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FINANCIAL

GRUPO KUO, S.A.B. DE C.V.

AND SUBSIDIARIES

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# Annual Audit Committee Report

## To: Board of Directors

### Grupo Kuo, S.A.B. de C.V.:

In compliance with provisions set forth in articles 42 and 43 of the Stock Market Law together with the Audit Committee Regulations, I hereby inform you about the activities we performed during the period ending as of December 31st, 2020. Throughout the progress of our work we considered the recommendations established in the Principles and Best Practices Code of the Corporate Governance structure. We held meetings at least every quarter and based on a working program we accomplished the activities described as follows:

#### RISK ASSESSMENT

We regularly evaluate the effectiveness of the Risk Management System established for detection, calculation, registration, assessment and risk control at KUO, as well as the implementation of follow-up procedures in order to assure the effective performance of tasks. Thus, we have concluded that such system is appropriate.

We were able to review together with the Management team and External and Internal Auditors potential risks factors that might impact KUO's operations and assets. It was determined as a result that such critical factors have been correctly identified, assessed and handled.

#### CYBERSECURITY

Considering the high risk that unauthorized access to the Group systems represent and the continuity of operations in the IT area, we focused specifically on the topic. We turned to external support in order to obtain a reasonable security, confirm that the proper implementation of systems' access procedures and controls are correctly set, along with a business continuity protocol within the data processes areas.

#### COVID 19 IMPACT AND ACTIONS

During the Covid-19 pandemic contingency specific actions were taken in order to protect employees' health and business continuity. Home office was implemented and sanitary recommendations were spread. The existing cybersecurity events were reviewed, handled and restrained without any operations impact to the Group.

#### INTERNAL CONTROL

We made sure that the Management, according to its responsibilities and taking into account the Company's risk assessment report, established the required processes for compliance purposes together with an appropriate internal control mapping. Additionally, we followed up on comments and remarks developed by the external and internal auditors.

#### EXTERNAL AUDIT

We recommended to the Board of Directors to hire the external auditors of KUO S.A.B. de C.V. for the 2020' fiscal period. For such purpose, we verified their independence and compliance with all provisions set forth in Law and general regulations established by the National Banking and Stock Market Commission in regards to Issuing Entities acting as contracting party of audit services for basic financial statements, which was effective as of August 1st 2018. Their scope of work, perspective and coordination with internal audit were analyzed accordingly.

We complied with our Regulation, which was reviewed and approved by the Board of Directors in 2018. In regards to the provisions set forth in Law and general regulations established by the National Banking and Stock Market Commission in regards to Issuing Entities acting as contracting party of audit services for basic financial statements. We verified its compliance by the external auditors as well as the assigned Committee responsibilities.

We kept constant and direct communication with external auditors in order to be aware of their work progress as well as remarks and comments on our annual financial statements. We timely acknowledge their conclusions and reports, then followed up on recommendations stated in the audit outcome.

The external auditor's fees for their services were approved for payment, making sure not to interfere with their independence with the Company.

Taking into account Management's points of view we initiated an assessment of the external auditors' performance concerning year 2020.

#### INTERNAL AUDIT

In order to maintain its independence and objectivity, Internal Audit area is currently reporting to the Audit Committee. The activities we carry out are described as follows:

1. In a timely manner, we approved activities and annual budget for the area. Internal Audit itself took part in the process of identifying risks, implementing controls and testing them. As a consequence, we also approved the annual budget and area structure.
2. We periodically received reports on the authorized working plan progress, possible deviations and reasons behind them.
3. A follow-up on their comments, remarks and suggestions was carried out.
4. We made sure to implement an annual training program.

## FINANCIAL REPORTS, ACCOUNTING POLICIES AND REPORTS TO THIRD PARTIES

We reviewed together with the people in charge of the Company's financial statements preparation process for quarterly and annual periods. We then delivered our recommendation to the Board of Directors in order to obtain their approval to be published. As part of this process we considered opinions and observations by the external auditors, also we verified that the criteria, accounting policies and presentation used by the Management regarding financial statements preparation are enough, appropriate and consistent in comparison with the previous period. Therefore, as per our review the information presented by Management reflects reasonably the financial situation, operations outcome and cash-flows at KUO as of December 31st, 2020.

We also reviewed the quarterly and annual reports prepared by Management to be presented to shareholders, authorities and public in general, making sure they were based on International Financial Reporting Standards, and using the same accounting criteria for the annual reporting preparation. Once reviewed we were satisfied as there is certainly a comprehensive process that provides a reasonable security regarding its content. Consequently, we recommended the Board of Directors to authorize its publication.

Our revision also included other reports on any additional financial information requested by Regulatory Authorities in México.

We reviewed and recommended to the Board of Director its approval.

## NORMATIVITY COMPLIANCE, LEGAL ASPECTS AND CONTINGENCIES

We confirmed the existence and reliability of controls created by KUO in order to comply with the subjected legal provisions, making sure they were properly revealed in the financial reports.

We periodically reviewed existing legal proceedings and fiscal, legal and labor contingencies in KUO. We closely monitored the efficacy of the established procedure to identify them and follow up, as well as their proper revelation and record.

## CODE OF CONDUCT

With the support of the Internal Audit, we validated employee's compliance with the existing Code of Conduct in KUO, we verified that proper processes were implemented for its updates recording and accurate promotion to the personnel, as well as the application of corresponding sanctions in case of detected infractions.

All complaints received through the Complaints System, created for this purpose, were verified so that they were correctly solved.

## ADMINISTRATION ASPECTS

We held meetings between the Committee and Management to keep being informed about the Company's administration processes, tasks and activities, relevant an unusual events too. We also had meetings with external and internal auditors to check on their work development, possible limitations they could have faced, and to facilitate any private communication with the Committee they might request.

The Committee verified the compliance with the agreements adopted in the Shareholders' Meeting held by the Company, based on guidelines determined in such meeting.

Whenever we considered it appropriate, we turned to professional freelance experts for support and independent opinion. We didn't have any acknowledgment of possible significant breaches regarding operations policies, internal control systems, or accounting record standards.

We held executive meetings with Committee members exclusively in order to establish agreements and recommendations to the Management.

Our review also included other reports and any additional financial information requested by Regulatory Authorities in Mexico.

The President of the Audit Committee periodically reported to the Board of Directors, at least quarterly, all activities performed.

All work documentation and backup were registered in the proceedings and minutes from every meeting we held. They were reviewed and timely approved by the Committee members.

February 16th, 2021.

Yours Sincerely

**José Manuel Canal Hernando**  
President of the Audit Committee

Letter of the Corporate Practices Committee

Mexico City, February 16th, 2021.

To: Board of Directors  
GRUPO KUO, S.A.B. de C.V.

In regards to the provisions stated in section I of article 43 of the Stock Market Law together with the by-laws of GRUPO KUO, S.A.B. de C.V. (“KUO” or the “Company”), and in representation of the Committee of Corporate Practices, I hereby present to you the most important activities we performed in order to provide an opinion on aspects within our scope of work throughout the period ending as of December 31st , 2020.

1. The Committee resolved to recommend the Board of Directors to grant approval of the following matters:

- a. a. Compensation Policies for 2020, as well as full payment to General Director along with a compensation to KUO’s President of the Board of Directors, according to terms provided by the General Director Deputy who is in charge of Human Capital department
- b. Report of the updated Compensation Policies, which are consistent with the ones previously approved by the Board of Directors. Additionally, the approval of such policies for 2021 was recommended

2. The Corporate Practices Committee knew, in a periodically manner, the hedging operations performed by the Company in order to provide certainty to the operation and non-speculative purposes.

3. The Committee was informed, among others, about the following matters:

- a. Progress and conclusion of the investments in process within the Automotive sector in order to develop a new generation of high-tech transmissions.
- b. Results and conclusion on the disinvestment project of JV Herdez del Fuerte regarding its tuna fish business.
- c. Operations and Financial status of the Synthetic Rubber businesses allocated in China.
- d. Status of steps taken with Port Authorities in regards to the current situation of the Maritime Terminal which operates one of the Synthetic Rubber’s business located in Altamira, with the purpose of giving continuity to the execution of the agreements reached.
- e. The international situation regarding the African swine fever which is impacting the pork sector, also learn about the mitigation measures being implemented by the Company.
- f. Due to Federal Government actions and reform initiatives to extinguish illegal Outsourcing practices, work protocols were implemented in order to monitor and face, in any case, labor authority’s inspections. In addition, we informed about the reviews of Employees Collective Agreements that were carried out within each BU (business units): Transmissions, Synthetic Rubber and Pork Sector.
- g. Report on status and relevant points of the Pension Law initiative issued by Federal Government, applicable as of 2023.

- h. Actions and measures implemented by the Company in every Business due to the COVID 19 Pandemic, case statistics and authority’s protocols and inspections status over each business units.
  - i. Adopted agreements from the Stockholders Annual Ordinary General Assembly and Stockholders Ordinary General Assembly of the Company, held on April 30th and June 30th, 2020 respectively.
  - j. The Annual Report together with fiscal papers of Y-2019 were presented to the National Banking & Stock Market Commission, as well as to the Mexican Stock Market and market in general. Such documents including transfer-pricing studies that concluded that every related-party operations during fiscal Y-2019 complied with market prices.
  - k. The waiver granted by Banks which the Company has current credit contracts with, aimed to modify the total leverage ratio from 3.50 a 4.00 applicable for the fourth quarter of 2019, as well as for the first and second quarter of 2020. Likewise, we provided information about the waiver extension granted to modify (ii) the total leverage ratio from 4.00 to 5.00 and (ii) 0.7 for the capitalization index, both applicable for second, third and fourth quarter of 2020.
  - l. Status of Company’s Committed Credit Lines.
  - m. Operations carried out through the repurchase fund, according to the amount approved by the Stockholders Annual Ordinary General Assembly held on April 30th , 2020.
  - n. Signing of credit line with Inter-American Development Bank (IADB) for US50 Million dollars, which replaced previous Suppliers Discount Lines. In addition, new suppliers were registered (basically from sharecropping segment).
  - o. The sinister that occurred last May in the Sahé Process Plant of Pork sector, its estimated losses, recovery plan and short term capabilities, also the plant reconstruction and the process with the Insurance Company.
  - p. Sustainability Report of DESC Group, focused in Education, Environment and Community, three fundamental and specific pillars to create value and contribute to Sustainable Development Objectives 2030.
  - q. Actions taken due the new rules regarding products labeling (NOM 051) for JV Herdez del Fuerte and the Pork Business.
4. The Committee did not have observations regarding Relevant Managing Directors’ performance.
5. The Committee did not receive dispensation requests from the Members of the Board, Relevant Managing Directors or any person with authority in order to gain leverage on business opportunities related to KUO or any other Company under its control neither on which a significant influence exist.
6. The Committee reviewed all related party operations performed by the Company, making sure they were under market conditions.

I hereby state that the above was registered in the minutes of each session as well as in the reports prepared during the year for the Board of Directors meetings.

The opinions of KUO’s Relevant Managing Directors were considered on the preparation of this report and they were consistent with its content.

Yours Sincerely,

Mr. Valentín Díez Morodo  
President of Company Practices Committee

# 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, 2020, 2019 and 2018 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, 2020, 2019 and 2018, 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 Grupo KUO's Management and Audit Committee, 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) Sinister in the Consumption Segment plant

As mentioned in Note 2 and 28, on May 3, 2020, a fire occurred at the processing plant of Sahé (main inventory processor of the pork segment), located in Mérida, Yucatán. The purpose of this property was to carry out the slaughter and maquila activities of pork meat. The fire-affected property, plant and equipment, inventories and other costs for Ps. 1,862 million and the Entity has received insurance recovery proceeds of Ps. 1,025 million as of December 31, 2020. In relation to the recording of the effects of the sinister, there is a risk that the determination of the valuation due to impairment of damaged assets is not reasonable, as well as the recognition of income for the recovery of insurance for fixed assets, inventories, expenses and consequential losses.

Our audit procedures included the review of the internal reports of the damaged assets, reports and agreements with the insurance company, expert opinions and accounting records carried out, including the evaluation of the procedures used by the Administration to record in an adequate and timely manner the effects derived from the sinister. 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 Grupo KUO's different Segments.

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

## c) COVID 19 pandemic and impact on audit work

In March 2020, the World Health Organization declared COVID 19 a global pandemic. As of today, despite the profound impact it is having on human health, the economy and society throughout the world, the Entity has not had significant adverse effects on the consolidated financial situation and performance, except in the Automotive Transmissions segment, which generated an operating loss of (Ps. 790) million and a net loss of (Ps. 1,370) million. Likewise, the confinement caused part of the Entity's administration to work in a remote work environment during this period. Based on the foregoing, we identify the risks of impairment of long-lived assets as indicated in IAS 36 "Impairment of long-lived assets"; and a going concern as indicated in IAS 1 "Presentation of financial statements" in the Automotive Transmissions Segment; as well as the risks of segregation of duties and weakening in internal control activities derived from remote work.

In relation to the risks of impairment and going concern, our tests consisted on the application of procedures to evaluate whether the discounted cash flow model used in the calculation of impairment of the long-lived assets of the Automotive Transmissions Segment is appropriate. We challenge the assumptions used by the Administration, being 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 evaluation of sales volumes based on sales statistics and contracts with clients, future sales targets and cash flows, as well as the sensitivity analysis carried out based on the assumptions already mentioned. In relation to the risks identified by remote work, our planning and audit procedures were adapted to the circumstances to assess the impact of remote work on processes, internal control and systems, we reviewed in detail the assumptions used for each the areas of risk identified, and where it deemed appropriate we were supported by our specialists. The results of our procedures were satisfactory.

## OTHER INFORMATION INCLUDED IN THE DOCUMENT CONTAINING THE AUDITED FINANCIAL STATEMENTS

Grupo KUO's Management 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 our reading 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 GRUPO KUO'S MANAGEMENT AND AUDIT COMMITTEE KUO FOR THE ACCOMPANYING CONSOLIDATED FINANCIAL STATEMENTS

Management of Grupo KUO is responsible for the preparation and fair presentation of these consolidated 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 Grupo KUO's financial reporting process, review the content of the consolidated financial statements and request their approval by the Board of Directors.

## 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 the Entity'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 group audit. We remain solely responsible for our audit opinion.

