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S I O N



ANNUAL REPORT
2018

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EXPANSION

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OUR



CONSUMER



CHEMICAL



AUTOMOTIVE



WE ARE KUO, A MEXICAN INDUSTRIAL CONGLOMERATE WITH INTERNATIONAL PRESENCE IN MORE THAN 70 COUNTRIES. OUR BUSINESS MODEL IS BASED ON A CONSTANT FOCUS ON THE VALUE GENERATION IN ALL ITS DIMENSIONS: ECONOMIC, SOCIAL AND ENVIRONMENTAL.

6
BUSINESSES

3
SECTORS

OUR VALUES:
INTEGRITY
INSTITUTIONALITY
LEADERSHIP
TEAM WORK
OPENNESS TO CHANGE
INNOVATION

OUR MISSION

Create value in a sustainable and satisfactory way for our stakeholders through the effective management of a dynamic business portfolio.

OUR VISION

At KUO, we visualize our growth and consolidation through value creation based on:

The pride we feel for being a socially responsible company that maintains a reputation for integrity, solidity and ability to generate value for its stakeholders.

The high profitability of the company reflected in the sustained value generation business.

The alliances we establish with our partners and suppliers are always aimed at creating value for both.

The satisfaction derived from exceeding the expectations of our clients for being their best option in quality, service, innovation and technology.

The strength of being a member of a team of first-rate employees, motivated, who see their constant preparation as a priority and who share the objectives and values of KUO.

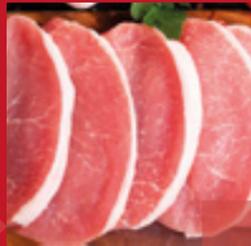
An organization formed by a dynamic portfolio of companies oriented to the creation of sustained value, with an agile and flexible structure that favors timely adaptation to market demands.

The commitment to the communities in which we operate, which is reflected in our active participation in favor of its development.

OUR

SE

CONSUMER



CHEMICAL

AUTOMOTIVE



 <p>PORK MEAT We produce, market and distribute pork meat in different presentations: live pork, cuts, seasoned meat and frozen food. The business is vertically integrated, from genetics, farms, food</p>	<p>plants, to processing plants and distribution, which allows us to have complete control over the quality of the products we offer. www.keken.com.mx</p>
 <p>HERDEZ DEL FUERTE We produce and market processed food with highly recognized brands. In a strategic alliance with Grupo Herdez, we have developed a portfolio of more than 1,500 products, obtaining an important position in categories such as: tomato puree, ketchup</p>	<p>sauce, homemade sauces and canned vegetables, among others. Additionally, through Megamex, we bring high quality Mexican food to the US market, making it the largest guacamole distributor in this territory. www.grupoherdez.com.mx</p>
 <p>SYNTHETIC RUBBER Leaders in Mexico and one of the leading producers of synthetic rubber worldwide. In a strategic alliance with Repsol, we have presence in more than 70 countries and production plants</p>	<p>in three continents. The company is known for its high technology and a diversified portfolio that ranges from applications for tires and asphalt modifiers to adhesives and aerospace lubricants. www.dynasolgroup.com</p>
 <p>POLYSTYRENE Leaders in the production and marketing of polystyrene in Mexico, with an international presence exporting to North America, Latin America and Europe. We develop applications with specific features to meet the needs of our customers, who</p>	<p>use our product as raw material in packaging, school supplies, office equipment and home accessories industries, among others. www.resirene.com.mx</p>
 <p>TRANSMISSIONS We carry out the manufacture and assembly of high performance components and transmissions aimed at different platforms, from sports cars to military, recreational and agricultural vehicles. The company is known for its constant</p>	<p>innovation and by the high quality of its products. Our technology responds to the needs of automation, emission control, fuel efficiency, torque capacity and refinement, being a benchmark in this industry. www.tremec.com</p>
 <p>AFTERMARKET We produce and market automotive parts such as pistons, brakes, bearings, gaskets and seals, among others. Our brands: Fritec, TF Víctor and Moresa, are recognized for their quality and</p>	<p>competitive price. Through Dacomsa, we market and distribute our products, providing added value by offering training and maintaining direct contact with customers. www.dacomsa.com</p>

6
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3
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The commitment to the communities in which we operate, which is reflected in our active participation in favor of its development.

OUR ESSENCE



CONSUMER



CHEMICAL



AUTOMOTIVE

PRODUCTIVE PLANTS IN 6 COUNTRIES:

- MEXICO
- UNITED STATES
- BELGIUM
- CHINA
- SPAIN
- PERU

6
BUSINESSES

3
SECTORS

THANKS TO OUR BUSINESS DIVERSIFICATION AND THE CONSTANT FOCUS ON EXCELLENCE AND INNOVATION, WE HAVE A STRONG POSITION IN CONSUMER, CHEMICAL AND AUTOMOTIVE SECTORS.

WE FOLLOW SOLID ETHICAL GUIDELINES, TRANSPARENT AND SUSTAINABLE VISION, TO GO BEYOND, SUPPORTED BY THE BEST TALENT

- OUR VALUES:**
- INTEGRITY
 - INSTITUTIONALITY
 - LEADERSHIP
 - TEAM WORK
 - OPENNESS TO CHANGE
 - INNOVATION

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DEVELOP

SUSTAINABLE



OP

MENT

KUO'S PEOPLE

Our people are the most valuable asset, our main competitive advantage and essential piece for value creation.

COMMUNITY

At KUO, we recognize the impact of our business activity on society and we seek to promote growth and comprehensive development in all the groups with which we participate.

ENVIRONMENT

At KUO, we live a philosophy of environmental protection. We establish the best environmental practices within our processes and contribute to the creation of a sustainable culture.

Our Sustainability Model and the initiatives that we implement around its three pillars are related to the current materiality.

The detail on the process of determining materiality participation of interest groups in it was reported in the Integrated Report for 2017, which can be consulted in:

<https://www.kuo.com.mx>

CORPORATE GOVERNANCE	CONSUMER
INNOVATION	CHEMICAL
VALUE CREATION	AUTOMOTIVE

DEAR

SHAREHOLDERS,

PARTNERS,

CLIENTS AND

EMPLOYEES

ON BEHALF OF THE BOARD OF DIRECTORS AND KUO MANAGEMENT TEAM, WE ARE PLEASED TO SHARE WITH YOU THE FINANCIAL, OPERATIONAL AND SUSTAINABLE RESULTS ACHIEVED DURING THE YEAR. FIGURES OF GREAT RELEVANCE FOR KUO, SINCE IN 2018 LARGE PROJECTS WERE CONSOLIDATED THAT WILL UNDERPIN THE GROUP'S FUTURE GROWTH. THE SUBMISSION OF AN INTEGRATED REPORT REFLECTS A BROADER VISION OF PERFORMANCE IN THIS PERIOD, WHERE WE SUCCESSFULLY MOVE FORWARD IN THE RESPONSIBLE GROWTH STRATEGY.

The diversification of our business model, in different sectors and geographies, continues to be successful. We have been able to capture cycles and trends of the global market to optimize our performance, seeking to strengthen the leadership position in all portfolio businesses.

During the year, we achieved solid results driven by the dynamism shown in Consumer and Chemical sectors, recording growth in Revenues and EBITDA due to the continuous focus on increasing profitability, through products and applications of greater added value in most of the business, thus improving the sales mix, in addition to operating efficiencies and cost control, which allowed us to reach a double-digit EBITDA margin.

The foregoing, despite the macroeconomic volatility experienced in Mexico in an election year, as well as the uncertainty in global trade conditions. During 2018, 52% of KUO's total sales corresponded to exports while, EBITDA generated abroad accounted for 58%, which continues to generate balance and strength to our operations.

It is important to highlight the progress made in the growth investments during this period. Within the Pork Meat business, we inaugurated the first phase of the investment project, which includes a processing plant, a balanced feed plant and a breeding center, with these facilities, we will have one of the largest pork production capacities in Mexico, positioning the national industry at the forefront in terms of technological innovation and sustainability.

Likewise, in the Transmission business, we completed a new plant in Michigan, USA, where we will carry out the assembly process of the new DCT (Dual Clutch Transmission), an innovative product developed with our own technology following the trends of the automotive industry. We trust that this investment will take us to a strong level of competitiveness, positioning us as a world leader in the sector.

The results achieved during the year are a consequence of the talent and commitment of our human capital, the specialization and experience of our employees have been key to achieving it and to support the future growth of KUO.

Over the years, we have oriented our model towards sustainability, as the only way to guarantee the permanence of the Group in the future. All the initiatives that we have promoted have translated into efficiencies in environmental matters and quality control, in greater connection with the communities, in the strengthening of corporate governance, and in the comprehensive development of our people, giving special emphasis to the safety of our employees and facilities, with the purpose of continuing to create value for our shareholders and stakeholders.

OPERATING AND FINANCIAL HIGHLIGHTS

During 2018, we noted a strong dynamism in the Chemical and Consumer sectors, which resulted in an 8% growth in Revenues and 2% in EBITDA. At the end of the year, within our business portfolio, the proportion of the Consumer sector represented 46% of the Group's consolidated revenues, followed by the businesses of the Chemical sector representing 37% and Automotive with 17%.

In the Consumer sector, it is worth highlighting the strong performance of the Pork Meat business, underscoring the growth of the main distribution channels, especially in the Maxicarne retail network, growing in sales, average ticket and market coverage, carrying out 57 openings during 2018 to end the year with 503 stores in operation. While the export channel increased the demand of pork meat especially to Japan, South Korea and US.

These two distribution channels represented more than 70% of the sales of the business, thanks to the quality of the products and efficiencies in the processes.

During the year we continued in time and due form with the investment program for this division, with the objective of doubling the installed capacity by 2020.

In relation to Herdez del Fuerte JV, the growth was driven mainly by the export market, through Megamex, highlighting the categories of guacamole and sauces. It should be noted that Guacamole Herdez sauce was the fastest growing product of its kind in the US market. Meanwhile, in the Mexican market, we continue to consolidate our presence in the categories of tomato puree, salsas and mole.

In the Chemical sector, we noted a solid performance in both businesses, reflected in a higher demand for applications for asphalts, lubricants and adhesives in the Synthetic Rubber JV, while the Polystyrene business had a demand for differentiated products.

Both businesses recorded significant growth in Revenue and EBITDA, as a result of the focus on higher margin products, process efficiencies, capacity increase and a constant focus on application innovation.

Finally, in the Automotive sector, the Transmission business registered revenues slightly below the previous year, due to a lower demand for manual transmissions. During this period, we continued actively with the investment for the infrastructure and development of a new generation of high technology transmissions, DCT, which shall be ready for serial production in 2019.

On the other hand, the Aftermarket business registered an increase in Revenues due to the demand of main brake and powertrain lines, especially in the Mexican market.

During fiscal year 2018, the Board of Directors dealt with the matters that, in accordance with current legal regulations and bylaws, correspond. Reviewed and approved the report related to fiscal year 2018, the external audit opinion, as well as the performance of the General Management during that period, concluding that all the information reasonably reflects the progress, financial situation and results of the Company.

We continue focused on maintaining a solid financial structure, with healthy levels of leverage that guarantee profitability and growth in the coming years, despite the significant investments in productive assets made during 2018, net leverage index remained within the internal objective. In addition, it is important to highlight that our liabilities and costs denominated in dollars are offset by the generation of income in this currency. We are confident that the completion of the investments announced in 2016 will lay the foundations for a new era in the history of the Group, increasing global positioning and competitiveness.

GOING FORWARD

Looking forward, we foresee 2019 as a period of high volatility, with a significant number of variables constantly changing. Within KUO, we will continue executing our strategic plan maintaining our attention and effort in finalizing the investment projects that we started in 2016, at the same time that we will seek to continue innovating in processes and products in order to find improvements and anticipate the changes that may arise.

We trust the teamwork of each of the businesses, their experience and professionalism should continue to generate opportunities and development conditions. The talent of more than 23,000 employees is a fundamental pillar of the evolution for KUO, in this permanent effort to grow with a responsible vision, creating value in a sustainable way to our shareholders and stakeholders.

At KUO, we believe in the continuity of ongoing projects and thus confirm our commitment to the development of our country, seeking to become a world leader in innovation, competitiveness, profitability and sustainability.

**WE WILL CONTINUE
WORKING TOGETHER
TO CREATE HIGHER
VALUE TO OUR
STAKEHOLDERS
AND ENDORSE OUR
COMMITMENT TO
PROMOTE MEXICO'S
DEVELOPMENT**



[Signature]
**FERNANDO
SENDEROS MESTRE**
Chairman of the
Board of Directors

[Signature]
**ALEJANDRO DE LA
BARREDA GÓMEZ**
CEO

FINANCIAL ⁽¹⁾

REVENUE **\$42,568** MILLION PESOS
 EBITDA **\$5,429** MILLION PESOS

46% CONSUMER
\$19,360
 MM MXN

50% CONSUMER
\$2,755
 MM MXN

37% CHEMICAL
\$15,879
 MM MXN

38% CHEMICAL
\$2,070
 MM MXN

17% AUTOMOTIVE
\$7,177
 MM MXN

12% AUTOMOTIVE
\$685
 MM MXN

FIGURES IN MILLIONS OF PESOS	2018	2017	18 vs.17
Revenue	42,568	39,261	8.4%
Operating Profit	4,202	4,142	1.4%
Operating Margin	9.9%	10.5%	
EBITDA ²	5,429	5,326	1.9%
EBITDA Margin	12.8%	13.6%	
Net Majority Result (Controlling Interest)	2,217	1,718	29.0%
Leverage Ratio ³	2.3x	1.6x	
Interest Coverage Ratio ⁴	6.1x	7.6x	
Capitalization Ratio ⁵	0.5x	0.5x	

FIGURES IN PESOS	2018	2017
Earnings per Share LTM	4.86	3.76
Book Value per Share	28.10	24.10
Market Value per "B" Series Share	48.49	42.30
Dividend per Share	0.75	0.61

¹ Financial highlights are based on Combined Pro Forma Figures, which are the result of the consolidation of financial information of all subsidiaries including the proportional consolidation of joint ventures.
² EBITDA computation is determined as follows: Pro Forma Operating Profit plus Pro Forma Depreciation and Amortization (Including the period's cost for Pro Forma labor obligations).
³ Debt-Cash / LTM EBITDA.
⁴ LTM EBITDA / LTM Net Interest Payments.
⁵ Total Debt / Total Debt + Stockholders Equity.

SOCIAL AND ENVIRONMENTAL

H I

G H

+23,000
EMPLOYEES

29
PRODUCTIVE FACILITIES

H T S

16,801
CONSUMER

1,768
CHEMICAL

4,176
AUTOMOTIVE

290
CORPORATE AND SERVICES

KUO'S PEOPLE

	2018	2017
Training in competences	152,154 h	161,353 h
Training in emergency security and attention	67,327 h	61,336 h
Contracts for undetermined period of time	21,384	18,989
Training in anti-corruption policies	762 h	586 h
Accidentability frequency index	1.55	1.55

COMMUNITY

Social projects	+35	+25
Social investment (millions)	\$38.9	\$ 23.7
Supported associations	38	35

ENVIRONMENT

Energy consumption*	324,626 MWh	309,866 MWh
Reused water	3,322,652 m ³	3,098,182 m ³
Thermal energy consumption*	1,191,850 GJ	1'915,127 GJ
GHG emissions*	336,704 TCO ₂ e	316,172 TCO ₂ e
Reserves intended for conservation	903 Ha	800 HA

* A re-expression of the information corresponding to 2017 was made due to the fact that in 2018 the data was validated by the implementation of a voluntary verification of GHG emissions by a verifying body (Association for Standardization and Certification A.C.); the previously published data was 232,439 TCO₂e.

EX 2018

PAN

SION

\$3,537MM MXN

CAPEX

83%
GROWTH

17%
MAINTENANCE

GENETIC SELECTION CENTER XAYA

Will produce annually 6,000 select and high genetic females that will guarantee the accelerated growth in the production of Kekén farms during the next 5 years.

ANIMAL DIAGNOSTICS LABORATORY

Aims to strengthen the biosecurity of the farms. The investment included the acquisition of automated technological equipment and the standardization of diagnostic techniques endorsed by veterinary laboratories recognized for their extensive specialization in diseases of pigs.

SAHÉ PROCESSING PLANT

Will have the largest capacity in pork production in Mexico, reaching up to 2.5 million pigs per year.

SAN ANTONIO FOOD PLANT

Will produce balanced and pelleted feed; through its operation, it is expected to reach a monthly production of 60,000 tons by 2020.

PLANT: HIGH PERFORMANCE TRANSMISSIONS, MICHIGAN

Facility for the design, development and manufacture of high performance transmissions and components for the automotive market. The plant offers a complete service that includes engineering, business development, testing and assembly operations.

AFTERMARKET BUSINESS PLANT, CELAYA

Accompanied by a technological efficiency that seeks greater productivity and an improvement in the quality of the products, this facility has an area of 8,000 m2 to expand the braking segment, mainly.

TECHNOLOGY CENTER I+D+I DYNASOL, CANTABRIA

With an investment of more than five million euros, this center aims to provide differentiated solutions for the market of elastomers through technology and innovation, while also optimizing the processes of production.

G
KEKÉN

R O

W

I N G

TOGETHER

WE ARE COMMITTED TO THE
COMMUNITIES IN WHICH WE OPERATE.
WE SEEK THAT OUR INVESTMENTS
HAVE A POSITIVE IMPACT THAT
FOSTERS ECONOMIC AND SOCIAL
GROWTH THROUGH JOB CREATION.



+ 25 YEARS WORKING WITH LOCAL COMMUNITIES

We facilitate access to funding sources and provide training, creating shared value and long-term business relationships, while developing self-sustaining programs for communities.

ANIMAL WELFARE

The company has a highly specialized veterinary technical department that promotes animal health. The spaces for breeding have the optimal conditions for the welfare of animals.

THE FARMS COMPLY WITH THE SPECIFICATIONS, ENVIRONMENTAL AND SAFETY REQUIREMENTS NECESSARY FOR THEIR OPERATION

SOCIAL DIAGNOSIS

Identification of specific needs and act efficiently focused on the promotion of education, traditions, health, hygiene and care for the environment.

33%

EXPORT
HIGHLIGHTING JAPAN, SOUTH
KOREA AND UNITED
STATES MARKETS

+350 USD

MILLIONS INVESTED
(2016-2020)
TO DOUBLE BUSINESS CAPACITY

503

MAXICARNE STORE
13% MORE THAN IN 2017



DOWN

+300

ENTREPRENEURS ORIGINATED FROM THE MODEL OF SHARECROPPING
Peasants owners of disused land that are integrated into the productive chain during the fattening process of pigs.

+4,500

BENEFITED PEOPLE
• Health and physical activation
• Prevention of addictions
• Cultural programs

46

BENEFITED COMMUNITIES
In 24 municipalities of the state of Yucatán

28%

OF THE ENERGY USED IN THE BUSINESS
comes from a clean source



33%
EXPORT
HIGHLIGHTING JAPAN, SOUTH KOREA AND UNITED STATES MARKETS

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G R O W I N G

OUR SUSTAINABILITY STRATEGY
IS BASED ON THE DEVELOPMENT
OF COMMUNITIES, WITH THREE
FUNDAMENTAL PILLARS:

HEALTH AND ENVIRONMENT



EDUCATION AND CULTURE

TOGETHER



LOCAL DEVELOPMENT



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MAXICARNE STORE
13% MORE THAN IN 2017



CREATING THE FUTURE

100%
MEXICAN TECHNOLOGY
TO CONSOLIDATE OUR LEADERSHIP

+150 USD
MILLIONS INVESTED
(2016-2020)
FOR THE DEVELOPMENT OF OUR NEW
GENERATION OF TRANSMISSIONS

+95%
EXPORT
MAINLY TO UNITED STATES

AS PART OF OUR BUSINESS STRATEGY, IN 2018 WE CARRIED OUT INVESTMENTS AIMED AT THE RESEARCH AND DEVELOPMENT OF PRODUCTS THAT MEET THE REQUIREMENTS OF THE MARKET AND OUR CUSTOMERS.



INVESTMENT PROCESS FOR THE DEVELOPMENT OF A NEXT-GENERATION TRANSMISSION

This process is in the testing phase and in 2019 it will be finished to start commercialization.

STAFF PROFESSIONALIZATION APPROACH

Our human capital is key to the brand positioning so we remain at the forefront in development issues and talent retention.

SECURITY

In order to take care of the physical integrity of our people we improve security management through action plans in each facility.

TREMEC

+2,000
EMPLOYEES

Mexico
United States
Belgium

-20%

ACCIDENT RATE VS 2017
Thanks to the strengthening of employees' awareness regarding the importance of safety.

TECHNOLOGICAL INNOVATION
Constant learning process that allows us to develop our own technology to adapt to market needs.

OUR SUPPLIERS
are included, both in our training programs and in occupational safety measures.

100%
MEXICAN TECHNOLOGY
TO CONSOLIDATE OUR LEADERSHIP

+150 USD
MILLIONS INVESTED
(2016-2020)
FOR THE DEVELOPMENT OF OUR NEW
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+95%
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TREMEC

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C
TREMEC

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G

THE FUTURE

100%
MEXICAN TECHNOLOGY
TO CONSOLIDATE OUR LEADERSHIP

+150 USD
MILLIONS INVESTED
(2016-2020)
FOR THE DEVELOPMENT OF OUR NEW
GENERATION OF TRANSMISSIONS

+95%
EXPORT
MAINLY TO UNITED STATES

FOR KUO, CREATING VALUE AND
POSITIONING ITSELF AS A VANGUARD
CONGLOMERATE CANNOT BE
CONCEIVED WITHOUT INNOVATION.



**INVESTMENT
PROCESS FOR THE
DEVELOPMENT OF A
NEXT-GENERATION
TRANSMISSION**

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PROFESSIONALIZATION
APPROACH**

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SECURITY

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WE ARE THE MAIN MANUFACTURER OF SYNTHETIC RUBBER IN SOLUTION AND EMULSION IN MEXICO AND ONE OF THE TOP TEN WORLDWIDE, ALSO, WE ARE THE MAIN PRODUCER OF POLYSTYRENE IN MEXICO.

+88%
EXPORT
PRESENCE IN MORE THAN 70
COUNTRIES

38%
EXPORT

+500
CUSTOMERS

PRESENCE
12
COUNTRIES

WITH
EXPERIENCE

-20%
GENERATION OF
HAZARDOUS WASTE
ALSO ACHIEVING ECONOMIC SAVINGS

3
CONSECUTIVE YEARS
SUPPORTING AN EDUCATIONAL VALUE
PROGRAM IN TLAXCALA



RECERTIFICATION
ISO14001
 VERSION 2015
 ZERO NONCONFORMITIES



SAFE COMPANY
LEVEL III
 according to the Self-Management
 Program on Occupational
 Safety and Health

ENVIRONMENTAL DISTINCTION
LEVEL 2
 Of the Clean Industry Certificate granted by the Federal
 Attorney for Environmental Protection

SARI
 Certification in the Comprehensive
 Responsibility Management System

MULTICULTURAL TEAM
 OF AROUND
1,500
 EMPLOYEES
 Operations in six plants in Mexico, Spain and
 China

18
 YEARS
 With Clean Industry
 Certificate Level I

38%
 EXPORT

+88%
 EXPORT
 PRESENCE IN MORE THAN 70
 COUNTRIES

PRESENCE
12
 COUNTRIES

+500
 CUSTOMERS

70
 SCHOOL PACKAGES DONATED
 For the 2018-2019 school year, in support of the
 Alejandro Prieto Primary School in Altamira

3
 CONSECUTIVE YEARS
 SUPPORTING AN EDUCATIONAL VALUE
 PROGRAM IN TLAXCALA

-20%
 GENERATION OF
 HAZARDOUS WASTE
 ALSO ACHIEVING ECONOMIC SAVINGS





I N

N O

V A T

WITH
EXPERIENCE

-20%
GENERATION OF
HAZARDOUS WASTE
ALSO ACHIEVING ECONOMIC SAVINGS

+500
CUSTOMERS

+88%
EXPORT
PRESENCE IN MORE THAN 70
COUNTRIES

WE WORK BASED ON A PERSPECTIVE
OF VALUE CREATION, SEEKING TO
MAXIMIZE RESULTS AND EFFICIENCIES
IN PRODUCTION PROCESSES.

WE FOCUS ON THE DEVELOPMENT
OF NEW TECHNOLOGIES THROUGH
CONTINUOUS GROWTH.

38%
EXPORT

PRESENCE
12
COUNTRIES

3
CONSECUTIVE YEARS
SUPPORTING AN EDUCATIONAL VALUE
PROGRAM IN TLAXCALA

SPORT AND HEALTH

P R E S P O N S I B L E

AND SHARED
SUCCESS

DYNASOL RACE
Employees, family,
customers, suppliers and
the community of Altamira
+500 participants

KEKÉN SPORTS
PROGRAMS
Training of soccer teams,
baseball and other activities
**81 participants
benefited**

ROUTE OF HEALTH
Support to communities with
basic health services
**546 people
benefited**

CONSERVATION
OF PARKS
La Noria and Itzimna
**430 inhabitants
benefited**

TREMEC RACE
Employees, family, customers
and suppliers
450 participants

DONATION OF KEKÉN
MEAT
Support to 17 associations to
promote a balanced diet
**12.6 tons
donated**

HEALTH
AND SAFETY WEEK
Activities for disease
prevention, health care,
good hygiene and safety
250 participants
Xicohtzinco, Tlaxcala

COMMUNITY
KITCHENS
Agreement with municipal
DIF in Tekax, to provide
infrastructure and furniture
**1 dining room
77 inhabitants
benefited**

HEALTH
FAIR
Prevention of obesity
and pediculosis
45 children

DESC RACE
Employees, family,
customers and suppliers
Parque Bicentenario
of Mexico City
**+2,700
participants**

R E S P O N S I B L E

AND SHARED
SUCCESS

PLASTIC RECYCLING
WORKSHOPS
Directed to children in 3 schools
+230 participants

TEPOTZOTLÁN
REFORESTATION
1 hectare adopted during
three years by the
Aftermarket business
150 participants
**7 benefited
communities**

ENVIRONMENT

KEKÉN
RESERVE
Study of flora and fauna for the
conservation of biodiversity
67 invited academics
**903 protected
hectares**

CINEMA
IN YOUR COMMUNITY
Awareness on environmental care
1,125 attendees

BIRDS FESTIVAL
Alliance with PRONATURA to invite
the community to a bird sighting
136 participants
Puuc Biocultural Reserve

REFORESTATION
XICOHTZINCO, TLAXCALA
Alliance between the Polystyrene
business and the Municipality
Ecological Reserve "Lago del
Niño"

CLEAN CENOTE
Promoted by young people from
the community
Temozón Sur

ANUAL CLEANING
OF TAMPICO BEACH
Alliance between SEMARNAT
and the Synthetic Rubber
business

QUERÉTARO
REFORESTATION
Transmission Business
60 participants
Cimatario National Park

EDUCATION AND CULTURE

PROBLEMS

AND SHARED
SUCCESS

REBUILDING MEXICO
In Alliance with Construyendo A.C., two houses were built for families with overcrowding

SCHOOL INFRASTRUCTURE
Support in the infrastructure of a primary school Altamira, Tamaulipas

EDUCATION WITH VALUES
In alliance with Lazos, A.C. ; a subject is sponsored that highlights the importance of tlaxcalteca traditions
15 teachers
183 students

MAYA CHOIR
Classes of musical instruments
18 children participating

ALTARS OF THE DAY OF THE DEAD
2nd Contest on the day Hanal Pixan
+800 participants
3 communities

AUTOMOTIVE MECHANIC
Training workshops for mechanics, face-to-face and virtual
258 workshops
14,476 people benefited

PIÑATON
Donation of piñatas for Christmas holidays
2,020 children
24 communities

JARANA GROUPS
Traditional dance classes
119 participants

ENGLISH LESSONS
Courses for children focused on tourism activities in Yucatán
64 children participating

CÁTEDRA DESC ANÁHUAC MÉXICO
Donation of financial resources to support research on sustainable solutions

LEADERS OF TOMORROW
Support to the program led by ITESM

S A EVOLUTION

PART OF THE COMPANY'S STRATEGY DURING THE YEAR WAS TO DEVELOP AN OCCUPATIONAL HEALTH AND SAFETY SYSTEM AND REINFORCE EFFECTIVE COMMUNICATION IN THIS AREA.

