residual value and the depreciation method are reviewed at the end of each year based on experience in the industry and with the participation of the administration; The effect of any change in such estimates is recorded prospectively.

Land is not depreciated.

Assets held under finance leases are depreciated based on their estimated useful life as well as their own assets. However, when there is no reasonable certainty that the property is obtained at the end of the lease term, the assets are amortized in the shortest period between the life of the lease and its useful life.

The properties, plant and equipment are written off at the time of sale or when there are no future economic benefits expected from the use of the equipment. The profit or loss arising from the sale or withdrawal of a piece of equipment is calculated as the difference between the income from the sale and the net book value of the equipment, and is recognized in the income statement.

Critical spare parts are included as components of machinery and equipment.

The remaining useful life is as follows:

	Remaining Useful life
Buildings	20 years
Machinery and equipment	17 years
Transportation equipment	5 years
Furniture and others	4 years

h. *Intangible assets*

Intangible assets are non-monetary assets identifiable, without physical substance and represent expenditures whose benefits will be received in the future.

1. <u>Intangible assets acquired separately</u>

   Intangible assets with definite useful life (rights and licenses) acquired separately are recognized at acquisition cost less accumulated amortization and accumulated impairment loss. Amortization is recognized based on the straight-line method over its estimated useful life. The estimated useful life and the amortization method are reviewed at the end of each year, and the effect of any change in the recorded estimate is recognized on a prospective basis.

   Intangible assets with an indefinite useful life that are acquired separately are recorded at cost less accumulated impairment losses.

2. <u>Intangible assets that are generated internally - development disbursements</u>

   Intangible assets generated internally, excluding capitalized development costs, are not capitalized and the expense is reflected in the income statement in the year in which it is incurred.

3. Intangible assets acquired in a business combination

   When an intangible asset is acquired in a business combination (brands, formulas, commercial agreements, among other intangibles) and are recognized separately from goodwill, its initial cost will be its fair value at the acquisition date.

   Subsequent to initial recognition, an intangible asset with a defined life in a business combination shall be recognized by its initial value less accumulated amortization and the accumulated amount of impairment losses. An asset with indefinite life is recognized at its initial value less the accumulated amount of impairment losses. In both cases on the same basis as intangible assets that are acquired separately.

4. Derecognition of intangible assets.

   An intangible asset is written off for sale, or when it is not expected to have future economic benefits due to its use or disposal. The gains or losses arising from the derecognition of an intangible asset, measured as the difference between the net income and the book value of the asset, are recognized in profit or loss when the asset is written off.

i. Impairment of long term assets and intangible assets other than goodwill

At the end of each period, the Entity reviews the book values of its tangible and intangible assets in order to determine if there are indications that these assets have suffered any impairment loss. If there is any indication, the recoverable amount of the asset is calculated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash generating unit to which the asset belongs. When a reasonable and consistent basis of distribution can be identified, the corporate assets are also allocated to the individual cash generating units, or else they are allocated to the smallest Cash Generating Unit for which a cash-generating unit can be identified. Reasonable and consistent distribution base.

Intangible assets with an indefinite useful life or not yet available for use are subject to impairment tests at least every year, and whenever there is an indication that the asset could have deteriorated.

The recoverable amount is the greater between the fair value less the cost of selling it and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the value of money over time and the specific risks of the asset for the year. which estimates of future cash flows have not been adjusted.

If it is estimated that the recoverable amount of an asset (or cash-generating unit) is less than its book value, the book value of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized immediately in results, unless the asset is recorded at a revalued amount, in which case the impairment loss should be considered as a decrease in the revaluation.

Subsequently, 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 of the asset. it would have been determined if an impairment loss had not been recognized for said asset (or cash generating unit) in previous years. The reversal of an impairment loss is recognized immediately in profit or loss, unless the corresponding asset is recognized at a revalued amount, in which case the reversal of the impairment loss is treated as an increase in the revaluation.

j. Goodwill

Goodwill arising from the acquisition of a business is initially recognized at the cost determined at the date of acquisition of the business (see Notes 5 and 12), represented by the excess of the sum of the consideration transferred and the amount recognized for the non-controlling interest, with respect to the net of the identifiable assets acquired and the liabilities assumed. If this consideration is less than the fair value of the net assets acquired, the difference is recognized in the results at the date of acquisition.

After initial recognition, goodwill is measured at acquisition cost less any accumulated impairment loss.

In order to evaluate the impairment, goodwill is assigned to each cash-generating unit (or groups of cash-generating units) of the Entity, which is expected to be benefited by the synergies of the combination.

The cash generating units to which goodwill has been assigned are tested for impairment annually or more frequently when there are indications that the unit may be impaired. If the recoverable amount of a cash-generating unit is less than its book value, the impairment loss is first allocated to reduce the carrying value of any goodwill allocated to the unit and subsequently to the other assets of the unit in a manner prorated and based on the book value of each asset within the unit. Any impairment loss on goodwill is recognized directly in results. An impairment loss on the recognized goodwill is not reversed in subsequent periods

When the goodwill is part of a cash generating unit and part of the operation within that unit is sold, the goodwill related to the sold operation is included in the book value of the operation when determining the gain or loss by the alienation. Goodwill that is derecognized in this circumstance is determined based on the relative values of the sale transaction and the retained portion of the cash generating unit.

k. Investments in associates and joint ventures

An associate is an entity over which the Entity has significant influence. Significant influence is the power to participate in decisions on financial and operating policies of the entity in which it is invested, but it does not imply joint control or control over those policies.

A joint venture is a contractual agreement whereby the parties that have joint control of the agreement are entitled to the net assets of the joint venture. Joint control is the contractual agreement to share control in a business, which exists when decisions about the relevant activities require the unanimous approval of the parties that share control.

The results and the assets and liabilities of the associates or joint ventures are incorporated into the consolidated financial statements using the equity method, except if the investment, or a portion of it, is classified as held for sale, in which case it is accounts in accordance with IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations.* Under the equity method, investments in associates or joint ventures are initially recorded in the consolidated statement of financial position at cost and adjusted for subsequent changes to the acquisition due to the Entity's interest in the profit or loss and the comprehensive income of the Entity, the associate or joint venture. When the Entity's interest in the losses of an associated entity or a joint venture of the Entity exceeds the Entity's interest in that associate or joint venture (which includes the long-term interests that form part of the investment, net of the Entity in the associate or joint venture) the Entity no longer recognizes its share in losses. Additional losses are recognized as long as the Entity has contracted any legal or implicit obligation or has made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is recorded using the equity method from the date on which the investee becomes an associate or a joint venture. In the acquisition of the investment in an associate or joint venture, the excess in the cost of acquisition over the Entity's share in the net fair value of the assets and liabilities identifiable in the investment is recognized as goodwill, which is included in the book value of the investment. Any excess of the Entity's interest in the net fair value of the identifiable assets and liabilities in the acquisition cost of the investment, after the re-evaluation, after its re-evaluation, is immediately recognized in the results of the period in which the investment was acquired.

The requirements of IAS 39 are used to determine whether it is necessary to obtain a loss to improve with respect to the Entity's investment in an associate or joint venture. When necessary, a test of the total carrying amount of the investment (including goodwill) must be performed in accordance with IAS 36 as a single asset, comparing its recoverable amount (greater between the value in use and the fair value less costs of sale) against its book value. Any impairment loss is recognized as part of the value in the investment books. Any reversal of such loss is reduced in accordance with IAS 36.

The Entity discontinues the use of the equity method from the date on which the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Entity maintains its interest in the previously associated or joint venture, the retained investment is measured at fair value at that date and is considered as fair value at the time of initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture on the date on which the equity method is discontinued and the fair value attributable to the retained interest and the gain on the sale of a portion of the interest in the associate or joint venture is included in the determination of the gain or loss by provision of the associate or joint venture. Additionally, the Entity accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture with the same basis that would be required if that associate or joint venture had directly disposed of the relative assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by said associate or joint venture has been reclassified to the consolidated statement of profit (loss) and other comprehensive income by disposing of the relative assets or liabilities, the Entity reclassifies the capital’s profit or loss to the consolidated statement of profit (loss) and other comprehensive income (as a reclassification adjustment) when the equity method is discontinued.

The Entity continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no revaluation at fair value of these changes in interest.

When the Entity reduces its interest in an associate or a joint venture but the Entity continues to use the equity method, the Entity reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income in relation to the reduction of their interest in the investment if that profit or loss had been reclassified to the consolidated statement of profit (loss) and other comprehensive income in the disposition of the relative assets or liabilities.

When the Entity carries out transactions with its associate or joint venture, the profit or loss resulting from such transactions with the associate or joint venture is recognized in the consolidated financial statements of the Entity only to the extent of the interest in the associate or business. that does not relate to the Entity.

The consolidated financial statements include, within investments in associates and joint ventures, the interest of 50.01% of the results of the operations of the companies Leche Bell, S.A. of C.V. and Bell Servicios, S.A. of C.V. The main activity of these entities is the marketing of milk and dairy products in Mexico.

l. Business combinations

Business acquisitions are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values of the assets transferred by the Entity, less the liabilities incurred by the Entity with the previous owners of the acquired company and the equity interests issued by the Entity in exchange for control over the company. The costs related to the acquisition are generally recognized in the income statement as incurred.

At the acquisition date, the identifiable assets acquired and the assumed liabilities are recognized at fair value with the exception of deferred tax assets or liabilities and assets or liabilities related to employee benefits, which are recognized and measured in accordance with IAS 12, *Income Taxes*, and IAS 19, *Employee Benefits*, respectively;

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquired company, and the fair value of the previous shareholding of the acquirer in the acquired company (if any) over the net of the amounts of identifiable assets acquired and liabilities assumed at the date of acquisition. If, after a revaluation, the net amount of identifiable assets acquired and liabilities assumed at the date of acquisition exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquired company and the fair value of the previous stock holding of the acquirer in the acquired company (if any), the excess is recognized immediately in the consolidated income statement as a gain per purchase at a bargain price.

The non-controlling interests that are shareholdings and that grant their holders a proportional share of the Entity's net assets in the event of liquidation, can be measured initially at either fair value or at the value of the proportional interest of the non-controlling interest in the recognized amounts of the net identifiable assets of the acquired company. The base measurement option is performed in each transaction. Other types of non-controlling interests are measured at fair value or, when applicable, based on what is specified by another IFRS.

When the consideration transferred by the Entity in a business combination includes assets or liabilities resulting from a contingent consideration agreement, the contingent consideration is measured at its fair value at the acquisition date and is included as part of the consideration transferred in a combination. of business. The changes in the fair value of the contingent consideration that qualify as adjustments to the measurement period are adjusted retrospectively with the corresponding adjustments against goodwill. Adjustments to the measurement period are adjustments that arise from the additional information obtained during the 'measurement period' (which cannot be more than one year from the date of acquisition) about events and circumstances that existed at the acquisition date.

The accounting treatment for changes in the fair value of the contingent consideration that do not qualify as adjustments to the measurement period depends on how the contingent consideration is classified. The contingent consideration that is classified as capital is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within the capital. Other contingent consideration that is classified as an asset or liability is remeasured at fair value on subsequent reporting dates with changes in the fair value recognized in the consolidated income statement.

When a business combination is carried out in stages, the previous shareholding of the Entity in the acquired company is remeasured at fair value at the acquisition date and the resulting gain or loss, if any, is recognized in the income statement. The amounts arising from interests in the company acquired before the acquisition date that have been previously recognized in other comprehensive income are reclassified to the consolidated income statement when this treatment is appropriate if such interest is eliminated.

If the initial accounting treatment of a business combination is incomplete at the end of the reporting period in which the combination occurs, the Entity reports provisional amounts for the items whose accounting is incomplete. These provisional amounts are adjusted during the measurement period (see above) or additional assets or liabilities are recognized to reflect the new information obtained on the facts and circumstances that existed at the acquisition date and which, had they been known, would have affected the amounts recognized at that date.

m. Leases

Leases are classified as financial when the terms of the lease substantially transfer to the lessees all the risks and benefits inherent to the property. All other leases are classified as operating.

Assets held under financial leases are recognized as assets of the Entity at their fair value, at the beginning of the lease, or if this is less, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a financial lease liability.

Lease payments are distributed between financial expenses and the reduction of lease obligations in order to achieve a constant interest rate on the remaining balance of the liability. Financial expenses are charged directly to income, unless they can be directly attributable to qualifying assets, in which case they are capitalized in accordance with the Entity's accounting policy for borrowing costs. Contingent rents are recognized as expenses in the periods in which they are incurred.

Lease payments for operating leases are charged to income using the straight-line method, during the term corresponding to the lease, unless another systematic basis of prorating is more representative to better reflect the consumption pattern of the benefits of the leased asset. Contingent rents are recognized as expenses in the periods in which they are incurred.

In the event that income incentives are received for having entered into an operating lease agreement, such incentives are recognized as a liability. The aggregate benefit of the incentives is recognized as a reduction in lease expense on a straight-line basis, unless another systematic basis is more representative of the consumption pattern of the economic benefits of the leased asset.

As of January 1, 2019, derived from the adoption of IFRS 16, *Leases*, the accounting policy for the treatment of leases as lessee has been modified in accordance with what is detailed in Note 2.

n. Transactions in foreign currencies

When preparing the financial statements of each entity, transactions in currencies other than the functional currency of the Entity (foreign currency) are recognized using the exchange rates in effect on the dates on which the transactions are carried out. At the end of each period, the monetary items denominated in foreign currency are retranslated at the exchange rates prevailing at that date. Non-monetary items recorded at fair value, denominated in foreign currency, are retranslated at the exchange rates in effect on the date on which the fair value was determined. The non-monetary items that are calculated in terms of historical cost, in foreign currency, are not retranslated.

The exchange rate differences in monetary items are recognized in the results of the period, except when they arise from:

- Foreign exchange differences arising from loans denominated in foreign currencies related to assets under construction for future productive use, which are included in the cost of said assets when they are considered as an adjustment to interest costs on such loans denominated in foreign currencies

- Differences in exchange rate from transactions related to hedges of exchange rate risks; and

- Differences in the exchange rate from monetary items receivable or payable to a foreign operation whose liquidation is not planned nor is it possible to make the payment (thus forming part of the net investment in the foreign operation), which are initially recognized in other comprehensive income and reclassified from stockholders' equity to results in reimbursement of monetary items.