We communicate with Grupo KUO's Management and Audit Committee 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 Grupo KUO's Management and Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance of 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 25, 2021

# Consolidated Statements of Financial Position

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

As of December 31, 2020, 2019 and 2018

(Thousands of Mexican pesos)

| Assets                                   | Notes | 2020           | 2019           | 2018       |
|------------------------------------------|-------|----------------|----------------|------------|
| <b>Current assets:</b>                   |       |                |                |            |
| Cash and cash equivalents                | 7 Ps. | 4,812,690 Ps.  | 1,541,076 Ps.  | 1,102,977  |
| Accounts and notes receivable, net       | 8     | 3,322,628      | 2,725,846      | 2,905,621  |
| Accounts receivable from related parties | 24    | 115,355        | 169,567        | 149,814    |
| Inventories, net                         | 9     | 5,897,273      | 5,794,311      | 5,045,164  |
| Biological assets                        | 10    | 1,354,980      | 1,206,260      | 1,217,425  |
| Prepaid expenses                         |       | 157,502        | 336,691        | 140,596    |
| Derivative financial instruments         | 18    | -              | -              | 4,527      |
| Assets classified as held for sale       |       | 28,573         | 15,478         | 14,633     |
| Total current assets                     |       | 15,689,001     | 11,789,229     | 10,580,757 |
| <b>Non - current assets:</b>             |       |                |                |            |
| Property, plant and equipment, net       | 11    | 10,613,585     | 12,097,792     | 12,727,538 |
| Right-of-use asset                       | 12    | 1,628,374      | 1,763,868      | -          |
| Biological assets                        | 10    | 449,826        | 398,067        | 363,835    |
| Intangible and other assets, net         | 15    | 5,527,801      | 5,968,257      | 4,074,533  |
| Investments in joint ventures            | 14    | 10,613,490     | 11,336,080     | 11,226,077 |
| Other accounts receivable                |       | 11,138         | 14,983         | 26,804     |
| Accounts receivable from related parties | 24    | 111,816        | 104,960        | 122,234    |
| Deferred income tax                      | 25    | 1,250,821      | 819,754        | 478,049    |
| Total non - current assets               |       | 30,206,851     | 32,503,761     | 29,019,070 |
| Total assets                             | Ps.   | 45,895,852 Ps. | 44,292,990 Ps. | 39,599,827 |

| Liabilities and stockholders' equity                   | Notes  | 2020           | 2019           | 2018       |
|--------------------------------------------------------|--------|----------------|----------------|------------|
| <b>Current liabilities:</b>                            |        |                |                |            |
| Bank loans and current portion of long-term debt       | 20 Ps. | 487,628 Ps.    | 276,968 Ps.    | 171,275    |
| Notes and accounts payable to suppliers                |        | 7,264,190      | 7,021,850      | 6,339,516  |
| Short-term lease liability                             |        | 329,667        | 315,200        | -          |
| Other accounts payable and accrued liabilities         | 21     | 4,226,678      | 3,731,107      | 3,711,190  |
| Derivative financial instruments                       | 18     | -              | -              | 605        |
| Accounts payable to related parties                    | 24     | 4,580          | 21,355         | 25,469     |
| Total current liabilities                              |        | 12,312,743     | 11,366,480     | 10,248,055 |
| <b>Non - current liabilities:</b>                      |        |                |                |            |
| Bank loans                                             | 20     | 16,269,859     | 15,313,216     | 14,364,698 |
| Lease liability                                        |        | 1,387,095      | 1,486,274      | -          |
| Employee benefits                                      | 22     | 659,759        | 668,567        | 599,889    |
| Deferred income taxes                                  | 25     | 1,051,066      | 1,033,771      | 838,027    |
| Deferred income tax arising from tax deconsolidation   | 25     | 290,740        | 476,542        | 723,613    |
| Total non - current liabilities                        |        | 19,658,519     | 18,978,370     | 16,526,227 |
| Total liabilities                                      |        | 31,971,262     | 30,344,850     | 26,774,282 |
| <b>Stockholders' equity:</b>                           |        |                |                |            |
| Contributed capital-                                   |        |                |                |            |
| Capital stock                                          | 23     | 2,727,534      | 2,727,534      | 2,727,534  |
| Shares repurchase reserve                              |        | (587,938)      | (530,237)      | (510,570)  |
| Earned capital-                                        |        |                |                |            |
| Retained earnings                                      |        | 9,924,492      | 10,503,529     | 8,667,904  |
| Foreign operations translation effect                  |        | 568,492        | 568,524        | 864,955    |
| Derivative financial instruments                       | 18     | -              | -              | (423)      |
| Actuarial loss from employee benefits                  |        | (144,691)      | (130,685)      | (82,282)   |
| Equity in other comprehensive income of joint ventures |        | 1,436,157      | 809,107        | 1,157,834  |
| Controlling interest                                   |        | 13,924,046     | 13,947,772     | 12,824,952 |
| Non - controlling interest                             | 13     | 544            | 368            | 593        |
| Total stockholders' equity                             |        | 13,924,590     | 13,948,140     | 12,825,545 |
| Total liabilities and stockholders' equity             | Ps.    | 45,895,852 Ps. | 44,292,990 Ps. | 39,599,827 |

# Consolidated Statements of Income and Comprehensive Income

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

For the years ended December 31, 2020, 2019 and 2018

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

|                                                                                          | Notes | 2020        | 2019           | 2018           |
|------------------------------------------------------------------------------------------|-------|-------------|----------------|----------------|
| <b>Continuing operations:</b>                                                            |       |             |                |                |
| Net sales                                                                                | Ps.   | 30,935,869  | Ps. 27,796,811 | Ps. 27,282,211 |
| Cost of sales                                                                            | 27    | 25,749,667  | 22,248,726     | 21,304,464     |
| Gross profit                                                                             |       | 5,186,202   | 5,548,085      | 5,977,747      |
| Administrative expenses                                                                  | 27    | 1,591,172   | 1,594,656      | 1,566,682      |
| Selling and distribution expenses                                                        | 27    | 2,496,783   | 2,394,688      | 2,056,059      |
| General expenses                                                                         |       | 4,087,955   | 3,989,344      | 3,622,741      |
| Equity in results of joint ventures                                                      | 14    | 1,085,187   | 1,034,553      | 1,283,952      |
| Other expenses (income), net                                                             | 28    | 930,776     | (448,967)      | -              |
| Income from operations                                                                   |       | 1,252,658   | 3,042,261      | 3,638,958      |
| Interest income                                                                          |       | 29,223      | 37,209         | 38,078         |
| Interest expense                                                                         |       | (1,095,159) | (814,988)      | (466,305)      |
| Other financial expenses                                                                 |       | (212,040)   | (245,042)      | (224,529)      |
| Exchange (loss) gain, net                                                                |       | (516,514)   | 444,380        | (1,317)        |
| (Loss) income before income taxes and discontinued operations                            |       | (541,832)   | 2,463,820      | 2,984,885      |
| Income taxes expense                                                                     | 25    | 30,159      | 233,295        | 815,497        |
| (Loss) income from continuing operations                                                 |       | (571,991)   | 2,230,525      | 2,169,388      |
| <b>Discontinued operations:</b>                                                          |       |             |                |                |
| Income from discontinued operations, net of income taxes                                 | 26    | 2,015       | 2,150          | 47,385         |
| Consolidated net (loss) income                                                           |       | (569,976)   | 2,232,675      | 2,216,773      |
| Other comprehensive income (loss):                                                       |       |             |                |                |
| Items that will not be reclassified subsequently to profit or loss, net of income taxes: |       |             |                |                |
| Actuarial (loss) gain from employee benefits                                             | 22    | (30,152)    | (51,077)       | 5,070          |

|                                                                         | Notas | 2020        | 2019          | 2018          |
|-------------------------------------------------------------------------|-------|-------------|---------------|---------------|
| Items that will be reclassified to profit or loss, net of income taxes: |       |             |               |               |
| Cumulative translation adjustment                                       |       | 236         | (296,473)     | (40,476)      |
| Derivative financial instruments                                        | 18    | -           | 423           | (4,250)       |
| Equity in other comprehensive income of joint ventures                  | 14    | 627,050     | (348,727)     | (119,049)     |
| Total other comprehensive income (loss)                                 |       | 597,134     | (695,854)     | (158,705)     |
| Consolidated comprehensive income                                       | Ps.   | 27,158      | Ps. 1,536,821 | Ps. 2,058,068 |
| Distribution of consolidated (loss) income:                             |       |             |               |               |
| Controlling interest                                                    | Ps.   | (569,884)   | Ps. 2,232,685 | Ps. 2,216,767 |
| Non - controlling interest                                              |       | (92)        | (10)          | 6             |
|                                                                         | Ps.   | (569,976)   | Ps. 2,232,675 | Ps. 2,216,773 |
| Distribution of consolidated comprehensive income:                      |       |             |               |               |
| Controlling interest                                                    | Ps.   | 26,982      | Ps. 1,536,847 | Ps. 2,058,065 |
| Non - controlling interest                                              |       | 176         | (26)          | 3             |
|                                                                         | Ps.   | 27,158      | Ps. 1,536,821 | Ps. 2,058,068 |
| Basic (loss) earnings per common share:                                 |       |             |               |               |
| From continuing operations                                              | Ps.   | (1.25)      | Ps. 4.89      | Ps. 4.75      |
| From discontinued operations                                            | Ps.   | 0.00        | Ps. 0.00      | Ps. 0.11      |
| Basic (loss) earnings per share                                         | Ps.   | (1.25)      | Ps. 4.89      | Ps. 4.86      |
| Net (loss) income from controlling interest without repurchased shares  |       |             |               |               |
|                                                                         | Ps.   | (1.30)      | Ps. 5.07      | Ps. 4.92      |
| Weighted average common shares outstanding                              |       | 456,336,148 | 456,366,148   | 456,366,148   |
| Weighted average common shares outstanding without repurchased shares   |       | 439,978,738 | 440,586,096   | 441,042,604   |

# Consolidated Statements of Changes in Stockholders' Equity

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

For the years ended December 31, 2020, 2019 and 2018

(In thousands of Mexican pesos, except shares information)

|                                                                                     | Contributed capital |               |                           |                   |  |  | Earned Capital |
|-------------------------------------------------------------------------------------|---------------------|---------------|---------------------------|-------------------|--|--|----------------|
|                                                                                     | Number of Shares    | Capital stock | Shares repurchase reserve | Retained earnings |  |  |                |
| Balances at January 1, 2018                                                         | 456,366,148         | Ps. 2,727,534 | Ps. (591,083)             | Ps. 6,768,905     |  |  |                |
| Initial application of IFRS 9                                                       | -                   | -             | -                         | (2,655)           |  |  |                |
| Dividends declared                                                                  | -                   | -             | -                         | (342,275)         |  |  |                |
| Sale of repurchased common shares, net                                              | -                   | -             | 80,513                    | 32,949            |  |  |                |
| Dilution of non - controlling interest                                              | -                   | -             | -                         | (29)              |  |  |                |
| Recycling of actuarial losses due to labor obligations from recovery of plan assets | -                   | -             | -                         | (5,758)           |  |  |                |
| Consolidated comprehensive income                                                   | -                   | -             | -                         | 2,216,767         |  |  |                |
| Balances at December 31, 2018                                                       | 456,366,148         | 2,727,534     | (510,570)                 | 8,667,904         |  |  |                |
| Recycling of actuarial losses due to employee benefit from recovery of plan assets  | -                   | -             | -                         | (2,674)           |  |  |                |
| Dividends declared                                                                  | -                   | -             | -                         | (401,602)         |  |  |                |
| Dilution of non - controlling interest                                              | -                   | -             | -                         | 173               |  |  |                |
| Sale of repurchased common shares, net                                              | -                   | -             | (19,667)                  | 7,043             |  |  |                |
| Consolidated comprehensive income                                                   | -                   | -             | -                         | 2,232,685         |  |  |                |
| Balances at December 31, 2019                                                       | 456,366,148         | 2,727,534     | (530,237)                 | 10,503,529        |  |  |                |
| Recycling of actuarial losses due to employee benefit from recovery of plan assets  | -                   | -             | -                         | (16,146)          |  |  |                |
| Sale of repurchased common shares, net                                              | -                   | -             | (57,701)                  | 6,993             |  |  |                |
| Consolidated comprehensive income                                                   | -                   | -             | -                         | (569,884)         |  |  |                |
| Balances at December 31, 2020                                                       | 456,366,148         | Ps. 2,727,534 | Ps. (587,938)             | Ps. 9,924,492     |  |  |                |

| Earned Capital                        |                                  |                                       |                                                        |                      |                            |                            |  |  |  |  |  |
|---------------------------------------|----------------------------------|---------------------------------------|--------------------------------------------------------|----------------------|----------------------------|----------------------------|--|--|--|--|--|
| Foreign operations translation effect | Derivative financial instruments | Actuarial loss from employee benefits | Equity in other comprehensive income of joint ventures | Controlling interest | Non - controlling interest | Total stockholders' equity |  |  |  |  |  |
| Ps. 905,340                           | Ps. 3,827                        | Ps. (93,108)                          | Ps. 1,276,883                                          | Ps. 10,998,298       | Ps. 653                    | Ps. 10,998,951             |  |  |  |  |  |
| -                                     | -                                | -                                     | -                                                      | (2,655)              | (1)                        | (2,656)                    |  |  |  |  |  |
| -                                     | -                                | -                                     | -                                                      | (342,275)            | -                          | (342,275)                  |  |  |  |  |  |
| -                                     | -                                | -                                     | -                                                      | 113,462              | -                          | 113,462                    |  |  |  |  |  |
| 88                                    | -                                | (2)                                   | -                                                      | 57                   | (62)                       | (5)                        |  |  |  |  |  |
| -                                     | -                                | 5,758                                 | -                                                      | -                    | -                          | -                          |  |  |  |  |  |
| (40,473)                              | (4,250)                          | 5,070                                 | (119,049)                                              | 2,058,065            | 3                          | 2,058,068                  |  |  |  |  |  |
| 864,955                               | (423)                            | (82,282)                              | 1,157,834                                              | 12,824,952           | 593                        | 12,825,545                 |  |  |  |  |  |
| -                                     | -                                | 2,674                                 | -                                                      | -                    | -                          | -                          |  |  |  |  |  |
| -                                     | -                                | -                                     | -                                                      | (401,602)            | -                          | (401,602)                  |  |  |  |  |  |
| 27                                    | -                                | (1)                                   | -                                                      | 199                  | (199)                      | -                          |  |  |  |  |  |
| -                                     | -                                | -                                     | -                                                      | (12,624)             | -                          | (12,624)                   |  |  |  |  |  |
| (296,458)                             | 423                              | (51,076)                              | (348,727)                                              | 1,536,847            | (26)                       | 1,536,821                  |  |  |  |  |  |
| 568,524                               | -                                | (130,685)                             | 809,107                                                | 13,947,772           | 368                        | 13,948,140                 |  |  |  |  |  |
| -                                     | -                                | 16,146                                | -                                                      | -                    | -                          | -                          |  |  |  |  |  |
| -                                     | -                                | -                                     | -                                                      | (50,708)             | -                          | (50,708)                   |  |  |  |  |  |
| (32)                                  | -                                | (30,152)                              | 627,050                                                | 26,982               | 176                        | 27,158                     |  |  |  |  |  |
| Ps. 568,492                           | Ps. -                            | Ps. (144,691)                         | Ps. 1,436,157                                          | Ps. 13,924,046       | Ps. 544                    | Ps. 13,924,590             |  |  |  |  |  |