F E

+67,300
HOURS OF TRAINING
IN OCCUPATIONAL
HEALTH AND SAFETY

1,980
HOURS
OF TRAINING

OCCUPATIONAL
HEALTH AND
SAFETY SYSTEM

\$2.5MDP
AMOUNT
INVESTED



This System is based on standardizing and implementing best practices in order to have an outstanding performance and protect the physical integrity of employees, contractors and suppliers that enter our facilities. For its preparation, we have the participation of those responsible for safety, occupational health and human capital of each of the businesses and the corporate.

For its implementation and completion, more than 80 documents were prepared, including formats and procedures, and more than 10 "Sensitization and Leadership" and "Standardization of the KUO Health and Safety System" workshops were held, attended by more than 390 strategic level collaborators

This System considers the legal regulation applicable to our businesses and is mandatory for all of our employees, contractors and suppliers.



THE SYSTEM
INCLUDES 14
CORPORATE GUIDES
FOCUSED ON:



**WE REITERATE THAT
FOR KUO, SAFETY IS A
PRIORITY**

BALANCE

SUSTAINABLE

ANCE

WITH THE MISSION OF
CREATING VALUE FOR ALL
OUR STAKEHOLDERS, WE
IMPLEMENT STRATEGIC
ACTIONS THAT BENEFIT
OUR EMPLOYEES, THE
COMMUNITIES WHERE
WE OPERATE AND THE
ENVIRONMENT.



STAFF

DEVELOPMENT

THANKS TO THE DYNAMISM OF ITS BUSINESSES AND ITS CREATION OF CONSTANT VALUE, KUO CONTINUES ITS EXPANSION, WHICH IS REFLECTED IN THE 9% INCREASE IN THE TOTAL NUMBER OF EMPLOYEES.

+23,000
EMPLOYEES

+9%
VS. 2017



THE COMPANY IMPLEMENTS ACTIONS FOCUSED ON OCCUPATIONAL WELL-BEING TO IMPROVE THE RETENTION AND SATISFACTION OF ITS PERSONNEL; AT THE END OF 2018, 93% OF THE GROUP'S EMPLOYEES HAD UNDETERMINED TERM CONTRACT.

EMPLOYEES BY REGION

91%
OF THE JOBS GENERATED BY THE COMPANY ARE LOCATED IN MEXICO

EMPLOYEES BY LABOR CONTRACT

	2017	UNDETERMINED TERM CONTRACT	TEMPORAL CONTRACT
		18,989	2,085
	2018	21,384	1,651





Within the Company, we have an e-learning platform and monitoring of objectives called SIGO (Integral System of Organizational Management). Through this platform, we continuously monitor the development of skills, competencies and knowledge of employees, recognizing that our staff is key to the growth and consolidation of the Group's businesses.

96%
OF EMPLOYEES
RECEIVED
PERFORMANCE
EVALUATION AND
MONITORING OF
COMPLIANCE WITH
THEIR OBJECTIVES

Additionally, we maintain succession and training plans, face to face and digitally, according to the activities and needs of each business. In 2018, more than 152,000 hours of face-to-face and digital training were taught in all professional categories.

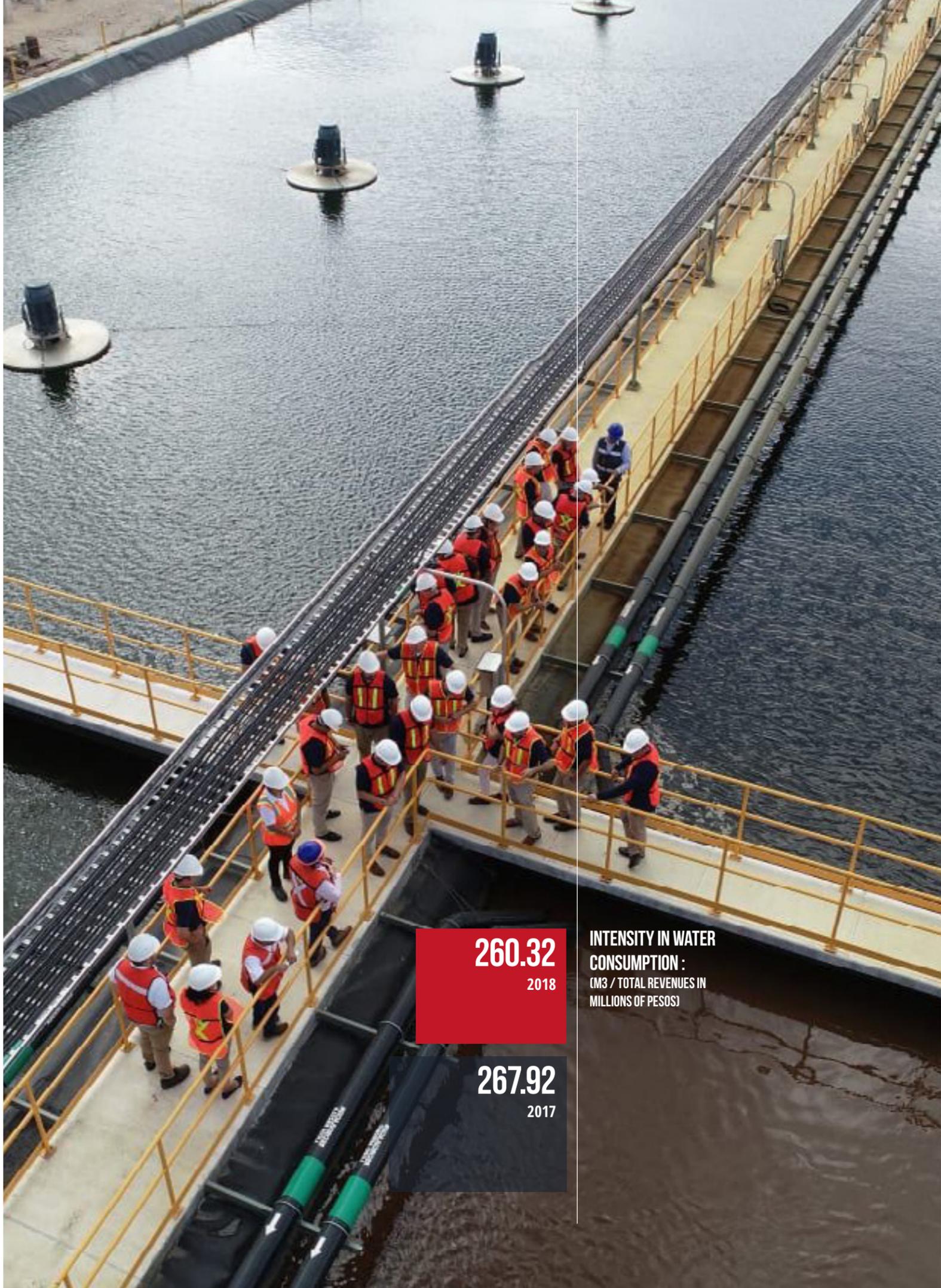
+ 152,000
HOURS OF
TRAINING

OPERATIONAL

EFFICIENCY

IN LINE WITH OUR
SUSTAINABLE APPROACH,
AT KUO WE WORK
SO THAT ALL OUR
BUSINESSES MAXIMIZE
THEIR OPERATIONAL
EFFICIENCY AND MITIGATE
THE IMPACTS THEY
MAY GENERATE ON THE
ENVIRONMENT.





260.32
2018

267.92
2017

**INTENSITY IN WATER
CONSUMPTION :**
(M3 / TOTAL REVENUES IN
MILLIONS OF PESOS)

WATER

As part of our commitment to responsible water consumption and discharge, we optimize its use in our processes and implement initiatives for its reuse in other activities.

At year's end, we recorded a total consumption of 9,021,062 m³ of water. Of our total consumption, we recycled or reused 37%, mainly for the irrigation of green areas.

Even with the inauguration of the new plants of our Pork Meat business and the start-up of the cogeneration plant of the Synthetic Rubber business, our indicator of intensity in water consumption decreased by 3%.

THANKS TO THE USE OF 18
OWN BIODIGESTERS AND 22 IN
RURAL SHARECROPPING,
WE GENERATED:

3,453MWH
OF CLEAN ENERGY



3,109,133M³
OF TREATED WATER



WERE USED TO
IRRIGATE MORE
THAN 500 HA

THERMAL ENERGY AND EMISSIONS

At KUO, we have goals and initiatives to optimize the consumption of energy in our processes and to encourage the use of clean energy.

-37%
CONSUMPTION OF THERMAL ENERGY FROM NON-RENEWABLE SOURCES WITH RESPECT TO 2017

During the first quarter of the year, the cogeneration plant in Altamira started operations, which supplied 11 Group facilities with clean energy and helped to reduce the use of fossil fuels thanks to the steam produced. With the above, we managed to reduce our indicator of energy intensity by fuel consumption by 43%.

INTENSITY IN FUEL CONSUMPTION (GJ / TOTAL REVENUES IN MILLIONS OF PESOS)



ELECTRICITY

ELECTRICITY CONSUMPTION (MWH)

2017



324,626
MWH

2018



TOTAL ELECTRIC POWER CONSUMPTION

67%

CORRESPONDS TO CLEAN ENERGY.

EMISSIONS

Derived from electricity consumption, during 2018 we issued a total of 336,704 TCO₂e (including corporate offices), out of which 38% correspond to Scope 1 emissions and 62% to Scope 2 emissions.

-31%

DIRECT EMISSIONS VS. 2017

GEI EMISSIONS BY SECTOR (TCO₂e, 2017-2018)

SECTOR	2017			2018		
	SCOPE 1	SCOPE 2	TOTAL	SCOPE 1	SCOPE 2	TOTAL
Consumption	37,154	45,325	82,479	37,397	67,743	105,140
Automotive	22,390	28,999	51,318	21,375	29,947	51,322
Chemical	124,278	57,587	181,865	67,856	111,904	179,760
Total	183,751	131,911	315,662	126,628	209,594	336,222

Scope 1: Emissions from fixed / mobile sources owned by the business, such as equipment that consumes natural gas (smelting furnaces, boilers), diesel (emergency plants and fire-fighting equipment pumps), liquefied petroleum gas (boilers, forklifts) and gasoline.

Scope 2: Emissions resulting from the consumption of electricity in our operations.

Notas:

- i. A re-expression of the information corresponding to 2017 was made due to the fact that in 2018 the data was validated by the implementation of a voluntary verification of GHG emissions by a verifying body (Association for Standardization and Certification A.C.); the previously published data was 232,439 TCO₂e.
- ii. Agreement that establishes the technical particularities and formulas for the application of methodologies for the calculation of emissions of greenhouse gases or compounds. Published on September 3, 2015. The 2017 emission factor of the national electricity system and the Iberdrola emission factor. IPCC global warming powers..



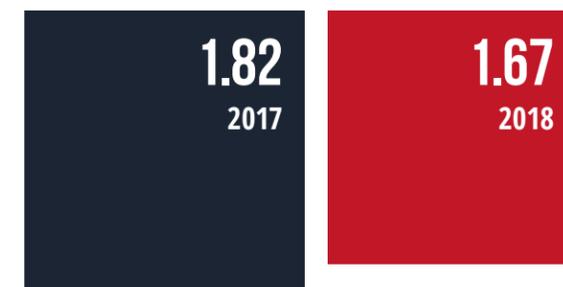
DURING 2018, WE GENERATED 57,863 TONS OF WASTE, OF WHICH ONLY 2% WERE HAZARDOUS WASTE.

WASTE

In addition to monitoring that our production centers carry out the appropriate disposition according to the applicable legislation, we implement actions that contribute to the use and reduction of waste.

-8%
INTENSITY OF WASTE GENERATED VS 2017.

INTENSITY IN WASTE GENERATIONS (T/TOTAL REVENUES IN MILLIONS OF PESOS)



SUPPLY CHAIN MANAGEMENT

In addition to maintaining a continuous evaluation and promoting a constant development, the relationship with our suppliers is based on ethical policies and guidelines, since they are potential suppliers during the bidding stage, until our commercial relationship is concluded.

In order to have the best suppliers, we established the general rules to carry out the bidding process for the goods and services needed in the businesses that comprise KUO (does not include JV Herdez del Fuerte or Dynasol).

The evaluation of the suppliers considers criteria of operational, financial and inventory capacity, experience of the personnel, compliance in delivery times, among others, focused on the quality of the service.

All suppliers and shared services in our businesses must sign a Letter of Compliance with the Code of Conduct, which shows their knowledge, full understanding and adherence to it, committing to fully comply with its guidelines. Likewise, they undertake to declare deviations or possible deviations to the Code of Conduct, through the Feedback and Transparency Mailbox, available by telephone or email.

TRANS

BUSINESS ETHICS AND

ALL OUR
EMPLOYEES AND
BOARD MEMBERS
SIGN A LETTER OF
ADHERENCE TO
THE KUO CODE OF
CONDUCT

PAR

EN

CY

CODES AND POLICIES THAT PREVENT CORRUPTION IN KUO:

- Code of Conduct
- Policy for the prevention and identification of operations with resources of illegal origin
- Purchasing policy
- Function segregation policy
- Policy for the identification, reporting and submittal of relevant information to SAT
- Policy to regulate operations with securities made by directors, officers and employees

At KUO, we have adopted standards of ethics and transparency and act in congruence with the values and guidelines established in our Code of Conduct. Through dissemination and training activities, we promote the knowledge of our employees about policies that promote ethical business conduct.

In an ongoing manner, we seek to prevent and combat corruption, considering it as an inappropriate and prohibited act at all levels and locations where the Company operates, regardless of particular customs or competitive conditions.



G O V CORPORATE

E R

BOARD
OF DIRECTORS

AUDIT
COMMITTEE

CORPORATE
PRACTICES
COMMITTEE

THE BOARD OF DIRECTORS IS THE MAXIMUM MANAGEMENT BODY OF KUO, CONSISTING OF 13 MEMBERS, 8 OF WHICH ARE INDEPENDENT AND IS ASSISTED IN THE PERFORMANCE OF ITS ACTIVITIES BY AN AUDIT COMMITTEE AND A CORPORATE PRACTICES COMMITTEE.

N A N C E

The members of the Board and Committees are appointed by the Shareholders' Meeting, with terms of one year, which can be ratified in an unlimited manner and have been proposed and chosen as honorable persons with high experience in the sector, as well as being free from conflicts of interest.

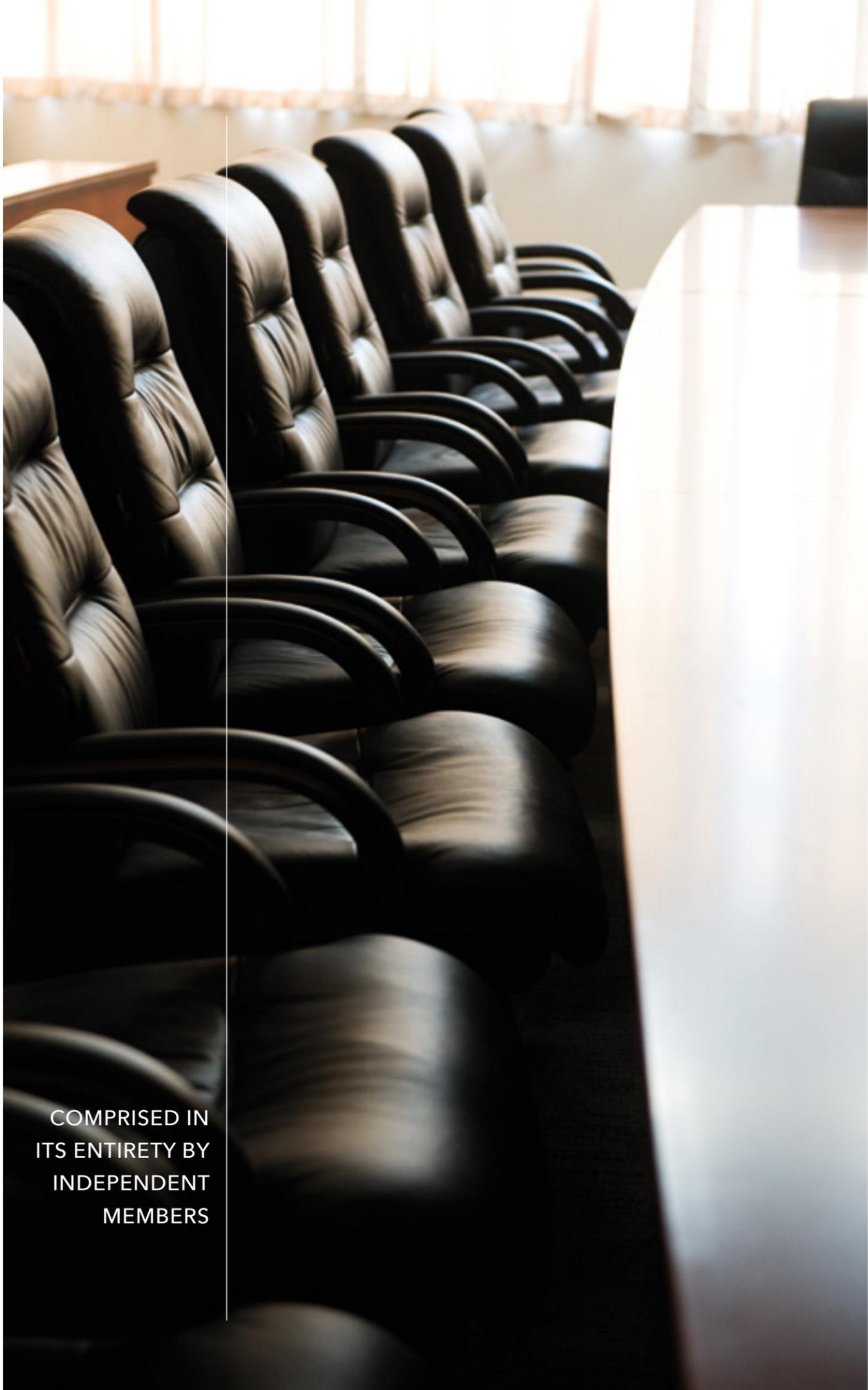
For more information about the Corporate Governance of the Company, it is possible to refer to the Group's Bylaws, which can be found on the corporate website.

**BOARD
OF DIRECTORS**

<p>FERNANDO SENDEROS MESTRE Board Director</p> <p>Executive President and Chairman of the Board of Grupo KUO and DINE</p>	<p>ANDRÉS BAÑOS SAMBLANCAT Board Director</p> <p>CEO of DINE (up to February 25, 2019)</p>
<p>ALBERTO BAILLÈRES GONZÁLEZ Independent Director</p> <p>Executive President and Chairman of the Board of Grupo Bal</p>	<p>JOSÉ MANUEL CANAL HERNANDO Independent Director</p> <p>Independent Director, Commissioner and Consultant on Corporate Governance issues</p>
<p>FEDERICO FERNÁNDEZ SENDEROS Board Director</p> <p>Chairman of Grupo Sim and Independent Director of Grupo Chedraui</p>	<p>VALENTÍN DÍEZ MORODO Independent Director</p> <p>Chairman of Grupo Nevadi Internacional</p>
<p>CARLOS GÓMEZ GÓMEZ Board Director</p> <p>Chairman of the Board of Estudia Más</p>	<p>PRUDENCIO LÓPEZ MARTÍNEZ Independent Director</p> <p>Chairman of the Board of Sanvica</p>
<p>VÍCTOR RIVERO MARTÍN Independent Director</p> <p>CEO of Telehotel</p>	<p>JAVIER ARRIGUNAGA GÓMEZ DEL CAMPO Independent Director</p> <p>Chairman of the of Grupo Aeroméxico and Investment Advisor</p>
<p>ERNESTO VEGA VELASCO Independent Director</p> <p>Director of Companies</p>	<p>ARTURO D'ACOSTA RUÍZ Independent Director</p> <p>Executive Director in Grupo Financiero Actinver</p>
<p>ALEJANDRO DE LA BARREDA GÓMEZ Board Director</p> <p>CEO of KUO and CEO of DINE (since March, 2019)</p>	<p>RAMÓN F. ESTRADA RIVERO Secretay of the Board</p> <p>General Council and Director of Institutional Relations of KUO and DINE</p>

The Board of Directors meets, at least quarterly. In compliance with the Corporate Bylaws, among its main responsibilities are:

- Establish the strategic vision of the Company and follow up on its compliance
- Monitor the performance of relevant managers
- Evaluate risk management processes in economic, environmental and social issues
- Submit an Annual Report on the performance of the Group to the Shareholders' Meeting for its review and approval
- Enable mechanisms and channels for communication with interest groups, which are informed about the Group's overall performance



COMPRISED IN
ITS ENTIRETY BY
INDEPENDENT
MEMBERS

COMMETTEES OF THE BOARD

AUDIT COMMITTEE

JOSÉ MANUEL CANAL HERNANDO
Chairman

ARTURO D'ACOSTA RUÍZ
Independent Member

ERNESTO VEGA VELASCO
Independent Member

RAMÓN F. ESTRADA RIVERO
Secretary

Meet each quarter and an additional session
in the month of December of each year.

Among its main responsibilities are:

- Assist the Board of Directors in the determination, implementation and evaluation of the internal control and internal audit system of the Company.
- Review and propose for approval of the Board of Directors, accounting policies and financial statements.
- Verify the administration and management of the company and implement the resolutions adopted by the General Meeting of Shareholders.
- Propose the hiring of the legal entity that provides the external audit services, discuss the observations and findings detected by the External Auditor in the financial statements, as well as propose the necessary actions for their remediation.

CORPORATE PRACTICES COMMITTEE

VALENTÍN DIEZ MORODO
Chairman

VÍCTOR RIVERO MARTÍN
Independent Member

ERNESTO VEGA VELASCO
Independent Member

RAMÓN F. ESTRADA RIVERO
Secretary

In session every quarter and among its main
responsibilities are:

- Appointment, election, dismissal and retribution of the CEO, as well as to approve the policies of appointment and remuneration of relevant executives.
- Advise the Board of Directors on relevant operations and related parties.
- Convene shareholder meetings and have items that they deem pertinent included in the agenda.
- Support the Council in the preparation of reports (annual and activities and operations)

**MANAGEMENT
TEAM**

FERNANDO SENDEROS MESTRE
Executive President and
Chairman of the Board

ALEJANDRO DE LA BARREDA GÓMEZ
Chief Executive Officer

ROGER PATRÓN GONZÁLEZ
Deputy Managing Director

EDUARDO PHILIBERT GARZA
Corporate Director

RAMÓN F. ESTRADA RIVERO
General Council and Director
of Institutional Relations

JORGE PADILLA EZETA
Chief Financial Officer

JORGE LUIS ALMADA WRIGHT
Strategic Planning Director

CLAUDIO ANGEL FREIXES CATALÁN
Managing Director Pork Meat

MICHAEL W. GINÉS
Managing Director
Aftermarket

HÉCTOR HERNÁNDEZ-PONS TORRES
Managing Director
Herdez Del Fuerte

ANTONIO HERRERA RIVERA
Managing Director
Transmissions

CÉSAR RAMOS VALDÉS
Managing Director
Polystyrene

FELIPE DE JESÚS VARELA HERNÁNDEZ
Managing Director
Synthetic Rubber



THIS IS THE

TIME

THE DIVERSIFICATION AND BALANCE OF OUR BUSINESS PORTFOLIO HAS BEEN KEY TO THE GENERATION OF VALUE OVER THE YEARS, MITIGATING INTERNAL AND EXTERNAL RISKS BY PARTICIPATING IN DIFFERENT SECTORS AND GEOGRAPHIES. THE STRATEGIC APPROACH WE HAVE ADOPTED IN RECENT YEARS, FOCUSING ON INCREASING PROFITABILITY, GENERATING FLOW AND EXPANDING MARGINS, HAS BEEN TRANSLATED INTO THE CREATION OF VALUE IN EACH OF OUR BUSINESSES.



\$43,477

INCOME
(Economic Value Generated, VEG)

\$44,394

EXPENSES
(Economic Value Generated, VED)

\$917

RETAINED
(VEG-VED)

\$34,284

OPERATING EXPENSES AND COSTS

\$4,524

SALARIES AND EMPLOYEE BENEFITS¹

\$577

PAYMENTS TO THE GOVERNMENT
(taxes and contributions)²

\$1,433

PAYMENTS TO CAPITAL VENDORS

\$3,537

INVESTMENT IN INFRASTRUCTURE
(expansion of plants, equipment, machinery)

\$39

DONATIONS TO THE COMMUNITY

FIGURES IN MILLION PESOS

- ¹ Does not include information of the Dynasol JV
- ² Corresponds to Income Tax paid without considering JV's

ABOUT THIS

R E
P O R T

WE ARE PLEASED TO
PRESENT, FOR THE SECOND
CONSECUTIVE YEAR, THE
INTEGRATED ANNUAL
REPORT OF KUO, RESULTS
CORRESPOND TO THE
PERIOD FROM JANUARY TO
DECEMBER 2018.

This publication includes information on the financial and sustainable performance of the Group and its businesses: Pork Meat, Herdez Del Fuerte, Synthetic Rubber, Polystyrene, Transmissions and Aftermarket. The information on environmental and social management indicators only considers companies in Mexico except Herdez del Fuerte's business. We include footnotes in the tables and figures that merit specifying the scope of the information and the calculation methods used.

This report has been prepared in accordance with the GRI standards: Essential option. The contents of the report were selected according to the internal strategy of the company and the current list of material issues, which was updated in 2018.