Translation of foreign operations:

To consolidate the financial information of foreign operations that operate outside of Mexico (Brazil, the United States, Nicaragua, Honduras, Costa Rica, El Salvador, Panama and Guatemala), and that represent 25% and 14% of the consolidated net income and the 52% and 61% of total consolidated assets as of December 31, 2018 and 2017, respectively, the same accounting policies of the Entity apply. The functional currency of the companies domiciled in Brazil, the United States of America, Nicaragua, Honduras, Costa Rica, El Salvador, Panama and Guatemala is the Brazilian real, US dollar, Nicaraguan cordoba, lempira, Costa Rican colon, US dollar, US dollar and Quetzal, respectively.

The financial information of these foreign operations that are consolidated is translated into the presentation currency, which is the Mexican peso, initially identifying whether the functional and registration currency of the foreign operation are different and subsequently translating the functional currency to the presentation. Currently, the functional currency of foreign operations is the same as the foreign operation registration, but different from the presentation currency.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Entity's foreign operations are expressed in Mexican pesos, using the exchange rates in effect at the end of the period. The items of income and expenses are translated at the average exchange rates in effect for the period, unless they fluctuate significantly during the period, in which case the exchange rates are used at the date on which the transactions are made. Exchange differences that arise, if applicable, are recognized in other comprehensive income and are accumulated in stockholders' equity (attributed to non-controlling interests when appropriate).

The exchange rates in effect at the end of each period are the following:

	Real		US dollar		Cordoba		Lempira		Colon		Quetzal	
At December 31, 2018	$	5.00	$	19.68	$	0.61	$	0.80	$	0.03	$	2.54
At December 31, 2017	$	5.97	$	19.73	$	0.64	$	0.83	$	0.03	$	2.69

The adjustments corresponding to the goodwill and the fair value of identifiable acquired assets and assumed liabilities generated in the acquisition of an operation abroad are considered as assets and liabilities of said operation and are translated at the exchange rate in effect at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income.

In the sale of a foreign operation (that is, sale of the entire Entity's interest in a foreign operation, or a provision that involves a loss of control in the subsidiary that includes a foreign operation) partial loss of joint control over an entity jointly controlled that includes a foreign operation, partial of which the interest retained becomes a financial instrument, all the differences in the exchange rate accumulated in capital related to that operation attributable to the Entity are reclassified to the results.

Additionally, in the partial disposition of a subsidiary that includes a foreign operation, the Entity will reassign the proportional share of the accumulated amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation and they are not recognized in results In any other partial provision of a foreign operation (that is, of associates or jointly controlled entities that do not involve a loss of significant influence or joint control) the Entity will reclassify to results only the proportional share of the accumulated amount of the exchange differences.

o. Loan costs

The costs for loans directly attributable to the acquisition, construction or production of qualifying assets, which require a substantial period of time until they are ready for use or sale, are added to the cost of those assets during that time until the time of that are ready for use or sale.

The income obtained by the temporary investment of funds from specific loans pending use in qualifying assets is deducted from the costs of eligible loans to be capitalized.

All other borrowing costs are recognized in the results during the period in which they are incurred.

p. Employee benefits

Employee benefits short-term

A liability is recognized for benefits that correspond to employees with respect to wages and salaries, annual vacations and vacation premium for the amount not discounted for the benefits expected to be paid for that service.

The liabilities recognized for short-term employee benefits are valued at the amount not discounted for the benefits expected to be paid for that service.

Employee participation in profit sharing ("EPPS")

The employee participation in profit sharing is recorded in the results of the year in which it is incurred and is presented in the cost of sales item in the consolidated statement of comprehensive income.

As a result of the Income Tax Law of 2014, as of December 31, 2018 and 2017, the PTU is determined based on taxable income pursuant to fraction I of article 9 of the same Law.

Employee benefits

Mexico:

Entities established in Mexico with employees, and in accordance with Mexican labor law, have the obligation to pay a seniority premium to all employees who reach an age of at least 15 years (retirement benefits), as well as pay settlements to workers who are dismissed under certain circumstances (termination benefits).

The Entity grants retirement pensions to non-unionized employees who reach 65 years of age, with the option of early retirement starting at 50 years of age. Pensions are determined based on the compensations of the employees in their last year of work, the years of seniority in the Entity and their age at the time of retirement (retirement benefits).

Brazil:

According to labor legislation in Brazil, the subsidiaries of this country do not have any obligation to pay the withdrawal or termination of the employment relationship, so a liability for these concepts is not recognized.

United States:

The subsidiaries of the United States have pension plans that qualify as 401 (k) and are based on the tax laws of the United States of America. The plans are available to practically all employees. The Entity equals the contributions up to 3.0% of the salary paid to the employee which is disbursed as it accrues.

Central America:

According to labor legislation in Nicaragua, the employer has the obligation to pay the worker compensation equivalent to one month's salary for each of the first three years of work; Twenty days of salary for each year of work from the fourth year. In no case shall the compensation be less than one month or more than five months.

In Guatemala, the amount of the benefit will be equal to one month of salary for each year of service.

In the case of defined benefit plans, which include seniority premium, pension plan and retirement benefits for unionized employees, their cost is determined using the projected unit credit method, with actuarial valuations that are made at the end of each period about which is reported. Remeasurements, which include actuarial gains and losses, the effect of changes in the asset floor (if applicable) and the return of the asset plan (excluding interest), are immediately reflected in the statement of financial position with charge or credit that is recognized in other comprehensive income in the period in which they occur. The remeasurements recognized in other comprehensive income are immediately reflected in retained earnings and are not reclassified to profit or loss. Cost for past services is recognized in results in the period of the modification to the plan. Net interest is calculated by applying the discount rate at the beginning of the period of the obligation, the asset or liability for defined benefits. The costs for defined benefits are classified as follows:

- Service cost (including the current cost of service, cost of past services, as well as gains and losses from reductions or settlements).
- Net interest expense or income.
- Remeasurements

The Entity presents the first two components of the costs for defined benefits as an expense or an income according to the item. Profits and losses for service reduction are recognized as past service costs.

The obligations for retirement benefits recognized in the consolidated statement of financial position represent the current gains and losses in the defined benefit plans of the Entity. Any profit arising from this calculation is limited to the present value of any economic benefit available from reimbursements and reductions of future contributions to the plan (using a discount rate based on government bonds).

Any indemnification obligation is recognized when the Entity can no longer withdraw the compensation offer and / or when the Entity recognizes the related restructuring costs.

q. Income taxes and value added tax

The income tax expense represents the sum of the current income taxes and deferred income taxes. Current and deferred taxes are recognized in profit or loss, except when they refer to items that are recognized outside profit or loss, either in other comprehensive income or directly in stockholders' equity, respectively. When they arise from the initial recognition of a business combination, the tax effect is included in the recognition of the business combination.

1. Current income taxes

Current assets and liabilities for current income taxes are measured at the amount expected to be recovered or paid to the tax authorities. The legislation and fiscal rates used to calculate these amounts are those that are approved or whose approval procedure is nearing completion on the date of presentation of information, in the countries in which the Entity operates and generates taxable profits.

Periodically, management evaluates the positions taken in the tax returns with respect to situations where applicable tax regulations are subject to interpretation, and creates provisions, when necessary.

2. Deferred income taxes

Deferred income taxes are determined using the asset and liability method, based on the temporary differences between the tax values of the assets and liabilities and their carrying amounts at the date of the statement of financial position.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

• When the deferred income tax liability arises from the initial recognition of goodwill, or from an asset or liability derived from a transaction that does not constitute a business combination and that, at the time of the transaction, does not affect the accounting profit. neither the taxable profit or fiscal loss; and

• With respect to taxable temporary differences related to investments in subsidiaries, associates and interests in joint ventures, from which the moment of reversion of the temporary differences can be controlled and it is probable that these temporary differences will not be reversed in the near future.

Deferred income tax assets are recognized for all deductible temporary differences and for unused tax credits and unamortized tax losses, as well as temporary differences related to investments in subsidiaries, associates and joint venture interests in the as it is likely that there will be future taxable profits against which the deductible temporary differences can be used and apply the unused tax credits and amortize the unused tax losses, except:

• When the deferred income tax asset related to the deductible temporary difference arises from the initial recognition of an asset or a liability derived from a transaction that does not constitute a business combination and that, at the time of the transaction, does not affect the accounting profit or taxable profit or tax loss.

The net book value of deferred income tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that there will be sufficient future taxable profits to allow all or one of the part of deferred income tax assets. Unrecognized deferred income tax assets are valued again at each reporting date and are recognized to the extent that it is probable that there will be sufficient future taxable profits to allow the recovery of the asset for deferred income taxes.

Assets and liabilities for deferred income taxes are determined based on the tax rates that will be in effect in the year when the asset will materialize or the liability will be settled, based on the tax rates (and tax legislation) that will be approved or whose approval procedure is close to being completed on the date of submission of information.

Deferred income taxes related to items recognized outside of profits or losses are also recognized outside profit or loss. Deferred income tax items are recognized in correlation with the underlying transaction, either in other comprehensive income or directly in equity.

Deferred income tax assets and liabilities are offset, if there is a legally enforceable right to offset current tax assets against short-term income tax liabilities, and if the deferred income taxes relate to the same fiscal entity and the same fiscal authority.

3. Consumer taxes

Mexico:

Income, expenses and assets are recognized without including the amount of Value Added Tax ("VAT"), except:

- When the VAT incurred in an acquisition of assets, goods and / or services cannot be recovered from the tax authority, in which case VAT is recognized as part of the acquisition cost of the asset or as part of the expense item, as appropriate.
- Accounts receivable and payable are valued including the amount of VAT.

The amount of VAT that can be recovered or that must be paid to the tax authority is included as part of the accounts receivable or payable in the consolidated statement of financial position.

The main products sold by the Entity are subject to a 0% value-added tax (VAT) rate. On a monthly basis, you have to report VAT payable and creditable VAT, which is determined by offsetting the VAT paid on purchases of goods and services from VAT caused by the sale of goods and services. Derived that the services paid for certain purchases that are subject to a rate of 16%, balances are determined by crediting monthly.

Brazil:

ICMS:

It is a state tax that affects sales of goods and services, both in domestic and interstate operations. The basis of the tax is generally the sale price, by applying a variable rate of 17% to 20% in the same state in which the transaction is made. Regarding interstate operations, the rate can be 4%, 7% or 12%. For payment purposes, the tax calculated on the sale is deducted from the tax credited on the acquisition of goods and services (materials, packaging, freight, among others).

PIS/COFINS:

They are federal taxes on sales and importation of goods and services. These taxes are included within the sale price. The rate applicable to the subsidiaries of Brazil is 0% for the sale of dairy products and 9.25% for the sale of other products (1.65% of PIS and 7.6% of COFINS). Similar to VAT in Mexico, the accumulated tax on sales is deducted from the tax credited for certain expenses and for purchases of goods and services. And if the accredited tax is higher, it can be recovered.

United States:

The rate of consumption tax varies between states in a range of 0% to 7%.

Central America:

The products sold by the Entity in the countries of Nicaragua, Costa Rica, Honduras, Guatemala and El Salvador at the rate of 15%, 13%, 15%, 12% and 13%, respectively.

4. <u>Uncertain tax positions</u>

There is uncertainty regarding the interpretation of complex tax regulations, changes in tax laws, as well as in the amounts and dates of future income taxes. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual arrangements, differences that arise between actual results and assumptions made, or future changes in such assumptions, may require future adjustments to taxes, to the profit and expenses already registered. The Entity creates provisions based on reasonable estimates, for the possible consequences of the audits of the tax authorities of the respective regions in which it operates. As of December 31, 2018 and 2017, the Entity does not maintain any uncertain tax positions that require the recognition of a tax provision.

r. Provisions

Provisions are recognized when the Entity has a present obligation (whether legal or assumed) as a result of a past event, it is probable that the Entity will have to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the disbursement necessary to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is valued using the estimated cash flows to settle the present obligation, its book value represents the present value of said cash flows (when the effect of time value of money is material).

When the recovery of some or all of the economic benefits required to settle a provision by a third party is expected, an account receivable is recognized as an asset if it is virtually certain that the disbursement will be received and the amount of the account receivable. It can be valued reliably.

<u>Contingent liabilities acquired in a business combination</u>

Contingent liabilities acquired in a business combination are initially valued at their fair value, at the date of acquisition. At the end of the subsequent reporting periods, such contingent liabilities are valued at the higher of the amount that would have been recognized in accordance with IAS 37 and the amount initially recognized less accumulated amortization recognized in accordance with IAS 18, Revenue.

s. Financial liabilities and equity instruments

1. Classification as debt or equity

   Debt and/or equity instruments are classified as financial liabilities or as capital in accordance with the substance of the contractual agreement and the definitions of liabilities and capital.

2. Equity Instruments

   An equity instrument consists of any contract evidencing a residual interest in the assets of the Entity after deducting all its liabilities. Equity instruments issued by the Entity are recognized for the funds obtained, net of direct issuance costs.

   Equity instruments comprise the common stock of the Entity.

   Repurchase of the Entity's own capital stock is recognized and deducted directly in the capital stock by the nominal value of such stock, and any result in the repurchase or reissuance of such stock is recognized in the additional paid-in capital line item. No gain or loss is recognized in results in the repurchase, sale, issue or amortization of the Entity's own equity instruments.

3. Financial liabilities

   Financial liabilities are classified as financial liabilities at fair value through profit or loss or other financial liabilities.

4. Financial liabilities at fair value through changes through results

   Financial liabilities are classified at fair value through profit or loss when the financial liability is (i) the contingent consideration that would be paid by the acquirer as part of a business combination to which IFRS 3 applies, (ii) maintained for trading, or (iii) fair value is designated with changes through results.

   A financial liability is classified as held for trading purposes if:

   - It is acquired mainly for the purpose of repurchasing it in the near future; or
   - It is part of a portfolio of identified financial instruments that are jointly managed, and for which there is evidence of a recent pattern of short-term profit taking; or
   - It is a derivative that has not been designated as a hedging instrument and meets the conditions to be effective.

   A financial liability other than a financial liability for trading or contingent consideration that would be paid by the acquirer as part of a business combination can be designated as at fair value through profit or loss at the time of initial recognition if:

- This eliminates or significantly reduces any inconsistency in the valuation or recognition that would otherwise arise; or
- The performance of a group of financial assets, financial liabilities or both, is managed and evaluated on the basis of their fair value, in accordance with an investment or risk management strategy that the Entity has documented, and has provided internally information about that group, based on its fair value; or
- It forms part of a contract that contains one or more embedded derivative instruments, and IAS 39 allows the entire hybrid contract (asset or liability) to be designated as at fair value.