# Consolidated Statements of Cash Flows

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

For the years ended December 31, 2020, 2019 and 2018

(Thousands of Mexican pesos)

|                                                                                 | 2020 |             | 2019 |             | 2018 |             |
|---------------------------------------------------------------------------------|------|-------------|------|-------------|------|-------------|
| Cash flows from operating activities:                                           |      |             |      |             |      |             |
| Consolidated net (loss) income                                                  | Ps.  | (569,976)   | Ps.  | 2,232,675   | Ps.  | 2,216,773   |
| Adjustments for:                                                                |      |             |      |             |      |             |
| Income tax expense from continuing operations                                   |      | 30,159      |      | 233,295     |      | 815,497     |
| Depreciation and amortization of continuing operations                          |      | 1,661,460   |      | 921,502     |      | 651,648     |
| Loss (profit) on sale of property, plant and equipment of continuing operations |      | 18,700      |      | 15,851      |      | (2,280)     |
| Loss in sinister of property, plant and equipment                               |      | 661,270     |      | -           |      | -           |
| Net period cost for employee benefit plans of continuing operations             |      | 13,895      |      | 57,342      |      | 60,647      |
| Impairment of property, plant and equipment of continued operations             |      | 6,545       |      | 92,715      |      | -           |
| Cancellation of provision                                                       |      | -           |      | (455,605)   |      | -           |
| Depreciation of right-of-use asset                                              |      | 271,921     |      | 251,566     |      | -           |
| Disposals of right-of-use asset                                                 |      | (10,741)    |      | (101)       |      | -           |
| Other financial expenses                                                        |      | 212,040     |      | 245,042     |      | 224,529     |
| Derivative financial instruments                                                |      | -           |      | -           |      | (4,527)     |
| Equity in results of joint ventures                                             |      | (1,085,187) |      | (1,034,553) |      | (1,283,952) |
| Interest expense from continuing operations                                     |      | 1,095,159   |      | 814,988     |      | 466,305     |
| Interest income from continuing operations                                      |      | (29,223)    |      | (37,209)    |      | (38,078)    |
|                                                                                 |      | 2,276,022   |      | 3,337,508   |      | 3,106,562   |
| Changes in working capital:                                                     |      |             |      |             |      |             |
| (Increase) decrease in:                                                         |      |             |      |             |      |             |
| Accounts receivable                                                             |      | (460,471)   |      | (45,590)    |      | (227,962)   |
| Inventories                                                                     |      | (102,962)   |      | (749,147)   |      | (1,123,307) |
| Biological assets                                                               |      | (200,479)   |      | (23,067)    |      | (414,729)   |
| Other accounts receivable and other assets                                      |      | (26,622)    |      | (52,420)    |      | (196,845)   |
| Increase (decrease) in:                                                         |      |             |      |             |      |             |
| Notes and accounts payable to suppliers                                         |      | 324,280     |      | 126,782     |      | 1,252,115   |
| Other payables and accrued liabilities                                          |      | 616,065     |      | 182,948     |      | (264,235)   |
| Accounts payable to related parties                                             |      | 30,581      |      | (6,593)     |      | 2,377       |
| Income taxes paid                                                               |      | (561,516)   |      | (486,560)   |      | (576,673)   |
| Net cash flows generated by operating activities                                |      | 1,894,898   |      | 2,283,861   |      | 1,557,303   |

|                                                               | 2020 |             | 2019 |             | 2018 |             |
|---------------------------------------------------------------|------|-------------|------|-------------|------|-------------|
| Cash flows from investing activities:                         |      |             |      |             |      |             |
| Acquisition of property, plant and equipment                  |      | (871,571)   |      | (1,493,732) |      | (3,122,161) |
| Proceeds from sale of property, plant and equipment           |      | 5,387       |      | 1,053,180   |      | 10,889      |
| Proceeds from others assets                                   |      | -           |      | 23,768      |      | -           |
| Dividends from joint ventures                                 |      | 2,434,847   |      | 575,823     |      | 321,662     |
| Accounts receivable from disposal of subsidiary               |      | -           |      | -           |      | 512,895     |
| Investment on intangible assets                               |      | (183,536)   |      | (1,449,240) |      | (2,381,295) |
| Interest received                                             |      | 29,223      |      | 37,209      |      | 38,078      |
| Claim recovery from properties, plant and sinister equipment  |      | 921,505     |      | -           |      | -           |
| Net cash flows generated by (used in) investing activities    |      | 2,335,855   |      | (1,252,992) |      | (4,619,932) |
| Cash flows from financing activities:                         |      |             |      |             |      |             |
| Proceeds from debt                                            |      | 2,355,173   |      | 8,624,690   |      | 5,953,052   |
| Payments of debt                                              |      | (1,573,343) |      | (7,087,623) |      | (1,256,780) |
| Expenses associated with bond issuance                        |      | -           |      | (22,995)    |      | (13,148)    |
| Other financial expenses                                      |      | (212,040)   |      | (245,042)   |      | (224,529)   |
| Lease payments                                                |      | (356,692)   |      | (321,265)   |      | -           |
| Interest paid                                                 |      | (967,370)   |      | (1,036,967) |      | (780,336)   |
| Dividends paid                                                |      | (200,674)   |      | (200,674)   |      | (342,275)   |
| (Repurchase) proceeds of common shares, net of dividends      |      | (50,708)    |      | (12,624)    |      | 113,462     |
| Net cash flows (used in) generated by in financing activities |      | (1,005,654) |      | (302,500)   |      | 3,449,446   |
| Effects of exchange rate changes on cash and cash equivalents |      | 46,515      |      | (290,270)   |      | (4,973)     |
| Net increase in cash and cash equivalents                     |      | 3,271,614   |      | 438,099     |      | 381,844     |
| Cash and cash equivalents at beginning of year                |      | 1,541,076   |      | 1,102,977   |      | 721,133     |
| Cash and cash equivalents at end of year                      | Ps.  | 4,812,690   | Ps.  | 1,541,076   | Ps.  | 1,102,977   |

# Notes to the Consolidated Financial Statements

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

For the years ended December 31, 2020, 2019 and 2018

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

### 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.

The financial statements are presented in thousands of Mexican pesos. Overseas operations are included in compliance with the policies set out in Note 4.

### 2. SIGNIFICANT EVENTS

- **Pandemic due to COVID 19** - On March 11, 2020, the World Health Organization (WHO) declared COVID-19 as a Global Pandemic, its expansion led to a series of containment measures in the different geographies where the Entity operates and a series of health security measures was taken by the Mexican authorities and by the different governments where the Entity operates to stop the spread of this virus.

During the months of April and May, the business of the Automotive Sector were affected by the closure of the Transmission plants in the US, Mexico and Belgium, in conjunction with the temporary closure of the assemblers plant (OEM's) in North America and the reduction of operations of the Parts business. The Chemical Sector was affected by the drop in oil prices, impacting the prices of butadiene and styrene, in addition to the temporary closure of the Tires and Synthetic Rubber plant in Spain, as well as some of its clients, for this reason the second quarter of 2020 had a decrease in sales of 10% (IFRS) in comparison to the same period of the previous year. On the contrary, the Consumer Sector had a growth of 7% (IFRS) driven by higher demand, highlighting the categories of tomato puree, ketchup, mole and tuna in the national market of Herdez del Fuerte, as well as growth in the Exportation channel of the pork business, offsetting the lower demand from the “Food Service” segment in the US.

During 2020, the Entity implemented strict security protocols in accordance with the guidelines issued by the different government entities focused on guaranteeing the continuity of operations and the safety of employees, plants and offices, including: (i) remote work of 90% of the administrative areas, (ii) rescheduling of work shifts in plants to avoid overcrowding of spaces, (iii) modification to the infrastructure to maintain a healthy distance and (iv) strengthening the information technology platforms, among others. The expenses related to the implementation of this security and operational continuity measures amounted to Ps.96 million pesos, which were recorded under other expenses.

On the other hand, the Entity implemented a series of financial measures to strengthen liquidity, such as: (i) reduction of working capital, particularly inventories (ii) divestment of the Tuna business in Herdez Del Fuerte (Investment in a joint venture that is recognized by the equity method), (iii) strict control of expenses and capital investments (v) disposal of committed credit lines for US 80 million, of which US 60 million were settled at the close of fiscal year 2020 and the remainder was paid on February 17, 2021.

As of the date of issuance of the consolidated financial statements, despite the profound impact that COVID-19 is having on human health, the economy and society throughout the world, the Entity had no significant adverse effects on the situation and consolidated financial performance, except on the Automotive Transmissions segment, which generated an operating loss of Ps.789.7 million and a net loss of Ps.1,370 million for the year ended December 31, 2020. With the information available to date, for the fiscal year of 2021, the Entity does not expect significant impacts on its consolidated financial results and cash flows, however, they will depend on the evolution of COVID-19, the effectiveness of health and vaccination campaigns and mitigation measures, the proper functioning of the productive chains, as well as the economic recovery in the industries and markets where the Entity operates.

- **Processing plant fire** - On May 3, 2020, one of the processing plants of the Pork business, located in Sahé, Yucatán, suffered a severe fire, affecting machinery, building, equipment and inventories. For further details, see Note 28 to the consolidated financial statements.
- **Credit line disposal and credit payment** - During 2020, 2019 and 2018, KUO contracted and renewed committed credit lines with different financial institutions for Ps.8,625 million and Ps.4,865 million, respectively. The resources were mainly used to refinance debt and to continue investments in projects in the Consumer and Automotive Segments. Further detail of these credits are included in Note 20 to the consolidated financial statements.
- **Investments in projects** - During 2020, 2019 and 2018, the Entity made significant investments in strategic projects for the Consumer and Automotive Segments for Ps.854 million, Ps.1,576 million and Ps.2,997 million in property, plant and equipment, respectively, and for Ps.184 million, Ps.1,404 million and Ps.2,362 million in intangible assets, respectively, mainly in the construction of new production facilities to expand the installed capacity and the development of new products.
- **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 Segments. Further detail of this credit is included in Note 20 to the consolidated financial statements.

### 3. ADOPTION OF 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, 2020.

#### Impact of the initial application of Interest Rate Benchmark Reform

In September 2019, the IASB issued *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*. Benchmark interbank rates such as LIBOR, EURIBOR, and TIBOR (collectively IBOR), which represent the cost of obtaining unsecured funds, have been questioned about their viability as long-term funding benchmarks.

These amendments, during phase 1, modify the specific hedge accounting requirements to allow hedge accounting to continue for the affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current benchmarks interest rate modifies because of the interest rate benchmark reforms. As of December 31, 2020, the modifications are not relevant for Grupo KUO since hedge accounting does not apply for this type of risk and therefore, it does not have exposures to reference interest rates.

The changes in the reform for the reference interest rates in its phase 2 refer to the modifications of financial assets, financial liabilities and lease liabilities, requirements for accounting coverage and disclosure of financial instruments. These improvements are effective as of January 1, 2021 with retrospective application, without the need to redo the comparative periods.

With respect to modifying financial assets, financial liabilities and lease liabilities, the IASB introduced a practical expedient which involves updating the effective interest rate and also continues the practical expedient of hedge accounting.

Finally, with respect to the disclosures, entities must disclose how they are managing the transition to alternative benchmark rates and the risks that may arise from the transition; in addition, they must include quantitative information on financial assets and non-derivative financial liabilities, as well as non-derivative financial instruments, that continue under the reference rates subject to the reform and the changes that have arisen to the risk management strategy.

#### Interest rate risk management

Grupo KUO is exposed to interest rate risk because the entities of the group borrow at fixed and variable interest rates. The risk is managed by the group, evaluating the appropriate combination of fixed and variable rate loans. If necessary, the use of interest rate swap contracts is considered.

Grupo KUO has closely supervised the market and the production of the various industry working groups that manage the transition to new benchmark interest rates. This includes announcements made by IBOR regulators. Regulators have made clear that, by the end of 2021, it will no longer seek to persuade or force banks to file IBOR rates.

In response to the expectations, Grupo KUO has launched an IBOR transition program made up of the following lines of work: risk management, tax, treasury, legal, accounting and systems. The program is under the direction of the Finance and Planning Director, who reports to the Steering Committee. The objective of the program is to understand where IBOR exposures lie within the business and to prepare and fulfill an action plan to enable an orderly transition to alternative benchmark rates. Grupo KUO aims to finalize its transition plans, incorporating fallback clauses for the third quarter of 2021, although it depends on external factors to the group.

The Entity will initiate a review of the credit agreements, which maintains with the banks, including the adjustment and incorporation of adequate and solid fallback clauses for the transition to the reference interest rate. Different working groups in the industry are working on an alternative language for different instruments and IBOR rates, which Grupo KUO is closely monitoring and will seek to implement when appropriate. Additionally, the Entity has an internal plan which consists of being in contact with the banking entities which it has contracts related to IBOR rates to substitute and adapt the contracts as appropriate.

The amount exposed as of December 31, 2020 for the above changes corresponds to US 263.7 million that pay interest at the Libor rate plus an applicable margin.

#### Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued *Covid-19-Related Rent Concessions (Amendment to IFRS 16)* that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID- 19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021 (a rent concession meets this condition if it results in reduced lease payments on or before June 30, 2021 and increased lease payments that extend beyond June 30, 2021); and
- There is no substantive change to other terms and conditions of the lease.