The information corresponding to the company's sustainable performance was not subject to external verification, however, the information gathering process included review and validation activities by each of the areas involved and by the Legal Affairs and Institutional Relations Department.

The consolidated financial statements and the independent audit report correspond to Grupo KUO, S.A.B. of C.V. and subsidiaries. This section of the report specifies the list of entities included in the financial statements.

We thank all those who contributed to the preparation of this report through their participation in work meetings, strategic interviews and during the process of information collection and validation.

GRI TABLE OF CONTENTS

STANDARD AND CONTENT	PAGE/DECLARATION	OMISSION															
PROFILE OF THE ORGANIZATION																	
102-1 Name of the Organization	Grupo KUO S.A.B. de C.V.																
102-2 Activities, brands, products and services	Pages 2-5																
102-3 Headquarters location	Paseo de los Tamarindos 400-B, Piso 31, Bosques de las Lomas México, Ciudad de México																
102-4 Location of operations	Pages 3-5																
102-5 Ownership and legal form	Grupo KUO, S.A.B. de C.V.																
102-6 Markets served	Pages 2-5																
102-7 Information about employees and other workers	Pages 2-5, 12-17																
102-8 Employees and other workers information	Employees by employment contract and gender in 2018:																
	<table border="1"> <thead> <tr> <th>GENDER</th> <th>UNDETERMINED TIME CONTRACT</th> <th>TEMPORAL CONTRACT</th> </tr> </thead> <tbody> <tr> <td>Male</td> <td>8,744</td> <td>327</td> </tr> <tr> <td>Female</td> <td>3,673</td> <td>80</td> </tr> <tr> <td>Total</td> <td>12,417</td> <td>407</td> </tr> </tbody> </table>	GENDER	UNDETERMINED TIME CONTRACT	TEMPORAL CONTRACT	Male	8,744	327	Female	3,673	80	Total	12,417	407				
GENDER	UNDETERMINED TIME CONTRACT	TEMPORAL CONTRACT															
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	All employees are full-time Does not include Herdez del Fuerte																
	Employees by employment contract and region in 2018:																
	<table border="1"> <thead> <tr> <th>REGION</th> <th>UNDETERMINED TIME CONTRACT</th> <th>TEMPORAL CONTRACT</th> </tr> </thead> <tbody> <tr> <td>Mexico</td> <td>11,668</td> <td>373</td> </tr> <tr> <td>US</td> <td>177</td> <td>-</td> </tr> <tr> <td>Spain</td> <td>452</td> <td>34</td> </tr> <tr> <td>Belgium</td> <td>120</td> <td>-</td> </tr> </tbody> </table>	REGION	UNDETERMINED TIME CONTRACT	TEMPORAL CONTRACT	Mexico	11,668	373	US	177	-	Spain	452	34	Belgium	120	-	
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Mexico	11,668	373															
US	177	-															
Spain	452	34															
Belgium	120	-															
	Does not include Herdez del Fuerte																
102-9 Supply Chain	KUO's supply chain is broadly divided into service, packaging and logistics. Some suppliers are managed from the corporate and others are the responsibility of each business.																
102-10 Significant changes in the organization and its supply chain	Pages 16 y 17																
102-11 Principle or precautionary approach	In accordance with the applicable regulation and the company's risk management approach, KUO applies the precautionary approach in its operations, including the development and launch of new products in order to avoid negative impacts to the environment.																

STANDARD AND CONTENT	PAGE/DECLARATION	OMISSION										
102-12 External initiatives	We implement actions that contribute to the achievement of the Sustainable Development Goals.											
102-13 Affiliation to associations	<table border="1"> <thead> <tr> <th>ASSOCIATION</th> <th>INVOLVED BUSINESS</th> </tr> </thead> <tbody> <tr> <td>CCMX (Mexican Center of Competence)</td> <td>KUO</td> </tr> <tr> <td>INA (National Auto Parts Industry)</td> <td>Aftermarket</td> </tr> <tr> <td>ANIQ (National Chemical Industry Association)</td> <td>Polystyrene and Synthetic Rubber</td> </tr> <tr> <td>ANETIF (National Association of Federation Inspection Type Establishments)</td> <td>Pork Meat</td> </tr> </tbody> </table>	ASSOCIATION	INVOLVED BUSINESS	CCMX (Mexican Center of Competence)	KUO	INA (National Auto Parts Industry)	Aftermarket	ANIQ (National Chemical Industry Association)	Polystyrene and Synthetic Rubber	ANETIF (National Association of Federation Inspection Type Establishments)	Pork Meat	
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STRATEGY												
102-14 Statement of senior executives responsible for decision making	Pages 8-11											
102-15 Main impacts, risks and opportunities	Pages 8-11											
ETHICS AND INTEGRITY												
102-16 102-16 Values, principles, standards and rules of conduct	Consult the definition of the values and foundations that guide us, in our Code of Conduct at: http://www.kuo.com.mx/anexos/Image/kuo_c_conducta_ok.pdf											
GOVERNANCE												
102-18 Governance structure	Pages 58-64											
PARTICIPACIÓN DE LOS GRUPOS DE INTERÉS												
102-40 List of interest groups	<ul style="list-style-type: none"> • Financial community (Investors, shareholders, banks and rating agencies). • Joint ventures • Employees (Unionized and non-unionized) • Employees' Families • Suppliers • Authorities • Communities • Customers (consumers and users) 											
102-41 Collective negotiation agreements	72% of KUO employees are covered by collective bargaining agreements. Does not include JV employees.											
102-42 Identification and selection of interest groups	We recognize our stakeholders as those whom we impact with our actions and who, in turn, impact us with their decisions.											
102-43 Approach for the participation of the interest groups	We establish communication mechanisms with our stakeholders and encourage their participation in the process of defining strategies that impact on the financial and sustainable performance of the Group and its businesses. The frequency of communication depends on the type of information or the need for interaction with each stakeholder. The channels of dialogue and participation of the stakeholders can include, editorial media and the internal and external platforms of the company; events and face-to-face programs; sessions of councils and committees; and evaluation instruments such as surveys.											

STANDARD AND CONTENT	PAGE/DECLARATION	OMISSION
102-44 Key issues and concerns mentioned	<ul style="list-style-type: none"> Financial community: Joint ventures, economic results, operational efficiency, innovation, regulatory compliance, Group performance in the triple economic, social, environmental and corporate governance dimension. Joint ventures: Economic performance, innovation and investments. Employees: Training and development, safe work environments and recognition. Employees' families: Safe work environments, environment, promotion of health and well-being. Suppliers: Training and development, competitiveness, operational efficiency. Authority: Change in regulation Communities: Community development, employment generation, preservation of the environment. Clients: Quality and safety of the product, availability, variety, accessibility and competitiveness of the product. 	
PRACTICES FOR THE PREPARATION OF THE REPORT		
102-45 Entities included in the consolidated financial statements	Page 61	
102-46 Definition of the contents of the reports and the Coverage of the subject	Pages 58 y 59	
102-47 List of material topics	<ul style="list-style-type: none"> Product control and quality Development of collaborators Economic performance and growth Operational efficiency Business ethics and transparency Waste management Risk management and monitoring Relationship with customers Occupational health and safety Link with the community 	
102-48 Reexpression of information	The information re-expression notes are included in each case, if applicable.	
102-49 Changes in reporting	There were no changes in the report preparation process.	
102-50 Period covered by the report	January 1 to December 31, 2018.	
102-51 Date of the last report	2017 Annual Report	
102-52 Reporting cycle	Annual	
102-53 Contact point for questions about the report	Back cover	
102-54 Declaration of preparation of the report in accordance with the GRI Standards	Page 59	
102-55 GRI Table of Contents	Page 60	
102-56 External verification	Page 59	

GRI STANDARD	CONTENTS	PAGE/DECLARATION	OMISSION																									
CONTROL AND PRODUCT QUALITY																												
GRI 103: Management approach 2016	103-1	Internal coverage: Kekén, Dynasol, Resirene, Tremec, Dacomsa. External coverage: Customers.																										
	103-2	We have policies and procedures that seek to mitigate the risks linked to the safety and quality of our products. These guidelines are implemented in the production, marketing and distribution.																										
	103-3	Grupo KUO has various systems, certificates, authorizations and recognitions related to the quality and safety of the products, among which are: PORK MEAT BUSINESS TIF Certification (Federal Inspection Type), Mexico Supreme Quality Certification, and FSSC 22000 Certification (Food Safety System Certification); HACCP System (Hazard Analysis Critical Control Point), Standardized Operating Procedures for Sanitation (POES) and Good Manufacturing Practices (GMP); authorization of the governments of Japan and South Korea to export to their markets and the USDA to export pork to the United States of America. AFTERMARKETBUSINESS Quality Management System in accordance with ISO 9001 SYNTHETIC RUBBER AND POLYSTYRENE BUSINESSES Quality Management System in accordance with ISO 9001 Good Manufacturing Practices (BPM)																										
GRI 416: Health and safety of customers 2016	416-1	In the KUO Group's businesses, the impacts of the products on the health and safety of users and consumers are evaluated.																										
STAFF DEVELOPMENT																												
GRI 103: Management approach 2016	103-1	Internal coverage: Corporate KUO, Kekén, Dynasol, Resirene, Tremec and Dacomsa. External coverage: NA.																										
	103-2	Pages 34-39																										
	103-3	Pages 34-39																										
GRI 404: Training and coaching 2016	404-1	Average hours of training per professional category in 2018: PROFESSIONAL CATEGORY Executives Individual contributors (employees) Operational (unionized) Average training hours per gender in 2018: GENDER Men Women	MEDIA 18.80 19.74 8.93 MEDIA 13.2 8.5																									
	404-2	<table border="1"> <thead> <tr> <th>FACE-TO-FACE (WOMEN)</th> <th>FACE-TO-FACE (MEN)</th> <th>E-LEARNING (WOMEN)</th> <th>E-LEARNING (MEN)</th> <th>TOTAL</th> </tr> </thead> <tbody> <tr> <td>479</td> <td>3,227</td> <td>23</td> <td>200</td> <td>3,928</td> </tr> <tr> <td>14,571</td> <td>48,950</td> <td>303</td> <td>1,123</td> <td>64,946</td> </tr> <tr> <td>16,689</td> <td>66,326</td> <td>13</td> <td>250</td> <td>83,279</td> </tr> <tr> <td>31,740</td> <td>118,502</td> <td>339</td> <td>1,573</td> <td>152,154</td> </tr> </tbody> </table>	FACE-TO-FACE (WOMEN)	FACE-TO-FACE (MEN)	E-LEARNING (WOMEN)	E-LEARNING (MEN)	TOTAL	479	3,227	23	200	3,928	14,571	48,950	303	1,123	64,946	16,689	66,326	13	250	83,279	31,740	118,502	339	1,573	152,154	
FACE-TO-FACE (WOMEN)	FACE-TO-FACE (MEN)	E-LEARNING (WOMEN)	E-LEARNING (MEN)	TOTAL																								
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GRI STANDARD	CONTENTS	PAGE/DECLARATION	OMISSION												
	404-3	Percentage of employees who receive periodic evaluations of performance and development by professional category:													
		<table border="1"> <thead> <tr> <th>PROFFESIONAL CATEGORY</th> <th>MEN</th> <th>WOMEN</th> </tr> </thead> <tbody> <tr> <td>Executives</td> <td>181</td> <td>25</td> </tr> <tr> <td>Individual Contributors (Employees)</td> <td>2,503</td> <td>788</td> </tr> <tr> <td>Operatives (Unionized)</td> <td>5,987</td> <td>2,786</td> </tr> </tbody> </table>	PROFFESIONAL CATEGORY	MEN	WOMEN	Executives	181	25	Individual Contributors (Employees)	2,503	788	Operatives (Unionized)	5,987	2,786	
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ECONOMIC PERFORMANCE AND GROWTH															
GRI 103: Management approach		Internal coverage: Corporate KUO, Kekén, Resirene, Tremec and Dacomsa. External coverage: Shareholders and suppliers.													
	103-2	CONCEPT	2018 (FIGURES IN MILLION PESOS)												
	103-3														
GRI 201: Economic performance	201-1	Income (Economic Value Generated, VEG)	43,477												
		Expenses (Economic Value Generated, VED)	44,394												
		Operating expenses and costs	34,284												
		Salaries and employee benefits ¹	4,524												
		Payments to the government (taxes and contributions) ²	577												
		Payments to capital vendors	1,433												
		Investment in infrastructure (expansion of plants, equipment, machinery)	3,537												
		Donations to the community	39												
		Retained (VEG-VED)	917												
		¹ Does not include information of the Dynasol JV													
		² Corresponds to Income Tax paid without considering JV's													
RISK MANAGEMENT AND MONITORING															
GRI 103: Management approach 2016	103-1	Risk management and monitoring Internal coverage: Corporate KUO, Kekén, Dynasol, Resirene, Tremec and Dacomsa. External coverage: Shareholders, strategic partners and suppliers.													
	103-2	KUO has a Risk Management System based on the Enterprise Risk Management Framework (ERM) framework. The Group's Comprehensive Business Risk Management Methodology allows strategic decisions to be made around strategic, operational, reporting and compliance objectives.													
	103-3	The Board of Directors carries out the evaluation of risk management processes in economic, environmental and social matters.													
GRI 201: Economic performance 2016	201-2	No financial implications and other risks and opportunities derived from climate change have been identified, based on current risk analysis and assessments.													
CUSTOMER RELATIONSHIP															
GRI 103: Management approach 2016	103-1	Internal coverage: Corporate KUO, Kekén, Dynasol, Resirene, Tremec and Dacomsa. External coverage: Strategic partners and clients.													
	103-2	There are mechanisms within the business to know the satisfaction of customers.													
	103-3	DACOMSA developed 258 face-to-face events for the knowledge of its products with the assistance of 3,476 customers.													
OCCUPATIONAL HEALTH AND SAFETY															
GRI 103: Management approach 2016	103-1	Internal coverage: Kekén, Dynasol, Resirene, Tremec and Dacomsa. External coverage: Contractors.													
	103-2	Pages 26-29													
	103-3	Pages 26-29													

GRI STANDARD	CONTENTS	PAGE/DECLARATION	OMISSION																																																																		
GRI 403: Health and safety at work 2016	403-2	Types of accidents and frequency rates of accidents, occupational diseases, days lost and absenteeism due to work-related accidents or occupational illness of collaborators and contractors, by Business:	Due to the diversity of business and size of the Group, information is not broken down by region, but by business.																																																																		
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GRI 103: Management approach 2016	103-1	Internal coverage: Kekén, Tremec, Dynasol, Resirene, Dacomsa External coverage: Community																																																																			
	103-2	Pages 16 & 17, 22-27, 32 & 33																																																																			
	103-3	Pages 16 & 17, 22-27, 32 & 33																																																																			
GRI 413: Local communities 2016	413-1	Pages 16 & 17, 22-27, 32 & 33																																																																			
GRI 304: Biodiversity 2016	304-3	We protect 903 hectares, 13% more than in 2017. Our objective is to improve ecosystems and stop the loss of biodiversity, conserve the natural resources of flora and fauna, among which endemic species are found; It also seeks to generate awareness in people to positively impact on climate change resistance.																																																																			

INDEPENDENT AUDITORS'
REPORT AND CONSOLIDATED
FINANCIAL STATEMENTS FOR
2018, 2017 AND 2016

R E
P O R T

**GRUPO KUO, S.A.B.
DE C.V. AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL
STATEMENTS FOR THE
YEARS ENDED
DECEMBER 31, 2018,
2017 AND 2016,
AND INDEPENDENT
AUDITORS' REPORT
DATED MARCH 8, 2019

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Independent Auditors' Report	1
Consolidated Statements of Financial Position	6
Consolidated Statements of Income and Comprehensive Income	8
Consolidated Statements of Changes in Stockholders' Equity	10
Consolidated Statements of Cash Flows	11
Notes to the Consolidated Financial Statements	13

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

Opinion

We have audited the accompanying consolidated financial statements of Grupo KUO, S.A.B. de C.V. and Subsidiaries (the Entity or Grupo KUO), which comprise the consolidated statements of financial position as of December 31, 2018, 2017 and 2016 and the related consolidated statements of income and comprehensive income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows, for the years then ended, and notes to the consolidated financial statements, including a summary of the significant accounting policies applied.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Grupo KUO, S.A.B de C.V. and Subsidiaries as of December 31, 2018, 2017 and 2016, and their consolidated financial performance and their consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the IMCP Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

Composition of Grupo KUO

As indicated in Note 6 to the accompanying consolidated financial statements, Grupo KUO is an industrial conglomerate composed of three segments: Consumer, engaged mainly in the production and sale of pork meat and consumer products (including processed food and beverages); Chemical, engaged in the manufacture and sale of plastics and chemical products; and Automotive, mainly engaged in the production and sale of transmissions and auto-parts.

Translation of financial statements

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were selected from those communicated to the Management and Audit Committee of Grupo KUO, but are not intended to represent all the matters discussed with them. 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) Investment in new projects

(See Notes 11 and 14 to the consolidated financial statements)

The Entity made significant investments in strategic projects for the Consumer and Automotive Segments. Such investments mainly consist of the construction of new manufacturing facilities to expand installed capacity, the development of new products and the capitalization of costs associated with contracts with clients. In terms of the investments in the manufacturing installations, we identified a risk related to their appropriate capitalization under the guidelines of International Accounting Standard 16, "Property, Plant and Equipment" and International Accounting Standard 23, "Borrowing Costs"; in relation to the development of new products, we identified a risk in terms of its proper capitalization and recovery in the future according to International Accounting Standard 38, "Intangible Assets" and; in relation to the capitalization of costs associated with contracts with clients, we identified a risk in terms of its proper capitalization according to IFRS 15, "Revenue from Contracts with Customers".

Our audit tests included confirmation that the projects were approved by the Board of Directors, testing of the integration of the projects and review of support documentation, physical inspections, and also validation that the capitalized items complied with the requirements established in the aforementioned standards, including the analysis of the future economic benefits estimated by Management. The results of our audit procedures were reasonable.

b) Revenue recognition (applicable to all segments)

There is a risk related to the appropriate revenue recognition from sales of goods performed in the different segments of Grupo KUO.

Given the different types of revenues that Grupo KUO generates from each Segment's operation, we applied audit procedures in which we ascertained that the revenues from the sales of goods were recognized when the control of the goods were transferred to the customers, including the understanding of the business, the analysis of the contracts with customers and identification of multiple deliverables, the validation of key internal controls, testing of operating efficiency of controls, as well as goods' shipping and delivery procedures. The results of our audit procedures were reasonable.

c) Chemical Segment - Dynasol joint business recognized through the equity method

i. Impairment of long-lived assets -

(See Note 11 to the consolidated financial statements)

We identified the risk that certain long-lived assets may not generate sufficient revenues to cover the book value and should be subjected to impairment testing, as established in International Accounting Standard 36, "*Impairment of long-lived assets*".

Our tests consisted of applying procedures to assess whether the discounted cash flows model used in the calculation of the impairment of long-lived assets is appropriate. We challenged the assumptions used by Management, mainly the estimates of sales volumes and the rate applied to the weighted average cost of capital (WACC), as well as the evaluation of the underlying data. Our fair value specialists assisted us in the independent assessment of the sales volumes based on sales statistics, future sales targets and cash flows, and the sensitivity analysis performed using the aforementioned assumptions.

Taking our tests as a basis, we noted that the key assumptions used by Management in its valuation model are within a reasonable range according to the aforementioned standard.

Other information included in the document containing the audited financial statements

Management of Grupo KUO is responsible for the other information. The other information will comprise the information that will be incorporated into the Annual Report which Grupo KUO is required to prepare in accordance with Article 33, section I, subsection b) of Title Fourth, Chapter First, of the General Provisions Applicable to Issuers and Other Stock Market Participants in Mexico, and the Instructions which accompany these provisions (the Provisions). The Annual Report is expected to be available for consultation after the date of this audit report.

Our opinion on the consolidated financial statements will not cover the other information and we will not express any form of assurance thereon.

In relation to our audit of the consolidated financial statements, our responsibility will be to read the Annual Report, when it is available, and when we do so, to consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or with our understanding obtained during the audit, or appears to contain a material misstatement. When we read the Annual Report we will issue the legend on the reading of the annual report, as required by Article 33, section I, subsection b) numeral 1.2 of the Provisions.

Responsibilities of Management and the Audit Committee of Grupo KUO for the accompanying consolidated financial statements

Management of Grupo KUO is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as Management determines is necessary to enable the preparation of the 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 ability of Grupo KUO 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.

The Audit Committee is responsible for overseeing the Entity's financial reporting process, review the content of the consolidated financial statements and request their approval by the Board of Directors of the Entity.

Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the accompanying 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 ISA 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 ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of Grupo KUO.
- 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 KUO's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Grupo KUO to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the accompanying consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence related to the financial information of the entities and business activities within Grupo KUO to express an opinion on the accompanying consolidated financial statements. We are responsible for the direction, supervision and performance of the audit group. 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 the 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 the governance of Grupo KUO we determined 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 auditors' 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. Manuel Nieblas Rodríguez
March 26, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2018, 2017 AND 2016

(Thousands of Mexican pesos)

ASSETS	NOTES	2018	2017	2016
Current assets:				
Cash and cash equivalents	7	Ps. 1,102,977	Ps. 721,133	Ps. 3,453,030
Accounts and notes receivables, net	8	2,905,621	3,028,796	2,068,330
Accounts receivables from related parties	22	149,814	140,431	121,390
Inventories, net	9	5,045,164	3,921,857	3,247,984
Biological assets	10	1,217,425	815,219	935,295
Prepaid expenses		140,596	80,089	76,671
Derivative financial instruments	18	4,527	5,467	-
Assets classified as held for sale		14,633	14,633	-
Total current assets		10,580,757	8,727,625	9,902,700
Non - current assets:				
Property, plant and equipment, net	11	12,727,538	10,052,328	7,879,083
Biological assets	10	363,835	351,312	309,665
Intangible and other assets, net	14	4,074,533	1,520,415	551,314
Investments in joint ventures	13	11,226,077	10,382,836	8,182,797
Other accounts receivable		26,804	32,896	533,345
Accounts receivable from related parties	22	122,234	119,371	1,370,064
Deferred income tax	23	478,049	770,664	919,273
Total non - current assets		29,019,070	23,229,822	19,745,541
Total assets		Ps. 39,599,827	Ps. 31,957,447	Ps. 29,648,241
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Notes and accounts payable to suppliers	18	Ps. 171,275	Ps. -	Ps. 69,892
Other accounts payable and accrued liabilities		6,339,516	5,087,401	4,352,797
Other accounts payable and accrued liabilities	19	3,711,190	3,777,814	2,962,246
Derivative financial instruments	17	605	-	-
Accounts payable to related parties	22	25,469	13,709	999,392
Total current liabilities		10,248,055	8,878,924	8,384,327
Non - current liabilities:				
Bank loans	18	14,364,698	9,788,937	9,000,388
Employee benefits	20	599,889	622,832	649,752
Deferred income taxes	23	838,027	714,610	883,594
Deferred income tax arising from from tax deconsolidation	23	723,613	953,193	976,461
Total non - current liabilities		16,526,227	12,079,572	11,510,195
Total liabilities		26,774,282	20,958,496	19,894,522

(Continued)

	NOTES	2018	2017	2016
Stockholders' equity:				
Contributed capital-				
Capital stock	21	2,727,534	2,727,534	2,727,534
Shares repurchase reserve		(510,570)	(591,083)	(297,229)
Earned capital-				
Retained earnings		8,667,904	6,768,905	5,319,391
Cumulative translation adjustments		864,955	905,340	945,773
Derivative financial instruments	17	(423)	3,827	-
Actuarial loss from employee benefits		(82,282)	(93,108)	(86,582)
Equity in other comprehensive income of joint ventures		1,157,834	1,276,883	1,144,232
Controlling interest		12,824,952	10,998,298	9,753,119
Non - controlling interest	12	593	653	600
Total stockholders' equity		12,825,545	10,998,951	9,753,719
Total liabilities and stockholders' equity		Ps. 39,599,827	Ps. 31,957,447	Ps. 29,648,241

(Concluded)

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOMES

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(Thousands of Mexican pesos, except shares and earnings (loss) per share information)

	NOTES	2018	2017	2016
Continuing operations:				
Net sales		Ps. 27,282,211	Ps. 24,473,273	Ps. 21,618,167
Cost of sales	25	21,304,464	18,400,101	16,314,521
Gross profit		5,977,747	6,073,172	5,303,646
Administrative expenses	25	1,566,682	1,524,590	1,711,706
Selling and distribution expenses	25	2,056,059	1,874,700	1,784,259
General expenses		3,622,741	3,399,290	3,495,965
Equity in the results of joint ventures	13	1,283,952	991,592	634,985
Other income, net	26	-	55,729	-
Income from operations		3,638,958	3,721,203	2,442,666
Interest income		38,078	77,849	93,283
Interest expense		(466,305)	(697,917)	(585,539)
Other financial expenses		(224,529)	(471,743)	(144,814)
Exchange loss, net		(1,317)	(223,226)	(1,092,322)
Income before income taxes and discontinued operations		2,984,885	2,406,166	713,274
Income taxes expense (benefit)	23	815,497	684,128	(186,920)
Income from continuing operations		2,169,388	1,722,038	900,194
Discontinued operations:				
Income (loss) from discontinued operations, net	24	47,385	(3,946)	179,860
Consolidated net income		2,216,773	1,718,092	1,080,054
Other comprehensive income (loss), net of income tax:				
Items that will not be reclassified subsequently to profit or loss:				
Actuarial income (loss) from employee benefits	20	5,070	(6,525)	(49,764)

(Continued)

	NOTES	2018	2017	2016
Items that will be reclassified to profit or loss:				
Cumulative translation adjustment		(40,476)	(40,428)	556,152
Derivative financial instruments	17	(4,250)	3,827	729
Equity in other comprehensive income of joint ventures	13	(119,049)	132,651	738,496
Total other comprehensive (loss) income		(158,705)	89,525	1,245,613
Consolidated comprehensive income		Ps. 2,058,068	Ps. 1,807,617	Ps. 2,325,667
Distribution of consolidated net income:				
Controlling interest		Ps. 2,216,767	Ps. 1,718,035	Ps. 1,079,363
Non - controlling interest		6	57	691
		Ps. 2,216,773	Ps. 1,718,092	Ps. 1,080,054
Distribution of consolidated comprehensive income:				
Controlling interest		Ps. 2,058,065	Ps. 1,807,554	Ps. 2,324,884
Non - controlling interest		3	63	783
		Ps. 2,058,068	Ps. 1,807,617	Ps. 2,325,667
Basic income earnings per share:				
From continuing operations		Ps. 4.75	Ps. 3.77	Ps. 1.97
From discontinued operations		Ps. 0.11	Ps. (0.01)	Ps. 0.40
Basic earnings per share		Ps. 4.86	Ps. 3.76	Ps. 2.37
Weighted average common shares outstanding		456,366,148	456,366,148	456,366,148