Financial liabilities at fair value through profit or loss are recorded at fair value, recognizing any gain or loss arising from the remeasurement in the consolidated income statement. The net gain or loss recognized in the results includes any interest obtained from the liability.

5. Derecognition of financial liabilities

The Entity derecognizes financial liabilities if, and only if, the obligations of the Entity are met, canceled 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 makes a refinancing transaction and the previous liability qualifies to be derecognized, the cost incurred in the refinancing are recognized immediately in results at the data of the termination of the previous financing liability.

6. Compensation of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if (i) there is currently a legally enforceable right to offset the amounts recognized, and (ii) there is an intention to liquidate them for the net amount, or to realize the assets and settle the liabilities simultaneously.

t. Derivative financial instruments

The Entity uses a variety of financial instruments to manage its exposure to volatility risks in exchange rates and interest rates, including foreign currency forward contracts and interest rate swaps. Note 9 shows a more detailed explanation of the derivative financial instruments for 2018 and 2017.

Derivatives are initially recognized at fair value on the date on which the derivative contract is subscribed and subsequently revalued at their fair value at the end of the reporting period. The resulting gain or loss is recognized in the results immediately unless the derivative is designated and is effective as a hedging instrument, in which case the opportunity for recognition in the results will depend on the nature of the hedging relationship.

Derivatives are accounted for as financial assets when the fair value is positive and financial liabilities when the fair value is negative.

Embedded derivatives

Derivatives embedded in other financial instruments or in other contracts (host contracts) are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and when such contracts are not recorded at fair value through changes through of results.

As of December 31, 2018 and 2017, the Entity does not maintain any embedded derivatives.

u. Hedge accounting

The Entity designates certain hedging instruments, which include derivatives, embedded and non-embedded derivatives with respect to foreign currency risk, whether as fair value hedges, cash flow hedges, or hedges of the net investment in a foreign transaction. The foreign currency risk hedge of a firm commitment is accounted for as a cash flow hedge.

For the evaluation of the hedges, the Entity follows the guidelines established in IFRS 9, which requires a more thorough and qualitative analysis and requires aligning all the hedging relationships with the risk management strategy. The Entity contracts and designates its derivative financial instruments as hedges, in accordance with the provisions of its risk policy.

At the beginning of the hedge, the Entity documents the relationship between the hedging instrument and the hedged item, as well as the objectives of risk management and its management strategy to undertake various hedging transactions. Additionally, at the beginning of the hedge and on a continuous basis, the Entity documents whether the hedging instrument is highly effective to offset the exposure to changes in fair value or changes in the cash flows of the hedged item attributable to the risk covered.

The Entity rebalances the hedging relationships, in accordance with what's established in IFRS 9, when a hedging relationship does not comply with the effectiveness requirements related to the hedging ratio, but the risk management strategy for this hedge remains the same. In these cases, the Entity adjusts the hedging ratio in order to meet the effectiveness criteria again. However, if the risk management strategy for the hedge is no longer the same, the hedging relationship is discontinued.

Note 19 includes details about the fair value of derivative instruments used for hedging purposes.

- Fair value hedges

  Changes in the fair value of the derivatives that are designated and qualify as fair value hedges are recognized immediately in the results, together with any change in the fair value of the hedged asset or liability that is attributed to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized the consolidated statement of profit (loss) and other comprehensive income related to the hedged item.

  The accounting for hedges is discontinued when the Entity revokes the hedging relationship, when the hedging instrument expires or is sold, terminates, or is exercised, or when it no longer meets the criteria for accounting for hedges. The adjustment to fair value of the book value of the hedged item arising from the hedged risk is amortized against results as of that date.

- Cash flows hedges

  The effective portion of the changes in the fair value of the derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income and are accumulated under the reserve for cash flows hedged. Losses and gains relating to the ineffective portion of the hedging instrument are recognized immediately in the consolidated statement of profit (loss) and other comprehensive income and are included in the caption "other income and expenses".

  The amounts previously recognized in the other comprehensive income and accumulated in the stockholders' equity are reclassified to the results in the periods in which the hedged item is recognized in the results, in the same item of the recognized hedged item. However, when a forecasted transaction that is covered results in the recognition of a non-financial asset or a non-financial liability, the losses or gains previously accumulated in the stockholders' equity are transferred and included in the initial valuation of the cost of the non-financial asset or non-financial liabilities.

  The accounting for hedges is discontinued when the Entity revokes the hedging relationship, when the hedging instrument expires or is sold, terminates, or is exercised, or when it no longer meets the criteria for accounting for hedges. Any accumulated gain or loss of the hedging instrument that has been recognized in the capital will continue in the capital until the forecasted transaction is finally recognized in the results. When the forecasted transaction is no longer expected to occur, the accumulated gain or loss in the capital will be recognized immediately to the results.

- Hedge of a net investment in a foreign operation

  The hedges of a net investment in a foreign operation are accounted for in a manner similar to the cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in the other comprehensive income and accumulated in the foreign operations translation reserve. The gain or loss related to the ineffective portion is recognized in the results of the year.

  Gains and losses on the hedging instrument relating to the effective portion of the accumulated hedge in the foreign currency translation reserve are reclassified to results in the disposition of the foreign operation.

v. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and in the normal course of operations and it is presented in the variable considerations of the consolidated statement of profit (loss) and other comprehensive income, which include the estimated amount of customer returns, discounts and similar discounts and payments made to customers.

For the recognition of income from contracts with customers, a comprehensive model is used for the accounting of income, 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 price of the transaction; (4) assign the price of the transaction to each performance obligation in the contract; and (5) recognize income when the performance obligation is met.

Contracts with customers are given by purchase orders, whose costs are made up of promises to produce, distribute and deliver products based on the established contractual terms and conditions, which do not entail significant judgment to be determined. When there are payments related to obtaining contracts, they are capitalized and amortized over the term of the contract.

Performance obligations are not separable nor are they partially satisfied, since the operations are derived from the sale of products and are satisfied at a point in time. On the other hand, the payment terms identified in most of the sources of income are short-term, with variable considerations mainly focused on discounts and product discounts that are granted to customers, without financing components or guarantees. These discounts and incentives to customers are recognized as a reduction in income or as selling expenses, according to their nature. These programs include discounts to customers for sales of products based on: i) sales volume (normally recognized as a reduction in income) and ii) promotions of products at points of sale (normally recognized as selling expenses), mainly. Therefore, the allocation of the price is direct on the performance obligations of production, distribution and delivery, including the effects of variable considerations.

The Entity recognizes income at a point in time, when the control of the products sold has been transferred to the customer, which is given by the time of delivery of the promised goods to the customer in accordance with the negotiated terms. Therefore, an account receivable is recognized when the performance obligations have been met, recognizing the corresponding income; On the other hand, the considerations received before completing production, distribution and delivery performance obligations are recognized as customer advances (contract liabilities).

The Entity maintains obligations for product returns from its customers and makes an estimate related to the right of customers to return or replace products that cannot be sold or expire, depending on the distribution channel to which they belong. The creation of this estimate is based on the historical behavior of the clients, estimating the corresponding liability by applying the expected value method. As of January 1 and December 31, 2018, the balance of this liability was $146,217 and $147,831, respectively, and is recognized under the caption "Taxes and other accounts payable".

Dividend income from investments is recognized once the stockholders' rights to receive this payment have been established (when it is probable that the economic benefits will flow to the Entity and that the income can be reliably valued).

w. Earnings per share

Basic earnings per share are calculated by dividing the net income of the period attributable to the controlling interest by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share are calculated by adjusting the net income attributable to the parent's ordinary interest and ordinary shares.

During 2018 and 2017, there were no potentially dilutive instruments.

4. Critical accounting estimates and judgments

In the application of the accounting policies of the Entity, which are described in Note 3, management must make judgments, estimates and assumptions about the carrying amounts of the assets and liabilities of the consolidated financial statements. The estimates and relative assumptions are based on experience and other factors that are considered relevant. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on a regular basis. Changes to accounting estimates are recognized in the period in which the modification is made and in future periods if the modification affects both the current period and subsequent periods.

a. <u>Critical judgments</u>

<u>Determination of functional currency</u>

To determine the Entity's functional currency, management evaluates the economic environment in which it primarily generates and disburses cash. For this, factors related to sales, costs, sources of financing and cash flows generated by the operation are considered.

b. <u>Key sources of uncertainty in the estimates:</u>

The key assumptions concerning the future and other key sources of uncertainty related to the estimation of the date of the statement of financial position, which involve a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the following financial year are described below. The Entity bases its assumptions and estimates on parameters that were available at the time of preparation of the consolidated financial statements. However, circumstances and assumptions regarding future changes could be modified due to changes in markets or circumstances beyond the control of the Entity.

<u>Estimation of probabilities of non-compliance and recovery rate to apply the model of expected losses in the calculation of impairment of financial assets.</u>

The Entity assigns customers with whom it has an account receivable at each reporting date, either individually or in group, an estimate of the probability of default in the payment of accounts receivable and the estimated recovery rate, with the purpose to reflect the cash flows expected to be received from the outstanding balances on said date.

<u>Impairment analysis of long-lived assets</u>

The Entity reviews annually whether or not there are indicators of impairment of its cash-generating units. If signs of impairment are identified, impairment tests are performed on long-lived assets.

In addition, the Entity annually performs an impairment test of intangible assets with an indefinite useful life, both individually and at the cash generating unit level, as appropriate, and when circumstances indicate that the carrying amount may be impaired.

For both cases, the Entity makes estimations of relevant assumptions to carry out the valuation and to define if its assets of long duration and indefinite life must reflect an impairment because the amount of future economic benefits are likely to be obtained from the same.

Goodwill impairment analysis

Determining whether goodwill has suffered impairment involves calculating the use value of the cash generating units to which the goodwill has been assigned. The calculation of the use value requires the Entity to determine the future cash flows that should arise from the cash-generating units and an appropriate discount rate to calculate the present value. When the actual future cash flows are lower than expected, a material loss due to impairment may occur. The assumptions used to determine the recoverable amount for each cash generating unit of the Entity, including a sensitivity analysis, are explained in Note 11.

Application of acquisition method

When a business combination is made, the acquisition method is required to recognize the identifiable net assets acquired at fair value, on 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 in the presence of indications and at least once a year.

When estimating the fair value of the identifiable net assets, the Entity uses the observable market data to the extent that they are available. When the entry data of level 1 are not available, the Entity hires an independent qualified appraiser to carry out the valuation. The Valuation Committee works jointly with the independent qualified appraiser to establish the valuation techniques and the appropriate input data.

Recoverability of deferred income tax assets

Deferred income tax assets are recognized mainly for unused tax losses, to the extent that it is probable that taxable income will be available against which losses can be used. An estimate is required to determine deferred income tax assets that can be recognized, based on the probable time sequence and the level of future tax benefits with future tax planning strategies.

5. Business combinations

The following describes the transactions that qualify as a business combination, which have been recognized using the purchase method as of the acquisition date:

Acquisition of Vigor – On October 26, 2017, Grupo Lala S. A. B. de C.V. acquired, through one of its subsidiaries, the 99.9989% of the shares of Vigor Alimentos S. A. ("Vigor") to FB Participações S. A., JBS S. A. and Arla Foods International A/S (the "sellers") and in an indirect way, the 100% of Dan Vigor Indústria e Comércio de Laticínios Limitada ("Dan Vigor"), as a subsidiary entity of Vigor, and the 50% of the shares of Itambé Alimentos S. A. ("Itambé"), as an associated company of Vigor (as a whole "the Transaction"). This acquisition is part of the Entity's growth strategy and marked the entry of the Entity into the dairy market in South America, aligned with the vision of being the preferred dairy company in America.

The Transaction qualifies as a business combination in accordance with the requirements of IFRS 3, *Business Combinations,* whereby it will apply the acquisition method to measure the assets acquired and the liabilities assumed in the transaction. The value of the transaction free of net debt and variations in working capital, including 50% of Itambé's shares, amounted to R $ 4,043,488 (equivalent to $ 24,021,414 / $ 22,354,685 net of acquired cash), an amount that was subsequently adjusted to R $ 3,986,727 (equivalent to $ 23,690,521) upon completion of the application of the acquisition method, which were paid in cash and are subject to contractual adjustments defined between the parties. To carry out the acquisition, the Entity entered into short term loans, which are guaranteed by two of its subsidiaries (see Note 13).

In accordance with IFRS 3, which grants a period of twelve months to complete the allocation of the purchase price from the date of acquisition, at the date of presentation of the consolidated financial statements, the Entity concluded with the process of completing the assignment from the purchase price to the net assets identified in the transaction. This allocation was carried out with the support of independent appraisers to determine the fair values of certain assets as of October 26, 2017.