In the current financial year, the Entity has applied the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date, and the effect of this application on the financial information for 2020 was immaterial.

#### b. Impact of the initial application of other new and amended IFRS Standards that are effective for the current year

In the current year, the Entity has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after January 1, 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

|                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Amendments to IAS 1 and IAS 8</b><br><b>Definition of material</b> | <p>The Entity has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of ‘obscuring’ material information with immaterial information has been included as part of the new definition.</p> <p>The threshold for materiality influencing users has been changed from ‘could influence’ to ‘could reasonably be expected to influence’.</p> <p>The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the <i>Conceptual Framework</i> that contain a definition of ‘material’ or refer to the term ‘material’ to ensure consistency.</p> |
|-----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

#### c. New and revised IFRS Standards in issue but not yet effective

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

|                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IFRS 17<br>IFRS 10 e IAS 28 (amendments)<br>Amendments to IAS 1<br>Amendments to IFRS 3<br>Amendments to IAS 16<br>Amendments to IAS 37<br>Annual Improvements to IFRS Standards 2018-2020 Cycle | <i>Insurance Contracts</i><br><i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i><br><i>Classification of Liabilities as Current or Non-current</i><br><i>Reference to the Conceptual Framework</i><br><i>Property, Plant and Equipment—Proceeds before Intended Use</i><br><i>Onerous Contracts – Cost of Fulfilling a Contract</i><br><i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture</i> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

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

#### Amendments to IFRS 3 – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 *Conceptual Framework* instead of the 1989 *Framework*. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 *Levies*, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

## 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 at the end of each period, as explained in the accounting policies included below.

#### 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 IFRS 16, 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.

#### iii. Going concern

Consolidated financial statements have been prepared by management assuming that the Entity will continue to operate as a working company.

As mentioned in Note 2, during the first months of 2020, the COVID-19 disease was declared by the World Health Organization (WHO) as a Global Pandemic. Its recent global expansion has motivated a series of containment measures in the different geographies where the Entity operates and certain sanitary measures have been taken both by the Mexican authorities and by the different governments where the Entity operates to stop the spread of this virus. Derived from the uncertainty and duration of this pandemic, the Entity analyzed the following considerations to determine whether the assumption of continuing as a going concern is applicable to it:

- Internal control environment derived from changes to work at home and sanitary rules.
- Accounting estimates.
- Impairment of inventories and net realizable value.
- Recognition of income.
- Valuation of a going concern.
- Impairment of financial instruments.
- Impairment of intangibles and useful life of intangibles with a defined life.
- Other considerations (deferred and current taxes, pension plans, classification of financial liabilities).

### 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, 2020, 2019 and 2018 are:

|                                                   | Equity percentage |
|---------------------------------------------------|-------------------|
| <b>Consumer Segment:</b>                          |                   |
| Grupo Porcícola Mexicano, S.A. de C.V.            | 100.00%           |
| Comercializadora Porcícola Mexicana, S.A. de C.V. | 100.00%           |
| <b>Chemical Segment:</b>                          |                   |
| Resirene, S.A. de C.V. and Subsidiary             | 100.00%           |
| <b>Automotive Segment:</b>                        |                   |
| Transmisiones y Equipos Mecánicos, S.A. de C.V.   | 99.99%            |
| Dacomsa, S.A. de C.V.                             | 100.00%           |

Joint ventures of December 31, 2020, 2019 and 2018 are:

|                                                           | Equity percentage |
|-----------------------------------------------------------|-------------------|
| <b>Consumer Segment:</b>                                  |                   |
| Herdez del Fuerte, S.A. de C.V. and Subsidiaries          | 50.00%            |
| <b>Chemical Segment:</b>                                  |                   |
| 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 these 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 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).

#### **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 the statement of income and other comprehensive income.
- 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.

### 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.

### (i) 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.

### (ii) 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.

### (iii) 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.

### (iv) 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 losses 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 IFRS 16, “Leases”.

If the Entity has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses 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.

### **g. Financial liabilities and equity**

#### **Classification as debt or equity**

Debt and equity instruments are classified either as 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.

#### **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 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 amortised 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 amortised over the lives of the convertible loan notes using the effective interest method.

All financial liabilities are measured subsequently at amortised 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 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 18.

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.

**Hedges of net investments in foreign operations**

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the foreign currency forward contracts relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the ‘other gains and losses’ line item.

Gains and losses on the hedging instrument accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

**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. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**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 standard growth, the process was designed in such a way that they 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.

**Assets convertible in “breeding stock and stallions” (long-term biological assets)**

In this second block, the growth of the hogs is maximized so that they are considered “breeding stock” and their useful life within the Entity’s model is approximately 156 weeks. Stallions are recorded at their acquisition cost depending on the genetic line acquired and its shelf life is approximately 72 weeks.

## 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 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. Subsequently, 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 3t. 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 acquire and the equity interests issued by the Entity in exchange for control of the acquire. 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 acquire 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 such 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. Leases

##### The Entity as lessee

The Entity evaluates whether a contract contains a lease at its source. The Entity recognizes a right-of- use asset for use rights and a corresponding lease liability with respect to all the lease agreements in which it is a lessee, except for short-term leases (12 months or less) and those for low-value assets. For these leases, the Entity recognizes rental payments as an operating expense under the straight-line method throughout the period of the lease, unless another method is more representative of the pattern of time in which the economic benefits from consumption of leased assets.

The lease liability is initially measured at the present value of the rent payments that are not paid on the start date, discounted by the rate implicit in the contract. If this rate cannot be easily determined, the Entity uses incremental rates.

The rent payments included in the measurement of the lease liability consist of:

- Fixed rent payments (including fixed payments in substance), less any lease incentives received;
- Variable income payments that depend on an index or rate, initially measured using the index or rate on the start date;
- The expected amount to be paid by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments for penalties resulting from the termination of the lease, if the lease period reflects the exercise of a lease termination option.

The lease liability is presented as a separate concept in current and long-term liabilities in the consolidated statement of financial position. The contractual maturities of the obligations for this concept are shown in Note 16d.

The lease liability is subsequently measured by increasing the book value to reflect the interest accrued by the lease liability (using the effective interest method) and reducing the book value to reflect the rent payments made.

The Entity reevaluates the lease liability (and adjusts the corresponding asset for relative use rights) provided that:

- The lease term is modified or there is a significant event or change in the circumstances of the lease resulting in a change in the evaluation of the purchase option exercise, in which case the lease liability is measured by discounting the updated rental payments using an updated discount rate.
- The rent payments are modified as a consequence of changes in indexes, rate or in the expected payment under a guaranteed residual value, in which cases the lease liability is re-evaluated by discounting the updated rent payments using the same discount rate (unless that the change is due to a change in the variable interest rate, in which case an updated discount rate is used).
- A lease is amended and the modification of the lease is not accounted for as a separate lease, in which case the lease liability is re-evaluated based on the lease term of the modified lease, discounting updated rental payments using a discount rate updated to the effective date of the modification.

Assets for rights of use consist of the initial measurement of the corresponding lease liability, the rent payments made on or before the commencement date, less any lease incentives received and any direct initial cost. Subsequent valuation is cost less accumulated depreciation and impairment losses.

If the Entity incurs an obligation arising from the costs of dismantling and removing a leased asset, restoring the bond in which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, a provision measured in accordance with IAS 37. To the extent that costs are related to an asset for rights of use, costs are included in the asset for rights of related use, unless such costs are incurred to generate inventories.

In some cases, rights-of-use assets are depreciated over the shorter period between the lease period and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the asset for use rights reflects that the Entity plans to exercise a purchase option, the asset for use rights will be depreciated over the useful life. Depreciation begins on the start date of the lease.

Assets for rights of use are presented as a separate concept in the consolidated statement of financial position.

The Entity applies IAS 36 to determine if an asset for use rights is impaired and accounts for any impairment loss identified as described in the Property, plant and equipment policy.

Variable income leases that do not depend on an index or rate are not included in the measurement of the lease liability and the asset for use rights. Related payments are recognized as an expense in the period in which the event or condition that triggers the payments occurs and are included in operating expenses in the consolidated statement of comprehensive income (see Note 27).

v. 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:

| Subsidiary                                                                                    | 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.<br>(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.

w. 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.

## x. 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, 2020, 2019 and 2018, 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.

## y. Income taxes

Income tax expense 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

Deferred tax 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.

## 4. Uncertainty in the treatment of income taxes

The Entity reviews if there is any uncertain fiscal position, and if it exists, quantifies it using the most probable amount or the expected value method, depending on which one best predicts the resolution of the uncertainty.

## z. 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 its 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.

## aa. Consolidated 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 and interest and dividend income are generally classified as financing and investment activities, respectively. The borrowing costs capitalized in qualified assets are classified as financing activity in the interest paid caption.

The effects of exchange rate changes on cash and cash equivalents includes the unrealized exchange gain or loss and the effects of foreign currency translation.

## bb. 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.

## cc. Earnings per share

Basic earnings per common share are calculated by dividing consolidated net income 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 per share is the same as basic earnings per share.

## dd. 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 earnings comprise the fair value of the consideration received or to be received for the sale of goods, which occurs when control has been transferred at a point in time by delivering the products to customers in exchange for the 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, they are recognized when control of the goods has been transferred at a point in time to customers in exchange for the consideration to which the Entity considers to be entitled in exchange for said goods or services.

**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. Since manufacturing cycle of a transmission is estimated in one day, Management concluded income recognition over time does not differ significantly from its recognition at one 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 considered to have the right.

The types of revenues mentioned 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.

**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 Entity's Management 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, Entity's Management 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 4w, the Entity capitalizes borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which require a substantial period until they are ready for use or sale, are added to the cost of those assets during that time until they are ready for use or sale.

- **Business model assessment**

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (see financial assets sections of Note 4f). 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 amortized 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.

- **Discount rate and lease renewals**

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

Management estimates the discount rate to use in the determination of the lease liability, based on the incremental borrowing rate. Management uses a three-tier model, with which it determines the three elements that comprises the discount rate: (i) reference rate, (ii) credit risk component and (iii) adjustment for characteristics of the underlying asset. In this model, Management also considers its policies and practices to obtain financing, distinguishing between the one obtained at the corporate level (that is, the holding company), or at the level of each subsidiary.

- **Discount rate and impairment calculation**

The calculation of the value in use for impairment testing requires administration; based on your judgment, establish the appropriate cash-generating units in your environment to determine future cash flows discounted at an appropriate discount rate to calculate present value. Goodwill is allocated to each of the Administration's cash-generating units that expects to obtain profit from certain synergies. If applicable, the impact would be recorded in the corresponding asset item and the result for the period.

**b. Key sources of estimation uncertainty**

The key assumptions regarding the future and other key sources of estimation uncertainty at the end of the period, which have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities during the next year, are explained below.

- **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 (loans and derivatives). 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 17.

## 6. SEGMENT INFORMATION

Management evaluates its businesses and makes decisions on three Operating Segments. Additionally, general information is presented by products, services and geographic area.

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:

- a) The business activity or particular economic environment from which it obtains revenues, maintains assets or incurs liabilities.
- b) 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.
- c) Additional information to the financial information is available and is based on a managerial approach.
- d) 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<br>December 31, 2020             |          |            |  |          |            |  |            |             |  |                |            |              | Elimination of<br>joint ventures |              | Consolidated<br>information |     |             |  |     |              |  |     |             |
|-----------------------------------------------------|----------|------------|--|----------|------------|--|------------|-------------|--|----------------|------------|--------------|----------------------------------|--------------|-----------------------------|-----|-------------|--|-----|--------------|--|-----|-------------|
|                                                     | Consumer |            |  | Chemical |            |  | Automotive |             |  | KUO and others |            | Eliminations |                                  | Total        |                             |     |             |  |     |              |  |     |             |
| Net sales                                           | Ps.      | 23,159,811 |  | Ps.      | 11,698,567 |  | Ps.        | 10,751,723  |  | Ps.            | 957,685    |              | Ps.                              | (782,756)    |                             | Ps. | 45,785,030  |  | Ps. | (14,849,161) |  | Ps. | 30,935,869  |
| General expenses                                    |          | 4,358,436  |  |          | 1,153,088  |  |            | 860,559     |  |                | 1,006,421  |              |                                  | (665,748)    |                             |     | 6,712,756   |  |     | (2,624,801)  |  |     | 4,087,955   |
| Other expenses (income), net                        |          | 823,669    |  |          | (77,804)   |  |            | 12,963      |  |                | 1,899      |              |                                  | (337)        |                             |     | 760,390     |  |     | 170,386      |  |     | 930,776     |
| Depreciation and amortization                       |          | 771,994    |  |          | 559,926    |  |            | 1,192,991   |  |                | 55,591     |              |                                  | -            |                             |     | 2,580,502   |  |     | (647,121)    |  |     | 1,933,381   |
| Net employee benefit cost                           |          | 18,613     |  |          | 2,636      |  |            | (12,259)    |  |                | 17,416     |              |                                  | -            |                             |     | 26,406      |  |     | (12,511)     |  |     | 13,895      |
| Impairment of fixed and intangible assets           |          | -          |  |          | (28,766)   |  |            | 6,545       |  |                | -          |              |                                  | -            |                             |     | (22,221)    |  |     | 28,766       |  |     | 6,545       |
| Loss in property, plant and<br>equipment claim      |          | 661,270    |  |          | -          |  |            | -           |  |                | -          |              |                                  | -            |                             |     | 661,270     |  |     | -            |  |     | 661,270     |
| Equity in results of joint ventures                 |          | -          |  |          | -          |  |            | -           |  |                | -          |              |                                  | -            |                             |     | -           |  |     | 1,085,187    |  |     | 1,085,187   |
| Income from operations                              |          | 1,300,093  |  |          | 989,443    |  |            | (550,689)   |  |                | (50,635)   |              |                                  | -            |                             |     | 1,688,212   |  |     | (435,554)    |  |     | 1,252,658   |
| Interest income                                     |          | 53,980     |  |          | 27,748     |  |            | 5,586       |  |                | 365,451    |              |                                  | (367,557)    |                             |     | 85,208      |  |     | (55,985)     |  |     | 29,223      |
| Interest expense                                    |          | (129,138)  |  |          | (82,576)   |  |            | (340,505)   |  |                | (991,204)  |              |                                  | 367,557      |                             |     | (1,175,866) |  |     | 80,707       |  |     | (1,095,159) |
| Other financial expenses                            |          | (85,259)   |  |          | (35,159)   |  |            | (45,141)    |  |                | (36,342)   |              |                                  | -            |                             |     | (201,901)   |  |     | (10,139)     |  |     | (212,040)   |
| Exchange income (loss), net                         |          | (36,125)   |  |          | (162,008)  |  |            | (321,283)   |  |                | 52,833     |              |                                  | -            |                             |     | (466,583)   |  |     | (49,931)     |  |     | (516,514)   |
| Equity in results of subsidiaries<br>and associates |          | (5,664)    |  |          | (621)      |  |            | -           |  |                | (43,664)   |              |                                  | 43,664       |                             |     | (6,285)     |  |     | 6,285        |  |     | -           |
| Income taxes                                        |          | 303,207    |  |          | 247,999    |  |            | 75,328      |  |                | (131,664)  |              |                                  | -            |                             |     | 494,870     |  |     | (464,711)    |  |     | 30,159      |
| Income (loss) from continuing operations            |          | 794,680    |  |          | 488,828    |  |            | (1,327,360) |  |                | (571,897)  |              |                                  | 43,664       |                             |     | (572,085)   |  |     | 94           |  |     | (571,991)   |
| Income from discontinued operations                 |          | -          |  |          | -          |  |            | -           |  |                | 2,014      |              |                                  | -            |                             |     | 2,014       |  |     | 1            |  |     | 2,015       |
| Net income (loss)                                   |          | 794,680    |  |          | 488,828    |  |            | (1,327,360) |  |                | (569,883)  |              |                                  | 43,664       |                             |     | (570,071)   |  |     | 95           |  |     | (569,976)   |
| Cash and cash equivalents                           |          | 1,088,649  |  |          | 819,951    |  |            | 77,491      |  |                | 4,655,021  |              |                                  | -            |                             |     | 6,641,112   |  |     | (1,828,422)  |  |     | 4,812,690   |
| Total assets                                        |          | 20,295,357 |  |          | 11,269,371 |  |            | 16,429,169  |  |                | 33,685,682 |              |                                  | (29,741,522) |                             |     | 51,938,057  |  |     | (6,042,205)  |  |     | 45,895,852  |
| Total financial debt                                |          | -          |  |          | 1,000,613  |  |            | 490,278     |  |                | 16,267,209 |              |                                  | -            |                             |     | 17,758,100  |  |     | (1,000,613)  |  |     | 16,757,487  |
| Total liabilities                                   |          | 9,667,125  |  |          | 5,429,522  |  |            | 6,966,585   |  |                | 19,968,643 |              |                                  | (4,022,654)  |                             |     | 38,009,221  |  |     | (6,037,959)  |  |     | 31,971,262  |
| Additions to property, plant and equipment          |          | 747,417    |  |          | 333,315    |  |            | 287,061     |  |                | -          |              |                                  | -            |                             |     | 1,367,793   |  |     | (496,222)    |  |     | 871,571     |
| Investment in intangibles                           |          | -          |  |          | 12,001     |  |            | 170,391     |  |                | 1,144      |              |                                  | -            |                             |     | 183,536     |  |     | -            |  |     | 183,536     |

| For the year ended<br>December 31, 2019             |          |            |          |            |            |            |                |             |              |              |       |            |     |              |     | Elimination of<br>joint venturess |  | Consolidated<br>information |  |
|-----------------------------------------------------|----------|------------|----------|------------|------------|------------|----------------|-------------|--------------|--------------|-------|------------|-----|--------------|-----|-----------------------------------|--|-----------------------------|--|
|                                                     | Consumer |            | Chemical |            | Automotive |            | KUO and others |             | Eliminations |              | Total |            |     |              |     |                                   |  |                             |  |
| Net sales                                           | Ps.      | 21,140,023 | Ps.      | 12,894,699 | Ps.        | 8,013,391  | Ps.            | 983,547     | Ps.          | (803,534)    | Ps.   | 42,228,126 | Ps. | (14,431,315) | Ps. | 27,796,811                        |  |                             |  |
| General expenses                                    |          | 4,119,580  |          | 1,169,532  |            | 939,906    |                | 940,202     |              | (685,135)    |       | 6,484,085  |     | (2,494,741)  |     | 3,989,344                         |  |                             |  |
| Other (income) expenses, net                        |          | (76,580)   |          | (19,613)   |            | 6,651      |                | (455,676)   |              | -            |       | (545,218)  |     | 96,251       |     | (448,967)                         |  |                             |  |
| Depreciation and amortization                       |          | 715,354    |          | 447,493    |            | 487,091    |                | 55,443      |              | -            |       | 1,705,381  |     | (532,313)    |     | 1,173,068                         |  |                             |  |
| Net employee benefit cost                           |          | 14,385     |          | 4,555      |            | 29,397     |                | 18,341      |              | -            |       | 66,678     |     | (9336)       |     | 57,342                            |  |                             |  |
| Impairment of fixed and intangible assets           |          | -          |          | (18,942)   |            | 92,715     |                | -           |              | -            |       | 73,773     |     | 18,942       |     | 92,715                            |  |                             |  |
| Equity in results of joint ventures                 |          | -          |          | -          |            | -          |                | -           |              | -            |       | -          |     | 1,034,553    |     | 1,034,553                         |  |                             |  |
| Income from operations                              |          | 2,095,357  |          | 973,636    |            | (170,997)  |                | 499,022     |              | -            |       | 3,397,018  |     | (354,757)    |     | 3,042,261                         |  |                             |  |
| Interest income                                     |          | 52,412     |          | 46,260     |            | 5,765      |                | 486,838     |              | (495,664)    |       | 95,611     |     | (58,402)     |     | 37,209                            |  |                             |  |
| Interest expense                                    |          | (70,209)   |          | (81,753)   |            | (118,757)  |                | (1,121,760) |              | 495,664      |       | (896,815)  |     | 81,827       |     | (814,988)                         |  |                             |  |
| Other financial expenses                            |          | (95,211)   |          | (45,936)   |            | (64,011)   |                | (33,522)    |              | -            |       | (238,680)  |     | (6,362)      |     | (245,042)                         |  |                             |  |
| Exchange (loss) income, net                         |          | 61,823     |          | 49,290     |            | 30,889     |                | 296,413     |              | -            |       | 438,415    |     | 5,965        |     | 444,380                           |  |                             |  |
| Equity in results of subsidiaries<br>and associates |          | (3,928)    |          | 3,781      |            | -          |                | 2,135,605   |              | (2,135,605)  |       | (147)      |     | 147          |     | -                                 |  |                             |  |
| Income taxes                                        |          | 562,561    |          | 201,703    |            | (231,233)  |                | 32,062      |              | 565,093      |       | (331,798)  |     | 233,295      |     |                                   |  |                             |  |
| Income (loss) from continuing operations            |          | 1,477,683  |          | 743,575    |            | (85,878)   |                | 2,230,534   |              | (2,135,605)  |       | 2,230,309  |     | 216          |     | 2,230,525                         |  |                             |  |
| Income from discontinued operations                 |          | -          |          | -          |            | -          |                | 2,150       |              | -            |       | 2,150      |     | -            |     | 2,150                             |  |                             |  |
| Net income                                          |          | 1,477,683  |          | 743,575    |            | (85,878)   |                | 2,232,684   |              | (2,135,605)  |       | 2,232,459  |     | 216          |     | 2,232,675                         |  |                             |  |
| Cash and cash equivalents                           |          | 631,060    |          | 1,262,717  |            | 292,008    |                | 1,161,613   |              | -            |       | 3,347,398  |     | (1,806,322)  |     | 1,541,076                         |  |                             |  |
| Total assets                                        |          | 21,148,756 |          | 11,458,407 |            | 15,666,407 |                | 31,525,018  |              | (30,064,170) |       | 49,734,418 |     | (5,441,428)  |     | 44,292,990                        |  |                             |  |
| Total financial debt                                |          | -          |          | 992,445    |            | 672,530    |                | 14,917,654  |              | -            |       | 16,582,629 |     | (992,445)    |     | 15,590,184                        |  |                             |  |
| Total liabilities                                   |          | 10,704,909 |          | 5,258,335  |            | 9,061,398  |                | 17,784,252  |              | (7,025,821)  |       | 35,783,073 |     | (5,438,223)  |     | 30,344,850                        |  |                             |  |
| Additions to property, plant and equipment          |          | 1,076,581  |          | 478,888    |            | 576,353    |                | -           |              | -            |       | 2,131,822  |     | (638,090)    |     | 1,493,732                         |  |                             |  |
| Investment in intangibles                           |          | 1,527      |          | -          |            | 1,439,498  |                | 8,215       |              | -            |       | 1,449,240  |     | -            |     | 1,449,240                         |  |                             |  |

**For the year ended  
December 31, 2018**

| For the year ended<br>December 31, 2018    |     |            |     |            |     |            | Consumer |  | Chemical |  | Automotive |  | KUO and others |            | Eliminations |              | Total |            | Elimination of<br>joint ventures |              | Consolidated<br>information |            |
|--------------------------------------------|-----|------------|-----|------------|-----|------------|----------|--|----------|--|------------|--|----------------|------------|--------------|--------------|-------|------------|----------------------------------|--------------|-----------------------------|------------|
| Net sales                                  | Ps. | 19,359,703 | Ps. | 15,879,250 | Ps. | 7,176,790  |          |  |          |  |            |  | Ps.            | 944,562    | Ps.          | (792,327)    | Ps.   | 42,567,978 | Ps.                              | (15,285,767) | Ps.                         | 27,282,211 |
| General expenses                           |     | 3,777,347  |     | 1,378,322  |     | 890,342    |          |  |          |  |            |  |                | 1,055,811  |              | (702,679)    |       | 6,399,143  |                                  | (2,776,402)  |                             | 3,622,741  |
| Other (income) expenses, net               |     | (38,746)   |     | (60,302)   |     | (1,564)    |          |  |          |  |            |  |                | -          |              | -            |       | (100,612)  |                                  | 100,612      |                             | -          |
| 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 results of joint ventures        |     | -          |     | -          |     | -          |          |  |          |  |            |  |                | -          |              | -            |       | -          |                                  | 1,283,952    |                             | 1,283,952  |
| Income from operations                     |     | 2,235,837  |     | 1,724,035  |     | 353,865    |          |  |          |  |            |  |                | (111,250)  |              | -            |       | 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)    |
| Equity in results of associates            |     | 456        |     | (7,087)    |     | -          |          |  |          |  |            |  |                | 2,852,654  |              | (2,852,654)  |       | (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    |          |  |          |  |            |  |                | 2,169,382  |              | (2,852,654)  |       | 2,165,585  |                                  | 3,803        |                             | 2,169,388  |
| Income from discontinued operations        |     | -          |     | -          |     | -          |          |  |          |  |            |  |                | 47,385     |              | -            |       | 47,385     |                                  | -            |                             | 47,385     |
| Net income                                 |     | 1,568,793  |     | 1,108,415  |     | 171,649    |          |  |          |  |            |  |                | 2,216,767  |              | (2,852,654)  |       | 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 |          |  |          |  |            |  |                | 30,392,242 |              | (29,723,113) |       | 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  |

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, 2020, 2019 and 2018.

|                              | 2020 |            | %    | 2019 |            | %    | 2018 |            | %    |
|------------------------------|------|------------|------|------|------------|------|------|------------|------|
| Pork meat                    | Ps.  | 14,219,760 | 46.0 | Ps.  | 13,081,601 | 47.1 | Ps.  | 11,597,220 | 42.5 |
| Polystyrene                  |      | 5,734,727  | 18.5 |      | 6,468,755  | 23.3 |      | 8,307,129  | 30.4 |
| Transmissions and components |      | 7,786,868  | 25.1 |      | 4,920,231  | 17.7 |      | 4,131,674  | 15.1 |
| Auto parts                   |      | 2,992,278  | 9.7  |      | 3,121,383  | 11.2 |      | 3,083,183  | 11.3 |
| Others                       |      | 202,236    | 0.7  |      | 204,841    | 0.7  |      | 163,005    | 0.7  |
| Total                        | Ps.  | 30,935,869 | 100  | Ps.  | 27,796,811 | 100  | Ps.  | 27,282,211 | 100  |

b. The following tables present sales classified by geographic area for the years ended December 31, 2020, 2019 and 2018:

|                                     | 2020 |            | 2019 |            | 2018 |            |
|-------------------------------------|------|------------|------|------------|------|------------|
| Mexico                              | Ps.  | 14,093,213 | Ps.  | 15,650,299 | Ps.  | 16,040,992 |
| United States of America and Canada |      | 9,558,987  |      | 6,299,291  |      | 5,928,600  |
| Asia                                |      | 5,817,538  |      | 4,159,927  |      | 3,226,368  |
| Europe                              |      | 903,353    |      | 1,053,002  |      | 1,293,453  |
| Rest of the world                   |      | 562,778    |      | 634,292    |      | 792,798    |
| Total                               | Ps.  | 30,935,869 | Ps.  | 27,796,811 | Ps.  | 27,282,211 |

c. KUO has a diverse customer base in the three segments in which it mainly operates. For the years ended December 31, 2020, 2019 and 2018, no customer represents more than 5% of consolidated net sales; except in the automotive segment, only in the year ended December 31, 2020, where it has one customer whose sales represent more than 10% of total consolidated sales.