(Concluded)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(In thousands of Mexican pesos, except shares information)

	CONTRIBUTED CAPITAL				EARNED CAPITAL							TOTAL STOCKHOLDERS' EQUITY
	NUMBER OF SHARES	CAPITAL STOCK	SHARES REPURCHASE RESERVE\	RETAINED EARNINGS	CUMULATIVE TRANSLATION ADJUSTMENTS	DERIVATIVE FINANCIAL INSTRUMENTS	ACTUARIAL LOSS FROM EMPLOYEE BENEFITS	EQUITY IN OTHER COMPREHENSIVE INCOME OF JOINT VENTURES	CONTROLLING INTEREST	NON - CONTROLLING INTEREST		
Balances at beginning of 2016	456,366,148	Ps. 2,727,534	Ps. (217,315)	Ps. 4,490,033	Ps. 389,716	Ps. (729)	Ps. (36,821)	Ps. 405,736	Ps. 7,758,154	Ps. 50,868	Ps. 7,809,022	
Dividends declared	-	-	-	(205,365)	-	-	-	-	(205,365)	-	(205,365)	
Repurchase of ordinary shares, net	-	-	(79,914)	10,100	-	-	-	-	(69,814)	-	(69,814)	
Purchase of non - controlling interest	-	-	-	(54,740)	-	-	-	-	(54,740)	(51,051)	(105,791)	
Consolidated comprehensive income	-	-	-	1,079,363	556,057	729	(49,761)	738,496	2,324,884	783	2,325,667	
Balances at December 31, 2016	456,366,148	2,727,534	(297,229)	5,319,391	945,773	-	(86,582)	1,144,232	9,753,119	600	9,753,719	
Dividends declared	-	-	-	(278,383)	-	-	-	-	(278,383)	(10)	(278,393)	
Repurchase of ordinary shares, net	-	-	(293,854)	9,862	-	-	-	-	(283,992)	-	(283,992)	
Consolidated comprehensive income	-	-	-	1,718,035	(40,433)	3,827	(6,526)	132,651	1,807,554	63	1,807,617	
Balances at December 31, 2017	456,366,148	2,727,534	(591,083)	6,768,905	905,340	3,827	(93,108)	1,276,883	10,998,298	653	10,998,951	
Initial application of IFRS 9	-	-	-	(2,655)	-	-	-	-	(2,655)	(1)	(2,656)	
Dividends declared	-	-	-	(342,275)	-	-	-	-	(342,275)	-	(342,275)	
Sale of repurchased ordinary shares, net	-	-	80,513	32,949	-	-	-	-	113,462	-	113,462	
Dilution of non-controlling interest	-	-	-	(29)	88	-	(2)	-	57	(57)	-	
Recycling of actuarial losses from employee benefits	-	-	-	(5,758)	-	-	5,758	-	-	-	-	
Consolidated comprehensive income	-	-	-	2,216,767	(40,473)	(4,250)	5,070	(119,049)	2,058,065	3	2,058,068	
Balances at December 31, 2018	456,366,148	Ps. 2,727,534	Ps. (510,570)	Ps. 8,667,904	Ps. 864,955	Ps. (423)	Ps. (82,282)	Ps. 1,157,834	Ps. 12,824,952	Ps. 593	Ps. 12,825,545	

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(Thousands of Mexican pesos)

	2018	2017	2016
Cash flows from operating activities:			
Consolidated net income	Ps. 2,216,773	Ps. 1,718,092	Ps. 1,080,054
Adjustments for:			
Income tax expense (benefit) from continuing operations	815,497	684,128	(186,920)
Depreciation and amortization of continuing operations	651,648	577,555	582,066
Depreciation and amortization of discontinued operations	-	-	208
(Income) loss on sale of property, plant and equipment of continuing operations	(2,280)	(52,327)	9,748
Income on sale of property, plant and equipment of discontinued operations	-	(2,866)	-
Gain on disposal of assets classified as held for sale	-	-	(3,545)
Net period cost for employee benefit plans of continuing operations	60,647	15,516	45,167
Impairment of property, plant and equipment of discontinued operations	-	16,365	-
Impairment of assets held for sale	-	-	1,840
Gain on disposal of subsidiary	-	(18,352)	-
Other financial expenses	224,529	471,743	144,814
Derivative financial instruments	(4,527)	-	-
Equity in the results of joint ventures	(1,283,952)	(991,592)	(634,985)
Interest expense of continuing operations	466,305	697,917	585,539
Interest income of continuing operations	(38,078)	(77,849)	(93,283)
	3,106,562	3,038,600	1,530,703
Changes in working capital:			
(Increase) decrease in:			
Accounts receivable	(227,962)	(68,470)	120,048
Inventories	(1,123,307)	(673,873)	(787,904)
Biological assets	(414,729)	78,429	(146,164)
Other accounts receivable and other assets	(196,845)	(256,177)	(82,834)
Increase (decrease) in:			
Notes and accounts payable to suppliers	1,252,115	734,604	1,143,495
Other payables and accrued liabilities	(264,235)	731,619	574,457
Accounts payable to related parties	2,377	(75,374)	208,953
Income taxes paid	(576,673)	(1,041,225)	(430,669)
Net cash flows generated by operating activities	1,557,303	2,468,133	2,130,085

(Continued)

	2018	2017	2016
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(3,122,161)	(2,996,165)	(1,195,505)
Proceeds from sale of property, plant and equipment	10,889	37,407	18,494
Assets classified as held for sale and liquidation accounts receivable from sales of assets classified as held for sale	-	-	35,910
Proceeds from others assets	-	3,574	-
Investment in joint ventures	-	(1,238,151)	(19,858)
Dividends from joint ventures	321,662	162,373	186,323
Divestment in joint ventures	-	6,185	-
Accounts receivable from disposal of subsidiary	512,895	-	-
Investment in intangible assets	(2,381,295)	(938,226)	(58,570)
Interest received	38,078	77,849	93,283
Acquisition of joint ventures	-	-	(354)
Collection of loans from joint venture	-	1,370,064	-
Net cash received from creation of joint venture	-	-	106,496
Net cash flows used in investing activities	(4,619,932)	(3,515,090)	(833,781)
Cash flows from financing activities:			
Proceeds from debt	5,953,052	9,350,151	-
Payments of debt	(1,256,780)	(8,807,571)	(17,473)
Payment of loans to joint venture	-	(929,350)	-
Expenses associated with bond issuance	(13,148)	(110,109)	-
Other financial expenses	(224,529)	(471,743)	(144,814)
Interest paid	(780,336)	(440,586)	(554,303)
Dividends paid	(342,275)	(278,383)	(205,365)
Proceeds (repurchase) of ordinary shares, net	113,462	(283,992)	(69,814)
Purchase of non - controlling interest	-	-	(105,791)
Net cash flows generated by (used) in financing activities	3,449,446	(1,971,583)	(1,097,560)
Effects of exchange rate changes on cash and cash equivalents	(4,973)	286,643	1,066,514
Net increase (decrease) in cash and cash equivalents	381,844	(2,731,897)	1,265,258
Cash and cash equivalents at beginning of year	721,133	3,453,030	2,187,772
Cash and cash equivalents at end of year	Ps. 1,102,977	Ps. 721,133	Ps. 3,453,030

(Concluded)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(Thousands of Mexican pesos (Ps.) and thousands of US dollars)

1. PRINCIPAL ACTIVITIES

Grupo KUO, S.A.B. de C.V. (KUO or together with its subsidiaries, the Entity) holds the shares of entities located in Mexico, United States of America, Spain, Belgium and China, that are engaged mainly in the manufacture and sale of consumer business products (including processed food, beverages and pork meat), plastics, chemical products and auto parts. The Entity is incorporated in Mexico City and its address is Paseo de los Tamarindos No. 400-B, Piso 31, Colonia Bosques de las Lomas, C.P. 05120.

2. SIGNIFICANT EVENTS

- **Contract and restructure of committed credit lines** - During 2018 KUO contracted and renewed committed credit lines with different financial institutions for Ps.4,865,283, (the totality in Mexican pesos and US dollars). The resources of the credit lines were used mainly for the projects' investments in the Consumer and Automotive sectors. More detail of these credits are included in Note 18 to these consolidated financial statements.
- **Credit disposal** - In June 2018, KUO disposed of a credit line with BBVA Bancomer for Ps.1,500 million with a maturity of 7 years. The credit line has an interest rate equivalent to the Interbank Interest Rate of Equilibrium (TIIE) at 28 days plus 1.60%. The resources of the credit line were used mainly for the projects' investments in the Consumer and Automotive sectors. More detail of this credit is included in Note 18 to these consolidated financial statements.
- **Investments in projects** - During 2018, 2017 and 2016, the Entity made significant investments in strategic projects for the Consumer and Automotive sectors for Ps.2,997 million, Ps.2,783 million and Ps.1,089 million in property, plant and equipment, respectively, and for Ps.2,362 million, Ps.899 million and Ps.45 million in intangible assets, respectively, mainly in the construction of new production facilities to expand the installed capacity and the development of new products.
- **Bond issue and prepayment of Cebures** - In June 2017, KUO announced the offer to purchase each and every one of the Bonds known as "6.25% Senior Notes 2022", for a principal amount of US325 million.

In July 2017, KUO made an advance payment of US229 million (70.35%) for the debt securities, and settled the remaining US96 million on December 4, 2017. The resources were obtained through the issuance of a new bond denominated "Senior Notes 2027" for US450 million that bears interest at an annual rate of 5.75%, payable on January 7 and July 7 of each year, beginning January 7, 2018, with maturity in July, 2027. Note 18 includes the disclosures of the Bonds issued.

With the new bond resources, in July 2017, KUO prepaid the Securitization Certificates "KUO 12" for Ps.700 million and the bilateral credit with Banco Nacional de Comercio Exterior, S.N.C. (Bancomext) for Ps.699 million. More detail of these credits is included in Note 18 to these consolidated financial statements.

- **Disposition of a credit line and credit settlement** - In July 2017, KUO contracted a line of credit with Bancomext for Ps.1,000 million with maturity in 2027. The line of credit has an interest rate equivalent to "Tasa de interés interbancaria de equilibrio" (TIIE) plus 1.80%, with a 2 years grace period.

The resources of the credit line were used for the prepayment of the credit with Bank of America, N.A. for Ps.1,000 million. More detail of these credits can be seen in Note 18 to these consolidated financial statements.

- **Acquisition of non-controlling interest** - In 2016 KUO acquired all of the remaining shares (34%) of Nutricarsa, S.A.P.I. de C.V., previously owned by its partner Cargill de México, S.A. de C.V.

KUO's change in the equity of the food plant having acquired the non-controlling interest, increased from 66 % to 100 %, and was recognized as an equity transaction between stockholders.

3. APPLICATION OF THE NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

- a. **Application of new and revised International Financing Reporting Standards ("IFRS" or "IAS") that are mandatorily effective for the current year**

In the current year, the Entity has applied a number of amendments to IFRS issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2018.

NEW AND AMENDED IFRS STANDARDS THAT ARE EFFECTIVE FOR THE CURRENT YEAR

IMPACT OF INITIAL APPLICATION OF IFRS 9 - *Financial Instruments*

In the current year, the Entity has applied IFRS 9 "Financial Instruments" (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after January 1, 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives.

The Entity has elected to not restate consolidated comparatives in respect of the classification and measurement of financial instruments.

Additionally, the Entity adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to disclosures in 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

- I. The classification and measurement of financial assets and financial liabilities,
- II. Impairment of financial assets, and
- III. General hedge accounting.

Details of these new requirements as well as their impact on the Entity's consolidated financial statements are described below.

The Entity has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) Classification and measurement of financial assets

The date of initial application is January 1, 2018. Accordingly, the Entity has applied the requirements of IFRS 9 to instruments that continue to be recognized as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018.

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortized cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- All other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:

- The Entity may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination in other comprehensive income; and
- The Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Entity has not designated any debt investments that meet the amortized cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortized cost or at FVTOCI are subject to impairment. See (b) below.

Reviewed and assessed the Entity's existing financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Entity's financial assets as regards their classification and measurement:

- The Entity's investments in redeemable notes were classified as available-for-sale financial assets under IAS 39 Financial Instruments: Recognition and Measurement. The notes have been reclassified as financial assets at amortized cost because they are held within a business model whose objective is to collect the contractual cash flows and they have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding;
- Financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

None of the other reclassifications of financial assets have had any impact on the Entity's financial position, profit or loss, or other comprehensive income in either year.

(b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Specifically, IFRS 9 requires the Entity to recognize a loss allowance for expected credit losses on:

- (1) Debt investments measured subsequently at amortized cost or at FVTOCI,
- (2) Lease receivables,
- (3) Trade receivables and contract assets, and
- (4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Entity to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Entity is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The Entity has elected to not restate comparatives, for the purpose of assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognized on the date of initial application of IFRS 9 (January 1, 2018).

The impact of the IFRS 9 as of January 1, 2018 has supposed a decrease on the provision according to the ELC of Ps.2,655 recorded in retained earnings, net of deferred tax.

(c) Classification and measurement of financial liabilities

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognized. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

Apart from the above, the application of IFRS 9 has had no impact on the classification and measurement of the Entity's financial liabilities.

(d) General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Entity's risk management activities have also been introduced.

In accordance with IFRS 9's transition provisions for hedge accounting, the Entity has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on January 1, 2018. The Entity's qualifying hedging relationships in place as at January 1, 2018 also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on January 1, 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Entity has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

IFRS 9 requires hedging gains and losses to be recognized as an adjustment to the initial carrying amount of non-financial hedged items (basis adjustment). In addition, transfers from the hedging reserve to the initial carrying amount of the hedged item are not reclassification adjustments under IAS 1 "Presentation of Financial Statements" and hence they do not affect other comprehensive income. Hedging gains and losses subject to basis adjustments are categorized as amounts that will not be subsequently reclassified to profit or loss in other comprehensive income. This is consistent with the Entity's practice prior to the adoption of IFRS 9.

Consistent with prior periods, when a forward contract is used in a cash flow hedge or fair value hedge relationship, the Entity has designated the change in fair value of the entire forward contract, i.e. including the forward element, as the hedging instrument.

When the option contracts are used to hedge the forecast transactions, the Entity designates only the intrinsic value of the options as the hedging instrument. Under IAS 39 the changes in the fair value of time value of option (i.e. non-designated component) were recognized in profit or loss. Under IFRS 9, the changes in the time value of the options that relate to the hedged item ('aligned time value') are recognized in other comprehensive income and accumulated in the cost of hedging reserve within equity. The amounts accumulated in equity are either reclassified to profit or loss when the hedged item affects profit or loss or removed directly from equity and included in the carrying amount of non-financial item.

Apart from this, the application of the IFRS 9 hedge accounting requirements has had no other impact on the results and financial position of the Entity for the current and/or prior years. Please refer to Note 4 i) for detailed disclosures regarding the Entity's risk management activities.

(e) Disclosures in relation to the initial application of IFRS 9

There were no financial assets or financial liabilities which the Entity had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Entity has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Entity has elected to designate as at FVTPL at the date of initial application of IFRS 9.

(f) Impact of initial application of IFRS 9 on financial performance

The application of IFRS 9 has had no impact on the consolidated cash flows of the Entity.

Impact of application of IFRS 15, "Revenue from Contracts with Customers"

In the current year, the Entity has applied IFRS 15, "Revenue from Contracts with Customers" (as amended in April 2016) which is effective for an annual period that begins on or after January 1, 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Entity's consolidated financial statements are described below.

The Entity applied IFRS 15 in accordance with the modified retrospective transitional approach under which the cumulative effect of the initial application of this IFRS is recognized on the date of the initial application as an adjustment to the initial balance of the accumulated results. Under this transition method, the Entity applied this standard retroactively only to contracts that have not been completed on the date of the initial application, that is, January 1, 2018.

The Entity's accounting policies for its revenue streams are disclosed in detail in Note 4 cc below. Apart from providing more extensive disclosures for the Entity's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Entity.

Impact of application of Other amendments to IFRS Standards and Interpretations

In the current year, the Entity has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after January 1, 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

IFRIC 22- Foreign Currency Transactions and Advance Consideration IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

b. New and revised IFRS in issue but not yet effective

At the date of authorization of these consolidated financial statements, the Entity has not applied the following new and revised IFRS that have been issued but are not yet effective:

IFRS 16	LEASES
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to IFRS Standards 2015-2017 Cycle	Amendments to IFRS 3, Business Combinations, IFRS 11, Joint Arrangements, IAS 12, Income Taxes and IAS 23, Borrowing Costs
Amendments to IAS 19, Employee Benefits	Plan Amendment, Curtailment or Settlement
IFRS 10, Consolidated Financial Statements and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRIC 23	Uncertainty over Income Tax Treatments

Management do not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Entity in future periods, except as noted below:

IFRS 16 Leases

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 "Leases" and the related Interpretations when it becomes effective for accounting periods beginning on or after January 1, 2019. The date of initial application of IFRS 16 for the Entity will be January 1, 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease

The Entity will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before January 1, 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Entity will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after January 1, 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Entity has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Entity.

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Entity accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Entity will:

- Recognize right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Recognize depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 "Impairment of Assets". This will replace the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture for US\$ thousand), the Entity will opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

A preliminary assessment of these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence the Entity will recognize a right-of-use asset of approximately Ps.1,880,000 and a corresponding lease liability for the same amount. The impact on profit or loss is to decrease operative expenses and to increase depreciation by approximately Ps.231,000 and to increase interest expense by Ps.134,000 during the life of the leases.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to reduce the cash generated by operating activities by Ps.312,000 and to increase net cash used in financing activities by the same amount.

Finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Entity recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Entity will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Entity's finance leases as at December 31, 2018 on the basis of the facts and circumstances that exist at that date, the directors of the Entity have assessed that the impact of this change will not have an impact on the amounts recognized in the Entity's consolidated financial statements.

Impact on Lessor Accounting

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Amendments to IFRS 9, Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after January 1, 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

Management do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28.

The amendments apply retrospectively to annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

Management do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

Annual Improvements to IFRS Standards 2015-2017 Cycle Amendments to IFRS 3, Business Combinations, IFRS 11, Joint Arrangements, IAS 12, Income Taxes and IAS 23, Borrowing Costs

The Annual Improvements include amendments to four Standards.

IAS 12, Income Taxes

The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23, Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

IFRS 3, Business Combinations

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.

IFRS 11, Joint Arrangements

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after January 1, 2019 and generally require prospective application. Earlier application is permitted.

Management do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

Amendments to IAS 19, Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after January 1, 2019, but they can be applied earlier if an entity elects to do so.

Management do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

IFRS 10, Consolidated Financial Statements and IAS 28, (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

Management do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- Determine whether uncertain tax positions are assessed separately or as an entity; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after January 1, 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

Management do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS released by IASB.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values.

i. Historical cost

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 the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- **Level 1** inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- **Level 2** inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- **Level 3** inputs are unobservable inputs for the asset or liability.

c. Basis of consolidation of financial statements

The consolidated financial statements include the financial statements of KUO and the subsidiaries over which it exercises control. The joint ventures jointly controlled with one or more partners, are presented as Investments in joint ventures.

The main subsidiaries of the Entity as of December 31, 2018, 2017 and 2016 are:

	EQUITY PERCENTAGE
Consumer Segment	
Grupo Porcícola Mexicano, S.A. de C.V.	100.00%
Comercializadora Porcícola Mexicana, S.A. de C.V.	100.00%
Chemical Segment	
Resirene, S.A. de C.V. and Subsidiary	100.00%
Automotive Segment	
Transmisiones y Equipos Mecánicos, S.A. de C.V.	99.98%
Dacomsa, S.A. de C.V.	100.00%

The joint ventures that are presented as equity method investments as of December 31, 2018, 2017 and 2016 are:

	EQUITY PERCENTAGE
Consumer Segment	
Herdez del Fuerte, S.A. de C.V. and Subsidiaries	50.00%
Chemical Segment	
Dynasol Gestión México, S.A.P.I. de C.V. and Subsidiaries	50.00%
Dynasol Gestión, S.L. and Subsidiaries	50.00%

Control is achieved when the Entity:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Entity has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Entity considers all relevant facts and circumstances in assessing whether or not the Entity's voting rights in an investee are sufficient to give it power, including:

- The percentage of the Entity's holding of voting rights relative to the percentage and dispersion of voting rights of the other holders;
- Potential voting rights held by the Entity, other holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of subsidiaries begins when the Entity obtains control over the subsidiaries and ceases when the Entity loses control of the subsidiaries. Income and expenses of subsidiaries acquired or disposed during the year are included in the consolidated statements of income and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiaries.

Profit or loss of each component of other comprehensive income are attributed to the owners of the Entity and to the non-controlling interests. Total comprehensive income is attributed to the owners of the Entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Entity's accounting policies.

Non-controlling interests in subsidiaries are identified separately from the Entity's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intercompany balances and transactions have been eliminated in the consolidated financial statements.

Changes in the Entity's ownership interests in existing subsidiaries

Changes in the Entity's ownership interests in subsidiaries that do not result in the Entity losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Entity.

When the Entity loses control of a subsidiary, a gain or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

d. Segment information

Operative segments are reported consistent with the internal reports provided for the information of the Executive Committee, who are responsible for assisting KUO's Executive Chairman, which is considered the chief operating decision maker for purposes of allocation of resources and the evaluation of the performance of operating segments based on the corporate governance platform established.

e. Financial instruments

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

Financial assets and financial liabilities are recognized when the Entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in results.

f. Financial assets

All regular purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- 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 principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- 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 principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

- Despite the foregoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:
- The Entity may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- The Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

(i) Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Entity recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in interest income in the consolidated statements of income and comprehensive income.

A financial asset is held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- For financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss.
- For debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortized cost of the debt instrument are recognized in profit or loss.
- For financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss.
- For equity instruments measured at FVTOCI, exchange differences are recognized in other comprehensive income in the investments revaluation reserve.

See hedge accounting policy regarding the recognition of exchange differences where the foreign currency risk component of a financial asset is designated as a hedging instrument for a hedge of foreign currency risk.

Impairment of financial assets

The Entity recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Entity always recognizes lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Entity's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Entity recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Entity measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(ii) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Entity compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Entity considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Entity's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Entity's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Entity presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Entity has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Entity assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- 1) The financial instrument has a low risk of default,
- 2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- 3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Entity considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

For financial guarantee contracts, the date that the Entity becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Entity considers the changes in the risk that the specified debtor will default on the contract.

The Entity regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(iii) Definition of default

The Entity considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Entity, in full (without taking into account any collateral held by the Entity).

Irrespective of the above analysis, the Entity considers that default has occurred when a financial asset is more than 90 days past due unless the Entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iv) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- a) Significant financial difficulty of the issuer or the borrower;
- b) A breach of contract, such as a default or past due event (see (ii) above);
- c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- e) The disappearance of an active market for that financial asset because of financial difficulties.

(v) Write-off policy

The Entity writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Entity's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

(vi) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Entity's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Entity in accordance with the contract and all the cash flows that the Entity expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17, "Leases".

If the Entity has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Entity measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Entity recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

Derecognition of financial assets

The Entity derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Entity has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity

- i.* Classification as debt or equity - Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.
- ii.* Equity instruments - An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Entity's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Entity's own equity instruments.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds.

Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible loan notes using the effective interest method.

g. Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Entity, are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of an Entity of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship (see Hedge accounting policy). The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' in the consolidated statements of income and comprehensive income.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Entity that are designated by the Entity as at FVTPL are recognized in profit or loss.

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognized in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial liabilities

The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Entity exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Entity accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

h. Derivative financial instruments

The Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, options and interest rate swaps. Further details of derivative financial instruments are disclosed in Note 17.

Derivatives are recognized initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. Derivatives are not offset in the financial statements unless the Entity has both legal right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host - with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortized cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the Entity generally designates the whole hybrid contract at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realized or settled within 12 months.

i. Hedge accounting

The Entity designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Entity documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Entity actually hedges and the quantity of the hedging instrument that the Entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Entity adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Entity designates the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

The Entity designates only the intrinsic value of option contracts as a hedged item, i.e. excluding the time value of the option. The changes in the fair value of the aligned time value of the option are recognized in other comprehensive income and accumulated in the cost of hedging reserve. If the hedged item is transaction-related, the time value is reclassified to profit or loss when the hedged item affects profit or loss. If the hedged item is time-period related, then the amount accumulated in the cost of hedging reserve is reclassified to profit or loss on a rational basis - the Entity applies straight-line amortization. Those reclassified amounts are recognized in profit or loss in the same line as the hedged item. If the hedged item is a non-financial item, then the amount accumulated in the cost of hedging reserve is removed directly from equity and included in the initial carrying amount of the recognized non-financial item. Furthermore, if the Entity expects that some or all of the loss accumulated in cost of hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Fair value hedges

The fair value change on qualifying hedging instruments is recognized in profit or loss except when the hedging instrument hedges an equity instrument designated at FVTOCI in which case it is recognized in other comprehensive income.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the hedging gain or loss is recognized in profit or loss instead of other comprehensive income. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain or loss remains in other comprehensive income to match that of the hedging instrument.

Where hedging gains or losses are recognized in profit or loss, they are recognized in the same line as the hedged item.

The Entity discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Entity expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Entity discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognized in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

j. Cash and cash equivalents

Mainly consist of bank deposits in checking accounts and investments in short-term highly liquid securities, easily convertible into cash, with maturity of up to three months as of the acquisition date, and which are subject to immaterial risks of changes in value. Cash is presented at face value and cash equivalents are recognized at fair value.

k. Allowance for discounts of accounts receivable

The Entity maintains commercial agreements with its main customers that have been established through formal contracts to ensure the volume of sales during the year. According to these contracts, if the client meets its objectives in a given period, receives a discount. The Entity determines the best estimate based on periodic assessments of compliance with objectives.

l. Inventories

Inventories are stated at the lower of their cost or net realizable value. Net realizable value represents estimated selling price less all estimated costs of completion necessary to make the sale. The costs, including a portion of fixed and variable overhead costs are allocated to inventory via the most appropriate method for the particular class of inventory, with the majority being valued using the average cost method.

m. Biological assets

These assets are valued in accordance with IAS 41 "Agriculture"; the Entity has current biological assets that are integrated by hogs directly convertible into inventories, while the non-current balance refers to hogs in breeding stock and stallions.

The fattening and breeding hogs are valued at their production cost since the Entity considers that there is no observable market and there is no reliable method to measure the fair value of these assets.

Biological assets were classified as current and non-current, based on their nature and their destination, whether for commercialization or for reproduction and production.