The following are the final values of the net assets acquired condensed as of October 26, 2017:

	As of October 26, 2017 (Previously reported)	Adjustments	As of October 26, 2017 (As restructured)
Consideration transferred	$ 24,021,414	$	$ 24,021,414
Purchase price adjustment	-	(330,893)	(330,893)
Adjusted transfer consideration	24,021,414	(330,893)	23,690,521
Consideration transferred, net of cash acquired	$ 22,354,685	$	$ 22,023,792
Acquired assets and assumed liabilities identifiable:			
Cash and cash equivalents	$ 1,666,729	$ -	$ 1,666,729
Customers	2,005,579	-	2,005,579
Recoverable taxes	1,965,392	-	1,965,392
Other accounts receivable	218,381	-	218,381
Inventories	1,080,915	168,308	1,249,223
Advanced payments	215,372	-	215,372
Property, plant and equipment, net	3,776,240	168,967	3,945,207
Intangible assets	339,178	4,242,613	4,581,791
Other assets, net	96,584	5,801,920	5,898,504
Investment in associates	2,783,061	437,044	3,220,105
Deferred income tax	132,305	-	132,305
Total assets	$ 14,279,736	$ 10,818,852	$ 25,098,588
Liability:			
Short-term loan	$ 6,221,896	$ -	$ 6,221,896
Suppliers	1,609,498	-	1,609,498
Income taxes payable	309,017	-	309,017
Employee benefits	257,520	-	257,520
Taxes and other accounts payable	208,012	174	208,186
Long-term debt	1,172,082	-	1,172,082
Deferred income taxes	691,222	1,712,202	2,403,424
Long-term taxes payable	882,064	-	882,064
Other long-term accounts payable (Note 18)	1,593,072	5,782,964	7,376,036
Total liabilities	12,944,383	7,495,340	20,439,723
Net acquired assets	$ 1,335,353	$ 3,323,512	$ 4,658,865
Goodwill	$ 22,686,061	$ (3,323,512)	$ 19,031,656

Due to the conclusion of the purchase price allocation mentioned in the previous paragraph, the Entity's consolidated financial statements, reported to and for the year ended December 31, 2017, were restructured. The effects of this restructuring are presented in condensed form as follows:

	As of December 31, 2017 (Previously reported)	Adjustments	As of December 31, 2017 (As restructured)
Condensed statement of financial position:			
Current assets	$ 22,582,321	$ 426,979	$ 23,009,300
Non-current assets	55,308,188	6,578,699	61,886,887
Total assets	$ 77,890,509	$ 7,005,678	$ 84,896,187

	As of December 31, 2017 (Previously reported)	Adjustments	As of December 31, 2017 (As restructured)
Current liabilities	$ 40,352,108	$ 62,684	$ 40,414,792
Non-current liabilities	7,197,831	7,326,201	14,524,032
Total liabilities	47,549,939	7,388,885	54,938,824
Stockholders' equity	30,340,570	(383,207)	29,957,363
Total stockholders' equity and liabilities	$ 77,890,509	$ 7,005,678	$ 84,896,187

	As of December 31, 2017 (Previously reported)	Adjustments	As of December 31, 2017 (As restructured)
Condensed statement of profit (loss) and other comprehensive income			
Net sales	$ 62,540,248	$ -	$ 62,540,248
Other operating income (i)	665,982	(488,065)	177,917
Costs and expenses	57,031,541	86,470	57,118,011
Operating profit	6,174,689	(574,535)	5,600,154
Comprehensive financial cost	(642,881)	6,310	(636,571)
Share of profit in investments measured under the equity method	2,393	-	2,393
Profit before income taxes	5,534,201	(568,225)	4,965,976
Income taxes	2,196,301	(195,341)	2,000,960
Net income for the year	3,337,900	(372,884)	2,965,016
Other comprehensive income	232,932	(10,323)	222,609
Comprehensive income of the year	$ 3,570,832	$ (383,207)	$ 3,187,625

i. Based on the terms of the agreement signed between Grupo Lala and the Sellers, Cooperativa Central dos Productores Rurais de Minas Gerais Ltda. ("CCPR"), had a right of preference (*right of first refusal*) to acquire the shares of Itambé held by Vigor, in case of a change of control over Vigor. Therefore, on September 21, 2017, CCPR notified Vigor of its intention to exercise its preemptive right to acquire 50% of the shares of Itambé owned by Vigor, which was formalized on December 4, 2017. The sale price of these shares was R$552,543 (equivalent to $3,222,652). Upon completion of the acquisition method of the purchase of Vigor in 2018, the profit recorded for this operation was restructured in 2017, considering the sale value of Itambé as the fair value of the investment in shares recognized at the time of the purchase of Vigor, so the previously recognized gain was eliminated.

The results of the operations acquired have been included in the consolidated financial statements from the date of acquisition, therefore, the consolidated statements of income and other comprehensive income for the year 2017 are not comparable with those of the current year.

The consolidated statement of cash flow in 2017 presents the incorporation of the operations acquired by the Entity in a single line within the investment activity, net of the cash acquired.

Revenues and net income for the two month period ended December 31, 2017 that contributes the acquired business amount to $ 2,348,257 and $ 73,998, respectively.

If the acquisition of Vigor had been completed on January 1, 2017, the Entity estimates that revenues and net income would have increased and decreased by $ 11,495,587 and $ (87,741), respectively.

6. Cash and cash equivalents

As of December 31, 2018 and 2017, the Entity has the following cash and cash equivalent balances:

	2018	2017
Cash on hand	$ 1,008	$ 3,794
Banks	980,036	974,602
Restricted cash	7,854	57,769
Temporary investments	1,561,220	5,697,217
	$ 2,550,118	$ 6,733,382

7. Trade and other receivables

An analysis of accounts receivable from customers as of December 31, 2018 and 2017, is shown below:

	2018	2017
Trade receivable	$ 6,871,164	$ 7,060,007
Allowance for doubtful accounts	(425,868)	(113,388)
	$ 6,445,296	$ 6,946,619

Trade receivable do not generate interest and the average credit term on sales is 35 days.

Regarding to credit risk in its accounts receivable, as of January 1, 2018, the Entity evaluates and assesses the risk of its financial assets receivable, as described in Note 19.

Movements in the allowance for doubtful accounts prior to the adoption of IRS 9

Balances at the beginning of the year 2017	$ 62,379
Business acquisition	32,590
Impairment losses recognized on accounts receivable	67,480
Write-offs	(47,692)
Foreign currency translation	(1,369)
Balance as of December 31, 2017	$ 113,388
Effect of initial adoption of IFRS 9	236,753
Adjusted balance as of January 1, 2018	350,141
Impairment losses recognized on accounts receivable	78,744
Write-offs	(3,017)
Balance as of December 31, 2018	$ 425,868

In addition, following the adoption of the new impairment model under IFRS 9, the following are the movements of the impairment estimate of accounts receivable in 2018, with the new expected loss model used by the Entity:

	Mexico	Brazil	United States	CAM	Total
Book value exposed to credit risk	4,362,422	1,930,741	365,108	212,893	6,871,164
Beginning balance of the estimate of impairment of accounts receivable	283,334	45,900	14,916	5,991	350,141
Increases in the reserve	78,744	-	-	-	78,744
Decreases in the reserve	-	(756)	(177)	(2,084)	(3,017)
Final balance of the estimate of impairment of accounts receivable	$ 362,078	$ 45,144	$ 14,739	$ 3,907	$ 425,868

	Default probability range								Loss given default range
	Vigente	1-30	30-60	60-90	90-120	120-150	150-180	+180	
Mexico									
Individual Evaluation	0.12%-0.37%	1.13%-3.17%	6.60%-17.50%	15.84%-20.27%	20.06%-37.57%	22.76%-47.41%	35.84%-70.97%	100%	0%
Collective Evaluation	0.10%-0.18%	0.47%-0.91%	4.83%-8.64%	12.85%-20.48%	20.57%-31.46%	35.67%-47.41%	61.07%-70.97%	100%	100%
Brazil									
Individual Evaluation	0.03%-0.51%	0.44%-16.83%	1.34%-60.20%	4.97%-79.82%	16.92%-88.42%	37.31%-92.68%	65.35%-98.14%	100%	0%
Collective Evaluation	0.11%	2.06%	6.62%	11.51%	22.92%	25.76%	68.48%	100%	100%
United States									
Individual Evaluation	0.30%	0.45%	33.46%	100%	100%	0%			
Collective Evaluation	0.03%-8.81%	0.37%-55.62%	28.33%-100%	56.21%-100%	100%	100%			
CAM									
Individual Evaluation	0.00% - 0.63%	0.00% - 2.34%	0.00% - 29.94%	0.00% - 100%	100%	0%			
Collective Evaluation	0.00% - 5.48%	0.00% - 20.05%	0.00% - 73.92%	0.00% - 86.86%	100%	100%			

The net change in the allowance for impairment of trade and other receivables for $88,898 for the year ended December 31, 2018, was mainly due to the changes in the estimate of probabilities of default and of the recovery percentage, assigned to the different customer groups in the segments in which the Entity operates, which reflected an increase in credit risk on financial assets. The increases in the allowance for impairment of accounts receivable are recognized in the consolidated statement of profit and loss under the cost of sales item.

The Entity does not maintain any type of guarantee or collateral that mitigates exposure to credit risk of financial assets.

Accounts receivable from clients under financial factoring

As of December 31, 2017, the Entity maintains a total of R$290,218 (equivalent to $1,731,441) of its accounts receivable from customers assigned to the Original and Daycoval banks through the financial factoring figure. The Entity has not derecognized the accounts receivable assigned in factoring, since according to the contractual terms the risks and benefits inherent to the ownership of the financial asset have not been transferred, therefore a liability is recognized within the debt in the short term for the same amount, which is due two days after the Entity recovers accounts receivable. As of December 31, 2017, the Entity has the following balances:

	2017 Thosuands of Reales		2017 Equivalent in pesos	
Accounts receivable from customers under financial factoring	R$	290,218	$	1,731,441
Payments received pending to report to the banks		48,092		286,906
Total debt recognized (Note 13)	R$	338,310	$	2,018,347

As of December 31, 2018, the Entity does not maintain financial factoring transactions in which the accounts receivable assigned have not qualified to be derecognized.

8. Recoverable taxes

As of December 31, 2018 and 2017, the Entity has the following balances to recover:

	2018		2017	
Short-term recoverable taxes:				
VAT	$	1,926,873	$	1,957,598
ICMS and others		62,212		150,313
PIS and COFINS		381,046		161,679
Income taxes to be recovered		1,261,573		549,363
Total	$	3,631,704	$	2,818,953
Long-term recoverable taxes:				
PIS and COFINS at the acquisition date (i)	$	1,154,776	$	1,450,430
ICMS		461,174		287,149
Total	$	1,615,950	$	1,737,579

i. The Entity maintains PIS and COFINS from the acquisition of Vigor. In accordance with the contractual terms established in such acquisition, when Vigor uses, recovers or obtains any benefit from such taxes to recover, it is obliged to pay the same amount to its previous stockholders; consequently a liability is recognized for the same amount within other accounts payable in the short and long term, depending on the expected recovery period.

As of December 31, 2018 and 2017, the recovery period of the taxes to be recovered is as follows:

	2018	2017
VAT, ICMS and PIS and COFINS:		
From 1 to 60 days	$ 656,624	$ 692,428
From 61 to 120 days	564,841	463,705
From 121 to 365 days	1,389,557	1,113,457
More than 365 days	1,375,059	1,737,579
	$ 3,986,081	$ 4,007,169

9. Inventories

As of December 31, 2018 and 2017, the Entity's inventories balance is as follows:

	2018	2017
Finished goods	$ 1,806,697	$ 2,000,982
Production in process	538,600	519,737
Raw material and packaging	2,210,005	2,153,497
Spare parts	341,127	436,368
Platforms and baskets	322,454	318,686
	$ 5,218,883	$ 5,429,270

As of December 31, 2018 and 2017, the loss in finished goods recognized in results amounts to $839,045 and $858,861, respectively.

As of December 31, 2018 and 2017, there were no inventories pledged as collateral.

10. Property, plant and equipment

a) The properties, plant and equipment, as of December 31, 2018 and 2017, are integrated as follows:

	Opening balance as of December 31, 2017	Additions	Disposals	Depreciation	Translation effect	Ending balance as of December 31, 2018
Cost:						
Land	$ 2,642,622	$ 55,718	$ (17,329)	$ -	$ (208,027)	$ 2,472,984
Buildings	5,106,192	387,266	(43,394)	-	(139,127)	5,310,937
Leasehold improvements	504,837	64,787	(9,953)	-	(57,542)	502,129
Machinery and equipment	18,785,836	1,096,501	(528,259)	-	(713,549)	18,640,529
Transportation equipment	6,196,953	146,992	(338,173)	-	(76,183)	5,929,589
Furniture and others	3,143,214	223,468	(97,852)	-	(40,835)	3,227,995
	36,379,654	1,974,732	(1,034,960)	-	(1,235,263)	36,084,163
Accumulated depreciation:						
Land	(2,789,081)	-	10,912	(221,013)	110,078	(2,889,104)
Buildings	(219,015)	-	5,218	(22,955)	2,676	(234,076)
Leasehold improvements	(4,227,882)	-	146,246	(1,082,429)	337,580	(4,826,485)
Machinery and equipment	(3,562,867)	-	408,608	(527,415)	12,930	(3,668,744)
Transportation equipment	(2,001,800)	-	74,515	(287,560)	26,449	(2,188,396)
	(12,800,645)	-	645,499	(2,141,372)	489,713	(13,806,805)
Property, plant and equipment, net	$ 23,579,009	$ 1,974,732	$ (389,461)	$ (2,141,372)	$ (745,550)	$ 22,277,358

	Opening balance as of December 31, 2016	Business acquisitions	Additions	Disposals	Depreciation	Translation effect	Ending balance as of December 31, 2017
Cost:							
Land	$ 1,395,877	$ 1,163,920	$ 94,682	$ (21,422)	$ -	$ 9,565	$ 2,642,622
Buildings	3,921,448	662,490	586,013	(23,012)	-	(40,747)	5,106,192
Leasehold improvements	341,968	119,689	56,570	(11,431)	-	(1,959)	504,837
Machinery and equipment	14,692,735	1,992,906	2,469,334	(353,627)	-	(15,512)	18,785,836
Transportation equipment	6,418,625	1,903	319,447	(458,256)	-	(84,766)	6,196,953
Furniture and others	2,863,863	4,299	404,055	(102,767)	-	(26,236)	3,143,214
	29,634,516	3,945,207	3,930,101	(970,515)	-	(159,655)	36,379,654
Accumulated depreciation:							
Land	(2,684,711)	-	-	8,702	(128,616)	15,544	(2,789,081)
Buildings	(212,234)	-	-	6,644	(13,493)	68	(219,015)
Leasehold improvements	(3,600,110)	-	-	159,047	(791,665)	4,846	(4,227,882)
Machinery and equipment	(3,505,695)	-	-	419,572	(476,834)	90	(3,562,867)
Furniture and others	(1,774,059)	-	-	67,703	(301,071)	5,627	(2,001,800)
	(11,776,809)	-	-	661,668	(1,711,679)	26,175	(12,800,645)
Property, plant and equipment, net	$ 17,857,707	$ 3,945,207	$ 3,930,101	$ (308,847)	$ (1,711,679)	$ (133,480)	$ 23,579,009

b) The main acquisitions and projects under construction during the year are the following: Development of the new deli meat plant based in the city of Tizayuca, Hidalgo in Mexico; process line for packaging of Lala 100 products at the plant located in Irapuato, Mexico; construction of the new Cheese 2 Plant within a complex located in the city of Torreon; conclusion of Cheese plant located in the city of Torreón, Mexico; renewal of the secondary distribution fleet, construction of a new UHT plant and ice cream in Costa Rica; and construction of a dairy and ice cream plant in Guatemala.

11. Goodwill

As of December 31, 2018 and 2017, the merchandise credit integration is as follows:

	2018	2017
Balance at the beginning of the year	$ 22,196,198	$ 3,109,194
Goodwill generated by acquisition	-	19,031,656
Translation effect	(3,057,095)	55,348
Balance at the end of the year	$ 19,139,103	$ 22,196,198

Goodwill impairment assessment:

The Entity carried out its annual impairment tests of goodwill at December 31, 2018 and 2017, where there was no impairment of goodwill.