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:

|                           | 2020 |           | 2019 |           | 2018 |           |
|---------------------------|------|-----------|------|-----------|------|-----------|
| Cash and cash equivalents | Ps.  | 159,083   | Ps.  | 343,888   | Ps.  | 161,092   |
| Investments               |      | 4,653,607 |      | 1,197,188 |      | 941,885   |
| Total                     | Ps.  | 4,812,690 | Ps.  | 1,541,076 | Ps.  | 1,102,977 |
| Investments:              |      |           |      |           |      |           |
| Banknote paper            | Ps.  | 4,652,449 | Ps.  | 1,159,808 | Ps.  | 701,881   |
| Short-term investments    |      | 1,158     |      | 37,380    |      | 240,004   |
| Total                     | Ps.  | 4,653,607 | Ps.  | 1,197,188 | Ps.  | 941,885   |

8. ACCOUNTS AND NOTES RECEIVABLE

|                                 | 2020 |           | 2019 |           | 2018 |           |
|---------------------------------|------|-----------|------|-----------|------|-----------|
| Trade                           | Ps.  | 2,393,858 | Ps.  | 1,989,396 | Ps.  | 2,035,200 |
| Allowance for discounts         |      | (104,402) |      | (153,744) |      | (247,123) |
| Allowance for doubtful accounts |      | (31,511)  |      | (38,178)  |      | (36,193)  |
|                                 |      | 2,257,945 |      | 1,797,474 |      | 1,751,884 |
| Other debtors                   |      | 120,558   |      | 172,280   |      | 187,014   |
| Recoverable taxes               |      | 944,125   |      | 756,092   |      | 966,723   |
| Total                           | Ps.  | 3,322,628 | Ps.  | 2,725,846 | Ps.  | 2,905,621 |

Trade receivables

The average credit period on sales of goods is 60 days. The Entity has recognized a loss allowance of 45.62% 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. 99% 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.

| Trade receivables - days past due                |           |         |         |          |          |               |
|--------------------------------------------------|-----------|---------|---------|----------|----------|---------------|
| December 31, 2020                                | <30       | 31 - 60 | 61 - 90 | 91 - 120 | >120     | Total         |
| Expected credit loss rate                        | 0.42%     | 3.82%   | 0.98%   | 28.16%   | 45.62%   |               |
| Estimated total gross carrying amount at default | 2,159,583 | 155,852 | 41,036  | 5,931    | 31,456   | Ps. 2,393,858 |
| Lifetime ECL                                     | (9,140)   | (5,948) | (404)   | (1,670)  | (14,349) | (31,511)      |
|                                                  |           |         |         |          |          | Ps. 2,362,347 |

| Trade receivables - days past due                |           |         |         |          |         |               |
|--------------------------------------------------|-----------|---------|---------|----------|---------|---------------|
| December 31, 2019                                | <30       | 31 - 60 | 61 - 90 | 91 - 120 | >120    | Total         |
| Expected credit loss rate                        | 0.71%     | 5.83%   | 46.07%  | 9.26%    | 94.33%  |               |
| Estimated total gross carrying amount at default | 1,791,143 | 144,580 | 10,509  | 33,555   | 9,609   | Ps. 1,989,396 |
| Lifetime ECL                                     | (12,734)  | (8,433) | (4,841) | (3,106)  | (9,064) | (38,178)      |
|                                                  |           |         |         |          |         | Ps. 1,951,218 |

| Trade receivables - days past due                |           |         |         |          |          |               |
|--------------------------------------------------|-----------|---------|---------|----------|----------|---------------|
| December 31, 2018                                | <30       | 31 - 60 | 61 - 90 | 91 - 120 | >120     | Total         |
| 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   | Ps. 2,035,200 |
| Lifetime ECL                                     | (15,550)  | (2,901) | (1,744) | (4,587)  | (11,411) | (36,193)      |
|                                                  |           |         |         |          |          | Ps. 1,999,007 |

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.

|                                                   | 2020 |          | 2019 |          | 2018 |          |
|---------------------------------------------------|------|----------|------|----------|------|----------|
| Balance at the beginning of the period            | Ps.  | (38,178) | Ps.  | (36,193) | Ps.  | (45,338) |
| Amounts written off                               |      | 5,732    |      | 6,311    |      | 13,161   |
| Accounts considered uncollectible during the year |      | 12,160   |      | -        |      | -        |
| Impairment                                        |      | (11,225) |      | (8,296)  |      | (4,016)  |
| Balance at the end of the year                    | Ps.  | (31,511) | Ps.  | (38,178) | Ps.  | (36,193) |

As mentioned in Note 4f, 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, 2020, 2019 and 2018, the Entity sold as non-recourse accounts receivables with an accumulated carrying value of US175,702, US156,261 and US154,140, to a bank for cash funds of US173,503, US152,813 and US147,909, 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 2020, 2019 and 2018, the carrying amount of short-term accounts receivable, which are current and derecognized, amounts to Ps.519,458, Ps.353,332 and Ps.453,127, respectively.

9. INVENTORIES

|                                                    | 2020 |           | 2019 |           | 2018 |           |
|----------------------------------------------------|------|-----------|------|-----------|------|-----------|
| Finished goods and work in process                 | Ps.  | 2,452,081 | Ps.  | 2,638,930 | Ps.  | 2,001,870 |
| Raw materials, supplies and others                 |      | 3,399,988 |      | 3,322,542 |      | 3,130,613 |
|                                                    |      | 5,852,069 |      | 5,961,472 |      | 5,132,483 |
| Allowance for obsolete and slow-moving inventories |      | (226,138) |      | (248,275) |      | (231,287) |
| Goods in transit                                   |      | 271,342   |      | 81,114    |      | 143,968   |
|                                                    | Ps.  | 5,897,273 | Ps.  | 5,794,311 | Ps.  | 5,045,164 |

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

|                                       | 2020 |           | 2019 |           | 2018 |           |
|---------------------------------------|------|-----------|------|-----------|------|-----------|
| Balances at the beginning of the year | Ps.  | (248,275) | Ps.  | (231,287) | Ps.  | (287,483) |
| Increase in the allowance             |      | (66,819)  |      | (37,172)  |      | (61,274)  |
| Application                           |      | 83,435    |      | 10,441    |      | 106,447   |
| Decreases                             |      | 5,521     |      | 9,743     |      | 11,023    |
| Balances at the end of the year       | Ps.  | (226,138) | Ps.  | (248,275) | Ps.  | (231,287) |

The cost of inventories recognized as an expense during the year in respect to continuing operations was Ps.19, 186,617, Ps.17,240,067 and Ps.17,096,974 for the years ended December 31, 2020, 2019 and 2018, respectively.

10. BIOLOGICAL ASSETS

|                                       | 2020 |             | 2019 |             | 2018 |             |
|---------------------------------------|------|-------------|------|-------------|------|-------------|
| Balances at the beginning of the year | Ps.  | 1,604,327   | Ps.  | 1,581,260   | Ps.  | 1,166,531   |
| Production costs                      |      | 7,443,592   |      | 6,365,942   |      | 6,159,811   |
| Transfer to inventories               |      | (7,243,113) |      | (6,342,875) |      | (5,745,082) |
| Balances at the end of the year       | Ps.  | 1,804,806   | Ps.  | 1,604,327   | Ps.  | 1,581,260   |
| Biological assets - short-term        | Ps.  | 1,354,980   | Ps.  | 1,206,260   | Ps.  | 1,217,425   |
| Biological assets - long-term         |      | 449,826     |      | 398,067     |      | 363,835     |
|                                       | Ps.  | 1,804,806   | Ps.  | 1,604,327   | Ps.  | 1,581,260   |

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

Reconciliation of beginning and ending balances at December 31, 2020, 2019 and 2018 is as follows:

|                                    | Balance<br>as of<br>December<br>31, 2019 |             |     |           | Disposals<br>/ Disposals<br>from<br>sinister <sup>(i)</sup> |             |     |         | Impairment | Transferred<br>assets |     | Translation<br>effect | Balance<br>as of<br>December<br>31, 2020 |             |
|------------------------------------|------------------------------------------|-------------|-----|-----------|-------------------------------------------------------------|-------------|-----|---------|------------|-----------------------|-----|-----------------------|------------------------------------------|-------------|
| Investment:                        |                                          |             |     |           |                                                             |             |     |         |            |                       |     |                       |                                          |             |
| Land                               | Ps.                                      | 1,220,021   | Ps. | -         | Ps.                                                         | -           | Ps. | -       | Ps.        | -                     | Ps. | 41,057                | Ps.                                      | 1,261,078   |
| Building and installations         |                                          | 6,239,592   |     | 374       |                                                             | (949,971)   |     | -       |            | 768,926               |     | 62,482                |                                          | 6,121,403   |
| Industrial machinery and equipment |                                          | 10,843,060  |     | 2,426     |                                                             | (868,400)   |     | -       |            | 865,257               |     | 317,625               |                                          | 11,159,968  |
| Office furniture and equipment     |                                          | 192,020     |     | 1,974     |                                                             | (2,733)     |     | -       |            | 502                   |     | 2,418                 |                                          | 194,181     |
| Vehicles                           |                                          | 286,352     |     | 173       |                                                             | (20,577)    |     | -       |            | 36,709                |     | 79                    |                                          | 302,736     |
| Other assets                       |                                          | 4,234       |     | 1,677     |                                                             | -           |     | -       |            | 15,633                |     | -                     |                                          | 21,544      |
| Projects-in-progress               |                                          | 1,540,429   |     | 864,947   |                                                             | -           |     | -       |            | (1,687,027)           |     | 6,774                 |                                          | 725,123     |
| Total investment                   |                                          | 20,325,708  |     | 871,571   |                                                             | (1,841,681) |     | -       |            | -                     |     | 430,435               |                                          | 19,786,033  |
| Depreciation:                      |                                          |             |     |           |                                                             |             |     |         |            |                       |     |                       |                                          |             |
| Building and installations         |                                          | (1,571,598) |     | (234,578) |                                                             | 35,098      |     | -       |            | -                     |     | (30,216)              |                                          | (1,801,294) |
| Industrial machinery and equipment |                                          | (6,336,282) |     | (695,124) |                                                             | 197,560     |     | (6,545) |            | -                     |     | (161,802)             |                                          | (7,002,193) |
| Office furniture and equipment     |                                          | (130,800)   |     | (12,415)  |                                                             | 527         |     | -       |            | -                     |     | (1,794)               |                                          | (144,482)   |
| Vehicles                           |                                          | (187,397)   |     | (42,291)  |                                                             | 9,044       |     | -       |            | -                     |     | (73)                  |                                          | (220,717)   |
| Other assets                       |                                          | (1,839)     |     | (1,923)   |                                                             | -           |     | -       |            | -                     |     | -                     |                                          | (3,762)     |
| Total accumulated depreciation     |                                          | (8,227,916) |     | (986,331) |                                                             | 242,229     |     | (6,545) |            | -                     |     | (193,885)             |                                          | (9,172,448) |
| Net investment                     | Ps.                                      | 12,097,792  | Ps. | (114,760) | Ps.                                                         | (1,599,452) | Ps. | (6,545) | Ps.        | -                     | Ps. | 236,550               | Ps.                                      | 10,613,585  |

|                                    | Balance<br>as of<br>December<br>31, 2018 |             | Additions | Disposals | Impairment | Transferred<br>assets | Translation<br>effect | Balance<br>as of<br>December<br>31, 2019 |     |             |     |           |     |             |
|------------------------------------|------------------------------------------|-------------|-----------|-----------|------------|-----------------------|-----------------------|------------------------------------------|-----|-------------|-----|-----------|-----|-------------|
| Investment:                        |                                          |             |           |           |            |                       |                       |                                          |     |             |     |           |     |             |
| Land                               | Ps.                                      | 1,186,235   | Ps.       | -         | Ps.        | -                     | Ps.                   | 63,976                                   | Ps. | (30,190)    | Ps. | 1,220,021 |     |             |
| Building and installations         |                                          | 5,839,345   |           | -         |            | (8,590)               |                       | -                                        |     | 456,464     |     | (47,627)  |     | 6,239,592   |
| Industrial machinery and equipment |                                          | 10,231,737  |           | 26,666    |            | (602,800)             |                       | -                                        |     | 1,426,956   |     | (239,499) |     | 10,843,060  |
| Office furniture and equipment     |                                          | 176,049     |           | 10,739    |            | (789)                 |                       | -                                        |     | 7,417       |     | (1,396)   |     | 192,020     |
| Vehicles                           |                                          | 264,042     |           | 757       |            | (11,165)              |                       | -                                        |     | 32,776      |     | (58)      |     | 286,352     |
| Other assets                       |                                          | 4,234       |           | -         |            | -                     |                       | -                                        |     | -           |     | -         |     | 4,234       |
| Projects-in-progress               |                                          | 2,679,410   |           | 1,666,227 |            | (576,665)             |                       | (31,590)                                 |     | (1,987,589) |     | (209,364) |     | 1,540,429   |
| Total investment                   |                                          | 20,381,052  |           | 1,704,389 |            | (1,200,009)           |                       | (31,590)                                 |     | -           |     | (528,134) |     | 20,325,708  |
| Depreciation:                      |                                          |             |           |           |            |                       |                       |                                          |     |             |     |           |     |             |
| Building and installations         |                                          | (1,386,511) |           | (199,291) |            | 2,231                 |                       | -                                        |     | -           |     | 11,973    |     | (1,571,598) |
| Industrial machinery and equipment |                                          | (5,992,849) |           | (542,202) |            | 119,387               |                       | (61,125)                                 |     | -           |     | 140,507   |     | (6,336,282) |
| Office furniture and equipment     |                                          | (123,116)   |           | (8,962)   |            | 384                   |                       | -                                        |     | -           |     | 894       |     | (130,800)   |
| Vehicles                           |                                          | (149,199)   |           | (47,484)  |            | 8,976                 |                       | -                                        |     | -           |     | 310       |     | (187,397)   |
| Other assets                       |                                          | (1,839)     |           | -         |            | -                     |                       | -                                        |     | -           |     | -         |     | (1,839)     |
| Total accumulated depreciation     |                                          | (7,653,514) |           | (797,939) |            | 130,978               |                       | (61,125)                                 |     | -           |     | 153,684   |     | (8,227,916) |
| Net investment                     | Ps.                                      | 12,727,538  | Ps.       | 906,450   | Ps.        | (1,069,031)           | Ps.                   | (92,715)                                 | Ps. | -           | Ps. | (374,450) | Ps. | 12,097,792  |

|                                    | Balance<br>as of<br>December<br>31, 2017 |             | Additions | Disposals | Impairment | Transferred<br>assets | Translation<br>effect | Balance<br>as of<br>December<br>31, 2018 |     |             |     |          |     |             |
|------------------------------------|------------------------------------------|-------------|-----------|-----------|------------|-----------------------|-----------------------|------------------------------------------|-----|-------------|-----|----------|-----|-------------|
| Investment:                        |                                          |             |           |           |            |                       |                       |                                          |     |             |     |          |     |             |
| Land                               | Ps.                                      | 1,083,794   | Ps.       | 23,050    | 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 investment                   |                                          | 17,205,664  |           | 3,355,465 |            | (100,929)             |                       | -                                        |     | -           |     | (79,148) |     | 20,381,052  |
| Depreciation:                      |                                          |             |           |           |            |                       |                       |                                          |     |             |     |          |     |             |
| Building and installations         |                                          | (1,245,784) |           | (145,793) |            | 26                    |                       | -                                        |     | -           |     | 5,040    |     | (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                 |                       | -                                        |     | -           |     | (3)      |     | (149,199)   |
| Other assets                       |                                          | (1,838)     |           | -         |            | -                     |                       | -                                        |     | -           |     | (1)      |     | (1,839)     |
| 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. | (30,682) | Ps. | 12,727,538  |

(i) Includes loss in sinister of Ps.1,582,775 (see Note 28)

As of December 31, 2020, 2019 and 2018, the Entity has no idle assets.