The Entity has two blocks of biological assets:

Assets directly convertible into inventories (Short-term biological assets):

Within this first block, piglets are included, which after a process of biological growth are slaughtered and converted directly into inventories. In the case of hogs that are used for sale, the life cycle is 5 months, 3 weeks and 3 days, since it is the optimal time where their growth is maximized, when fulfilling such time, hogs reach an average of 110 - 130 kilograms. To achieve such a standard growth, the process was designed in a way to always have the same number of hogs in each of the stages.

Classification of the farms according to the life process of commercial pigs is:

- *Site I.* - Piglets from 1 to 19 days old, with an average weight of 5 kilograms.
- *Site II.* - Weaning piglets with 20 to 60 days old, with an average weight of 6 to 20 kilograms.
- *Site III.* - Hogs from 61 to 160 days old, which are classified as finished hogs for slaughter, with an average weight of 110 - 130 kilograms.

Convertible Assets in "breeding stock and stallions" (Long-term biological assets):

In this second block, the growth of the hogs is maximized whereby they are considered "breeding stock" and their useful life within the Entity's model is approximately 156 weeks.

Stallions are recorded at the acquisition cost depending on the genetic line acquired.

n. Property, plant and equipment

Property, plant and equipment are initially recorded at cost of acquisition.

The properties that are under construction for production, supply, management or for purposes not yet determined, are recorded at cost less recognized impairment. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the accounting policy of the Entity. Depreciation of these assets, as well as other properties, starts when the assets are ready for their intended use.

Buildings, furniture and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Land is not depreciated.

Depreciation is recognized so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values, over their useful lives using the straight-line method. The estimated useful lives, residual values and the depreciation method are reviewed at the end of each year, and the effect of any changes in the recorded estimate is recognized on a prospective basis.

An item of property, plant and equipment is derecognized when it is sold or when no future economic benefits are expected that arise from the continued use of the asset. The gain or loss arising from the sale or retirement of an item of property, plant and equipment is calculated as the difference between the proceeds received from the sale and the carrying amount of the asset and is recognized in profit.

o. Intangible assets

1. Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are recognized at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are recognized at cost less accumulated impairment losses.

2. Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. When no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3. Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

4. Initial recognition of costs associated with contracts with clients

The Entity recognizes the incremental costs for obtaining contracts with customers and costs incurred for the fulfillment of these contracts as an intangible asset, when they are directly associated with contracts and are expected to be recovered.

5. Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

p. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated 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 allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and 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 current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

q. Assets classified as held for sale

Groups of assets held for sale are classified as held for sale if their carrying amount will be recovered through a sale transaction and not through continuing use. This condition is met only when the sale is highly probable and the asset (or group of assets held for sale) is available for immediate sale in its present condition. Management must be committed to the sale and it should qualify for recognition as a completed sale within one year from the date of classification; however, because Management may continue to carry out sales efforts, these assets continue to be presented as assets held for sale.

The long-lived asset (and groups of assets disposal) classified as held for sale are valued at the lower of their carrying amount and fair value of assets less costs to sell.

r. Goodwill

Goodwill is initially recognized and measured as set out in the Note 3 t. Business combinations.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Entity's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Entity's policy for goodwill arising on the acquisition of an associate is described below.

s. Investments in joint ventures

Contracts that KUO has with its partners (Grupo Herdez, S.A.B. de C.V. and Repsol Química, S.A.) are joint ventures that are controlled collectively between KUO and their respective partners to direct the relevant activities. In these cases, since none of the partners can direct the activities without the cooperation of the other or others, none individually controls the joint venture.

A joint venture is a contractual arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control in a business, which exists when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures or associates are incorporated in the financial statements using the equity method, except if the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in joint ventures or associates are initially recognized in the consolidated statement of financial position at cost and adjusted for subsequent changes to the acquisition by the Entity's participation in the profit or loss and comprehensive income of the associate or joint venture. When the Entity's participation in the losses of an associate or a joint business entity exceeds the Entity's participation in the joint venture or associate, or (which includes the long-term interests that, in substance, form part of the net investment in the joint venture entity or associate) the Entity stops recognizing its share of losses. Additional losses are recognized only when the Entity has incurred in a legal or constructive obligation or made payments on behalf of the joint venture or associate.

An investment in a joint venture or an associate is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On the acquisition of the investment in a joint venture or associate, any excess of the cost of the investment over the Entity's participation in the net fair value of identifiable assets and liabilities of the investee is recognized as goodwill, which is included in the carrying amount of the investment. Any excess of the Entity participation in the net fair value of identifiable assets and liabilities over the cost of the investment, after revaluation, is recognized immediately in results in the period in which the investment was purchased.

The requirements of IAS 36 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Entity's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36, "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Entity discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale.

When the Entity retains an interest in the former joint venture, the retained interest is measured at fair value at that date, and is regarded as its fair value on initial recognition as a financial asset in accordance with IFRS 9. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Entity accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Entity reclassifies the gain or loss from equity to profit or loss (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 remeasurement to fair value upon such changes in ownership interests.

When the Entity reduces its ownership 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 relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When the Entity transacts with an associate or a joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Entity's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Entity.

t. Business combinations

Acquisitions of businesses are accounted for using the acquisition 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 liabilities incurred by the Entity to the former owners of the acquiree and the equity interests issued by the Entity in exchange for control of the acquiree. Acquisition-related costs are generally recognized in the consolidated statement of income and comprehensive income as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, "Income Taxes" and IAS 19, "Employee Benefits", respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Entity entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, "Share-Based Payment," at the acquisition date; and
- Assets (or a group of assets for disposal) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations," are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the Entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a business combination.

When the consideration transferred by the Entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting treatment for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration that is classified as an asset or a liability is remeasured at fair value at subsequent reporting dates with changes in their fair value being recognized in profit or loss.

When a business combination is achieved in stages, the Entity's previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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

u. Translation of financial statements of foreign subsidiaries

To consolidate financial statements of foreign subsidiaries the financial statements are subsequently translated to Mexican pesos (presentation currency) considering the following methodologies:

Foreign operations whose local and functional currency are the same, translate financial statements to Mexican pesos using the exchange rates as follows: 1) the closing exchange rate for assets and liabilities; 2) historical exchange rate for stockholders' equity and 3) the exchange rate on the date of accrual for revenues, costs and expenses. The effects of translation are recorded in stockholders' equity.

Local and foreign operations with a functional currency different from the local currency translate their financial statements from the currency in which transactions are recorded to the functional currency, using the following exchange rates: 1) the closing exchange rate for monetary assets and liabilities; 2) historical exchange rates for non-monetary assets and liabilities and stockholders' equity; and 3) the rate on the date of accrual of revenues, costs and expenses, except those arising from non-monetary items that are translated using the historical exchange rate for the related non-monetary item; translation effects are recorded in exchange (loss) gain. Subsequently, to translate the financial statements from the functional currency to Mexican pesos, the following exchange rates are used: 1) the closing exchange rate for assets and liabilities; 2) historical exchange rates for stockholders' equity, and 3) the rate on the date of accrual of revenues, costs and expenses. The effects of translation are recorded in stockholders' equity.

The local and functional currencies of foreign operations from subsidiaries that are consolidated are as follows:

SUBSIDIARY	LOCAL CURRENCY	FUNCTIONAL CURRENCY
Resirene, S.A. de C.V.	Mexican peso	US dollar
Transmisiones y Equipos Mecánicos, S.A. de C.V.	Mexican peso	US dollar
Tremec Corporation	US dollar	US dollar

The local and functional currency of the joint ventures recognized with the equity method, are as follows:

	LOCAL CURRENCY	FUNCTIONAL CURRENCY
Dynasol Elastómeros, S.A. de C.V.	Mexican peso	US dollar
Industrias Negromex, S.A. de C.V.	Mexican peso	US dollar
Dynasol Elastómeros, S.A.	Euro	Euro
Dynasol Gestión, S.L.	Euro	Euro
General Química, S.A.	Euro	Euro
Dynasol, L.L.C.	US dollar	US dollar
Insa GPRO (Nanjing) Synthetic Rubber Co., Ltd.	Yuan	Yuan
Liaoning North Dynasol Synthetic Rubber Co., Ltd.	Yuan	Yuan
North Dynasol (Shanghai) Business Consulting Co., Ltd.	Yuan	Yuan
MegaMex Foods, L.L.C. and Avomex, Inc (joint venture of Herdez del Fuerte, S.A. de C.V.)	US dollar	US dollar

The remaining subsidiaries and joint ventures have as local and functional currency, the Mexican peso.

v. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

w. Employee benefits

Employee benefits from termination and retirement and others

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit plans are accounted for as payments to defined contribution plans where the Entity's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement.

The Entity presents the first two components of defined benefit costs as a general expense in the consolidated statements of income and comprehensive income. Gains and losses for reduction of service are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Entity's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Short-term and other long-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, compensated absences such as annual leave, vacation premium and incentives in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

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

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Entity in respect of services provided by employees up to the reporting date.

Employee profit sharing (PTU)

PTU is recorded in the results of the year in which it is incurred and is presented in operating expenses and cost of sales line item in the consolidated statement of income and comprehensive income.

As result of the 2014 Income Tax Law, as of December 31, 2018, 2017 and 2016, PTU is determined based on taxable income, according to Section I of Article 9 of the that Law.

Contributions from employees or third parties to defined benefit plans

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability (asset).
- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 for the gross benefits.

x. Income taxes

Income tax expense (benefit) represents the sum of the tax currently payable and deferred tax.

1. Current tax

Current income tax (ISR) is recognized in the results of the year in which is incurred.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Entity's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognized for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Entity supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

2. Deferred income tax (benefit)

Deferred tax (benefit) is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. Current and deferred tax

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

y. Provisions

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

The amount recognized as a provision is the best estimate of the consideration required 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 measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

The subsidiary Transmisiones y Equipos Mecánicos, S.A. de C.V. (Tremec) guarantees their products for periods of two to four years against manufacturing defects. A warranty provision is recognized at the time of the sale and it is determined based on the guarantee costs incurred in the prior three years.

z. Statements of cash flows

The Entity reports cash flows from operating activities using the indirect method, by means of which the consolidated net income is adjusted for the effects of transactions other than cash; any deferral or past or future accumulation of cash inflows or outflows and income or expense items associated with cash flows from investment or financing activities are also considered.

Interest expense, interest and dividend received are generally classified as financing and investment activities, respectively.

aa. Foreign currency transactions

Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate in effect at the date of the consolidated statement of financial position. Exchange fluctuations are recorded within the consolidated statement of income and comprehensive income.

bb. Earnings (loss) per share

Basic earnings (loss) per share are calculated by dividing consolidated net income (loss) from the controlling interest by the weighted average number of common shares outstanding during the year.

The Entity does not have any potentially dilutive instruments, therefore diluted earnings (loss) per share is the same as basic earnings per share.

cc. Revenue recognition

Revenues include the fair value of the consideration received or receivable for the sale of goods or services in the regular course of operations, which is when control has been transferred to the customers in exchange for the consideration to which the Entity believes it is entitled in exchange for such goods or services. Revenues are presented net of returns, rebates and discounts.

The Entity recognizes income in its different sectors:

Consumer sector:

Export revenues comprise the fair value of the consideration received or receivable for the sale of goods, which occurs when control has been transferred to customers in exchange for such consideration.

Revenues from sales to the general public are earned directly with the customer at the different points of sale, these revenues are recognized when the good is delivered to the customer, and usually the payment of the transaction price is collected immediately.

Income from the sale of balanced food for hogs is recognized when the control of the goods has been transferred, which happens at the moment in which the goods are delivered to the customer.

Chemical sector:

Revenue from sale of polystyrene glass (GPPS) and high impact polystyrene (HIPS), mainly, as well as transparent styrene copolymers (SMMA) and plastic compounds, which are used in the industries of packaging and disposable products, lighting, school supplies, office equipment and home accessories, including audio and video equipment and refrigerators, is recorded when control has been transferred to the customers in exchange for the consideration for the Entity.

Automotive sector:

- **Transmissions, tooling and prototypes.** Revenue from ordinary activities is recognized over the time measuring the progress to fulfil each performance obligation, applying an exit method to measure the progress of each performance obligation satisfied over the time, based on direct measurements of the value transferred to the customer, mainly by units delivered and contractual milestones. Due to manufacturing cycle of a transmission is estimated in one day, Management concluded that a revenue recognition over the time does not significantly differ from a recognition at a point in time.
- **Costs associated with contracts with clients.** In accordance with IFRS 15 the Entity recognizes certain engineering, design and development activities as compliance costs and are capitalized as intangible assets and subsequently amortized, generally throughout the life of the contract, such and as mentioned in Note 4o, intangible assets.
- **Sale of spare parts.** Revenues comprise the fair value of the consideration collected or receivable for the sale of pistons, bearings, seals, brakes, and other product lines in the normal course of operations, which occurs when it has transferred the control to the clients that derive from the property of the goods, in exchange for the consideration that the Entity considers to have the right.

The types of revenues described above comply with the conditions described in IFRS 15 for the recognition of income and include the following:

- The contract or contracts are identified with the customer.
- The obligations to be performed in the contract are identified.
- The transaction price is determined.
- The transaction price is allocated among the different obligations to be performed in the contract.
- The revenues are recognized when the Entity fulfills each of the obligations involved.

Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Entity and the amount of income can be reliably valued. Interest income is recorded on a periodic basis, with reference to the unpaid balance and the applicable effective interest rate, which is the rate that exactly discounts the estimated cash flows to be received over the expected life of the financial asset and it equals it with the net book value of the financial asset upon initial recognition.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

To apply the accounting policies, the Entity's Management uses its judgment, estimates, and assumptions regarding certain asset and liability amounts in the consolidated financial statements. The associated estimates and assumptions reflect a quantitative and qualitative analysis based on an understanding of the various businesses that compose the Entity. Actual results may differ from such estimates.

The estimates and assumptions are reviewed regularly. Amendments to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

a. Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that Management of the Entity has made in the process of applying the Entity's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

- **Judgements in determining the timing of satisfaction of performance obligation**
In making their judgement, Management of the Entity considered the detailed criteria for the recognition of revenue set out in IFRS 15 and, in particular, whether the Entity had transferred control of the goods to the customer. Following the detailed quantification of the Entity's liability in respect of rectification work, and the agreed limitation on the customer's ability to require further work or to require replacement of the goods, Management is satisfied that control has been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with the recognition of an appropriate warranty provision for the rectification costs.
- **Capitalization of borrowing costs**
As described in Note 4v, the Entity capitalizes borrowing costs directly attributable to the acquisition, construction or production of qualifying assets. Capitalization of the borrowing costs was capitalized at which time the technical and administrative work associated with the project recommenced.
- **Business model assessment**
Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of Note 3). The Entity determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Entity monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Entity's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

- **Significant increase in credit risk**

As explained in Note 8, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Entity takes into account qualitative and quantitative reasonable and supportable forward looking information.

- **Contingent events**

The Entity is subject to contingent events or transactions for which it uses professional judgment in estimating the likelihood of occurrence. The factors considered for these estimates are the current legal situation at the estimate date and the opinion of legal advisors.

b. Key sources of estimation uncertainty

- **Calculation of loss allowance**

When measuring ECL the Entity uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- **Impairment of long-lived assets**

The Entity reviews the useful lives of property, plant and equipment at least once a year. Based on detailed analysis, Entity's Management modifies the useful lives of certain property, plant and equipment components. The degree of uncertainty about the estimated useful lives is related to changes in the market and the usage of assets for production volumes and technological developments.

- **Estimation of inventory obsolescence**

If the inventories are impaired in the Entity's operating process, there are procedures performed such as reviews, verifications and relocations to timely identify materials with such issues, resulting in modifications to their recorded value, as appropriate, through estimates or write-offs based on studies prepared by technical specialists together with Entity's Management. The inventory allowance is assessed with this analysis.

- **Discount rate of employee benefits**

The Entity's defined benefit obligation is discounted at a rate set by reference to yields at the end of the reporting period on governmental bonds. Significant judgment is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the maturity of the bond in comparison with term of the obligation.

- **Provisions**

The Entity periodically assesses its provisions recognized for the segments. Such provisions are based on the assessment of market prices and production costs for each segment. The Entity reviews these allowances monthly. In the automotive segment, the Entity provides a warranty against manufacturing defects for two to four years, depending on the product. A warranty provision is recognized at the time of the sale based on the statistics of costs incurred during the last three years.

- **Valuation techniques**

Some of the Entity's liabilities are measured at fair value in the consolidated financial statements. Financial Department establishes, through policies and procedures, the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Entity uses market-observable data to the extent it is available. The valuation committee works closely with the qualified external appraiser to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Note 16.

6. SEGMENT INFORMATION

Beginning 2017, Management changed the structure in which it evaluates its business and decisions making, from 6 Strategic Business Units to 3 Operating Segments or Sectors. Additionally, general information is presented by products, services and geographic area. This modification was applied retrospectively.

Total assets represent those assets that are used in the operations of each reportable segment. Corporate assets included within KUO and others are: cash, cash equivalents (available investments), recoverable taxes, long-term accounts receivable and certain fixed assets. Intersegment transactions have been eliminated.

Management has identified three Operating Segments integrated by Consumer, Chemical and Automotive.

For grouping these three segments, Entity's Management considered the following assumptions:

- The business activity or particular economic environment from which it obtains revenues, maintains assets or incurs liabilities.
- Given their importance, the attention of senior management of the economic entity is required to evaluate the segment's performance and make decisions regarding the allocation of resources for its operation.
- Additional information to the financial information is available and is based on a managerial approach.
- The inherent risks of the business and returns are different from those of other operating segments.

Information regarding joint ventures (Herdez del Fuerte and Synthetic Rubber) which are in the Consumer and Chemical Segments, represent 50% KUO's participation in these businesses. Eliminations to present joint ventures under the participation method are included in the information below. The consolidated financial information presented below comes from the financial statements of these entities prepared in accordance with IFRS.

CONSOLIDATED FINANCIAL INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2018

	CONSUMER		CHEMICAL		AUTOMOTIVE		KUO AND OTHERS		ELIMINATIONS		TOTAL		ELIMINATION OF JOINT VENTURES		CONSOLIDATED INFORMATION	
Net sales	Ps.	19,359,703	Ps.	15,879,250	Ps.	7,176,790	Ps.	1,491,236	Ps.	(1,339,001)	Ps.	42,567,978	Ps.	(15,285,767)	Ps.	27,282,211
General expenses		3,738,601		1,318,020		888,778		1,055,812		(702,680)		6,298,531		(2,675,790)		3,622,741
Depreciation and amortization		506,483		341,970		298,058		10,350		-		1,156,861		(505,213)		651,648
Net employee benefit cost		12,703		4,088		33,235		19,247		-		69,273		(8,626)		60,647
Equity in the results of joint ventures		-		-		-		-		-		-		1,283,952		1,283,952
Income from operations		2,235,837		1,724,035		353,865		435,424		(546,674)		4,202,487		(563,529)		3,638,958
Interest income		36,729		7,973		13,747		392,739		(395,934)		55,254		(17,176)		38,078
Interest expense		22,963		(84,153)		(62,976)		(828,690)		395,934		(556,922)		90,617		(466,305)
Other expenses financial		(84,113)		(30,868)		(46,605)		(28,104)		-		(189,690)		(34,839)		(224,529)
Exchange (loss) income, net		(16,160)		(52,910)		(51,193)		94,814		-		(25,449)		24,132		(1,317)
Share in the results of associates		456		(7,087)		-		-		-		(6,631)		6,631		-
Income taxes		626,007		462,749		35,189		202,781		-		1,326,726		(511,229)		815,497
Income (loss) from continuing operations		1,568,793		1,108,415		171,649		(136,598)		(546,674)		2,165,585		3,803		2,169,388
Income from discontinued operations		-		-		-		47,385		-		47,385		-		47,385
Net profit		1,568,793		1,108,415		171,649		(89,213)		(546,674)		2,212,970		3,803		2,216,773
Cash and cash equivalents		503,945		1,314,304		81,869		920,950		-		2,821,068		(1,718,091)		1,102,977
Total assets		19,139,466		12,129,325		13,024,137		21,709,684		(21,040,555)		44,962,057		(5,362,230)		39,599,827
Total financial debt		-		1,069,111		383,817		14,152,156		-		15,605,084		(1,069,111)		14,535,973
Total liabilities		9,150,719		5,478,842		6,266,335		17,774,311		(6,543,093)		32,127,114		(5,352,832)		26,774,282
Additions to property, plant and equipment		2,001,378		386,164		1,126,459		23,483		-		3,537,484		(415,323)		3,122,161
Investment in intangibles		6,232		-		2,362,088		12,975		-		2,381,295		-		2,381,295

FOR THE YEAR ENDED DECEMBER 31, 2017

Net sales	Ps.	17,950,206	Ps.	13,959,417	Ps.	7,217,355	Ps.	1,374,062	Ps.	(1,239,680)	Ps.	39,261,360	Ps.	(14,788,087)	Ps.	24,473,273
Other income		(14,503)		(46,399)		(1,383)		(54,345)		-		(116,630)		60,901		(55,729)
Administrative expenses		3,358,390		1,259,880		920,735		1,006,037		(669,780)		5,875,262		(2,475,972)		3,399,290
Impairment of assets		16,450		90,063		-		-		-		106,513		(106,513)		-
Depreciation and amortization		469,663		306,585		264,451		10,046		-		1,050,745		(473,190)		577,555
Net employee benefit cost		13,716		3,926		(5,850)		14,619		-		26,411		(10,895)		15,516
Equity in the results of joint ventures		-		-		-		-		-		991,592		991,592		-
Income from operations		2,034,761		1,491,725		695,054		422,370		(501,978)		4,141,932		(420,729)		3,721,203
Interest income		62,819		3,973		8,398		294,223		(299,136)		70,277		7,572		77,849
Interest expense		(150,184)		(68)		(104,674)		(741,790)		299,136		(697,580)		(337)		(697,917)
Other expenses financial		(78,309)		(97,546)		(35,747)		(336,255)		-		(547,857)		76,114		(471,743)
Exchange (loss) income, net		26,582		(77,621)		(58,660)		(176,469)		-		(286,168)		62,942		(223,226)
Share in the results of associates		230		(6,174)		-		-		1		(5,943)		5,943		-
Income taxes		535,978		314,074		82,685		37,413		-		970,150		(286,022)		684,128
Income (loss) from continuing operations		1,359,461		1,012,563		421,686		(575,334)		(501,979)		1,716,397		5,641		1,722,038
Loss from discontinued operations		-		-		(8,201)		4,255		-		(3,946)		-		(3,946)
Net profit		1,359,461		1,012,563		413,485		(571,079)		(501,979)		1,712,451		5,641		1,718,092
Cash and cash equivalents		444,106		889,619		52,326		536,058		-		1,922,109		(1,200,976)		721,133
Total assets		16,091,877		11,147,777		9,005,757		17,798,357		(16,675,893)		37,367,875		(5,410,428)		31,957,447
Total financial debt		-		1,145,935		-		9,788,936		-		10,934,871		(1,145,934)		9,788,937
Total liabilities		7,283,934		5,533,887		4,769,842		13,541,445		(4,773,444)		26,355,664		(5,397,168)		20,958,496
Additions to property, plant and equipment		1,919,571		389,321		990,094		1,339		-		3,300,324		(304,159)		2,996,165
Investment in intangibles		39,147		17		899,062		-		-		938,226		-		938,226

FOR THE YEAR ENDED DECEMBER 31, 2016

Net sales	Ps.	15,735,330	Ps.	10,648,393	Ps.	7,118,629	Ps.	1,049,731	Ps.	(924,874)	Ps.	33,627,209	Ps.	(12,009,042)	Ps.	21,618,167
General expenses		2,997,441		1,315,603		961,612		1,426,113		(847,125)		5,853,644		(2,357,679)		3,495,965
Impairment of assets		-		(31,353)		-		1,840		-		(29,513)		31,353		1,840
Depreciation and amortization		426,098		309,309		254,294		53,016		-		1,042,717		(460,651)		582,066
Net employee benefit cost		14,690		4,101		23,443		13,779		-		56,013		(10,846)		45,167
Equity in the results of joint ventures		-		-		-		-		-		-		634,985		634,985
Income from operations		1,613,218		932,535		794,763		(376,382)		(23,067)		2,941,067		(498,401)		2,442,666
Interest income		32,755		10,559		6,317		298,202		(284,303)		63,530		29,753		93,283
Interest expense		(156,953)		(597)		(87,088)		(628,843)		284,303		(589,178)		3,639		(585,539)
Other expenses financial		(92,845)		(82,356)		(22,654)		(35,818)		-		(233,673)		88,859		(144,814)
Exchange loss, net		(175,139)		(95,925)		(193,588)		(600,056)		-		(1,064,708)		(27,614)		(1,092,322)
Share in the results of associates		(164)		963		-		-		-		799		(799)		-
Income taxes expenses (benefit)		543,089		162,971		255,911		(735,837)		-		226,134		(413,054)		(186,920)
Income (loss) from continuing operations		678,111		600,282		241,839		(607,060)		(23,067)		890,105		10,089		900,194
Income from discontinued operations		-		-		38,630		141,094		-		179,724		136		179,860
Net profit		678,111		600,282		280,469		(465,966)		(23,067)		1,069,829		10,225		1,080,054
Cash and cash equivalents		325,903		627,530		101,664		3,236,374		-		4,291,471		(838,441)		3,453,030
Total assets		14,683,814		10,232,927		7,163,671		19,656,492		(16,465,484)		35,271,420		(5,623,179)		29,648,241
Total financial debt		-		1,532,897		-		9,533,100		-		11,065,998		(1,995,718)		9,070,280
Total liabilities		8,348,366		5,510,485		3,268,993		14,127,550		(5,746,636)		25,508,758		(5,614,236)		19,894,522
Additions to property, plant and equipment		871,070		227,297		364,557		1,427		-		1,464,351		(268,846)		1,195,505
Investment in intangibles		10		-		45,788		12,772		-		58,570		-		58,570

a. The following table shows net sales generated by the main products of the segments, the percentage of net sales for each product line for the years ended December 31, 2018, 2017 and 2016.

	2018		2017		2016	
	Ps.	%	Ps.	%	Ps.	%
Pork meat	11,597,220	42.5	10,562,826	43.2	9,089,729	42.0
Polystyrene	8,307,129	30.4	6,503,417	26.6	5,231,761	24.2
Transmissions and components	4,131,674	15.1	4,248,859	17.4	4,295,742	19.9
Auto parts	3,083,183	11.3	3,008,426	12.3	2,862,399	13.2
Others	163,005	0.7	149,745	0.5	138,536	0.7
Total	Ps. 27,282,211	100.0	Ps. 24,473,273	100.0	Ps. 21,618,167	100.0

b. The following tables present sales classified by geographic area for the years ended December 31, 2018, 2017, and 2016:

	2018		2017		2016	
	Ps.		Ps.		Ps.	
Mexico	16,040,992		13,982,287		12,167,250	
United States of America and Canada	5,928,600		5,489,456		5,337,227	
Asia	3,226,368		3,117,455		2,428,838	
Europe	1,293,453		1,142,055		946,701	
Rest of the world	792,798		742,020		738,151	
Total	Ps. 27,282,211		Ps. 24,473,273		Ps. 21,618,167	

c. KUO has a diverse customer base in the three segments in which it mainly operates. Consequently, no customer represents more than 5% of the consolidated net sales for the years ended December 31, 2018, 2017, and 2016.