The behavior of economic trends and competition in the markets in which Grupo Lala operates have a significant impact on the assessment of goodwill impairment and on the determination of the recovery values of the cash generating units. The total balance of goodwill was generated by business acquisitions made in Mexico, Central America, the United States and Brazil.

a. **Allocation of goodwill to cash generating units**

The main cash generating units that gave rise to a goodwill and their carrying amounts are as follows:

		2018		2017
Mexico	$	132,019	$	132,019
Central America		609,845		578,824
United States		2,366,548		2,372,866
Brazil		16,030,691		19,112,489
	$	19,139,103	$	22,196,198

Mexico

The recoverable amount of this cash generating unit is determined based on a calculation of the value in use, which uses the cash flow projections based on the financial budgets approved by management in force for a period of five years, and a rate of specific annual discount of the country in which it operates based on the weighted cost of capital (WACC) of 9.3% and 9.9% in 2018 and 2017, respectively.

Projections of cash flows during the budgeted period are based on the latest known trends, such as market share and expected price levels, size of the market in which they operate, behavior of the main costs of raw materials and inputs, as well as the necessary expenses to keep the fixed assets in conditions of use. Cash flows that exceed that five-year period (terminal value) were determined using an annual perpetual growth rate of 4.0% in 2018 and 2017, which is the perpetuity growth rate of the market in which it operates. Management believes that any reasonable change in the key assumptions on which the recoverable amount is based would not cause the total carrying amount to exceed the total recoverable amount of the cash-generating unit.

Central America

The recoverable amount of this cash generating unit is determined based on a calculation of the value in use, which uses the cash flow projections based on the financial budgets approved by management in force for a period of five years, and a rate of specific annual discount of the country in which it operates based on the weighted cost of capital (WACC) of 12.4% and 14.7% in 2018 and 2017, respectively.

Projections of cash flows during the budgeted period are based on the latest known trends, such as market share and expected price levels, size of the market in which they operate, behavior of the main costs of raw materials and inputs, as well as the necessary expenses to keep the fixed assets in conditions of use. Cash flows that exceed that period of five years (terminal value) were determined using an annual perpetual growth rate of 9.0% in 2018 and 2017, which is the perpetuity growth rate of the market in which it operates. Management believes that any reasonable change in the key assumptions on which the recoverable amount is based would not cause the total carrying amount to exceed the total recoverable amount of the cash-generating unit.

Unied States

The recoverable amount of this cash generating unit is determined based on a calculation of the value in use, which uses the cash flow projections based on the financial budgets approved by the management in force for a period of five years, and a rate of specific annual discount of the country in which it operates based on the weighted cost of capital (WACC) of 5.9% and 8.7% in 2018 and 2017, respectively.

Projections of cash flows during the budgeted period are based on the latest known trends, such as market share and expected price levels, size of the market in which they operate, behavior of the main costs of raw materials and inputs, as well as the necessary expenses to keep the fixed assets in conditions of use. Cash flows that exceed that five-year period (terminal value) were determined using an annual perpetual growth rate of 3.0% in 2018 and 2017, which is the perpetuity growth rate of the market in which it operates. Management believes that any reasonable change in the key assumptions on which the recoverable amount is based would not cause the total carrying amount to exceed the total recoverable amount of the cash-generating unit.

Brazil

The recoverable amount of this cash generating unit is determined based on a calculation of the value in use, which uses the cash flow projections based on the financial budgets approved by management in force for a period of five years, and a rate of annual specific discount of the country in which it operates based on the weighted cost of capital (WACC) of 10.6% in 2018.

Projections of cash flows during the budgeted period are based on the latest known trends, such as market share and expected price levels, size of the market in which they operate, behavior of the main costs of raw materials and inputs, as well as the necessary expenses to keep the fixed assets in conditions of use. Cash flows that exceed that five?-year period in 2018 (terminal value) were determined using an annual perpetual growth rate of 4.8% in 2018, which is the perpetuity growth rate of the market in which it operates. Management believes that any reasonable change in the key assumptions on which the recoverable amount is based would not cause the total carrying amount to exceed the total recoverable amount of the cash-generating unit.

Key assumptions in the estimation

The key assumptions used in calculating the value in use for cash generating units are as follows:

Participation in the budgeted market	It is considered that the weighted average participation in the markets where there is a presence is maintained, however, in those markets, such as drinkable yogurt, flavored milks and other derivatives present a growth estimation higher than the traditional categories. The values assigned to the assumption reflect this trend, which is consistent with the administration's plans to focus its operations on those markets.
Budgeted gross margin	Gross margins project expected improvements due to efficiencies and productivities in operational management. The administration anticipates that during the following year they will generate variations of 3.7%, 0.8%, (0.3%), and 3.4% in the following years are considered efficiencies equivalent to 3.4%, 0.9%, 0.2% and 2.3% in annual average , in cash generating units Mexico, Central America, the United States and Brazil, respectively, which are reasonably achievable.
Inflation in raw material prices	The values assigned to the key assumptions are consistent with sources of external information, considering Price indixes in countries where they buy raw materials.

a. The Entity performs sensitivity analysis on the impact of a possible 1% increase or decrease in the discount rate and in the perpetual growth rate for the cash generating units, as it is shown below:

Cash generating unit	Difference among the book value and value in use	Difference among book value and value in use with sensitivity in rates			
		Discount rate		Perpetual growth rate	
		+ 1%	- 1%	+ 1%	- 1%
Mexico	$ 40,239	$ 13,074	$ 78,901	$ 71,861	$ 17,877
Central America	713,543	214,410	1,368,094	1,220,277	326,041
United States	802,032	(84,366)	2,829,694	2,423,250	82,081
Brazil	$ 1,781,852	$ 6,076,016	$ 19,907,131	$ 16,854,945	$ 8,201,679

12. Intangible assets

a) The intangible assets as of December 21, 2018 and 2017, are as follows:

	Estimate of useful life	Initial balance as of December 31, 2017	Business acquisition	Year investments	Amortization and impairment	Translation effect	Final balance as of December 31, 2018
Indefinite life:							
Brands (i)		$ 5,629,457	$ -	$ -	$ (17,006)	$ (638,014)	$ 4,974,437
Formulas (i)		80,343	-	-	-	644	80,987
Finite life:							
Licenses	5 to 20 years	618,440	-	174,950	-	(61,335)	732,055
Trade agreements (ii) and others	10 to 20 years	1,265,155	-	-	-	(157,238)	1,107,917
Accumulated amortization:							
Licenses		(316,267)	-	-	(120,129)		(436,396)
Trade agreements and others		(284,329)	-	-	(43,581)	(5,133)	(333,043)
		$ 6,992,799	$ -	$ 174,950	$ (180,716)	$ (861,076)	$ 6,125,957

	Estimate of useful life	Initial balance as of December 31, 2017	Business acquisition	Year investments	Amortization	Translation effect	Final balance as of December 31, 2018
Indefinite life:							
Brands (i)		$ 1,548,425	$ 4,137,853	$ -	$ -	$ (56,821)	$ 5,629,457
Formulas (i)		80,987	-	-	-	(644)	80,343
Finite life:							
Licenses	5 to 20 years	407,346	111,735	104,724	-	(5,365)	618,440
Trade agreements (ii) and others	10 to 20 years	907,081	412,655	-	-	(54,581)	1,265,155
Accumulated amortization:							
Licenses		(221,190)	-	-	(95,077)	-	(316,267)
Trade agreements and others		(177,523)	(80,452)	-	(30,217)	3,863	(284,329)
		$ 2,545,126	$ 4,581,791	$ 104,724	$ (125,294)	$ (113,548)	$ 6,992,799

(i) During 2018 and 2017, several investments were recorded in intangibles, patents, intellectual property, commercial brands and operating processes, mainly from business acquisitions as shown in Note 5.

Brands: include the value of the brands acquired by the Entity. The main brands that are registered are: Nutrileche, Volcanes, Eskimo, Promised land, Skim Plus, La Perfecta, Vigor, Danubio, Amelia, Leco, Fong, Carmelita, Mesa, Serrabella, Faixa Azul and Doriana.

(ii) Commercial agreements: they belong mainly to non-competition contracts in Central America and the United States following the business acquisitions carried out by the Entity.

13. Debt

a) As of December 31, 2018 and 2017, the Entity's short term loans are as follows:

Loans	Currency	Interest rate	2018	2017
HSBC - Lei 4131 due October 2019	R$	CDI + 0.98%	$ 1,618,697	$ -
FINIMP 1 due in May 2019	R$	4.66%	8,951	-
FINIMP 2 due in June 2019	R$	4.07%	8,937	-
FINIMP 3 due in June 2019	R$	4.05%	8,736	-
FINIMP 4 due in June 2019	R$	4.07%	8,730	-
Banamex due in February 2018	$	TF 7.60 %	-	2,850,000
JP Morgan due in October 2018 (i)	$	TIIE 28d+0.25% (ii)	-	8,593,610
BBVA Bancomer due in October 2018 (i)	$	TIIE 28d+0.25% (ii)	-	6,445,846
Santander due in October 2018 (i)	$	TIIE 28d+0.25% (ii)	-	6,445,846
Banco Original – Financial factoring	R$	CDI+5.30%	-	2,018,347
			$ 1,654,051	$ 26,353,649

(i) Comercializadora de Lácteos y Derivados, S. A. de C. V. y Abastecedora de Alimentos de México, S. A. de C. V., subsidiaries of the Entity were guarantors of the credits used for the acquisition of Vigor. On November 24, 2017, Vigor signed an agreement obligating itself to guarantee the obligations of the Entity under these contracts. As of December 31, 2017, these loans included capitalized debt issuance and acquisition costs pending amortization for: (i) $ 15,988, $ 11,353 and $ 11,353.

(ii) Variable spread, which increases as the credit is maintained according to the following:

Months	TIIE 28d+
1-3	+0.25%
4-6	+0.40%
7-9	+0.65%
10-12	+0.88%

b) Long-term debt analysis as of December 21, 2018 and 2017, is as follows:

Loans	2018 Currency	Interest rate	Amount	Maturity Circulating position	Long-term
BBVA Bancomer due in June 2023 (i)	$	TIIE 28 + 0.65%	$ 1,418,802	$ 106,279	$ 1,312,523
JPM due in June 2023 (ii)	$	TIIE 28 + 0.65%	1,302,679	97,597	1,205,082
Scotiabank due in June 2023 (iii)	$	TIIE 28 + 0.65%	888,190	66,543	821,647
Santander due in June 2023 (iv)	$	TIIE 28 + 0.65%	1,421,104	106,469	1,314,635
HSBC due in June 2023 (v)	$	TIIE 28 + 0.65%	888,190	66,543	821,647
Cebur Lala 18 due in February 2028 (vi)	$	Fixed rate 9.17%	5,977,473	-	5,977,473
Cebur Lala 18-2 due in March 2023 (vii)	$	TIIE 28d + 0.50%	3,986,340	-	3,986,340
Cebur Lala 18- 3 due in April 2021 (viii)	$	TIIE 28d + 0.40%	2,985,812	-	2,985,812
CITI Banamex due in March 2023 (ix)	$	TIIE 28d + 0.75%	2,365,104	272,729	2,092,375
Bank of America due in April 2023 (x)	$	TIIE 28d + 0.725%	2,340,012	-	2,340,012
BDMG - FINAME due in November 2022	R$	2.50%	12,531	3,208	9,323
BDMG - FINAME due in March 2023	R$	3.00%	4,435	1,047	3,388
BDMG - FINAME due in February 2023	R$	3.00%	16,440	3,960	12,480
BDMG - FINAME due in November 2023	R$	3.50%	2,356	482	1,874
BDMG - FINAME due in November 2023	R$	3.50%	4,299	850	3,449
BDMG - FINAME due in November 2023	R$	3.50%	471	96	375
BDMG - FINAME due in November 2023	R$	3.50%	757	155	602
BDMG - FINAME due in January 2024	R$	3.50%	5,239	1,071	4,168
BDMG - FINAME due in June 2024	R$	6.00%	474	87	387
BDMG - FINAME due in June 2024	R$	6.00%	123	23	100
BDMG - FINAME due in June 2024	R$	6.00%	314	58	256
BDMG - FINAME due in June 2024	R$	6.00%	314	58	256
BDMG - FINAME due in June 2024	R$	6.00%	116	21	95
BDMG - FINAME due in June 2024	R$	6.00%	381	70	311
BDMG - FINAME due in July 2024	R$	6.00%	493	89	404
BB - NCE due in March 2019	R$	105.5% CDI	127,785	127,785	-
BB - CCB due in March 2020 (xi)	R$	6.70%	1,017,780	17,594	1,000,186
SANTANDER due in January 2019	R$	5.00%	59,498	59,498	-
JP Morgan due in August 2022	US$	3.4%	10,452	640	9,812
Banco LAFISE Bancentro due in July 2019	US$	7.5%	1,269	1,269	-
Banco LAFISE Bancentro due in December 2019	US$	7.5%	808	808	-
Banco LAFISE Bancentro due in October 2019	US$	8.5%	1,331	1,331	-
Banco LAFISE Bancentro due in March 2019	US$	8.5%	1,561	1,235	-
Banco LAFISE Bancentro due in October 2020	US$	7.0%	333	333	326
Financial leasing with LAFISE Bancentro due in November 2020	US$	from 7.5% - 8.5%	1,905	1,087	818
Total			$ 24,845,171	$ 939,015	$ 23,906,156

They include capitalized debt issuance and acquisition costs with pending amortization of: (i) 6,876; (ii) $ 6,342; (iii) $ 4,470; (iv) $ 6,876; (v) $ 4,470; (vi) $ 22,527; (vii) $ 13,660; (viii) $ 14,188; (ix) $ 9,896; (x) $ 9,987 and (xi) $ 5,482.