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

|                            |                |
|----------------------------|----------------|
| Building and installations | 35 years       |
| Leasehold 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. RIGHT-OF-USE ASSET

The Entity leases various assets, including real estate, plant and equipment, technology equipment and transportation equipment. The average lease term is 10 years.

The Entity has the option to purchase certain manufacturing equipment for a nominal amount at the end of the lease period. The Entity’s obligations are insured by the lessor’s title to the assets leased in said leases.

|                                | Balances<br>as of<br>December<br>31, 2019 |           |     |           | Translation<br>effect |          |     |         | Balance<br>as of<br>December<br>31, 2020 |         |     |           |
|--------------------------------|-------------------------------------------|-----------|-----|-----------|-----------------------|----------|-----|---------|------------------------------------------|---------|-----|-----------|
|                                | Acquisitions                              |           |     |           | Disposals             |          |     |         | Net                                      |         |     |           |
| Costs:                         |                                           |           |     |           |                       |          |     |         |                                          |         |     |           |
| Building                       | Ps.                                       | 1,568,033 | Ps. | 92,910    | Ps.                   | (85,103) | Ps. | -       | Ps.                                      | 62,530  | Ps. | 1,638,370 |
| Computer equipment             |                                           | 25,777    |     | 15,018    |                       | -        |     | -       |                                          | -       |     | 40,795    |
| Machinery and equipment        |                                           | 44,733    |     | 3,895     |                       | (9,732)  |     | (262)   |                                          | 2,681   |     | 41,315    |
| Transportation equipment       |                                           | 227,007   |     | 10,892    |                       | (3,142)  |     | (6,546) |                                          | 5,305   |     | 233,516   |
| Airplane                       |                                           | 148,617   |     | -         |                       | -        |     | -       |                                          | -       |     | 148,617   |
| Total investment               |                                           | 2,014,167 |     | 122,715   |                       | (97,977) |     | (6,808) |                                          | 70,516  |     | 2,102,613 |
| Accumulated depreciation:      |                                           |           |     |           |                       |          |     |         |                                          |         |     |           |
| Building                       |                                           | (143,538) |     | (157,980) |                       | 45,288   |     | -       |                                          | (5,219) |     | (261,449) |
| Computer equipment             |                                           | (6,396)   |     | (8,343)   |                       | -        |     | -       |                                          | -       |     | (14,739)  |
| Machinery and equipment        |                                           | (9,150)   |     | (9,847)   |                       | 1,537    |     | 262     |                                          | 286     |     | (16,912)  |
| Transportation equipment       |                                           | (61,492)  |     | (66,028)  |                       | 2,485    |     | 6,546   |                                          | (3,204) |     | (121,693) |
| Airplane                       |                                           | (29,723)  |     | (29,723)  |                       | -        |     | -       |                                          | -       |     | (59,446)  |
| Total accumulated depreciation |                                           | (250,299) |     | (271,921) |                       | 49,310   |     | 6,808   |                                          | (8,137) |     | (474,239) |
| Net cost                       | Ps.                                       | 1,763,868 | Ps. | (149,206) | Ps.                   | (48,667) | Ps. | -       | Ps.                                      | 62,379  | Ps. | 1,628,374 |

|                                | Balances<br>as of<br>December<br>31, 2018 |   |     |           | Initial<br>application<br>IFRS-16 |           |     |         | Acquisitons |         |     |           | Disposals |  |  |  | Translation<br>effect |  |  |  | Balance<br>as of<br>December<br>31, 2019 |  |  |  |
|--------------------------------|-------------------------------------------|---|-----|-----------|-----------------------------------|-----------|-----|---------|-------------|---------|-----|-----------|-----------|--|--|--|-----------------------|--|--|--|------------------------------------------|--|--|--|
| Costs:                         |                                           |   |     |           |                                   |           |     |         |             |         |     |           |           |  |  |  |                       |  |  |  |                                          |  |  |  |
| Building                       | Ps.                                       | - | Ps. | 1,505,110 | Ps.                               | 74,024    | Ps. | (5,906) | Ps.         | (5,195) | Ps. | 1,568,033 |           |  |  |  |                       |  |  |  |                                          |  |  |  |
| Computer equipment             |                                           | - |     | 21,809    |                                   | 3,792     |     | -       |             | 176     |     | 25,777    |           |  |  |  |                       |  |  |  |                                          |  |  |  |
| Machinery and equipment        |                                           | - |     | 43,333    |                                   | 2,336     |     | (936)   |             | -       |     | 44,733    |           |  |  |  |                       |  |  |  |                                          |  |  |  |
| Transportation equipment       |                                           | - |     | 210,981   |                                   | 16,786    |     | (569)   |             | (191)   |     | 227,007   |           |  |  |  |                       |  |  |  |                                          |  |  |  |
| Airplane                       |                                           | - |     | 148,617   |                                   | -         |     | -       |             | -       |     | 148,617   |           |  |  |  |                       |  |  |  |                                          |  |  |  |
| Total investment               |                                           | - |     | 1,929,850 |                                   | 96,938    |     | (7,411) |             | (5,210) |     | 2,014,167 |           |  |  |  |                       |  |  |  |                                          |  |  |  |
| Accumulated depreciation:      |                                           |   |     |           |                                   |           |     |         |             |         |     |           |           |  |  |  |                       |  |  |  |                                          |  |  |  |
| Building                       |                                           | - |     | -         |                                   | (144,410) |     | 185     |             | 687     |     | (143,538) |           |  |  |  |                       |  |  |  |                                          |  |  |  |
| Computer equipment             |                                           | - |     | -         |                                   | (6,396)   |     | -       |             | -       |     | (6,396)   |           |  |  |  |                       |  |  |  |                                          |  |  |  |
| Machinery and equipment        |                                           | - |     | -         |                                   | (9,284)   |     | 134     |             | -       |     | (9,150)   |           |  |  |  |                       |  |  |  |                                          |  |  |  |
| Transportation equipment       |                                           | - |     | -         |                                   | (61,753)  |     | 225     |             | 36      |     | (61,492)  |           |  |  |  |                       |  |  |  |                                          |  |  |  |
| Airplane                       |                                           | - |     | -         |                                   | (29,723)  |     | -       |             | -       |     | (29,723)  |           |  |  |  |                       |  |  |  |                                          |  |  |  |
| Total accumulated depreciation |                                           | - |     | -         |                                   | (251,566) |     | 544     |             | 723     |     | (250,299) |           |  |  |  |                       |  |  |  |                                          |  |  |  |
| Net cost                       | Ps.                                       | - | Ps. | -         | Ps.                               | 96,938    | Ps. | (6,867) | Ps.         | (4,487) | Ps. | 1,763,868 |           |  |  |  |                       |  |  |  |                                          |  |  |  |

Amounts recognized as expenses in results:

|                                 | 2020 |         | 2019 |         |
|---------------------------------|------|---------|------|---------|
| Depreciation right-of-use asset | Ps.  | 271,921 | Ps.  | 251,566 |
| Interest on lease liability     |      | 123,662 |      | 125,045 |
| Short-term leases               |      | 152,999 |      | 152,783 |

Total cash outflows for leases amounted to Ps.356,692 and Ps.321,265 in 2020 and 2019, respectively.

The weighted rates used by Management to determine the right-of-use asset are as follows:

|                            | 2020  | 2019  |
|----------------------------|-------|-------|
| Building and installations | 5.71% | 6.47% |
| Computer equipment         | 2.56% | 3.71% |
| Machinery and equipment    | 5.50% | 6.80% |
| Transportation equipment   | 5.29% | 7.21% |
| Airplane                   | 3.49% | 4.12% |

13. SUBSIDIARIES

a. KUO’s main subsidiaries – As of December 31, 2020, 2019 and 2018 are as follow:

|                                                   | Main activity                                           | Location | Percentage |
|---------------------------------------------------|---------------------------------------------------------|----------|------------|
| Grupo Porcícola Mexicano, S.A. de C.V.            | Pork meat breeding and fattening                        | Mexico   | 100%       |
| Comercializadora Porcícola Mexicana, S.A. de C.V. | Pork meat marketer                                      | Mexico   | 100%       |
| Resirene, S.A. de C.V. and Subsidiary             | Manufacture of polystyrene                              | Mexico   | 100%       |
| Transmisiones y Equipos Mecánicos, S.A. de C.V.   | Production of manual and high performance transmissions | Mexico   | 99.99%     |
| Dacomsa, S.A. de C.V.                             | Distributor of automotive parts                         | Mexico   | 100%       |

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.

| Segment            | Location                            | Number of subsidiaries with a 100% equity interest |      |      |
|--------------------|-------------------------------------|----------------------------------------------------|------|------|
|                    |                                     | 2020                                               | 2019 | 2018 |
| Consumer           | Mexico                              | 3                                                  | 3    | 3    |
| Chemical           | Mexico                              | 3                                                  | 3    | 2    |
| Automotive         | Mexico and United States of America | 9                                                  | 9    | 9    |
| KUO and others (i) | Mexico                              | 8                                                  | 8    | 8    |
| Automotive         | Mexico and Belgium                  | 1                                                  | 1    | 1    |

14. INVESTMENTS IN JOINT VENTURES AND OTHER INVESTMENTS

|                               |     | 2020       |     | 2019       |     | 2018       |
|-------------------------------|-----|------------|-----|------------|-----|------------|
| Investments in joint ventures | Ps. | 10,612,109 | Ps. | 11,334,719 | Ps. | 11,224,716 |
| Other investments             |     | 1,381      |     | 1,361      |     | 1,361      |
|                               | Ps. | 10,613,490 | Ps. | 11,336,080 | Ps. | 11,226,077 |

Joint ventures

a. As of December 31, 2020, 2019 and 2018, the balance of investments in joint ventures is as follows:

|                                                  | Location                            | Activity                       | 2020       |                | 2019       |                | 2018       |                |
|--------------------------------------------------|-------------------------------------|--------------------------------|------------|----------------|------------|----------------|------------|----------------|
|                                                  |                                     |                                | % Interest | Total          | % Interest | Total          | % Interest | Total          |
| Herdez del Fuerte, S.A. de C.V. and subsidiaries | Mexico and United States of America | Sale of processed food         | 50%        | Ps. 5,634,756  | 50%        | Ps. 5,964,699  | 50.00%     | Ps. 5,764,277  |
| Synthetic rubber <sup>(i)</sup>                  | Mexico, Spain and China             | Production of synthetic rubber | 50%        | 4,977,353      | 50%        | 5,370,020      | 50.00%     | 5,460,439      |
|                                                  |                                     |                                |            | Ps. 10,612,109 |            | Ps. 11,334,719 |            | Ps. 11,224,716 |

(i) Integrated by Dynasol Gestión 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:

|                                                   |     | 2020        |     | 2019       |     | 2018       |
|---------------------------------------------------|-----|-------------|-----|------------|-----|------------|
| Balance as of January 1                           | Ps. | 11,334,719  | Ps. | 11,224,716 | Ps. | 10,381,475 |
| Participation in the results of the period        |     | 1,085,187   |     | 1,034,553  |     | 1,283,952  |
| Dividend distribution                             |     | (2,434,847) |     | (575,823)  |     | (321,662)  |
| Participation in other comprehensive income items |     | 627,050     |     | (348,727)  |     | (119,049)  |
| Balance as of December 31                         | Ps. | 10,612,109  | Ps. | 11,334,719 | Ps. | 11,224,716 |

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

| Equity in results                                |     | 2020      |     | 2019      |     | 2018      |
|--------------------------------------------------|-----|-----------|-----|-----------|-----|-----------|
| Herdez del Fuerte, S.A. de C.V. and Subsidiaries | Ps. | 782,272   | Ps. | 595,665   | Ps. | 674,118   |
| Synthetic Rubber                                 |     | 302,915   |     | 438,888   |     | 609,834   |
| Total                                            | Ps. | 1,085,187 | Ps. | 1,034,553 | Ps. | 1,283,952 |

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

| Herdez del Fuerte, S.A. de C.V.<br>and Subsidiaries |      |            |      |            |      |            |
|-----------------------------------------------------|------|------------|------|------------|------|------------|
|                                                     | 2020 |            | 2019 |            | 2018 |            |
| Current assets                                      | Ps.  | 7,276,682  | Ps.  | 6,737,258  | Ps.  | 6,130,996  |
| Non-current assets                                  |      | 9,978,446  |      | 10,514,343 |      | 10,154,352 |
| Current liabilities                                 |      | 4,832,686  |      | 4,137,086  |      | 3,707,694  |
| Non-current liabilities                             |      | 352,788    |      | 387,056    |      | 238,653    |
| Net assets                                          | Ps.  | 12,069,654 | Ps.  | 12,727,459 | Ps.  | 12,339,001 |
|                                                     |      |            |      |            |      |            |
| Non - controlling interest                          |      | (8,492)    |      | (6,409)    |      | (18,796)   |
| Controlling interest net assets                     | Ps.  | 12,061,162 | Ps.  | 12,721,050 | Ps.  | 12,320,205 |
| Cash and cash equivalents                           | Ps.  | 1,364,906  | Ps.  | 673,899    | Ps.  | 374,004    |
| Revenue                                             | Ps.  | 10,523,772 | Ps.  | 9,626,303  | Ps.  | 9,229,296  |
| Income from operations                              |      | 1,979,838  |      | 1,578,420  |      | 1,746,988  |
| Net income                                          |      | 1,564,354  |      | 1,190,897  |      | 1,340,630  |
| Net loss of non - controlling interest              |      | (190)      |      | (432)      |      | (7,606)    |
| Net income of controlling interest                  |      | 1,564,544  |      | 1,191,329  |      | 1,348,236  |
| The income of the period includes:                  |      |            |      |            |      |            |
| Depreciation and amortization                       |      | 299,079    |      | 307,222    |      | 231,698    |
| Net period cost                                     |      | 24,778     |      | 17,219     |      | 15,871     |
| Interest income                                     |      | (62,162)   |      | (49,979)   |      | (32,716)   |
| Interest expense                                    |      | 22,561     |      | 31,896     |      | 9,810      |
| Income tax expense                                  |      | 583,026    |      | 392,816    |      | 431,460    |