7. CASH AND CASH EQUIVALENTS

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and bank and investment instruments in the money market. Cash and cash equivalents at end of the year as shown in the consolidated statements of cash flows can be reconciled to the related items in the consolidated statements of financial position as follows:

	2018		2017		2016	
	Ps.		Ps.		Ps.	
Cash and cash equivalents	161,092		179,288		218,026	
Investments	941,885		541,845		3,235,004	
Total	Ps. 1,102,977		Ps. 721,133		Ps. 3,453,030	
Investments:						
Banknote paper	701,881		-		-	
Short-term investments	240,004		268,477		2,960,938	
Government bonds	-		273,368		274,066	
Total	Ps. 941,885		Ps. 541,845		Ps. 3,235,004	

8. ACCOUNTS AND NOTES RECEIVABLE

	2018		2017		2016	
	Ps.		Ps.		Ps.	
Trade	2,035,200		1,989,190		1,928,051	
Allowance for discounts	(247,123)		(399,931)		(405,973)	
Allowance for doubtful accounts	(36,193)		(61,545)		(62,778)	
	1,751,884		1,527,714		1,459,300	
Other debtors (i)	187,014		709,171		141,283	
Recoverable taxes	966,723		791,911		467,747	
Total	Ps. 2,905,621		Ps. 3,028,796		Ps. 2,068,330	

Trade receivables

The average credit period on sales of goods is 60 days. The Entity has recognized a loss allowance of 42.86% of all receivables over 120 days past due because historical experience has indicated that these receivables are generally not recoverable. For accounts receivable that are between 60 and 120 days, an allowance is recognized for doubtful accounts based on expected loss determined for experiences of default of the counterparty and an analysis of their current financial position.

Before accepting any new client, the Entity uses an external credit rating system to evaluate the credit quality of the potential client and defines the limit of credit per client. The limits and ratings attributed to clients are reviewed twice a year. 98% of the accounts receivable from customers that are not due or impaired, have the best attributable credit rating according to the external credit rating system used by the Entity.

Accounts receivable from customers include amounts that are due at the end of the reporting period (see the aging analysis below), but for which the Entity has not recognized any estimates for uncollectible accounts because there has been no significant change in credit quality and amounts (which include accrued interest after the accounts are 60 days) are still considered recoverable.

DECEMBER 31, 2018	TRADE RECEIVABLES - DAYS PAST DUE					TOTAL
	<30	31 - 60	61 - 90	91 - 120	>120	
Expected credit loss rate	3.69%	7.10%	10.87%	18.77%	42.86%	
Estimated total gross carrying amount at default	1,927,244	40,861	16,039	24,432	26,624	2,035,200
Lifetime ECL	(15,550)	(2,901)	(1,744)	(4,587)	(11,411)	(36,193)
						1,999,007
JANUARY 1, 2018						
Expected credit loss rate	3.54%	2.70%	4.28%	47.08%	44.70%	
Estimated total gross carrying amount at default	1,805,394	104,308	38,594	6,705	34,189	1,989,190
Lifetime ECL	(22,431)	(2,818)	(1,650)	(3,157)	(15,282)	(45,338)
						1,927,645
DECEMBER 31, 2016						
Expected credit loss rate	-	-	25.21%	77.49%	98.29%	
Estimated total gross carrying amount at default	1,792,686	49,798	17,286	41,790	26,491	1,928,051
Lifetime ECL	-	-	(4,358)	(32,383)	(26,037)	(62,778)
						1,865,273

The following table shows the movement in lifetime ECL that has been recognized for trade and other receivables in accordance with the simplified approach set out in IFRS 9

	TOTAL
Balances at January 1, 2017 under IAS 39	Ps. (61,545)
Adjustment upon application of IFRS 9	16,207
Balances at January 1, 2017	(45,338)
Amounts written off	13,161
Impairment provision	(4,016)
Balances at December 31, 2018	Ps. (36,193)

As mentioned in Note 3, for the determination of the estimation of doubtful accounts, the Entity performs an aging analysis of balances by client and is assigned based on experience an estimation percentage. This first analysis gives an indication of impairment; Subsequently, an analysis of the financial situation of all the clients included is carried out to determine which are the accounts that present an impairment according to the expected credit loss model and on these the corresponding estimate is recorded.

As of December 31, 2018, 2017 and 2016, the Entity sold as non-recourse accounts receivables with an accumulated book value of US154,140, US123,437 and US96,991, to a bank for cash funds of US147,909, US117,538 and US88,509, respectively. As the Entity has transferred the significant risks and benefits related to these accounts receivable, the Entity wrote down the book value of these accounts receivable.

At the end of 2018 and 2017, the carrying amount of short-term accounts receivable, which are current and derecognized, amounts to Ps.453,127 and Ps.468,727, respectively.

- (i) On November 2013, KUO finalized the sale of its equity interest in the black carbon business to Cabot International Capital Corporation, its former partner in such business. The transaction included the sale of 59.95% of the equity interest owned by KUO. The transaction was carried out in two stages, the first of which included the sale of 45.67% of shares for US80 million and the conversion of the remaining capital to redeemable preference shares over a period of 5 years with an annual dividend of 6%. As part of the second stage, on November 15, 2018, KUO received the payment of US25 million for the exchange of the preferred shares, the collection also included the interest earned for the period.

9. INVENTORIES

	2018	2017	2016
Finished goods and work in process	Ps. 2,001,870	Ps. 1,861,184	Ps. 1,505,580
Raw materials, supplies and other	3,130,613	2,275,157	2,049,705
	5,132,483	4,136,341	3,555,285
Allowance for obsolete and slow-moving inventories	(231,287)	(287,483)	(347,325)
Goods in transit	143,968	72,999	40,024
	Ps. 5,045,164	Ps. 3,921,857	Ps. 3,247,984

Change in the allowance for obsolete and slow-moving inventories:

	2018	2017	2016
Balances at the beginning of the year	Ps. (287,483)	Ps. (347,325)	Ps. (253,736)
Increase in the allowance	(61,274)	(73,306)	(114,787)
Application	106,447	133,148	15,802
Decreases	11,023	-	5,396
Balances at the end of the year	Ps. (231,287)	Ps. (287,483)	Ps. (347,325)

The cost of inventories recognized as an expense during the year in respect to continuing operations was Ps.17,096,974, Ps.15,000,550 and Ps.13,547,924 for the years ended December 31, 2018, 2017 and 2016, respectively.

As of December 31, 2016, the Chemical segment recognized a valuation allowance of Ps.105 million, associated with the price of an entity's main raw material (styrene monomer), the allowance was applied in 2017.

10. BIOLOGICAL ASSETS

	2018	2017	2016
Balances at the beginning of the year	Ps. 1,166,531	Ps. 1,244,960	Ps. 1,098,796
Production costs	6,159,811	5,357,570	4,984,172
Transfer to inventories	(5,745,082)	(5,435,999)	(4,838,008)
Balances at the end of the year	Ps. 1,581,260	Ps. 1,166,531	Ps. 1,244,960
Biological assets - short-term	Ps. 1,217,425	Ps. 815,219	Ps. 935,295
Biological assets - long-term	363,835	351,312	309,665
	Ps. 1,581,260	Ps. 1,166,531	Ps. 1,244,960

As of December 31, 2018, 2017 and 2016, the operation of breeding and selling hogs and their derivatives represents 100% of the total biological assets.

Principal risks in the hogs' operation

The operation of raising and selling hogs and their derivatives is exposed to fluctuations in prices and sales volumes, as well as exchange rate fluctuations, the latter of which refers to foreign sales.

With respect to this operation, KUO is subject to the applicable health laws and regulations in both Mexico and the countries where it operates. Accordingly, environmental policies and procedures have been established to ensure compliance with environmental and health regulations. Furthermore, periodic reviews are performed to timely identify and mitigate any environmental risk.

Hurricanes and other adverse weather conditions may result in additional inventory losses and damage to the plants and equipment of the Entity.

11. PROPERTY, PLANT AND EQUIPMENT

a. Reconciliation of beginning and ending balances at December 31, 2018, 2017 and 2016 is as follows:

	BALANCE AS OF DECEMBER 31, 2017			ADDITIONS			DISPOSALS			TRANSFER OF ASSETS CLASSIFIED AS HELD FOR SALE TO PROPERTY, PLANT AND EQUIPMENT			IMPAIRMENT			TRANSFERRED ASSETS			TRANSLATION EFFECT			BALANCE AS OF DECEMBER 31, 2018		
Investment:																								
Land	Ps.	1,083,794	Ps.	23,050	Ps.	-	Ps.	-	Ps.	-	Ps.	83,635	Ps.	(4,244)	Ps.	1,186,235								
Building and installations		3,765,993		25,759		(240)		-		-		2,068,090		(20,257)		5,839,345								
Industrial machinery and equipment		8,526,608		99,965		(87,703)		-		-		1,713,712		(20,845)		10,231,737								
Office furniture and equipment		165,074		7,669		(294)		-		-		6,178		(2,578)		176,049								
Vehicles		194,893		433		(12,692)		-		-		81,416		(8)		264,042								
Other assets		4,234		-		-		-		-		-		-		4,234								
Projects-in-progress		3,465,068		3,198,589		-		-		-		(3,953,031)		(31,216)		2,679,410								
Total investments		17,205,664		3,355,465		(100,929)		-		-		-		(79,148)		20,381,052								
Depreciation:																								
Building and installations		(1,245,784)		(145,793)		26		-		-		-		5,041		(1,386,511)								
Industrial machinery and equipment		(5,672,784)		(445,668)		84,784		-		-		-		40,819		(5,992,849)								
Office furniture and equipment		(116,390)		(9,583)		246		-		-		-		2,611		(123,116)								
Vehicles		(116,540)		(39,920)		7,264		-		-		-		(4)		(149,199)								
Other assets		(1,838)		-		-		-		-		-		-		(1,838)								
Total accumulated depreciation		(7,153,336)		(640,964)		92,320		-		-		-		48,466		(7,653,514)								
Net investment	Ps.	10,052,328	Ps.	2,714,501	Ps.	(8,609)	Ps.	-	Ps.	-	Ps.	-	Ps.	(30,682)	Ps.	12,727,538								

	BALANCE AS OF DECEMBER 31, 2016			ADDITIONS			DISPOSALS			TRANSFER OF ASSETS CLASSIFIED AS HELD FOR SALE TO PROPERTY, PLANT AND EQUIPMENT			IMPAIRMENT			TRANSFERRED ASSETS			TRANSLATION EFFECT			BALANCE AS OF DECEMBER 31, 2018		
Investment:																								
Land	Ps.	1,151,700	Ps.	195	Ps.	(45,738)	Ps.	(10,377)	Ps.	-	Ps.	26,639	Ps.	(38,625)	Ps.	1,083,794								
Building and installations		3,691,952		10,644		(6,955)		(41,233)		-		169,432		(57,847)		3,765,993								
Industrial machinery and equipment		8,746,147		15,020		(234,532)		-		-		343,228		(343,255)		8,526,608								
Office furniture and equipment		162,768		3,097		(526)		-		-		962		(1,227)		165,074								
Vehicles		147,178		929		(4,223)		-		-		51,084		(75)		194,893								
Other assets		4,234		-		-		-		-		-		-		4,234								
Projects-in-progress		1,083,411		2,966,280		-		-		-		(591,345)		6,722		3,465,068								
Total investments		14,987,390		2,996,165		(291,974)		(51,610)		-		-		(434,307)		17,205,664								
Depreciation:																								
Building and installations		(1,160,272)		(130,324)		2,502		31,396		-		-		10,914		(1,245,784)								
Industrial machinery and equipment		(5,748,554)		(394,219)		197,229		5,581		(16,635)		-		283,814		(5,672,784)								
Office furniture and equipment		(109,279)		(8,347)		526		-		-		-		710		(116,390)								
Vehicles		(88,364)		(30,541)		2,347		-		-		-		18		(116,540)								
Other assets		(1,838)		-		-		-		-		-		-		(1,838)								
Total accumulated depreciation		(7,108,307)		(563,431)		202,604		36,977		(16,635)		-		295,456		(7,153,336)								
Net investment	Ps.	7,879,083	Ps.	2,432,734	Ps.	(89,370)	Ps.	(14,633)	Ps.	(16,635)	Ps.	-	Ps.	(138,852)	Ps.	10,052,328								

	JANUARY 1, BEGINNING BALANCE			ADDITIONS			DISPOSALS			TRANSFERRED FROM ASSETS CLASSIFIED AS HELD FOR SALE			IMPAIRMENT			TRANSFERRED ASSETS			TRANSLATION EFFECT			BALANCE AS OF DECEMBER 31, 2016		
Investment:																								
Land	Ps.	994,907	Ps.	598	Ps.	-	Ps.	12,077	Ps.	-	Ps.	-	Ps.	144,118	Ps.	1,151,700								
Building and installations		3,238,265		33,126		(1,900)		-		-		224,174		198,287		3,691,952								
Industrial machinery and equipment		7,525,233		17,479		(333,242)		7,885		12,159		486,170		1,030,463		8,746,147								
Office furniture and equipment		155,864		6,302		(3,959)		-		-		-		4,561		162,768								
Vehicles		128,304		3,265		(5,950)		-		-		21,309		250		147,178								
Other assets		4,234		-		-		-		-		-		-		4,234								
Projects-in-progress		635,137		1,134,735		-		-		-		(731,653)		45,192		1,083,411								
Total investments		12,681,944		1,195,505		(345,051)		19,962		12,159		-		1,422,871		14,987,390								
Depreciation:																								
Building and installations		(971,876)		(116,813)		371		-		-		-		(71,954)		(1,160,272)								
Industrial machinery and equipment		(4,974,096)		(368,360)		300,809		(3,482)		(5,581)		-		(697,844)		(5,748,554)								
Office furniture and equipment		(101,898)		(8,167)		3,753		-		-		-		(2,967)		(109,279)								
Vehicles		(72,180)		(21,370)		5,298		-		-		-		(112)		(88,364)								
Other assets		(1,838)		-		-		-		-		-		-		(1,838)								
Total accumulated depreciation		(6,121,888)		(514,710)		310,231		(3,482)		(5,581)		-		(772,877)		(7,108,307)								
Net investment	Ps.	6,560,056	Ps.	680,795	Ps.	(34,820)	Ps.	16,480	Ps.	6,578	Ps.	-	Ps.	649,994	Ps.	7,879,083								

As of December 31, 2018, 2017 and 2016, the Entity has no idle assets.

The following useful lives used in the calculation of average depreciation are:

Building and constructions	35 years
Leashold improvements	20 to 22 years
Industrial machinery	15 years
Tooling	3 to 5 years
Plant and equipment	10 years
Vehicles	4 years
Laboratory equipment	10 years

12. SUBSIDIARIES

a. **KUO's main subsidiaries** - As of December 31, 2018, 2017 and 2016 are as follow:

	MAIN ACTIVITY	LOCATION	PERCENTAGE
Grupo Porcícola Mexicano, S.A. de C.V.	Pork Meat and fattening	Mexico	100.00%
Comercializadora Porcícola Mexicana, S.A. de C.V.	Sale of pork meat	Mexico	100.00%
Resirene, S.A. de C.V. and Subsidiary	Manufacture of polystyrene	Mexico	100.00%
Transmisiones y Equipos Mecánicos, S.A. de C.V.	Production of manual transmissions	Mexico	99.98%
Dacomsa, S.A. de C.V.	Distributor of automotive parts	Mexico	100.00%

(1) Mainly comprised of the entities of the Consumer segment.

There are no restrictions for subsidiaries related to fund transfers to the Entity such as cash dividends, loan repayments or prepayments.

b. **Group composition** - The following information presents the entities in which KUO participates, including those in which it has a 100% participation and those in which a non-controlling interest exists.

NUMBER OF SUBSIDIARIES WITH A 100% EQUITY INTEREST

SEGMENT	LOCATION	2018	2017	2016
Consumer	Mexico	3	3	4
Chemical	Mexico	2	2	2
Automotive	Mexico and USA	9	9	9
KUO and Other ⁽ⁱ⁾	Mexico	8	8	9

NUMBER OF SUBSIDIARIES WITH STOCK PARTICIPATION OF OTHER SHAREHOLDERS

SEGMENT	LOCATION	2018	2017	2016
Automotive	Mexico and Belgium	1	1	1

(i) In 2017, the Nutricarsa subsidiary was merged with Grupo KUO, S.A.B. de C.V. The sale of discontinued operations from previous years was also completed.

13. INVESTMENTS IN JOINT VENTURES

	2018	2017	2016
Investments in joint ventures	Ps. 11,224,716	Ps. 10,381,475	Ps. 8,181,454
Other investments	1,361	1,361	1,343
	Ps. 11,226,077	Ps. 10,382,836	Ps. 8,182,797

Joint ventures

a. At December 31, 2018, 2017 and 2016, the balance of investments in joint ventures is as follows:

	2018	2017	2016
	% INTEREST	% INTEREST	% INTEREST
	TOTAL	TOTAL	TOTAL
Herdez del Fuerte, S.A. de C.V.	50.00%	50.00%	50.00%
	Ps. 5,764,277	Ps. 5,428,321	Ps. 3,748,238
Synthetic Rubber ⁽ⁱ⁾	50.00%	50.00%	50.00%
	5,460,439	4,953,154	4,433,216
	Ps. 11,224,716	Ps. 10,381,475	Ps. 8,181,454

(i) Integrated by Dynasol Gestion México, S.A.P.I. de C.V. and subsidiaries and Dynasol Gestión, S.L. and subsidiaries.

b. Movements in the joint ventures balance is as follows:

	2018	2017	2016
Balance at January 1	Ps. 10,381,475	Ps. 8,181,454	Ps. 6,974,802
Equity increase ⁽ⁱ⁾	-	1,238,151	19,858
Decrease in purchase of joint venture	-	-	(364)
Participation in the results of the period	1,283,952	991,592	634,985
Dividend distribution	(321,662)	(162,373)	(186,323)
Participation in other comprehensive income items	(119,049)	132,651	738,496
Balance at December 31	Ps. 11,224,716	Ps. 10,381,475	Ps. 8,181,454

c. The equity in the results of the period of such joint ventures is as follows:

EQUITY IN THE RESULTS	2018	2017	2016
Herdez del Fuerte, S.A. de C.V. and Subsidiaries	Ps. 674,118	Ps. 575,638	Ps. 262,675
Synthetic Rubber	609,834	415,954	372,447
Others	-	-	(137)
Total	Ps. 1,283,952	Ps. 991,592	Ps. 634,985

(i) At the Ordinary and Extraordinary Annual General Shareholders' Meeting held on June 16, 2017, an increase of capital was approved for Herdez del Fuerte, S.A. de C. V. for Ps.2,476,151; KUO contributed Ps.1,238,151. It was agreed to issue four thousand registered shares.

d. A summary of the financial information regarding each joint ventures is detailed below.

HERDEZ DEL FUERTE, S.A. DE C.V. AND SUBSIDIARIES	2018		2017		2016	
Current assets	Ps.	6,130,996	Ps.	5,533,456	Ps.	4,463,320
Non-current assets		10,154,352		9,948,076		9,868,208
Current liabilities		3,707,694		3,564,196		3,062,044
Non-current liabilities		238,653		242,523		2,963,470
Net assets		12,339,001		11,674,813		8,306,014
Non-controlling interest		(18,796)		(26,520)		(17,888)
Controlling interest net assets	Ps.	12,320,205	Ps.	11,648,293	Ps.	8,288,126
Cash and cash equivalents	Ps.	374,004	Ps.	483,018	Ps.	319,638
Revenue	Ps.	9,229,296	Ps.	8,957,580	Ps.	8,105,636
Income from operations		1,746,988		1,636,282		1,267,978
Net income		1,340,630		1,139,994		504,895
Net loss of non-controlling interest		(7,606)		(11,282)		(20,455)
Net income of controlling interest		1,348,236		1,151,276		525,350
The income of the period includes:						
Depreciation and amortization		231,698		227,280		96,646
Net period cost		7,936		10,628		10,131
Interest income		(32,716)		(20,028)		(7,790)
Interest expense		9,810		35,025		78,771
Income tax expense		431,460		452,758		650,810

The reconciliation of financial information above to the carrying amount of the investment in the joint venture recognized in the consolidated financial statements is as follows::

	2018		2017		2016	
Net assets of the joint venture	Ps.	12,320,205	Ps.	11,648,293	Ps.	8,288,126
Participation		50%		50%		50%
Proportion of the Entity's interest in the joint venture		6,160,102		5,824,146		4,144,063
Goodwill		(395,825)		(395,825)		(395,825)
Carrying amount of the interest in the joint venture	Ps.	5,764,277	Ps.	5,428,321	Ps.	3,748,238
Net income of controlling interest	Ps.	1,348,236	Ps.	1,151,276	Ps.	525,350
Participation		50%		50%		50%
Profit for the period	Ps.	674,118	Ps.	575,638	Ps.	262,675

During 2016 Herdez del Fuerte recognized a deferred tax liability of Ps.262 million, which was recognized with a charge to results of the year, to derecognize the tax value of certain brands with which it operates, position that had sustained since financial year 2006.

SYNTHETIC RUBBER	2018		2017		2016	
Current assets	Ps.	8,738,716	Ps.	7,962,086	Ps.	7,089,610
Non-current assets		5,879,684		6,027,366		6,369,552
Current liabilities		3,230,860		3,701,490		4,148,346
Non-current liabilities		466,658		381,654		414,060
Net assets	Ps.	10,920,882	Ps.	9,906,308	Ps.	8,896,756
Net assets controlling interest	Ps.	10,920,882	Ps.	9,906,308	Ps.	8,896,756
Cash and cash equivalents	Ps.	2,365,876	Ps.	1,739,630	Ps.	1,149,384
Revenue	Ps.	14,452,708	Ps.	13,631,358	Ps.	10,020,772
Income from operations		1,863,960		1,489,138		1,210,490
Net income		1,219,668		831,910		744,894
Net income of not controlling interest		-		-		4
Net income of controlling interest		1,219,668		831,910		744,894
Income of the period includes:						
Depreciation and amortization		220,619		195,087		83,656
Net period cost		-		-		329
Interest expenses		(2,074)		(7,664)		(5,590)
Income tax expense		445,126		175,922		91,524

The reconciliation of financial information above to the carrying amount of the investment in the joint venture recognized in the consolidated financial statements is as follows:

	2018		2017		2016	
Net assets of the joint venture	Ps.	10,920,882	Ps.	9,906,308	Ps.	8,896,756
Participation		50%		50%		50%
Proportion of the Entity's interest in the joint venture		5,460,439		4,953,154		4,448,378
Goodwill		-		-		(15,162)
Carrying amount of the interest in the joint venture	Ps.	5,460,439	Ps.	4,953,154	Ps.	4,433,216
Net income of controlling interest	Ps.	1,219,668	Ps.	831,908	Ps.	744,894
Participation		50%		50%		50%
Profit for the period	Ps.	609,834	Ps.	415,954	Ps.	372,447

In December 2016, General Química, S.A. reversed the provision for impairment recognized in property, plant and equipment for the amount of Ps.236 million, due to the recovery of its book value through the projections of estimated future cash flows and past results.

14. INTANGIBLES AND OTHER ASSETS

	2018		2017		2016	
Intangible assets (a)	Ps.	3,842,351	Ps.	1,303,378	Ps.	327,654
Other assets (b)		232,182		217,037		223,660
	Ps.	4,074,533	Ps.	1,520,415	Ps.	551,314

a. Intangible assets

	BALANCES AT DECEMBER 31, 2017		ADDITIONS		TRANSLATION EFFECT		DISPOSALS		BALANCES AT DECEMBER 31, 2018	
Investment:										
Projects and capitalized development	Ps.	1,251,495	Ps.	2,285,653	Ps.	53,605	Ps.	-	Ps.	3,590,753
Capitalized costs associated with contracts with clients		-		181,675		4,261		-		185,936
Patents and trademarks		222,362		-		-		-		222,362
Licenses		155,278		23,903		-		-		179,181
Total		1,629,135		2,491,231		58,426		-		4,178,792
Accumulated amortization:										
Projects and capitalized development		(199,787)		(5,960)		-		-		(205,747)
Patents and trademarks		(84,982)		-		-		-		(84,982)
Licenses		(40,988)		(4,724)		-		-		(45,712)
Total		(325,757)		(10,684)		-		-		(336,441)
	Ps.	1,303,378	Ps.	2,480,547	Ps.	58,426	Ps.	-	Ps.	3,842,351

	BALANCES AT DECEMBER 31, 2016		ADDITIONS		TRANSLATION EFFECT		DISPOSALS		BALANCES AT DECEMBER 31, 2017	
Investment:										
Projects and capitalized development	Ps.	264,274	Ps.	932,024	Ps.	55,197	Ps.	-	Ps.	1,251,495
Patents and trademarks		222,362		-		-		-		222,362
Licenses		152,650		6,202		-		(3,574)		155,278
Total		639,286		938,226		55,197		(3,574)		1,629,135
Accumulated amortization:										
Projects and capitalized development		(191,599)		(8,188)		-		-		(199,787)
Patents and trademarks		(82,122)		(2,860)		-		-		(84,982)
Licenses		(37,911)		(3,077)		-		-		(40,988)
Total		(311,632)		(14,125)		-		-		(325,757)
	Ps.	327,654	Ps.	924,101	Ps.	55,197	Ps.	(3,574)	Ps.	1,303,378

	BALANCES AT DECEMBER 31, 2015		ADDITIONS		TRANSLATION EFFECT		DISPOSALS		BALANCES AT DECEMBER 31, 2016	
Investment:										
Projects and capitalized development	Ps.	205,704	Ps.	58,570	Ps.	-	Ps.	-	Ps.	264,274
Patents and trademarks		222,362		-		-		-		222,362
Licenses		152,650		-		-		-		152,650
Total		580,716		58,570		-		-		639,286
Accumulated amortization:										
Projects and capitalized development		(140,311)		(51,288)		-		-		(191,599)
Patents and trademarks		(67,997)		(14,125)		-		-		(82,122)
Licenses		(35,760)		(2,151)		-		-		(37,911)
Total		(244,068)		(67,564)		-		-		(311,632)
	Ps.	336,648	Ps.	(8,994)	Ps.	-	Ps.	-	Ps.	327,654

The useful lives of intangible assets are as follows:

Projects and capitalized development	5 - 20 years
Capitalized costs associated with contracts with clients	Based on the maturity of the contracts
Licenses	15 years
Patents and trademarks	20 years

In the Automotive segment investments are being made for the development of new generation high-tech dual-clutch DCT transmissions ("DCT - Dual Clutch Transmission"). During 2018, 2017 and 2016, investments were made for Ps.2,362 million, Ps. 899 million and Ps.456 million.

b. Other assets

	2018		2017		2016	
Guarantee deposits	Ps.	152,660	Ps.	136,950	Ps.	142,153
Artworks		76,883		76,883		76,883
Goodwill		1,970		2,474		3,111
Others		669		730		1,513
	Ps.	232,182	Ps.	217,037	Ps.	223,660

15. FINANCIAL INSTRUMENTS

a. Classes and categories of financial instruments and their fair values

Fair value hierarchy levels 1 to 3 are based on the degree to which the fair value is observable:

- **Level 1** fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2** fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- **Level 3** fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

b. Financial risk management objectives

KUO's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Entity through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk.