Loans	2017 Currency	Interest rate	Amount	Maturity Circulating position	Long-term
LAFISE Bancentro due in July 2019	US$	7.50%	$ 3,327	$ 2,055	$ 1,272
LAFISE Bancentro due in December 2018	US$	7.50%	1,293	1,293	-
LAFISE Bancentro due in December 2019	US$	7.50%	1,554	751	803
LAFISE Bancentro due in October 2019	US$	8.50%	2,832	1,483	1,349
LAFISE Bancentro due in March 2020	US$	7.00%	2,709	1,137	1,572
LAFISE Bancentro due in October 2019	US$	7.50%	706	373	333
BBVA Bancomer due in June 2021	US$	Libor + 2.23	67,554	19,656	47,898
Financial leasing with LAFISE Bancentro due in November 2020	US$	De 7.5% - 8.5%	4,493	2,968	1,525
Financial leasing with Imbera Total, S. A. de C. V. due in June 2018	US$	De 5.54% - 5.74%	328	328	-
China - Lei 4131 due in November 2018	US$	97.7% CDI	256,387	256,387	-
China - Lei 4131 due in November 2018	US$	98.0% CDI	250,451	250,451	-
HSBC - Lei 4131 due in October 2019	US$	CDI + 0.98%	1,663,812	6,038	1,657,774
HSBC - Lei 4131 due in October 2019	US$	CDI + 1.02%	415,057	614	414,443
BDMG - FINAME due in November 2022	R$	2.50%	18,757	3,830	14,927
BDMG - FINAME due in March 2023	R$	3.00%	6,527	1,253	5,274
BDMG - FINAME due in February 2023	R$	3.00%	24,317	4,731	19,586
BDMG - FINAME due in November 2023	R$	3.50%	3,389	573	2,816
BDMG - FINAME due in November 2023	R$	3.50%	5,238	113	5,125
BDMG - FINAME due in November 2023	R$	3.50%	746	185	561
BDMG - FINAME due in November 2023	R$	3.50%	2,190	1,283	907
BDMG - FINAME due in January 2024	R$	3.50%	7,260	1,014	6,246
BDMG - FINAME due in June 2024	R$	6.00%	662	101	561
BDMG - FINAME due in June 2024	R$	6.00%	167	30	137
BDMG - FINAME due in June 2024	R$	6.00%	436	72	364
BDMG - FINAME due in June 2024	R$	6.00%	436	72	364
BDMG - FINAME due in June 2024	R$	6.00%	155	24	131
BDMG - FINAME due in June 2024	R$	6.00%	558	84	474
BDMG - FINAME due in July 2024	R$	6.00%	704	107	597
China - NCE due in September 2028	R$	CDI + 1.20%	305,839	305,839	-
BB - NCE due in March 2019	R$	105.5% CDI	305,919	156,785	149,134
Bradesco - NCE due in May 2018	R$	129.9% CDI	320,017	320,017	-
BB - FINAME due in April 2021	R$	5.50%	376	113	263
BB - FINAME due in July 2021	R$	6.50%	90	30	60
BB - FINAME due in September 2021	R$	6.50%	304	74	230
Santander - CCB due in April 2018	R$	10.10%	319,072	319,072	-
Itaú - CCB due in November 2018	R$	CDI + 1.90%	301,424	301,424	-
Santander - CCB due in January 2018	R$	120.0% CDI	64,486	64,486	-
Safra - CCB due in March 2018	R$	CDI + 1.52%	245,117	245,117	-
JP Morgan Chase Bank due in August 2022	US$	TF 3.4%	13,124	2,626	10,498
Total			$ 4,617,813	$ 2,272,589	$ 2,345,224

a) The debt maturities as of December 31, 2018 are as follows:

Year ended December 31	Capital
2019	$ 2,617,308
2020	2,639,959
2021	5,127,580
2022	2,656,540
2023-28	13,562,609
Costs of issuing and obtaining capitalized debt to be amortized	(104,774)
	$ 26,499,222

Bank loans include certain obligations of what to do and not to, as well as to maintain certain financial ratios. As of December 31, 2018 and 2017, all these obligations have been met.

As of December 31, 2018, changes in liabilities deriving from financing activities for bank loans according to cash flow are integrated as follows:

Opening balance as of December 31, 2017	$	30,971,462
Obtainment of bank loans		45,007,049
Payment of bank loans		(49,075,597)
Costs paid to obtain debt		(404,321)
Amortization of debt costs		247,832
Exchange and translation effects		(247,203)
Ending balance as of December 31, 2018	$	26,499,222

14. Income taxes

a) Grupo Lala S. A. B. de C. V. and each of its subsidiaries in Mexico and abroad, are individually subjected to the payment of income taxes. These taxes are not determined based on the consolidated figures of the Entity, but calculated individually at the level of each of the companies and each of them presents its tax return separately. The Federal Income Law in Mexico for the fiscal year of 2014, establishes that the corporate rate of Income Tax ("ISR") applicable for the year 2014 and subsequent years, will be 30%.

b) Subsidiary entities calculate the income tax on the individual results of each subsidiary according to the specific regimes of each country.

The statutory rates in the main countries where Grupo Lala operates were the following:

Country	Tax rate (%) 2018
Mexico	30
Brazil	34
EUA(i)	21
Costa Rica	30
Nicaragua	30
Guatemala	25

i. On December 22, 2017, the President of the United States of America promulgated a tax reform that aims to increase the growth rate of the economy of that country, through lower tax rates for companies and a simpler tax code, with the tax rate remaining at 21% from 2018, being 35% for previous years.

c) The following is an analysis of current and deferred income taxes recorded in the results of operations in the years ended December 31, 2018 and 2017:

		2018		2017
Current income taxes	$	2,203,689	$	2,195,316
Deferred income taxes		(1,240,515)		(194,356)
Income taxes for the period	$	963,174	$	2,000,960

d) Income taxes recognized in other comprehensive income are as follows:

		2018		2017
Current taxes				
Gain on instruments designated as hedges in the acquisition of foreign operations	$	-	$	(105,931)
Deferred taxes				
Remeasurement of employee benefits		(8,360)		7,090
Cash flow hedges		(63,803)		-
Total income taxes recognized in other comprehensive income	$	(72,163)	$	(98,841)

e) The breakdown of the deferred income taxes is as follows:

		Balance as of December 31, 2018		Balance as of December 31, 2017
Assets for deferred income taxes:				
Estimation for impairment of accounts receivable	$	41,578	$	6,794
Employee benefits		155,621		132,965
Provisions		86,731		116,126
Suppliers		351,066		83,309
Tax losses		676,653		113,946
Statutory employee profit sharing		18,304		19,628
Property, plant and equipment		102,050		85,251
Intangible assets		3,169		-
Prepayments		(8,877)		(11,563)
Translation effects and others		1,861		-
	$	1,428,156	$	546,456

		Balance as of December 31, 2018		Balance as of December 31, 2017
Liabilities for deferred income taxes:				
Property, plant and equipment	$	(628,749)	$	(1,055,260)
Intangible assets		(2,289,862)		(2,797,032)
Prepayments		(36,755)		(70,890)
Estimation for impairment of accounts receivable		34,615		35,969
Employee benefits		126,410		164,240
Provisions		54,587		352,121
Suppliers		211,475		136,443
Tax losses		286,769		266,988
Statutory employee profit sharing		4,472		5,552
Translation effects and others		12,870		(35,335)
Total	$	(2,224,168)	$	(2,997,204)

f) Tax loss carryforwards expected to be recoverable as of December 31, 2018, are as follows:

Year of Expiration	Amount	Reserved losses	Total 2018
2021	$ -	$ 324,990	$ 324,990
2022	2,533	-	2,533
2023	10,419	65,839	76,258
2024	4,434	-	4,434
2025	2,029	-	$2,029
2026	112,037	-	112,037
2027 onwards	3,088,788	126,390	3,215,178
	$ 3,220,240	$ 517,219	$ 3,737,459

Tax loss carryforwards expected to be recoverable were reserved because there is not a high probability that they can be recovered.

g) The reconciliation between the statutory and effective income tax rates is as follows:

	2018	2017
Legal tax rate	30%	30%
Non-deductible expenses	3%	1%
Payroll tax exemptions	4%	2%
Tax inflation effects	5%	(3%)
Other items	(5%)	3%
Effect of different tax rates of foreign subsidiaries	5%	2%
Effects of tax losses	5%	4%
SIBRA regime changes	(14%)	-
Effective tax rate	33%	39%

15. Short-term employee benefits

The current obligations for employee benefits are as follows:

	2018	2017
Accrued vacation and bonuses	$ 237,631	$ 278,994
Salaries and other provisions payable	223,066	236,489
Bonus payable	94,731	155,699
Statutory employee profit sharing	76,601	82,563
	$ 632,029	$ 753,745

16. Financial leases obligations

Grupo Lala maintains financial leases for 2018 in Central America for a delivery team. In 2017, there were financial leasing contracts for chillers, placed in the clients' facilities, in order to have a safe place and in adequate conditions for the exhibition of the products; these contracts did not include purchase options or price adjustment clauses, and the specific lessee company owns the renewal option. The minimum future payments for financial leases, together with the present value of the net minimum lease payments, are as follows:

	2018		**2017**	
	Minimum payments	**Present value of lease payments**	**Minimum payments**	**Present value of lease payments**
Less than a year	$ 1,087	$ 1,087	$ 3,299	$ 3,299
One to five years	825	818	1,525	1,522
Total minimum lease payments	1,912	1,905	4,824	4,821
Decrease in the financial burden	- (7)	-	(3)	-
Present value of minimum lease payments	$ 1,905	$ 1,905	$ 4,821	$ 4,821

These leases have a duration of five years. There is no restriction for the Entity regarding the arrangement of these leases.

Finance leases are presented under the heading of long-term debt and its current portion is in the statement of financial position.

17. Employee benefits

a) Defined benefit plans

Retirement pensions of Mexican subsidiaries are granted through pension plans that cover all non-unionized employees who reach 65 years of age, with the option of early retirement starting at 50 years of age. The pensions are determined based on the compensations of the employees in their last year of work, the years of seniority in the Entity and their age at the time of retirement. The seniority premiums that are paid to the personnel are determined based on the provisions of the Federal Labor Law in Mexico. Likewise, it includes the provision of indemnities derived from the constructive obligation of Legal Compensation at advanced ages exclusively for unionized personnel.

Central America

According to labor legislation in Nicaragua, the employer is required to pay the worker compensation equivalent to one month's salary for each of the first three years of work and twenty days of salary for each year of work after the fourth year. In no case shall the compensation be less than one month or more than five months.

In Guatemala, the amount of the benefit will be equal to one month of salary for each year of service.

The rates used in the actuarial study of the main subsidiaries were the following:

As of December 31, 20188	Mexico	Guatemala	Nicaragua
Employee discount benefits	9.00%	8.25%	14.25%
Salary increase	4.00%	4.50%	7.75%
Turnover rate	25.00%	15.00%	19.00%
Mortality P.V. [1]	EMSSA[2] 2009		

1 Valuation Percentage.

2 EMSSA = Demographic experience

As of December 31, 2017	Mexico	Guatemala	Nicaragua
Employee discount benefits	8.00%	6.75%	12.50%
Salary increase	4.00%	4.50%	7.75%
Turnover rate	25.00%	15.00%	19.00%
Mortality P.V. [1]	EMSSA[2] 2009		

1 Valuation Percentage.

2 EMSSA = Demographic experience.

The amounts recognized in profit or loss of these defined benefit plans are as follows:

	2018			2017		
Net cost of the period:	Pension plan	Seniority Premium	Retirement benefits for unionized personnel	Pension plan	Seniority Premium	Retirement benefits for unionized personnel
Labor cost	$ 2,854	$ 29,024	$ 17,036	$ 13,935	$ 21,998	$ 18,882
Financial cost	20,747	9,938	14,478	20,249	8,982	11,896
Net cost of the period	$ 23,601	$ 38,962	$ 31,514	$ 34,184	$ 30,980	$ 30,778

	2018			2017		
Remeasurement of the liabilities for defined benefits	Pension plan	Seniority Premium	Retirement benefits for unionized personnel	Pension plan	Seniority Premium	Retirement benefits for unionized personnel
Adjustment by experience	(1,006)	(4,834)	(22,672)	6,360	16,779	1,531
Adjustments for experienced cost items for defined benefits recognized in other comprehensive income	(1,006)	(4,834)	(22,672)	6,360	16,779	1,531
Total	$ 22,595	$ 34,128	$ 8,842	$ 40,544	$ 47,759	$ 32,309

The amount included in the statements of financial position arising from the Entity's obligation with respect to its defined benefit plans is as follows:

	2018	2017
Pension plan	$ 271,760	$ 273,424
Seniority premium	135,794	132,036
Retirement benefits for unionized employees	187,855	180,338
Total benefits to employees for termination and retirement	$ 595,409	$ 585,798

The movement in the fair value of defined benefits obligations for the year is as follows:

	2018			2017		
	Pension plan	Seniority premium	Retirement benefits for unionized personnel	Pension plan	Seniority premium	Retirement benefits for unionized personnel
Obligation of projected benefits at the beginning of the year	$ 273,424	$ 132,036	$ 180,338	$ 265,478	$ 119,108	$ 158,291
Cost recognized in profit or loss:						
Labor costs	2,854	29,024	17,036	13,935	21,998	18,882
Financial costs	20,747	9,938	14,478	20,249	8,982	11,896
Subtotal included in profit or loss	23,601	38,962	31,514	34,184	30,980	30,778
Benefits paid	(24,259)	(30,370)	(3,352)	(32,598)	(34,831)	(10,513)
Revaluation of (benefits) losses included in other comprehensive income:						
Adjustments by experience	(1,006)	(4,834)	(22,672)	6,360	16,779	1,531
Subtotal included in other comprehensive results	(1,006)	(4,834)	(22,672)	6,360	16,779	1,531
Translation effect	-	-	2,027	-	-	251
Obligation for defined benefits at the end of the year	$ 271,760	$ 135,794	$ 187,855	$ 273,424	$ 132,036	$ 180,338

b) Sensitivity analysis of the discount rate.

The sensitivity analysis of the discount rate for defined benefit obligations is as follows:

Obligations for defined benefits as of December 31, 2018	Mexico	Guatemala	Nicaragua
Obligation for defined benefit	$ 579,626	$ 5,664	$ 10,483
Discount rate + 1%	$ 530,710	$ 5,039	$ 10,086
Discount rate - 1%	$ 629,893	$ 6,401	$ 10,937

Impact on the obligation for defined benefits	Mexico	Guatemala	Nicaragua
Discount rate + 1%	$ (46,046)	$ (625)	$ (397)
Discount rate - 1%	$ 53,137	$ 738	$ 454

a) Projected payments to be paid from the plans are as follows:

Years ending December 31	
2019	$ 50,647
2020	42,833
2021	49,099
2022	51,022
2023	59,347
Next five years (2024-2028)	393,044
Total	$ 645,992

18. Other long-term accounts payable

	2018	2017
Provision for contingencies in acquisition of Vigor (Note 24)	$ 4,911,968	$ 5,811,425
PIS and COFINS for long-term (Note 8)	913,885	1,450,430
Other	446,437	435,233
Total	$ 6,272,290	$ 7,697,088

19. Financial instruments and financial risk management

Capital management (sources of financing)

The Entity manages its capital (sources of financing) to ensure that it will be able to continue as an ongoing business while maximizing the performance to its members through the optimization of debt and equity balances.

The Entity's capital structure consists of net debt (loans as detailed in Note 13 compensated by cash and cash equivalents balances) and capital of the Entity (comprised of capital stock, issue of shares at premium, retained earnings and comprehensive income).

To maintain the capital structure, the Entity can adjust the payment of dividends to Stockholders, or repurchase capital stock, for which the Entity maintains a reserve.

The Entity is not subject to external capital requirements.

Indebtedness index

The Board of Directors reviews the capital structure of the Entity on a regular basis. As part of this review, the Board of Directors considers the cost of capital and the risks associated with each type of capital.

The indebtedness index at the end of each of the periods is as follows:

	2018	2017
Cash and equivalents	$ 2,550,118	$ 6,733,382
Debt	26,499,222	30,971,462
Net debt	23,949,104	24,238,080
Capital	$ 25,570,077	$ 29,957,363
Net debt and capital ratio	93.7%	80.9%

The debt includes long-term debt and its current portion. The capital includes equity, additional paid-in capital, accumulated profits and the integral result of the Entity.

The Administration and Finance Department reviews the Entity's capital structure on a regular basis in accordance with the company's operational needs. Previously, the administration's strategy was to maintain the net debt and capital ratio as favorable; however, as of December 31, 2017 due to the opportunity presented by the acquisition of Vigor, the Entity acquired debt, affecting the indebtedness in an important way. In 2018, the Entity continued with important efforts to mitigate the risks related with debt, among which the placement of $12,949,625 in debt certificates in the Mexican market stands out. The proceeds from these issues were used to pay in advance for the acquisition of Vigor (see Note 13).

Categories of financial assets and financial liabilities:

		2018		2017
Financial assets				
Cash and restricted cash (i)	$	988,898	$	1,036,165
Measured at fair value through changes through results:				
Derivative financial instruments		432,895		6,422
Measured at amortized cost				
Customers (ii)		6,445,296		6,946,619
Accounts receivables with related parties		27,404		46,874
Cash equivalents (i)		1,561,220		5,697,217
Financial liabilities				
Measured at amortized cost				
Suppliers	$	8,780,879	$	8,180,315
Accounts payable with related parties		1,557,251		460,349
Debt (iii)		26,499,222		30,971,43
Measured at fair value through changes through results:				
Derivative financial instruments	$	5,710	$	88,255

(i) The income generated by cash equivalents and restricted cash are presented under the heading of financial products in the consolidated statement of income and other comprehensive income.
(ii) Accounts receivable from clients do not generate interest because they are short-term.
(iii) The financial cost of these financial liabilities measured at amortized cost is presented in the line of financial expenses in the consolidated statement of income and other comprehensive income.

During the year, there were no reclassifications of financial instruments between the different categories.

There are no collaterals granted for the financial liabilities contracted by the Entity.

Financial risk management

The Entity is exposed to the following risks related to the use of financial instruments: market risk, foreign exchange risk, interest rate risk, credit risk, liquidity risk and excessive concentration risk. This note presents the risk exposure the Entity has and the policies and processes to measure and manage the risk.

Market risk

The Entity's activities expose it to different risks, mainly to financial risks of exchange rates.

The Entity seeks to minimize the potential negative effects of these risks on its financial performance through a general risk management program. The Entity uses derivative and non-derivative financial instruments to hedge certain exposures to financial risks housed in the statement of financial position (assets and liabilities recognized); as well as outside of it (firm commitments and predicted transactions highly probable to occur).

The administration of financial instruments and the use of derivative and non-derivative financial instruments are governed by the policies of the Entity approved by the Board of Directors. There have been no changes in the Entity's exposure to market risks or in the way in which said risks are managed and measured.

Currency risk

The Entity performs transactions denominated in foreign currency, mainly US dollars; consequently, exposures to fluctuations in the exchange rate are generated. The exposures in the exchange rate are managed within the parameters of the approved policies using foreign currency forward contracts. This exposure arises mainly from Mexican operations that maintain balances in foreign currency.

Sensitivity analysis of foreign currency

The Entity's financial assets and liabilities denominated in thousands of US dollars as of December 31, 2018 and 2017, are as follows:

:		2018		2017
Short-term financial assets	US$	136,006	US$	101,200
Short-term financial liabilities		(139,138)		(129,755)
Long-term financial liabilities		(86,282)		(107,755)
Financial position in foreign currency	US$	(89,414)	US$	(136,310)

The exchange rates used to convert US dollars to pesos as of December 31, 2018 and 2017, were $19.68 and $19.73 pesos, respectively.

Considering the monetary position of the Entity as of December 31, 2018 with a closing exchange rate of $19.68 per US dollar, the Bank considers that a variation of 1 peso of appreciation or depreciation of the US dollar represents a sensitivity in the asset of + / - $136,006, a variation in the liability of +/- $225,420 and a net effect on results of +/- $89,414.

Derivative financial instruments to hedge the exchange rate risk:

It is the policy of the Entity to sign foreign currency forward contracts to cover mainly payments to specific suppliers in foreign currency between 40% and 50% of the exposure generated.

Foreign currency forward contracts

As of December 31, 2017, the Entity held forward contracts to hedge the exchange risk of the fluctuation of the dollar with respect to the Mexican peso, which were treated as derivative financial instruments of negotiation. The fair value of these derivative financial instruments was $6,422, which matured in January and February 2018.

Because the Entity has the Mexican peso as its functional currency and maintains accounts payable in USD, it is exposed to foreign exchange risk. Therefore, as of February 2018, the Entity has designated new forward contracts as accounting hedges, where the hedged item is represented by purchases in USD.

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

Features	Forwards
Total Notional	$50,288
Currency	USD
Average Strike	$19.8977
Maturity	5 and 15 for each month (January-May 2019)
Book value of the forward	$(5,710)
Changes on the fair value of the forward to measure ineffectiveness	$(5,710)
Recognized in OCI	$(5,710)
Ineffectivity recognized in profit or loss	$-
Reclassification of OC to profit or loss	$-
Average monthly Budget of the covered item	$15,967
Change in fair value of the hedged item to measure ineffectiveness	$6,274
Effectiveness test	100%

In the evaluation of the effectiveness of these hedges, the Entity determined that they are highly effective because changes in the fair value and cash flows of each hedged item are compensated within the range of effectiveness established by the administration. The effectiveness test was highly effective, confirming that there is an economic relationship between the hedging instruments and the instruments covered. The method used by the Entity 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 item.

According to the notional amounts described and the way in which the flows of the derivatives are exchanged, the average hedging ratio for the USD/MXN exchange rate is 76%.

The source of ineffectiveness can be caused mainly by the difference in the settlement date between the hedging instruments and the hedged items, and the budget becomes less than the hedging instruments.

Currency swaps ("CCS")

As of December 31, 2017, the Entity maintained 4 CCS contracts to hedge the foreign exchange risk and the interest rate of foreign currency debts. The fair value of these derivative financial instruments, classified as trading, was $(88,255). Of these instruments, 3 of them were canceled because the debt they were covering was paid in advance. The amount recognized in the consolidated statement of profit (loss) and other comprehensive income due to the cancellation of these swaps was $43,652.

As of December 31, 2018, the Entity has one CCS accounting hedge contract with the objective of mitigating the risk of exposure to the exchange rate and the interest rate derived from a debt in foreign currency. The CCS was contracted in an entity whose functional currency is the Brazilian real, however, that entity maintains liabilities denominated in dollars that generate a change in fluctuation due to the variability of the USD/R$ exchange rate. Therefore, the Entity entered into a CCS and designated as the hedged item the exchange rate fluctuation and the interest rate, as well as the principal of the debt.

The characteristics of the CCS designated as hedge accounting for the exchange rate risk and interest rate are as follows:

Features	CCS HSBC
Currency	USD
Notional	84,000
Coupon	2.98%
Currency	R$
Notional	277,788
Coupon	CDI + .98%
Maturity	October-01-2019
Fair value of the derivative	$213,436
Change in the fair value of the derivative to measure ineffectiveness	$300,292
Carrying amount of hedged item	$1,618,697
Amount of fair value for which the hedged item was adjusted	$213,436
Change in fair value of the hedged item to measure ineffectiveness	$300,292
Ineffectiveness recognized in results	$-
Effectiveness test	100%

For accounting purposes, the Entity has designated the CCS that is previously described as a fair value hedge relationship to cover interest payments on financial liabilities, formally documenting such relationships, establishing the objectives, the administration's strategy to cover the risk, the identification of the hedging instruments, the hedged items, the nature of the risk to be covered and the methodology of the evaluation of the effectiveness.
With the interest and the notional amounts of the derivative financial instrument, the Entity compensates the exchange fluctuation, originated by the liabilities denominated in dollars of the subsidiary with real Brazilian functional currency.

As of December 31, 2018, this fair value hedge is highly effective given that the characteristics of the derivative and the debt issued are perfectly aligned and, therefore, confirms that there is an economic relationship. In addition, both the credit profile of the Entity and its counterparts are good and are not expected to change in the medium term; therefore, the credit risk component is not considered to dominate the hedging relationship. The method used to measure effectiveness is through a qualitative evaluation comparing the critical terms between the hedging instrument and the hedged item.

According to the amount described and the way in which the derivative flows are exchanged, for this hedging strategy, the average hedging ratio is 100%. In this hedge relationship, the source of ineffectiveness is mainly credit risk.

Interest rate risk

The debt was incurred for the acquisition of Vigor. The Entity is exposed to significant risks in interest rates.

Interest rate swap contracts

The Entity maintains interest rate swap contracts through which the interest amounts are exchanged at the variable rate for interest amounts at the fixed rate. These are employed in order to reduce the exposure of the Entity's cash flow resulting from the variable interest rates on loans it has in Brazil.

Beginning in February 2018, the Entity designated these hedge derivative financial instruments contracted during the year, as cash flow accounting hedges. As of December 31, 2018, the Entity maintains interest rate swaps ("IRS"), in order to mitigate the risk to the variability of interest rates. The Entity maintains interest-bearing debts at variable rates, which is why it is exposed to the variability of the reference interest rate (TIIE).

During 2018, the Entity entered into six IRS (grouped into 2 types of hedges) and designated the interest payments arising from these debts as a hedged item. The conditions of the derivative financial instruments and the considerations of their valuation as a hedging instrument are mentioned below:

Features	Interest rate swaps (Hedge 1)	Interest rate swaps (Hedge 2)
Currency	Pesos	Pesos
Notional	$4,000,000	$3,000,000
Covered rate	7.59%	7.39%
Currency	MXN	MXN
Maturity	March-06-2023	April-13-2021
Fair value of the swap	$144,417	$75,042
Change in the fair value of the swap to measure ineffectiveness	$144,417	$75,042
Recognized in ORI	$143,235	$74,556
Ineffectiveness recognized in results	$-	$-
Reclassification of ORI to results	$1,182	$486
Carrying amount of the hedged item	$4,000,000	$3,000,000
Change in the fair value of the hedged item to measure ineffectiveness	$(144,417)	$(75,042)
Effectiveness test	100%	100%

For accounting purposes, the Entity has designated the IRS described previously as two cash flow hedging relationships to cover the interest payments on financial liabilities, formally documenting those relationships, establishing the objectives, the administration's strategy to cover the risk, the identification of the hedging instruments, the items covered, the nature of the risk to be covered and the methodology of the evaluation of effectiveness.

As of December 31, 2018, these hedges are highly effective given that the characteristics of the derivatives and the debts issued are perfectly aligned and, therefore, it is confirmed that there is an economic relationship. In addition, both the credit profile of the Entity and its counterparts are good and are not expected to change in the medium term; therefore, the credit risk component is not considered to dominate 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.

According to the amount described and the way in which the derivative flows are exchanged, for this hedging strategy, the average hedging ratio is 100%. In this hedge relationship, the source of ineffectiveness is mainly credit risk.

Credit risk management

As of January 1, 2018, the Entity uses a new impairment model based on the expected credit losses, instead of the losses incurred, applicable to the financial assets subject to such evaluation (i.e. financial assets measured at amortized cost and at their fair value through other comprehensive income). The expected credit losses on these financial assets are estimated from the origin of the asset at each reporting date, taking as reference the historical experience of credit losses of the Entity, adjusted for factors that are specific to the debtors or debtors' groups, general economic conditions and an assessment of both the current situation and the forecast of future conditions.

The measurement of the expected credit losses is a function of the probability of default, the loss given the default (i.e., the magnitude of the loss if there is a default) and the exposure in the default. The Entity adopted a simplified model for calculating expected losses, through which it recognizes the expected credit losses during the life of the account receivable; therefore, an analysis of how to determine a significant increase in credit risk is not necessary.

The Entity makes an analysis of its portfolio of accounts receivable from clients, in order to determine if there are significant clients for whom it requires an individual evaluation; on the other hand, customers with similar characteristics that share credit risks (participation in the portfolio of accounts receivable, market type, sector, geographical area, etc.) are grouped to be evaluated collectively.

In its assessment of impairment, the Entity may include indications that the debtors or a group of debtors are experiencing significant financial difficulties, as well as observable data indicating that there is a considerable decrease in the estimate of the cash flows to be received, including arrears.

The Entity's determination that there is evidence that a financial asset has credit impairment includes observable data on the following events:

i. Significant financial difficulty by the issuer or the debtor;

ii. The breach of a contract, such as a default or an expired event;

iii. The lender of the debtor, for economic or contractual reasons related to the financial difficulty of the debtor, gives the debtor a concession that the lenders would not consider otherwise;

iv. It is increasingly likely that the debtor goes into bankruptcy or some other financial reorganization; or

v. The extinction of a functional market for the financial asset due to its financial difficulties.

Regardless of the previous analysis, the Entity considers that all financial assets whose maturity exceeds a 90 or 180-day maturity threshold must be impaired in their entirety, since based on the analysis of reasonable information, it has confirmed that said criterion of non-compliance it is appropriate according to the historical portfolio behavior.