KUO seeks to minimize the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Entity's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

c. Market risk

The Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- Forward foreign exchange contracts to hedge the exchange rate risk arising on the import of corn;

There has been no change to the Entity's exposure to market risks or the manner in which these risks are managed and measured.

Foreign currency risk management

The Entity undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	ASSETS			LIABILITIES		
	2018	2017	2016	2018	2017	2016
US dollars	28,031	45,790	225,052	590,492	489,856	350,385

- (i) **Foreign currency sensitivity analysis** - The Entity is mainly exposed to the currency of US dollars. The Entity performs periodic sensitivity analysis to an increase and decrease of 10% in pesos against the relevant foreign currencies. The 10% is the sensitivity rate used when foreign exchange risk is reported internally to key management personnel and represents Management's assessment of the reasonably possible change in exchange rates.

The sensitivity analysis includes only outstanding monetary items denominated in foreign currency and adjusts their translation at the end of the period for a 10% change in exchange rates. The sensitivity analysis mainly includes loans in foreign currency. A positive number (as shown in the table below) indicates an increase in the results where the peso is strengthened by 10% against the relevant currency. If a weakening of 10% by the peso with respect to the reference currency is presented, then it will have a comparable impact on the results and the following balances would be negative.

	2018	2017	2016
Results	Ps. 1,107,086	Ps. 878,660	Ps. 259,833 ⁽ⁱ⁾

- (i) Mainly attributable to the exposure of accounts receivable and payable balances, including debt, held by the Entity at the end of the reporting period.

(ii) Interest rate risk management

KUO is mainly exposed to interest rate risks because it has entered into debt at variable rates. Hedging activities are regularly monitored so that they align with interest rates and their related risk, ensuring the implementation of the most profitable hedging strategies.

The Entity's exposures to interest-rate risk are mainly related to changes in the TIIE and London InterBank Offered Rate (LIBOR) rate with respect to KUO's financial liabilities. The Entity prepares sensitivity analyses based on its exposure to interest rates on its variable-rate debt with financial institutions that is not hedged. The analyses are prepared assuming that the ending period balance as at year end was the outstanding balance during the entire year. The Entity internally reports to the Board of Directors about its interest rate risks.

When reporting internally to key executive personnel on the interest rate risk, an increase or decrease of 50 basis points is used, which represents Management's evaluation of the possible reasonable change in interest rates. If the interest rates were 50 basis points above/below and all the other variables remained constant:

The result for the year ended December 31, 2018 would decrease/increase by Ps.26,984 (2017: decrease/increase by Ps.4,979) (2016: decrease/increase by Ps.7,005). This is mainly due to the Entity's exposure to interest rates on its variable rate loans in Mexican pesos.

The Entity's sensitivity to interest rates has increased during this year mainly due to the hiring in the variable rate of debt instruments.

d. Credit risk management

Note 8 details the Entity's maximum exposure to credit risk and the measurement bases used to determine ECL.

In order to minimize credit risk, the Entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Have low credit risk for the purpose of impairment assessment. The credit rating information is supplied by independent rating agencies where available and, if not available, the Entity uses other publicly available financial information and its own trading records to rate its major customers. The Entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Before accepting any new customer, a dedicated team responsible for the determination of credit limits uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed and approved twice a year by the risk management committee. 80% of the trade receivables have the best credit scoring attributable under the external credit scoring system used by the Entity.

Credit approvals and other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts. Furthermore, the Entity reviews the recoverable amount of each trade debt and debt investment on an individual basis at the end of the reporting period to ensure that adequate loss allowance is made for irrecoverable amounts. In this regard, the directors of the Company consider that the Entity's credit risk is significantly reduced. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

(i) Overview of the Entity's exposure to credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Entity. As at December 31, 2018 KUO's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements, which will cause a financial loss to KUO due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Entity arises from:

- The carrying amount of the respective recognized financial assets as stated in the consolidated statement of financial position; and
- The maximum amount the entity would have to pay if the financial guarantee is called upon, irrespective of the likelihood of the guarantee being exercised.

The Entity's exposure and the credit ratings of its counterparties are continuously monitored and the accumulated value of the completed transactions is distributed among the approved counterparties. The credit exposure is controlled by the counterparty limits that are reviewed and approved by the KUO's Credit Committee.

Accounts receivable from customers are composed of a large number of clients distributed through different industries and geographic areas. Before granting credit to any client, a financial evaluation is performed and credit references are requested; finally, the continuous evaluation of the credit is made on the financial condition of the accounts receivable, when appropriate. KUO considers that its potential credit risk is adequately covered by its allowance for doubtful accounts, which represents its estimate of expected credit losses due to impairment with respect to accounts receivable (see Note 8).

KUO does not have significant credit risk exposures with any of the parties or any group of counterparties with similar characteristics. The concentration of credit risk with some other party did not exceed 5% of the gross monetary assets at any time during the years 2018, 2017 and 2016.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by recognized rating agencies.

The Entity's current credit risk grading framework comprises the following categories:

CATEGORY	DESCRIPTION	BASIS FOR RECOGNISING EXPECTED CREDIT LOSSES
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL - not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Entity has no realistic prospect of recovery	Amount is written off

The tables below detail the credit quality of the Entity's financial assets, contract assets and financial guarantee contracts, as well as the Entity's maximum exposure to credit risk by credit risk rating grades:

DECEMBER 31, 2018	INTERNAL CREDIT RATING	12-MONTH OR LIFETIME ECL	GROSS CARRYING AMOUNT ⁽ⁱ⁾	LOSS ALLOWANCE	NET CARRYING AMOUNT ⁽ⁱ⁾
Accounts receivable	Performing	12-month	2,035,200	(36,193)	1,999,007
Other debtors	Performing	12-month	187,014	-	187,014
Accounts receivable from related parties	Performing	12-month	149,814	-	149,814
Other accounts receivable non-current	Performing	12-month	26,804	-	26,804
Accounts receivable from related parties non-current	Performing	12-month	122,234	-	122,234
DECEMBER 31, 2017	INTERNAL CREDIT RATING	12-MONTH OR LIFETIME ECL	GROSS CARRYING AMOUNT ⁽ⁱ⁾	LOSS ALLOWANCE	NET CARRYING AMOUNT ⁽ⁱ⁾
Accounts receivable	Performing	12-month	1,989,190	(61,545)	1,927,645
Other debtors	Performing	12-month	709,171	-	709,171
Accounts receivable from related parties	Performing	12-month	140,431	-	140,431
Other accounts receivable non-current	Performing	12-month	32,896	-	32,896
Accounts receivable from related parties non-current	Performing	12-month	119,371	-	119,371
DECEMBER 31, 2016	INTERNAL CREDIT RATING	12-MONTH OR LIFETIME ECL	GROSS CARRYING AMOUNT ⁽ⁱ⁾	LOSS ALLOWANCE	NET CARRYING AMOUNT ⁽ⁱ⁾
Accounts receivable	Performing	12-month	1,928,051	(62,778)	1,865,273
Other debtors	Performing	12-month	141,283	-	141,283
Accounts receivable from related parties	Performing	12-month	121,390	-	121,390
Other accounts receivable non-current	Performing	12-month	533,345	-	533,345
Accounts receivable from related parties non-current	Performing	12-month	1,370,064	-	1,370,064

(i) For trade receivables, the Entity has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Entity determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix.

e. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with Management of the Entity, which has established appropriate policies for the control of such risk through the monitoring of working capital, allowing management of the Entity's short-, medium-, and long-term funding requirements. The Entity maintains cash reserves and available credit lines, continuously monitoring projected and actual cash flows, reconciling the profiles of maturity of financial assets and financial liabilities.

Liquidity and interest risk tables

The following table details the remaining contractual maturities of the Entity's financial liabilities, based on contractual repayment periods. The table has been designed based on un-discounted projected cash flows of financial liabilities based on the date on which the Entity makes payments. The table includes both projected cash flows related to interest and capital on financial debt in the consolidated statements of financial position. Where the contractual interest payments are based on variable rates, the amounts are derived from interest rate curves at the end of the period.

The contractual maturity is based on earliest date in which the Entity is required to make payments.

AT DECEMBER 31, 2018	SIX MONTHS	ONE YEAR	1 AND 3 YEARS	MORE THAN 3 YEARS	TOTAL
Bank loans including the current portion of long-term debt	Ps. 221,881	Ps. 582,297	Ps. 5,795,584	Ps. 14,232,664	Ps. 20,832,426
Notes and accounts payable to suppliers	6,339,516	-	-	-	6,339,516
Other payables and accrued liabilities	1,940,574	-	-	-	1,940,574
Accounts payable to related parties	25,469	-	-	-	25,469
Total	Ps. 8,527,440	Ps. 582,297	Ps. 5,795,584	Ps. 14,232,664	Ps. 29,137,985

AT DECEMBER 31, 2017	SIX MONTHS	ONE YEAR	1 AND 3 YEARS	MORE THAN 3 YEARS	TOTAL
Bank loans including the current portion of long-term debt	Ps. -	Ps. 604,130	Ps. 1,927,393	Ps. 13,390,763	Ps. 15,922,286
Notes and accounts payable to suppliers	5,087,401	-	-	-	5,087,401
Other payables and accrued liabilities	1,914,766	-	-	-	1,914,766
Accounts payable to related parties	13,709	-	-	-	13,709
Total	Ps. 7,015,876	Ps. 604,130	Ps. 1,927,393	Ps. 13,390,763	Ps. 22,938,162

AT DECEMBER 31, 2016	SIX MONTHS	ONE YEAR	1 AND 3 YEARS	MORE THAN 3 YEARS	TOTAL
Bank loans including the current portion of long-term debt	Ps. 69,892	Ps. 584,053	Ps. 3,640,290	Ps. 7,910,863	Ps. 12,205,098
Notes and accounts payable to suppliers	4,352,797	-	-	-	4,352,797
Other payables and accrued liabilities	1,012,088	-	-	-	1,012,088
Accounts payable to related parties	999,392	-	-	-	999,392
Total	Ps. 6,434,169	Ps. 584,053	Ps. 3,640,290	Ps. 7,910,863	Ps. 18,569,375

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

This note provides information about how the Entity determines the fair values of the various financial assets and liabilities.

The Entity's cash and cash equivalents, as well as accounts receivable and payable from and to third parties and related parties, and the current portion of bank loans and long-term debt approximate their fair value, because of their short-term maturities. The Entity's long-term debt is recorded at its amortized cost and consists of debt which generates interest at fixed and variable rates related to market indicators.

The carrying amounts of financial instruments by category and their related fair values at December 31 are as follows:

	2018		2017		2016	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial liabilities at amortized cost (level 2)						
Bank loans and current portion of long-term debt ⁽¹⁾	Ps. (14,535,973)	Ps. (14,255,618)	Ps. (9,788,937)	Ps. (10,475,624)	Ps. (9,070,280)	Ps. (9,114,514)
Derivatives designated as hedging instruments (level 2)						
Forwards ⁽²⁾	3,922	3,922	5,467	5,467	-	-
Total	Ps. (14,532,051)	Ps. (14,251,696)	Ps. (9,783,470)	Ps. (10,470,157)	Ps. (9,070,280)	Ps. (9,114,514)

(1) The fair value of debt issued on the stock market was obtained based on the financial indicators provided by Accival Casa de Bolsa Banamex and Thomson Reuters, which indicate the amount for which both the CEBURES and the bond issued by KUO can be exchanged. This fair value represents the amount for which these instruments would be exchanged on their respective maturity dates.

(2) Discounted cash flows. The future cash flows are estimated on the basis of the rates of forward exchange rates (starting from observable forward exchange rates at the end of the reporting period) and rates of forward contract, discounted at a rate that reflects credit risk of various counterparties.

During the periods there were no transfers between Level 1 and 2.

17. DERIVATIVE FINANCIAL INSTRUMENTS

The objective of the Entity in executing contracts with derivative financial instruments is to partially hedge the financial risk from exposures in the exchange rates and corn prices. The decision to enter into an economic or financial hedge reflects market conditions and the related expectation at a given date, as well as the domestic and international economic context of the economic indicators which influence the Entity's operations.

Outstanding transactions at year end, performed with foreign currency and/or interest rates forwards are below:

INSTRUMENT 2018	NOTIONAL AMOUNT	UNIT	MATURITY	ASSETS (LIABILITY)
Option	2,095,000	Corn	February 2019	Ps. 4,527
Forward	5,000,000	US dollar	January 2019	(605)
			Total	Ps. 3,922

INSTRUMENT 2017	NOTIONAL AMOUNT	UNIT	MATURITY	ASSETS
Forward	5,000,000	US dollar	July 2018	Ps. 5,467

As of December 31, 2018, 2017 and 2016, the effect in other comprehensive income (loss) is Ps.(4,250), Ps.3,827, and Ps.729 net of deferred tax, respectively.

18. BANK LOANS

	2018	2017	2016
I) Senior Notes 2027	Ps. 8,755,445	Ps. 8,793,214	Ps. -
II) Bancomext simple credit	995,533	995,723	-
III) Club Deal committed line	1,771,461	-	-
IV) BBVA Bancomer simple credit	1,489,230	-	-
V) Scotiabank committed line	590,487	-	-
VI) Sumitomo committed line	550,000	-	-
VII) Bank of America committed line	383,817	-	-
VIII) Senior Notes 2022	-	-	6,675,659
IX) Loan with Bank of America	-	-	993,720
X) Bilateral Credit with (Bancomext)	-	-	692,075
XI) KUO 12 Senior Notes	-	-	708,826
	14,535,973	9,788,937	9,070,280
Less - Bank loans and current portion of long-term debt	(171,275)	-	(69,892)
Long-term debt	Ps. 14,364,698	Ps. 9,788,937	Ps. 9,000,388

a. Summary of loan agreements:

- I) **Senior Notes 2027** - Bonds for US450 million, accruing interest at a fixed rate of 5.75%, issued in international markets in July 2017, and maturing in July 2027. Accrues interest every 180 days in the months of January and July (certain subsidiaries are pledged as collateral).
- II) **Simple credit** - Credit with Bancomext for Ps.1,000 million granted in July 2017. This loan pays interest quarterly at a rate of 91-day TIIE + 1.80%, with 10 year increasing amortizations, beginning in 2019. The resources of this credit were used to prepay the loan with Bank of America.
- III) **Club Deal committed line** - Credit signed on October 21, 2016 and restructured in February 2018, in which Bank of America, Coöperatieve Rabobank, U.A. New York Branch and HSBC México, S.A. act as lenders of the credit line for up to US180 million. This credit pays interest a rate LIBOR + 1.45, with a 3 years maturity.
- IV) **Simple credit** - Credit with BBVA Bancomer for Ps.1,500 million granted in June 2018. This loan pays interest at a rate of 28-day TIIE + 1.60%, with 7 year increasing amortizations, beginning in 2019. The resources of this credit were used to cover investment in new projects.
- V) **Scotiabank Committed line** - Credit with The Bank of Nova Scotia in June 2018 for US30 million. This loan pays interest at a LIBOR rate + 1.45%, with a 3 years maturity. The resources of this credit were used to cover working capital requirements and investment in new projects.
- VI) **Sumitomo Committed Line** - Credit signed in April 2018 with SMBC, S.A.P.I. de C.V., SOFOM, E.N.R., for Ps.700 million. This loan pays interest to 28 days TIIE + 2.20%, with a maturity of 5 years. Resources are used to cover working capital requirements and investment in new projects.
- VII) **Bank of America committed line** - Credit obtained in March 2018 with Bank of America, N.A., for US40 million. This loan pays interest at LIBOR + 1.60%, maturing at 5 years, with 1 year of disposal and 4 years of linear amortization beginning in 2019. The subsidiary TREMEC Corporation is the accredited one and KUO and some subsidiaries serve as guarantors. The resources of this credit are used to cover the accredited's cash flows requirements.

VIII) **Senior Notes 2022** - Bonds for US325 million, at a fixed rate of 6.25% issued in international markets in December 2012, with expiration date in December 2022. Paid interest every 180 days in the months of December and June, (certain subsidiaries were guarantors). These Notes were prepaid during 2017 with the resources obtained through the placement of Senior Notes 2027.

IX) **Loan with Bank of America, N.A.** - Credit for Ps.1,000 million granted in July 2016 whose resources were used to refinance the issuance of the KUO 10 Securities Certificate for Ps.700 million and cover working capital requirements at a fixed rate of 6.85% with a maturity of 5 years. This loan was prepaid by formalizing a new loan with Bancomext for the same amount during the third quarter of 2018.

X) **Bilateral credit** - Credit with Bancomext for Ps.699 million granted in January 2012 and restructured in 2016. This loan paid quarterly interest at TIIE 91 days + 1.175%, with 7-year amortizations. The average interest rate was 5.62%. This loan was prepaid with the resources obtained through the issuance of the Senior Notes 2027.

XI) **KUO 12 Senior Notes** - Issuance for Ps.700 million senior notes accruing interest at the 28-day TIIE plus 2.20% issued in June, 2012 with a maturity of 7 years under the protection of the program of Ps.2,000 million. The average interest rate was 6.58%. This loan was prepaid with the resources obtained through the issuance of the Senior Notes 2027.

Long-term debt maturities as of December 31, 2018 are as follows:

2020	Ps. 259,892
2021	2,636,772
2022	364,178
2023	886,890
2024	471,779
2025	424,776
2026	266,305
2027	9,054,105
	Ps. 14,364,698

The current portion of long-term debt and short-term bank loans are as follows:

	2018	2017	2016
Current portion of long-term debt	Ps. 171,275	Ps. -	Ps. 69,892

Bank loans measured at amortized cost are net of unamortized issuance costs which as of December 31, 2018, 2017 and 2016, amount Ps.110,745, Ps.119,022, and Ps.109,951, respectively.

Sundry expenses related to cancelation of loans in 2017 settled through prepayments amount to Ps.304,064, derived from the analysis of extinguishment or modification of financial liabilities.

The loan contracts establish affirmative and negative covenants for the borrowers; also, they require the maintenance of certain minimum financial ratios and percentages based on the Entity's consolidated financial statements. All of these requirements have been satisfactorily fulfilled at the date of the consolidated financial statements.

b. Reconciliation of liabilities arising from financing activities

The table below details changes in the Entity's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Entity's consolidated statements of cash flows as cash flows from financing activities

	DECEMBER 31, 2017		FINANCING CASH FLOWS NET ⁽¹⁾		OTHER CHANGES ⁽²⁾		DECEMBER 31, 2018	
Bank loans	Ps.	9,788,937	Ps.	4,696,272	Ps.	50,764	Ps.	14,535,973

	DECEMBER 31, 2016		FINANCING CASH FLOWS NET ⁽¹⁾		OTHER CHANGES ⁽²⁾		DECEMBER 31, 2017	
Bank loans	Ps.	9,070,280	Ps.	542,580	Ps.	176,077	Ps.	9,788,937

	BEGINNING OF 2016		FINANCING CASH FLOWS NET ⁽¹⁾		OTHER CHANGES ⁽²⁾		DECEMBER 31, 2016	
Bank loans	Ps.	7,921,166	Ps.	(17,473)	Ps.	1,166,587	Ps.	9,070,280

- i) The cash flows from bank loans are the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statements of cash flows.
- ii) Other changes include exchange fluctuations and expenses associated with the issue of the Bonds recognized at amortized cost.

19. OTHER ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018		2017		2016	
Provisions (i)	Ps.	730,722	Ps.	770,955	Ps.	968,781
Tax liabilities		394,108		598,665		639,891
Others creditors		1,641,315		1,626,520		929,833
Current portion of tax consolidation deferred taxes		274,534		107,859		75,140
Interest payable		288,306		277,817		72,002
PTU payable		31,375		44,212		47,367
Dividends payable		10,953		10,429		10,253
Direct employee benefits		339,877		341,357		218,979
	Ps.	3,711,190	Ps.	3,777,814	Ps.	2,962,246
Provisions (i)						
Beginning balance January 1	Ps.	770,955	Ps.	968,781	Ps.	715,885
Increase		88,561		148,989		793,437
Applications		(108,370)		(241,479)		(495,794)
Cancellation		(20,424)		(105,336)		(44,747)
Final balance at December 31	Ps.	730,722	Ps.	770,955	Ps.	968,781

The provisions recorded as of December 31, 2018, 2017 and 2016 include the reserve for products' warranty.

The Entity in the Automotive segment provides warranties against defects in manufacturing of its products for periods of two to four years, depending on the product. A provision for warranties at the time of sale is recognized, based on statistics of the warrantee costs incurred in the last three years.

20. EMPLOYEE BENEFITS

	2018		2017		2016	
a. Defined contribution plans for retirement benefits	Ps.	54,300	Ps.	45,100	Ps.	34,283
b. Defined benefit plans		545,589		577,732		615,469
Total	Ps.	599,889	Ps.	622,832	Ps.	649,752

a. Defined contribution plans for retirement benefits

KUO as part of their benefits, grants its employees a defined contribution retirement benefit plan, which provides additional benefits to those provided by the Mexican Social Security Institute (IMSS, for its acronym in Spanish) or the Administrator of Retirement Funds (AFORE), if appropriate. The main features are summarized below:

Participants requirements - Be a non-union employee in the plant and sign the consent letter to join the plan. Employees may not be participants of the plan, if when they reach the retirement age, they do not have at least 10 years of service in the Entity.

Contributions - The global fund will be constituted with the Entity and participants' contributions.

Each participant will have the option to perform the following contributions:

- Basic contribution: the participant may contribute from 0.50% to 6.00% of their monthly salary, the Entity will contribute a percentage equal to that contributed by the participant up to .50% if the employee has up to 4.9 years of service, 1% if he has between 5 and 9.9 years and 1.5% if the participant has more than 10 years of service.
- Complementary contribution: those participants whose monthly salary exceeds the IMSS maximum salary current quote, may contribute over the monthly salary which exceeds the IMSS maximum salary current quote from 0.50% to 6.00% of the salary. The Entity will contribute a percentage equal to that contributed by the participant over the monthly salary that exceeds the IMSS maximum salary for current quote with up to 4% if he has 4.9 years of service or less, 5% if he has between 5 to 9.9 years of service and from 10 years and older it will contribute up to 6%.

Total retirement benefits - Participants who reach normal retirement date (age 65 and have a minimum of 10 years of service) or the anticipated date of retirement (55 years old and have a minimum of 20 years of service) are entitled to the total retirement benefits described in the plan. The balance of the individual fund will be considered as a benefit of the plan, which will be received in a single exhibition.

Voluntary resignation - The participant who submits his voluntary resignation to the Entity with less than 5 years of service in the Entity, shall be entitled to withdraw only the part of individual fund subaccount corresponding to the participant.

The participant who submits his voluntary resignation to the Entity with 5 years or more of service, shall be entitled to withdraw the portion of their individual background corresponding to the participant's sub-account plus a percentage of the Entity's subaccount, which can range from 15% to 100% depending on age and years of service of the participant at the time of the separation.

The amount included in the consolidated statements of financial position arising from contribution plans for retirement benefits is as follows:

	2018		2017		2016	
Defined contribution plans for retirement benefits	Ps.	54,300	Ps.	45,100	Ps.	34,283

b. Defined benefit plans

Seniority premium - Based on Article 162 of the Mexican Federal Labor Law, the amount of the premium is equal to twelve days of actual salary for each year of service, considering a maximum salary of twice the minimum wage of the economic zone in which the employee has provided service. Payment of the obligation is made to plant workers who cease to provide services to the Entity. If the separation is voluntary; it is necessary that the employee has provided a minimum of 15 years of service, whereby the obligation is calculated based on the entire seniority of the employee within the Entity; if the separation is for dismissal (justified or unjustified), it is not necessary that the employee comply with a minimum of 15 years of service, and the seniority is determined beginning from May 1, 1970, or if the employee began employment subsequent to that date, their actual date of hire. In the case of death or disability, it is also not necessary to have completed 15 years of service; full seniority will be paid.

Retirement pension plan - The eligible group under this plan includes permanent, nonunion full-time personnel retired prior of January 1, 2005; permanent, nonunion full-time personnel aged 45 years or more, with at least 15 years of service, retired between January 1, 2005 and April 1, 2008; permanent, nonunion full-time personnel who at the date of the Plan amendment of April 1, 2008 were age 55 years or more and had at least 18.25 years of service, either retired or active after April 1, 2008.

The age considered for normal retirement is 65 years, with at least 10 years' seniority, and for early retirement, 55 years of age with at least 20 years' seniority.

The pensionable wage includes savings fund, vacation premium, year-end bonus and grocery coupons.

For personnel retired prior of January 1, 2005, the normal retirement will consider 90% of the pensionable wage, less the Social Security pension granted, including the benefit of the SAR Retirement Saving System.

For personnel active or retired after January 1, 2005, the normal retirement will consider 80% of the pensionable wage, less the Social Security pension granted.

The pension will be paid through a monthly lifetime income and optionally any form of payment of equivalent actuarial value, such as: several payments, guaranteed number of payments, one-time payment, among others.

Post retirement benefits - This plan focuses on the permanent, nonunion full-time personnel who retired prior of January 1, 2005; permanent, nonunion full-time personnel retired between January 1, 2005 and January 1, 2008 who at the plan amendment date of April 1, 2008 were 55 years old or older and had at least 18.25 years of service completed. The normal retirement considers of 65 years, and for early retirement, 55 years of age with at least 10 years of seniority.

The personnel retired prior of January 1, 2005 who receive the benefits of normal, early or deferred retirement will have the option of keeping 50% of their group life insurance protection and, up to 80 years also the major medical expenses insurance coverage, through the payment of 10% of the respective premiums.

Personnel retired between January 1, 2005 and April 1, 2008 who receive the benefits of normal, early or deferred retirement, in the normal form of pension payment or under the first or second options contained in article 24 of the pension plan, will have the option of keeping the benefit of life insurance for up to 10 years after retirement with a coverage equivalent to 50% of the number of months' wages of protection for death of the employees considered active.

This number of months will be applied according to the monthly pension received by the retired person as of the retirement date. The retired person will absorb 10% of the cost of the respective annual premium.

Furthermore, participants who receive the benefits of normal, early or deferred retirement, in the normal form of the pension payment or under the first or second options of article 24 of the pension plan, will have the option of keeping the benefit of major medical expenses insurance only for the participant for up to 10 years after the retirement, through the payment of 10% of the cost of the respective premium, and may keep coverage for their beneficiaries through the payment of 100% of the respective premiums.