The Entity derecognizes a financial asset when there is information indicating that the debtor is in serious financial difficulty and there is no realistic prospect of recovery, for example, when the debtor has been placed in liquidation or has entered into a process of bankruptcy, or in the case of commercial accounts receivable, when age of maturity practically represents that it will not be recoverable.

As of the reporting date, the Entity does not hold financial assets subject to an impairment assessment whose contractual flows have been modified.

Liquidity risk management

Liquidity risk is the risk that the Entity cannot meet its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Entity continuously monitors the maturity of its liabilities, as well as the cash needs for its operations. Analysis of detailed cash flows are prepared and presented quarterly to the Board of Directors. The Entity controls the operating cash flow daily. Decisions are made about obtaining new financing, only for expansion and growth projects.

The management of the debt is to obtain long-term debt to finance debt incurred in the short term. This in a way that once the assets are acquired and they are productive, the short-term debt is liquidated and the necessary flows to cover the long-term debt are obtained from the acquired investment properties.

The table presented below analyzes the derivative and non-derivative financial liabilities of the Entity, grouped according to their maturities, from the reporting date to the contractual maturity date. Financial liabilities are included in the analysis if their contractual maturities are required to understand the terms of the cash flows of the Entity.

As of December 31, 2018	Less than 1 year	From 1 year to 3 years	From 3 years onwards
Debt	$ 2,617,308	$ 10,424,079	$ 13,562,609
Suppliers	8,780,879	-	-
Derivative financial instruments	5,710		
Total	$ 11,403,897	$ 10,424,079	$ 13,562,609

As of December 31, 2017	Less than 1 year	From 1 year to 3 years	From 3 years onwards
Debt	$ 28,664,932	$ 2,325,211	$ 20,013
Suppliers	8,180,315	-	-
Derivative financial instruments	88,255	-	-
Total	$ 36,933,502	$ 2,325,211	$ 20,013

Fair value of financial assets and liabilities

As of December 31, 2018 and 2017, financial instruments whose value is different from their fair value in books are as follows:

		2018		2017	
	Levels	Book value	Fair Value	Book value	Fair Value
Debt	1 y 2	$ 26,603,996	$ 25,112,358	$ 31,010,156	$ 30,410,430

The Entity does not have assets or liabilities classified as Level 3 for the determination of its fair value.

The Entity determined the fair value of the debt, considering the prices of its quoted bonds in the market, which is considered within Level 1 of the fair value hierarchy; additionally, for bank debt, it determined the fair value by discounting present value of the contractual flows using a discount rate that reflects a credit risk similar to the last loan obtained by the Entity. The determined fair value is classified as Level 2.

Management considers that the book value of financial assets and financial liabilities, with the exception of debt, approximates their fair values given their short maturity.

Credit concentration risk

The risk of credit concentration arises when a significant number of companies are working in similar business activities, have activities in the same geographical area, or have similar characteristics that could cause their ability to fulfill their contractual obligations when certain changes occur in the economic, political or other conditions will deteriorate. The concentration indicates the relative sensitivity of the Entity's performance. In order to avoid excessive concentration of risk, the Entity's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Credit risk concentrations are controlled and managed according to these policies.

Approximately 18% and 22% of sales for the years ended December 31, 2018 and 2017, respectively, represent sales made to the five main customers. No client represents more than 10% of the Entity's sales by itself.

20. Stockholders’ equity

a) As of December 31, 2018 and 2017, the common stock of the Entity is represented by 2,563,321,000 ordinary shares with no par value, representing fixed capital, of which 2,475,932,111 are subscribed and paid. The difference between the shares of the authorized capital, the subscribed and paid shares are in treasury.

b) At the Ordinary General Stockholders' Meeting, on April 27, 2018, the Entity's results were approved for the year ended December 31, 2017.

c) In the Assembly referred to in the preceding paragraph, a dividend of $ 0.615 per share was approved, payable in 4 exhibits of $ 0.1538 per share, each. As of December 31, 2018, the Entity paid for the first three exhibitions on May 23, August 22 and November 21, 2018.

d) As of December 31, 2018 and 2017, the Entity has a total balance of 37,174,593 and 20,327,394 capital stock repurchased, representing an amount of $ 977,830 and $ 620,972, respectively.

During the year ended December 31, 2018, the Entity repurchased and reissued capital stock for 26,725,475 and 9,868,276 shares, for an amount of $ 637,599 and $ 280,741, respectively.

During the year ended December 31, 2017, the Entity repurchased and reissued capital stock for 11,154,206 and 510,000 shares, for an amount of $ 337,614 and $ 16,685, respectively.

e) In accordance with the Mexican General Law of Commercial Companies, a percentage will be separated from the net profit of the year in order to increase the legal reserve of the Company, up to an amount equivalent to 20% of the historical share capital. As of December 31, 2018 and 2017, the amount of the legal reserve amounts to $ 105,616, which exceeds the value required by the General Law of Commercial Companies, so no application was made for such concept.

f) The distribution of stockholders' equity, except for the updated amounts of the contributed capital and retained earnings, will cause the ISR charged to the Entity at the rate in effect at the time of distribution. The tax paid for such distribution may be credited against the ISR of the fiscal year in which the dividend tax is paid and in the two following immediate fiscal years, against the fiscal year tax and the provisional payments of the same.

Dividends paid from profits generated as of January 1, 2014 to individual resident in Mexico and to residents abroad, may be subject to an additional ISR of up to 10%, which must be retained by the Entity.

For the dividends paid by the Entity that come from the Net Tax Profit Account (CUFIN), it will not be obligated to pay ISR.

g) The balances of the fiscal accounts of stockholders' equity as of December 31, are:

	2018	2017
Contribution capital	$ 67,957,729	$ 64,679,166
CUFIN	21,128,080	17,902,248
Final balance	$ 89,085,809	$ 82,581,414

21. Operating expenses

a) The integration of operating expenses as of December 31, 2018 and 2017, is as follows:

	2018		
	Cost of Sales	Distribution Expenses	Operating Expenses
Employee benefits	$ 3,030,072	$ 1,391,216	$ 6,827,316

Amortization and depreciation	1,207,402	139,048	975,638
Marketing expenses	-	-	5,763,985
Other operating expenses	-	3,910,335	2,359,314
Costs of raw material and others	44,671,421	-	210
Total expenses	$ 48,908,895	$ 5,440,599	$ 15,926,463

	2017		
	Cost of Sales	**Distribution Expenses**	**Operating Expenses**
Employee benefits	$ 2,241,723	$ 1,297,521	$ 5,678,339
Amortization and depreciation	1,033,689	114,622	730,250
Marketing expenses	266	102,983	4,335,943
Other operating expenses	-	3,163,699	2,433,361
Costs of raw material and others	35,966,516	-	-
Total expenses	$ 39,242,194	$ 4,678,825	$ 13,177,893

Within the marketing expenses are included such expenses as: maintenance and fuels of delivery units, advertising, promoting and market research, mainly. The other operating expenses include freight and operating leases, primarily.

22. Balances and transactions with related parties

The balances and transactions between the Entity and its subsidiaries, which are related parties of the Entity, have been eliminated in the consolidation and are not disclosed in this note. The transactions between the Entity and other related parties are detailed below.

a. During the year, the Entity made the following transactions with related parties that are not members of the Entity:

	2018	**2017**
Purchases and expenses:		
Purchase of fluid milk (i)	$ 15,364,881	$ 14,111,659
Purchase of finished product (ii)	199,298	198,042
Payment of interest, administrative services, leases and others (iii)	163,946	189,568
	$ 15,728,125	$ 14,499,269
Revenue by:		
Freight revenues and others (iv)	$ 169,653	$ 221,807
Income from finished product (v)	104,392	35,289
	$ 274,045	$ 257,096

(i) Fluid milk from producers who are Stockholders of the Entity

(ii) The operations with Nuplen Comercializadora, S.A. de C.V. consist basically of purchases of chemicals used in the cleaning of machinery

(iii) Additionally, there are operations with Grupo Industrial Nuplen, S.A. de C.V., Nuplen, S.A. de C.V., Nuplen Producción y Servicios, S.A. de C.V., Nuplen Comercializadora, S.A. of C.V. and Fundación Grupo Lala, A.C. They include the provision of administrative services, leasing, and interest payments, whose terms are periodically renewable, plus a profit margin based on a transfer pricing study, as well as payment of interest to Unión de Crédito Industrial y Agropecuaria de la Laguna, S. A.

(iv) Freight revenues are mainly milk collection services charged to producer members and sale of services to Nuplen Comercializadora, S. A. de C. V.

(v) Sales of dairy products are made to National Dairy, LLC.

b. Derived from the aforementioned transactions, the following balances were pending at the end of the reporting period:

	2018	2017
Receivable:		
Affiliates:		
Borden Dairy Company	$ 14,320	$ 26,591
Leche Bell, S. A. de C. V.	4,979	5,230
Nuplen Comercializadora, S. A. de C. V.	3,836	7,845
Servicios Especiales Corporativos de la Laguna, S. A. de C. V.	41	1,112
Fundación Lala, A. C.	27	-
Grupo Industrial Nuplen, S. A. de C. V.	-	5,387
Stockholders:		
Stockholders, for the sale of freight and other goods and services	4,201	709
	$ 27,404	$ 46,874

The Entity evaluates for each reporting period the probability of recovery of accounts receivable from related parties, examining the financial position and the market in which each of them operates. As of December 31, 2018 and 2017, there is no accounts receivable impairment for transactions with related parties.

	2018	2017
Payable:		
Affiliates:		
Fundación Lala, A. C. (viii)	$ 53,151	$ 49,633
Nuplen Comercializadora, S. A. de C. V.	21,218	20,628
Servicios Especiales Corporativos de la Laguna, S. A.de C. V.	3,108	1,032
Borden Dairy Company	1,820	1,826
Leche Bell, S. A. de C. V.	779	494
Grupo Industrial Nuplen, S. A. de C. V.	90	56
Nuplen, S. A. de C. V.	79	88
Nuplen Productos y Servicios S. A. de C. V.	-	224
Unión de Crédito Industrial y Agropecuaria de la Laguna, S. A. (UCIALSA)	89	89
Stockholders:		
Stockholders, for the sale of freight and other goods and services	1,476,917	386,280
	$ 1,557,251	$ 460,350

The Entity has a revolving loan with Fundación Lala, A.C. which accrues an interest rate equivalent to the Treasury Certificates ("CETES"). The balance payable as of December 31, 2018 and December 31, 2017, amounts to $53,151 and $49,633, respectively.

c. As of December 31, 2018 and 2017, the employee benefits granted to key administrative personnel, is as follows:

	2018	2017
Short-term benefits	$ 232,442	$ 225,624
Compensation of termination of contract	13,322	10,300
	$ 245,764	$ 235,924

23. Information by segments

An operating segment is a component of the Entity that is engaged in business activities for which it can obtain income and incur expenses, which includes income and expenses related to transactions with any of the other components of the Entity. All operating results of the operating segments are periodically reviewed by the Entity's management to make decisions about the resources that must be distributed to the segment and evaluate their performance.

Transactions between segments are determined on the basis of prices comparable to those that would be used with or between independent parties in comparable operations.

The accounting, administrative and operating policies of the segments are the same as those described by the Entity, which evaluates the performance of its segments based on financial indicators that show the operating flow as shown below.

The segments reported in the Entity are strategic business units by geographical area. The Entity's management considers that the operating segments of Mexico and Central America meet the aggregation criteria defined by IFRS.

Therefore, the information by segments is presented following a managerial approach, as reported to the decision maker of the Entity, who is equivalent to the General Manager, for the purpose of allocating resources and evaluating the performance of the operating segments.

The Entity has defined that its reportable segments focus on 3 geographic zones: 1) Mexico and Central America (Mexico and CAM). The CAM segment is added to the Mexican segment, because it meets the aggregation criteria established by IFRS 8; 2) United States; and 3) Brazil. These reportable segments are engaged in similar business activities, as described in Note 1.

Following is the main data by segment for the years ended December 31, 2018 and 2017:

As of December 2018:

	Mexico and CAM	United States	Brazil	Eliminations	Consolidated
Net sales	$ 59,330,070	$ 3,372,515	$ 12,764,729	$ (48,370)	$ 75,418,944
Operating profit	5,440,548	(555,290)	526,167	-	5,411,425
Depreciation, amortization and impairment	1,791,210	258,063	272,815	-	2,322,088
Net income	2,102,204	(554,257)	445,926	-	1,993,873
Total assets	66,201,479	5,141,562	35,834,926	(31,409,003)	75,768,964
Total liabilities	35,380,004	1,737,298	14,223,178	(1,141,593)	50,198,887

As of December 31, 2017:

	Mexico and CAM	United States	Brazil	Eliminations	Consolidated
Net sales	$ 56,997,499	$ 3,253,660	$ 2,348,257	$ (59,168)	$ 62,540,248
Operating profit	6,283,550	(442,088)	(241,308)		5,600,154
Depreciation, amortization and impairment	1,627,071	197,687	53,803	-	1,878,561
Net income	3,756,556	(492,654)	(298,886)	-	2,965,016
Total assets	65,358,041	5,294,639	45,322,594	(31,079,087)	84,896,187
Total liabilities	34,471,665	1,300,826	19,978,011	(811,678)	54,938,824

24. Contingencies

Provision contingencies in the acquisition of Vigor:

After the acquisition of Vigor in 2017, the Entity identified that there are some contingencies for lawsuits, lawsuits and legal actions of different nature that arose within the normal course of Vigor's operations before acquisition for R $ 973,438 (equivalent to $ 5,782,964 to date) of acquisition. Upon completion of the acquisition method, the total of the contingencies identified within the "Other long-term payable" line item were adjusted. Likewise, an asset is recognized for a similar amount under the item "Other assets, net", because contractually the Entity has the right to charge the seller any amount that is disbursed as a contingency before the date of acquisition. The balance as of December 31, 2018 is presented in Note 18.

Other issues:

In addition to the aforementioned litigation, within the ordinary course of business, the Entity is party to certain litigious procedures without it being expected that these may have an adverse material effect on its financial position, results of operations or cash flows.

25. Authorization to issue the consolidates financial statements

On February 28, 2019, the issuance of the accompanying consolidated financial statements was authorized by Lic. Mauricio Leyva Arboleda, General Director and Ing. Alberto Alfredo Arellano García, Administration and Finance Director; consequently, these do not reflect the events that occurred after that date, and are subject to the approval of the Ordinary Assembly of Stockholders of the Entity, who can decide its modification in accordance with the provisions of the General Corporation Law Mercantile

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