Postretirement benefits do not apply to personnel who are active or retired after April 1, 2008.

The actuarial valuation of labor liabilities is supported by a number of assumptions determined through economic, financial and the Entity's own environment for their determination. In this regard, the Entity is exposed to risks related to these assumptions, which are presented below:

Interest rate risk

The present value of the net employee benefit obligation and the funds within the plan established to meet the obligation represents the amount of money that the Entity would receive in exchange for the securities held in the fund, or the amount of money to be paid to transfer the net obligation to a third party, as the case may be depending on if the net amount is an asset or liability. Therefore, the discount rate (as part of measuring the value of money over time), should represent the rate at which the plan obligations can be transferred irrevocably to a third party in an orderly and open market transaction. In other words, the rate at which the amount invested to transfer the obligation will be sufficient to cover future cash flows upon liquidation.

The selection of the discount rate is determined considering government bonds, with maturities that are similar to the expected settlement of the employee benefits obligation. In case of selecting those bonds whose duration is equal to or approximately the length of the obligations of the plan, it could immunize the fund before any changes in interest rates (and hence the discount rate).

Because the discount rate is a variable that does not depend on the operation of the Entity, but the fluctuations and variations observed in the market, the Entity is exposed to the inherent risk posed by such fluctuations.

If, resulting from a fluctuation of rates on government bonds, the discount rate decreases, this will cause the benefit obligation to increase and vice versa. The size of the increase or decrease will depend on the characteristics of the benefit obligation, the population and the variation shown in other variables.

Currently, for KUO, the discount rate used was 8.30%, considering the yield curve of government bonds.

Salary increase risk

The rate of salary increase, within an actuarial valuation, should model the behavior of wages of participants over time.

Valued benefits such as seniority premiums and pension plan at retirement, are linked to these assumptions, to rely entirely on this variable. If the salary increase from year to year, this will cause the present value of liabilities or obligations to increase. For this reason, there is a risk for this variable. For KUO, a salary increase of 4% is being used, which is consistent with the actual observed behavior of this variable in the target population. If increased, it must be considered in the calculation.

Longevity risk

Longevity is an important factor to be considered when performing actuarial calculations for retirement plans. When a person retires, the value of the obligation is based on life expectancy or expected time a retiree will receive his or her retirement benefits. If an increase in longevity is presented, the present value of the obligations will increase, as the benefit will be granted for a longer time, creating a larger obligation to the Entity.

No other post-retirement benefits are provided to these employees.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of December 31, 2018 by Mr. Fernando Rodriguez Zamora, member of Asociación Mexicana de Actuarios Consultores, A. C. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2018	2017	2016
	%	%	%
Discount rate	8.30	6.80	6.55
Expected rate of salary increase	4.00	5.00	5.05
Expected return on plan assets	8.30	6.80	6.55
Average longevity at retirement age for current pensioners (years)			
Males	21.28	20.55	15.86
Females	24.12	23.03	16.98

Amounts recognized in income from these defined benefit plans are as follows:

	2018	2017	2016
Service cost:			
Current service cost	Ps. 17,489	Ps. 14,651	Ps. 14,423
Cost past services	7,050	662	(2,524)
Financial cost	37,560	36,096	35,944
Reductions and early settlement	-	(34,366)	-
Interest income	(1,452)	(1,527)	(2,676)
Components of defined benefits costs recognized in profit or loss (continuing and discontinued operations)	Ps. 60,647	Ps. 15,516	Ps. 45,167

The net periodic cost for the year is included in the cost of employee benefits in the consolidated statement of income and comprehensive income, and recorded in the following line items:

	2018	2017	2016
Cost of sales	Ps. 19,765	Ps. 10,547	Ps. 12,765
Operating expenses	40,882	4,969	32,402
Total	Ps. 60,647	Ps. 15,516	Ps. 45,167

The amount included in the consolidated statements of financial position arising from the obligation of the Entity regarding their defined benefit plans is as follows:

	2018	2017	2016
Present value of defined benefit obligation	Ps. 598,637	Ps. 635,808	Ps. 664,982
Fair value of plan assets	(53,048)	(58,076)	(49,513)
Net liabilities generated by the defined benefit obligation	Ps. 545,589	Ps. 577,732	Ps. 615,469

Movements in the present value of the defined benefit obligation in the period were as follows:

	2018	2017	2016
Opening balance of defined benefit obligation	Ps. 635,808	Ps. 664,982	Ps. 613,100
Current service cost	17,489	14,651	14,423
Interest cost	37,560	36,096	35,944
Actuarial (gains) and losses arising from changes in financial assumptions	(4,214)	11,979	67,529
Reclassification	-	-	8,582
Cost of past service including losses (gains) on reductions	7,050	662	(2,524)
Contributions to affiliates plan	680	489	398
Early settlement	-	(34,366)	-
Translation effect	(3,081)	5,631	1,099
Benefits paid	(92,655)	(64,316)	(73,569)
Ending balance of defined benefit obligation	Ps. 598,637	Ps. 635,808	Ps. 664,982

Movements in the fair value of the plan assets in the period were as follows:

	2018	2017	2016
Opening balance of fair value of plan assets	Ps. 58,076	Ps. 49,513	Ps. 57,397
Interest income	1,452	1,527	2,676
Remeasurement gains (losses)	2,355	163	(3,563)
Contributions from employer	9,544	6,471	4,863
Reclassification	-	-	8,582
Recovery of Trust's funds	(14,606)	-	-
Contributions from employees	680	489	398
Benefits paid	(2,905)	(2,985)	(23,986)
Translation effect	(1,548)	2,898	3,146
Ending balance of the fair value of plan assets in financial institutions	Ps. 53,048	Ps. 58,076	Ps. 49,513

Actuarial gains or losses from changes in demographic assumptions relate to changes in turnover rates and mortality rates compared to those used in the previous year. These correspond to changes in financial assumptions related to the change in the discount rate, the rate of wage increase, the rate of increase in the minimum wage and experience adjustments compared to those used in the prior valuation and those generated by experience adjustments are those differences between what we expected would happen according to the actuarial assumptions used in the previous year and what really happened.

The value of actuarial gain (loss) is as follows

	2018	2017	2016
Changes in demographic assumptions	Ps. 7,523	Ps. 7,571	Ps. 16,336
Changes in financial assumptions	(34,242)	(9,763)	35,563
Experience	20,150	14,008	19,193
Actuarial (loss) gain	Ps. (6,569)	Ps. 11,816	Ps. 71,092

If the discount rate is 50 basis points higher (lower), the defined benefit obligation would decrease by Ps.21,023 (increase by Ps.22,395).

If the expected salary growth increases (decreases) by 0.5%, the defined benefit obligation would increase by Ps.2,175 (decrease by Ps.2,505).

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the consolidated statement of financial position. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

21. STOCKHOLDERS' EQUITY

Contributed capital

As of December 31, 2018, 2017 and 2016, capital stock is represented by:

	SHARES	AMOUNT
Fixed portion-		
Nominative Series "A" shares (without redemption rights and which must represent at least 51% of voting stock)	233,221,719	Ps. 1,393,883
Variable portion-		
Nominative Series "B" shares (with redemption rights and which may not represent more than 49% of voting stock)	223,144,429	1,333,651
	456,366,148	Ps. 2,727,534

At the Ordinary General Stockholders' Meeting held on September 24, 2018, a dividend payment of Ps.342,275 was approved, which was applied to retained earnings. At the Ordinary Annual General Stockholders' Meeting held on April 23, 2018, the amount of Ps.200,000 was approved for the shares repurchase reserve, that is included in retained earnings.

At the Ordinary and Extraordinary Annual General Stockholders' Meeting held on April 24, 2017, a dividend payment of Ps.278,383 was approved, which was applied to retained earnings. Likewise, the amount of Ps.400,000 was approved for the shares repurchase reserve.

At the Ordinary and Extraordinary Annual General Stockholders' Meeting held on April 25, 2016, a dividend payment of Ps.205,365, was approved, from the retained earnings account. It was also approved to allocate the amount of Ps.300,000 for the shares repurchase reserve.

The net amount of repurchase and transactions and sales of ordinary shares resulted in an increase (decrease) of Ps.80,512, Ps.(293,992) and Ps.(79,251) at December 31, 2018, 2017 and 2016, respectively.

At December 31, 2018, 2017 and 2016 there are 15,429,115, 17,464,281 and 9,978,619 treasury shares, respectively.

As of December 31, 2018, 2017 and 2016 there are no ordinary shares with potential dilution effects.

Legal reserve:

The General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of historical common stock. The legal reserve may not be distributed during the existence of the Entity unless the Entity is dissolved. As of December 31, 2018, 2017 and 2016 the legal reserve of KUO amounts to Ps.108,083, Ps.108,083 and Ps.91,408, respectively.

Stockholders' equity, except restated common stock and tax-retained earnings, will incur income tax payable by the Entity at the rate in effect at the time of its distribution. Any tax paid on such distribution may be credited against income for the year in which the dividend tax is paid and, in the subsequent two years, against tax for the year and the related estimated payments.

Acquisition of the non - controlling interest of Nutricarsa:

During 2016, the Entity acquired the remaining 34.37% of Nutricarsa, S.A.P.I. de C. V. (Nutricarsa), a subsidiary of Kuo Consumo, S.A.P.I. de C.V., which processes and sells balanced food for pigs. For purposes of consolidation, the transaction did not constitute a change in the control of Nutricarsa. Prior to the acquisition of the non-controlling interest (NCI), the subsidiary was already consolidated and this procedure continued without any change.

The change in the shareholding in Nutricarsa by KUO went from 65.63% to 100% and was considered as a capital transaction or transaction between stockholders. As a result, the difference between the NCI value and the fair value of the consideration paid was recognized directly in stockholders' equity. The accounting record resulted in a decrease in NCI of Ps.51,051.

22. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Transactions with related parties, carried out in the ordinary course of business were as follows:

	2018	2017	2016
Revenues -			
Sales	Ps. 916,687	Ps. 885,147	Ps. 621,702
Administrative services rendered	Ps. 158,484	Ps. 167,657	Ps. 147,661
Sales of fixed assets	Ps. -	Ps. 103,396	Ps. -
Interest income	Ps. 3,392	Ps. 37,519	Ps. 72,043
Sales of shares	Ps. -	Ps. 18,422	Ps. -
Air transportation	Ps. 10,972	Ps. 11,107	Ps. 10,249
Recovery of expenses	Ps. 1,791	Ps. 77	Ps. 152
Expenses -			
Purchase of inventories	Ps. 125,604	Ps. 69,005	Ps. 33,782
Administrative services received	Ps. 1,554	Ps. 7,855	Ps. 1,512
Interest expense	Ps. -	Ps. 3,364	Ps. 9,500
Others	Ps. 409	Ps. 176	Ps. 148

b. Balances from and to related parties are as follows:

	2018	2017	2016
Accounts receivable -			
Short-term:			
Dynasol Elastómeros, S.A. de C.V.	Ps. 87,549	Ps. 70,635	Ps. 65,311
Industrias Negromex, S.A. de C.V.	55,836	60,428	42,480
Herdez del Fuerte, S.A. de C.V.	2,434	5,375	2,378
Dine 28, S.A. de C.V.	1,680	2,562	-
Fernando Senderos Mestre	626	629	-
Dynasol Altamira, S.A. de C.V.	46	166	218
Dynasol, LLC	-	112	122
Dynasol Gestión México, S.A.P.I. de C.V.	1,255	88	5,775
Plaza Bosques, S.A. de C.V.	388	-	-
Dynasol China, S.A. de C.V.	-	-	3,721
Servicios Administrativos DINE, S.A. de C.V.	-	-	969
Compañía Comercial Herdez, S.A. de C.V.	-	-	26
Others	-	436	390
	Ps. 149,814	Ps. 140,431	Ps. 121,390
Long-term:			
Fideicomiso de Administración con Actividad Empresarial F/3293	Ps. 107,775	Ps. 107,062	Ps. -
Promociones Bosques, S.A. de C.V.	14,459	12,309	-
Compañía Comercial Herdez, S.A. de C.V.	-	-	1,120,064
Alimentos del Fuerte, S.A. de C.V.	-	-	250,000
	Ps. 122,234	Ps. 119,371	Ps. 1,370,064
Accounts payable-			
Short-term:			
Fernando Senderos Mestre	Ps. -	Ps. -	Ps. 65,564
Dynasol Elastómeros, S.A. de C.V.	19,928	12,666	589,423
Industrias Negromex, S.A. de C.V.	5,066	706	119,794
Cantiles de Mita, S.A. de C.V.	172	-	-
Dine 28, S.A. de C.V.	-	337	-
Dynasol, LLC	-	-	121,641
Dynasol Altamira, S.A. de C.V.	303	-	102,946
Insa, LLC	-	-	24
	Ps. 25,469	Ps. 13,709	Ps. 999,392

As of December 31, 2016, long-term receivable balances owed by Herdez del Fuerte, S.A. de C.V. were the sum of the following loans: US\$30 million and US\$20.4 million (granted to Compañía Comercial Herdez, S.A. de C.V.), with interest at the three month LIBOR plus 3.5 percentage points, both maturing on December 31, 2018; however, in June 2017 they were collected.

Furthermore, at December 31, 2016, the Entity had a long-term receivable with Herdez del Fuerte, S.A. de C.V. of Ps.250 million (granted to Alimentos del Fuerte, S.A. de C.V.), which earned interest at 91-days TIIE plus 4.5 percentage points, due on December 31, 2018; however, it was collected in June 2017.

During 2017, KUO transferred the cash of the current-account contract it had with Grupo Dynasol's entities for Ps.929,350, since such funds are managed by Dynasol Gestión, S.A.P.I de C.V.

23. INCOME TAXES

The Entity is subject to ISR. Under the ISR Law the rate for 2018, 2017 and 2016 was 30% and will continue to 30% and thereafter.

According to section VIII of Transitory Article 2 of the ISR Law, effective as of January 1, 2017, during 2017 the Entity applied a credit of 15% of the amount of tax losses pending reduction by the parent entity and its subsidiaries as of January 1, 2016, against 50% of the deferred income tax determined for tax losses that due to deconsolidation was pending at the same date. This credit amounted to Ps.995,154.

a. Income taxes expense (benefit) are as follows:

	2018	2017	2016
ISR:			
Current	Ps. 350,211	Ps. 572,368	Ps. 615,822
Difference from previous years	(435)	2,264	6
	349,776	574,632	615,828
Tax deconsolidation	46,580	88,130	(728,474)
Deferred	419,141	21,366	(74,274)
	465,721	109,496	(802,748)
Total ISR expense (benefit)	Ps. 815,497	Ps. 684,128	Ps. (186,920)

b. Deferred tax recognized in other comprehensive income:

	2018	2017	2016
Financial instruments	Ps. (1,822)	Ps. 1,640	Ps. 314
Employee benefits	1,499	(5,291)	(17,878)
Translation effects	(1,649)	(38,090)	96,520
Total deferred taxes	Ps. (1,972)	Ps. (41,741)	Ps. 78,956

c. Deferred tax recognized in the statement of financial position:

Following is an analysis of the deferred tax assets (liabilities) presented in the consolidated statement of financial position:

	2018	2017	2016
Deferred income tax asset	Ps. 478,049	Ps. 770,664	Ps. 919,273
Deferred income tax liability	838,027	714,610	883,594
Deferred income tax asset	Ps. (359,978)	Ps. 56,054	Ps. 35,679

d. Tax assets and liabilities:

	2018	2017	2016
Assets:			
ISR	Ps. 215,505	Ps. 176,736	Ps. 42,716
Liabilities:			
ISR	Ps. 45,644	Ps. 130,156	Ps. 340,550
Deferred income tax arising from tax consolidation current liabilities	998,147	1,061,052	1,051,601
	Ps. 1,041,791	Ps. 1,191,208	Ps. 1,392,151

e. Deferred tax balances:

The tax effects of temporary differences that generated assets (liabilities) of deferred taxes at December 31, 2018, 2017 and 2016, are as follows:

	DECEMBER 31, 2017	INITIAL APPLICATION OF IFRS 9 (DETAINED EARNINGS)	RECOGNIZED IN PROFIT OR LOSS FOR THE YEAR	OTHER COMPREHENSIVE INCOME ITEMS	DECEMBER 31, 2018
Deferred ISR asset:					
Effect of tax loss carryforwards	Ps. 399,881	Ps. -	Ps. (8,919)	Ps. -	Ps. 390,962
Reserves and provisions	573,723	1,137	(126,641)	1,102	449,321
Advances from customers	41,642	-	(19,808)	-	21,834
Employee benefits	140,923	-	(9,528)	(1,499)	129,896
Simplified tax regime on purchases and sales	178,935	-	183,290	-	362,225
Others	18,476	-	277	-	18,753
Deferred ISR asset	1,353,580	1,137	18,671	(397)	1,372,991
Deferred ISR liability:					
Inventories	(544,060)	-	(198,672)	-	(742,732)
Property, plant and equipment	(776,365)	-	(217,726)	547	(993,544)
Deferred income	76,761	-	15,000	-	91,761
Prepaid expenses	(66,537)	-	27,779	-	(38,758)
Financial instruments	(1,640)	-	(1,358)	1,822	(1,176)
Intangible assets	14,315	-	(62,835)	-	(48,520)
Deferred ISR liability	(1,297,526)	-	(437,812)	2,369	(1,732,969)
Net deferred ISR asset	Ps. 56,054	Ps. 1,137	Ps. (419,141)	Ps. 1,972	Ps. (359,978)

	DECEMBER 31, 2016	RECOGNIZED IN PROFIT OR LOSS FOR THE YEAR	OTHER COMPREHENSIVE INCOME ITEMS	DECEMBER 31, 2017
Deferred ISR asset:				
Effect of tax loss carryforwards	Ps. 538,060	Ps. (138,179)	Ps. -	Ps. 399,881
Reserves and provisions	439,418	134,305	-	573,723
Advances from customers	24,544	17,098	-	41,642
Employee benefits	154,682	(19,050)	5,291	140,923
Simplified tax regime on purchases and sales	56,076	122,859	-	178,935
Others	18,775	(299)	-	18,476
Deferred ISR asset	1,231,555	116,734	5,291	1,353,580
Deferred ISR liability:				
Inventories	(459,185)	(84,875)	-	(544,060)
Property, plant and equipment	(729,175)	(85,280)	38,090	(776,365)
Deferred income	69,265	7,496	-	76,761
Prepaid expenses	(40,398)	(26,139)	-	(66,537)
Financial instruments	-	-	(1,640)	(1,640)
Intangible assets	(36,383)	50,698	-	14,315
Deferred ISR liability	(1,195,876)	(138,100)	36,450	(1,297,526)
Net deferred ISR asset	Ps. 35,679	Ps. (21,366)	Ps. 41,741	Ps. 56,054

	JANUARY 1, 2016	RECOGNIZED IN PROFIT OR LOSS FOR THE YEAR	OTHER COMPREHENSIVE INCOME ITEMS	DECEMBER 31, 2016
Deferred ISR asset:				
Effect of tax loss carryforwards	Ps. 416,734	Ps. 121,326	Ps. -	Ps. 538,060
Reserves and provisions	357,726	81,692	-	439,418
Advances from customers	53,386	(28,842)	-	24,544
Derivative financial instruments	314	-	(314)	-
Employee benefits	120,614	16,190	17,878	154,682
Simplified tax regime on purchases and sales	61,770	(5,694)	-	56,076
Others	18,464	311	-	18,775
Deferred ISR asset	1,029,008	184,983	17,564	1,231,555
Deferred ISR liability:				
Inventories	(383,947)	(75,238)	-	(459,185)
Property, plant and equipment	(518,289)	(114,366)	(96,520)	(729,175)
Deferred income	(42,727)	111,992	-	69,265
Prepaid expenses	(32,674)	(7,724)	-	(40,398)
Intangible assets	(11,010)	(25,373)	-	(36,383)
Deferred ISR liability	(988,647)	(110,709)	(96,520)	(1,195,876)
Net deferred ISR asset	Ps. 40,361	Ps. 74,274	Ps. (78,956)	Ps. 35,679

f. Tax loss carry forwards

As of December 31, 2018, KUO has tax loss carry forwards, which will be indexed for inflation through the year applied or recovered, in the following restated amounts:

MATURITY	TAX LOSS CARRY FORWARDS
2022	Ps. 25,802
2024	547,404
2025	407,454
2026	1,017,264
2027	347,463
2028	488,421
	Ps. 2,833,808

In determining deferred income tax as of December 31 2018, 2017, and 2016 the effects of tax loss carry forwards were included for Ps.2,833,808, Ps.2,244,237 and Ps.2,027,352, respectively. In the determination of deferred income tax as of December 31, 2018, 2017 and 2016 the effects of deferred tax assets related to the carryforward of tax losses not recognized amounted to Ps.1,530,601, Ps.911,300 and Ps.233,819, respectively, because Management believes it is unlikely that the benefits of such losses will be realized.

g. Tax consolidation:

The income tax liability at December 31, 2018 related to the effects of benefits and tax deconsolidation shall be paid in the following years:

YEAR	AMOUNT
2019	Ps. 274,534
2020 and thereafter	723,613
	Ps. 998,147

h. Reconciliation of income tax at statutory rate:

Following is a reconciliation of the statutory income tax rate and the effective rate on the income from continuing operations before income taxes:

	2018	2017	2016
Income tax at statutory rate	Ps. 893,486	Ps. 721,850	Ps. 165,078
Add (deduct) the effect of permanent differences:			
Non-deductible expenses	65,622	58,068	39,366
Non-taxable income	(20,401)	(10,031)	(227)
Annual adjustment for inflation	181,596	163,015	51,642
Tax losses, net	21,857	15,568	407,935
Equity in results of joint ventures	(385,185)	(297,478)	(190,496)
Tax effect on sale of shares	67,813	-	-
Translation effect of foreign operations	(47,086)	(22,285)	93,316
Others	(8,784)	(32,709)	(25,060)
	768,917	595,998	541,554
Income tax provision (benefit) for tax consolidation	46,580	88,130	(728,474)
Effective rate	Ps. 815,497	Ps. 684,128	Ps. (186,920)

24. DISCONTINUED OPERATIONS

Effective as of December 31, 2014, KUO discontinued its project in the commercial aeronautical industry, Alaxia. This project would focus on the manufacturing and marketing of machined precision components for the commercial aeronautical industry. The scope of Alaxia included projects involving new platform parts (currently in progress of being commercially launched), whose development times demand a long-term commitment (over five years) before achieving volumes that provide economic sustainability. However, the conditions of the industry made it difficult to obtain contracts with existing platforms which may have provided short-term volume. Accordingly, for several years, Alaxia did not achieve the scale required by an emerging industry player to generate profits or operate at breakeven.

	2018	2017	2016
Business disposition income	Ps. -	Ps. 18,422	Ps. -
Cost for disposal of business	-	(70)	-
	-	18,352	-
Net sales	Ps. -	Ps. 673	Ps. 23,641
Cost of sales	-	16,637	37,986
Selling, administration and distribution expenses	-	2,880	(8,639)
Depreciation	-	-	208
Reversion impairment of property, plant and equipment	-	-	(6,578)
Other income (expense)	-	(5,335)	51,586
Financial income	47,385	1,881	127,610
Result before income taxes	Ps. 47,385	Ps. (3,946)	Ps. 179,860

25. COSTS AND EXPENSES BY NATURE

Cost of sales, administrative expenses and selling and distribution expenses are comprised of the following:

	2018	2017	2016
Cost of sales:			
Direct cost of sales	Ps. 17,096,974	Ps. 15,000,550	Ps. 13,547,924
Salaries and employee benefits	2,254,102	1,718,748	1,494,138
Net period cost	19,765	10,547	12,765
Freight and transportation	262,248	205,195	150,604
Maintenance fee and leasing	774,063	719,191	472,153
Electrical energy	306,654	216,794	135,513
Depreciation and amortization	590,658	529,076	501,424
Total	Ps. 21,304,464	Ps. 18,400,101	Ps. 16,314,521
Administrative, selling and distribution expenses:			
Freight and transportation	Ps. 661,567	Ps. 554,853	Ps. 560,298
Salaries and employee benefits	1,396,439	1,356,957	1,182,763
Net period cost	40,882	4,969	32,402
Advertisement and marketing	49,361	70,417	73,365
Depreciation, amortization and impairment	60,989	48,479	82,482
Export costs	308,945	255,393	268,091
Maintenance fee and leasing	695,807	617,393	947,583
Electrical energy	64,439	45,186	33,436
General expenses	344,312	445,643	315,545
Total	Ps. 3,622,741	Ps. 3,399,290	Ps. 3,495,965

26. OTHER INCOME

Other income item is composed as follows:

	2018	2017	2016
Income from disposal of fixed assets	Ps. -	Ps. 55,729	Ps. -

27. COMMITMENTS AND CONTINGENCIES

- a. **Commitments** - In May 2011, the Entity signed an aircraft lease agreement with GE Capital CEF México, S. de R.L. de C.V. The total amount of the lease is US19.9 million payables in 48 quarterly installments of US413. The contract is for a term of 12 years, however, even if the term has not expired, the Entity may exercise the early purchase option. The annual expense for leasing amounts US1.7 million.
- b. **Contingencies** - Certain subsidiaries are engaged in lawsuits as plaintiffs and defendants in the regular course of operations. These lawsuits always involve uncertainty, and some of them may result in adverse judgments for the subsidiaries. While it is impossible to determine the amount involved in pending lawsuits, Management believes that based on the facts, any resulting liability would not materially affect the consolidated financial position or results of operations of the Entity or its subsidiaries.

28. FINANCIAL STATEMENT ISSUANCE AUTHORIZATION

The accompanying consolidated financial statements for the year ended December 31, 2018, were approved by the Chief Financial Officer of KUO Mr. Jorge Padilla Ezeta, on March 8, 2019; consequently, they do not reflect any events that occurred after such date, and are subject to approval by the Ordinary Stockholders' General Meeting of the Entity, which may decide that they require amendment in accordance with that established in the Mexican Securities Law and the General Companies Law. The consolidated financial statements for the years ended December 31, 2017 and 2016, were approved at Ordinary Stockholders' Meeting on April 23, 2018 and April 24, 2017, respectively.



This annual report contains forward-looking statements that reflect the current opinions of KUO's management regarding future events. The words or phrases "predict", "believe", "estimate", "expect", "have the intention of", "may", "plan" and "should" and similar expressions generally indicate comments about expectations. These comments are subject to risks, uncertainties and changing circumstances. Final results may be materially different from current expectations because of various factors, which include but are not limited to global and local changes in politics, economy, business, competition, market and regulatory conditions, as well as cyclical trends in sectors where KUO conducts business. KUO has no obligation whatsoever to update these comments on expectations. Any comment on expectation is valid only on the date on which it is made.