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:

|                                                      | 2020 |            | 2019 |            | 2018 |            |
|------------------------------------------------------|------|------------|------|------------|------|------------|
| Net assets of the joint venture                      | Ps.  | 12,061,162 | Ps.  | 12,721,050 | Ps.  | 12,320,205 |
| Participation                                        |      | 50%        |      | 50%        |      | 50%        |
| Equity of the Entity's interest in the joint venture |      | 6,030,581  |      | 6,360,524  |      | 6,160,102  |
| Goodwill                                             |      | (395,825)  |      | (395,825)  |      | (395,825)  |
|                                                      |      |            |      |            |      |            |
| Carrying amount of the interest in the joint venture | Ps.  | 5,634,756  | Ps.  | 5,964,699  | Ps.  | 5,764,277  |
|                                                      |      |            |      |            |      |            |
| Net income of controlling interest                   | Ps.  | 1,564,544  | Ps.  | 1,191,329  | Ps.  | 1,348,236  |
| Participation                                        |      | 50%        |      | 50%        |      | 50%        |
| Profit for the period                                | Ps.  | 782,272    | Ps.  | 595,665    | Ps.  | 674,118    |

| Synthetic Rubber                   | 2020 |            | 2019 |            | 2018 |            |
|------------------------------------|------|------------|------|------------|------|------------|
| Current assets                     | Ps.  | 6,345,377  | Ps.  | 7,711,795  | Ps.  | 8,738,716  |
| Non-current assets                 |      | 7,471,547  |      | 6,195,175  |      | 5,879,684  |
| Current liabilities                |      | 2,936,129  |      | 2,689,983  |      | 3,230,860  |
| Non-current liabilities            |      | 926,089    |      | 476,947    |      | 466,658    |
| Net assets controlling interest    | Ps.  | 9,954,706  | Ps.  | 10,740,040 | Ps.  | 10,920,882 |
|                                    |      |            |      |            |      |            |
| Cash and cash equivalents          | Ps.  | 1,426,212  | Ps.  | 2,202,429  | Ps.  | 2,365,876  |
|                                    |      |            |      |            |      |            |
| Revenue                            | Ps.  | 10,785,124 | Ps.  | 11,896,396 | Ps.  | 14,452,708 |
| Income from operations             |      | 925,258    |      | 1,060,324  |      | 1,863,960  |
| Net income                         |      | 605,829    |      | 877,777    |      | 1,219,668  |
| Net income of controlling interest |      | 605,829    |      | 877,777    |      | 1,219,668  |
|                                    |      |            |      |            |      |            |
| Income of the period includes:     |      |            |      |            |      |            |
| Depreciation and amortization      |      | 603,971    |      | 432,425    |      | 441,239    |
| Interest expenses                  |      | (45,084)   |      | (62,661)   |      | (2,074)    |
| Interest income                    |      | 36,648     |      | 35,219     |      | -          |
| Income tax expense                 |      | 296,783    |      | 181,315    |      | 445,126    |

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:

|                                                      | 2020 |           | 2019 |            | 2018 |            |
|------------------------------------------------------|------|-----------|------|------------|------|------------|
| Net assets of the joint venture                      | Ps.  | 9,954,706 | Ps.  | 10,740,040 | Ps.  | 10,920,882 |
| Participation                                        |      | 50%       |      | 50%        |      | 50%        |
| Carrying amount of the interest in the joint venture | Ps.  | 4,977,353 | Ps.  | 5,370,020  | Ps.  | 5,460,439  |
|                                                      |      |           |      |            |      |            |
| Net income of controlling interest                   | Ps.  | 605,829   | Ps.  | 877,777    | Ps.  | 1,219,668  |
| Participation                                        |      | 50%       |      | 50%        |      | 50%        |
| Profit for the period                                | Ps.  | 302,915   | Ps.  | 438,888    | Ps.  | 609,834    |

15. INTANGIBLES AND OTHER ASSETS

|                       | 2020 |           | 2019 |           | 2018 |           |
|-----------------------|------|-----------|------|-----------|------|-----------|
| Intangible assets (a) | Ps.  | 5,280,208 | Ps.  | 5,727,764 | Ps.  | 3,842,351 |
| Other assets (b)      |      | 247,593   |      | 240,493   |      | 232,182   |
|                       | Ps.  | 5,527,801 | Ps.  | 5,968,257 | Ps.  | 4,074,533 |

## a. Intangible assets

|                                                          | Balances<br>as of<br>December<br>31, 2019 |           |     |           | Translation<br>effect |         |           |   | Balances<br>as of<br>December<br>31, 2020 |             |  |  |
|----------------------------------------------------------|-------------------------------------------|-----------|-----|-----------|-----------------------|---------|-----------|---|-------------------------------------------|-------------|--|--|
|                                                          | Additions <sup>(i)</sup>                  |           |     |           |                       |         | Disposals |   |                                           |             |  |  |
| <b>Investment:</b>                                       |                                           |           |     |           |                       |         |           |   |                                           |             |  |  |
| Projects and capitalized development costs               | Ps.                                       | 5,109,643 | Ps. | 72,255    | Ps.                   | 95,209  | Ps.       | - | Ps.                                       | 5,277,107   |  |  |
| Capitalized costs associated with contracts with clients |                                           | 673,402   |     | 17,842    |                       | 17,511  |           | - |                                           | 708,755     |  |  |
| Patents and trademarks                                   |                                           | 222,362   |     | -         |                       | -       |           | - |                                           | 222,362     |  |  |
| Licenses                                                 |                                           | 183,113   |     | 11,499    |                       | 6,307   |           | - |                                           | 200,919     |  |  |
| Total                                                    |                                           | 6,188,520 |     | 101,596   |                       | 119,027 |           | - |                                           | 6,409,143   |  |  |
| <b>Accumulated amortization:</b>                         |                                           |           |     |           |                       |         |           |   |                                           |             |  |  |
| Projects and capitalized development                     |                                           | (298,451) |     | (550,425) |                       | 7,130   |           | - |                                           | (841,746)   |  |  |
| Capitalized contract compliance costs                    |                                           | (14,809)  |     | (104,554) |                       | 2,450   |           | - |                                           | (116,913)   |  |  |
| Patents and trademarks                                   |                                           | (84,982)  |     | -         |                       | -       |           | - |                                           | (84,982)    |  |  |
| Licenses                                                 |                                           | (62,514)  |     | (20,150)  |                       | (2,630) |           | - |                                           | (85,294)    |  |  |
| Total                                                    |                                           | (460,756) |     | (675,129) |                       | 6,950   |           | - |                                           | (1,128,935) |  |  |
|                                                          | Ps.                                       | 5,727,764 | Ps. | (573,533) | Ps.                   | 125,977 | Ps.       | - | Ps.                                       | 5,280,208   |  |  |

|                                                          | Balances<br>as of<br>December<br>31, 2018 |           |     |           | Translation<br>effect |           |           |          | Balances<br>as of<br>December<br>31, 2019 |           |  |  |
|----------------------------------------------------------|-------------------------------------------|-----------|-----|-----------|-----------------------|-----------|-----------|----------|-------------------------------------------|-----------|--|--|
|                                                          | Additions                                 |           |     |           |                       |           | Disposals |          |                                           |           |  |  |
| <b>Investment:</b>                                       |                                           |           |     |           |                       |           |           |          |                                           |           |  |  |
| Projects and capitalized development costs               | Ps.                                       | 3,710,279 | Ps. | 1,521,916 | Ps.                   | (122,552) | Ps.       | -        | Ps.                                       | 5,109,643 |  |  |
| Capitalized costs associated with contracts with clients |                                           | 66,970    |     | 650,511   |                       | (44,079)  |           | -        |                                           | 673,402   |  |  |
| Patents and trademarks                                   |                                           | 222,362   |     | -         |                       | -         |           | -        |                                           | 222,362   |  |  |
| Licenses                                                 |                                           | 179,181   |     | 26,848    |                       | 852       |           | (23,768) |                                           | 183,113   |  |  |
| Total                                                    |                                           | 4,178,792 |     | 2,199,275 |                       | (165,779) |           | (23,768) |                                           | 6,188,520 |  |  |
| <b>Accumulated amortization:</b>                         |                                           |           |     |           |                       |           |           |          |                                           |           |  |  |
| Projects and capitalized development                     |                                           | (205,747) |     | (92,045)  |                       | (659)     |           | -        |                                           | (298,451) |  |  |
| Capitalized contract compliance costs                    |                                           | -         |     | (14,685)  |                       | (124)     |           | -        |                                           | (14,809)  |  |  |
| Patents and trademarks                                   |                                           | (84,982)  |     | -         |                       | -         |           | -        |                                           | (84,982)  |  |  |
| Licenses                                                 |                                           | (45,712)  |     | (16,833)  |                       | 31        |           | -        |                                           | (62,514)  |  |  |
| Total                                                    |                                           | (336,441) |     | (123,563) |                       | (752)     |           | -        |                                           | (460,756) |  |  |
|                                                          | Ps.                                       | 3,842,351 | Ps. | 2,075,712 | Ps.                   | (166,531) | Ps.       | (23,768) | Ps.                                       | 5,727,764 |  |  |

|                                                          | Balances<br>as of<br>December<br>31, 2017 |           |     |           | Translation<br>effect |        |           |   | Balances<br>as of<br>December<br>31, 2018 |           |  |  |
|----------------------------------------------------------|-------------------------------------------|-----------|-----|-----------|-----------------------|--------|-----------|---|-------------------------------------------|-----------|--|--|
|                                                          | Additions                                 |           |     |           |                       |        | Disposals |   |                                           |           |  |  |
| <b>Investment:</b>                                       |                                           |           |     |           |                       |        |           |   |                                           |           |  |  |
| Projects and capitalized development costs               | Ps.                                       | 1,251,495 | Ps. | 2,402,111 | Ps.                   | 56,673 | Ps.       | - | Ps.                                       | 3,710,279 |  |  |
| Capitalized costs associated with contracts with clients |                                           | -         |     | 65,217    |                       | 1,753  |           | - |                                           | 66,970    |  |  |
| 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 |  |  |
| <b>Accumulated amortization:</b>                         |                                           |           |     |           |                       |        |           |   |                                           |           |  |  |
| Projects and capitalized development costs               |                                           | (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 |  |  |

(i) Includes a discount to capitalized projects and development of Ps.81,940 in 2020.

The useful lives of intangible assets are as follows:

|                                                          |                                        |
|----------------------------------------------------------|----------------------------------------|
| Projects and capitalized development costs               | 5 - 8 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 2020, 2019 and 2018, investments were made for Ps.170 million, Ps.1,404 million and Ps.2,362 million, respectively.

## b. Other assets

|                    | 2020 |         | 2019 |         | 2018 |         |
|--------------------|------|---------|------|---------|------|---------|
| Guarantee deposits | Ps.  | 164,889 | Ps.  | 155,062 | Ps.  | 152,660 |
| Artworks           |      | 76,883  |      | 76,883  |      | 76,883  |
| Goodwill           |      | 998     |      | 1,422   |      | 1,970   |
| Others             |      | 4,823   |      | 7,126   |      | 669     |
|                    | Ps.  | 247,593 | Ps.  | 240,493 | Ps.  | 232,182 |

## 16. FINANCIAL INSTRUMENTS

## a. 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, and 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. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

b. 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 |         |         |
|------------|---------|--------|--------|-------------|---------|---------|
|            | 2020    | 2019   | 2018   | 2020        | 2019    | 2018    |
| US dollars | 161,311 | 69,836 | 28,031 | 709,966     | 683,194 | 590,492 |

(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 Mexican 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.

|         | 2020 |           | 2019 |           | 2018 |                          |
|---------|------|-----------|------|-----------|------|--------------------------|
| Results | Ps.  | 1,094,495 | Ps.  | 1,161,976 | Ps.  | 1,107,086 <sup>(i)</sup> |

(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 would decrease/increase in 2020 Ps.36,876, Ps.32,411, in 2019 and Ps.26,984 in 2018. This is mainly attributable to the Entity’s exposure to interest rates on its variable rate loans in Mexican pesos.

The Entity’s sensitivity to interest rates has been maintained during the current year mainly due to the contracting of variable rate debt instruments.

c. 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, Management considers 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 of December 31, 2020 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 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 2020, 2019 and 2018.

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 recognizing 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, 2020                                    | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount <sup>(i)</sup> | Loss allowance | Net carrying amount <sup>(i)</sup> |
|------------------------------------------------------|------------------------|--------------------------|--------------------------------------|----------------|------------------------------------|
| Accounts receivable                                  | Performing             | 12-month                 | 2,393,858                            | (31,511)       | 2,362,347                          |
| Other debtors                                        | Performing             | 12-month                 | 120,558                              | -              | 120,558                            |
| Accounts receivable from related parties             | Performing             | 12-month                 | 115,355                              | -              | 115,355                            |
| Other accounts receivable non-current                | Performing             | 12-month                 | 11,138                               | -              | 11,138                             |
| Accounts receivable from related parties non-current | Performing             | 12-month                 | 111,816                              | -              | 111,816                            |

| December 31, 2019                                    | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount <sup>(i)</sup> | Loss allowance | Net carrying amount <sup>(i)</sup> |
|------------------------------------------------------|------------------------|--------------------------|--------------------------------------|----------------|------------------------------------|
| Accounts receivable                                  | Performing             | 12-month                 | 1,989,396                            | (38,178)       | 1,951,218                          |
| Other debtors                                        | Performing             | 12-month                 | 172,280                              | -              | 172,280                            |
| Accounts receivable from related parties             | Performing             | 12-month                 | 169,567                              | -              | 169,567                            |
| Other accounts receivable non-current                | Performing             | 12-month                 | 14,983                               | -              | 14,983                             |
| Accounts receivable from related parties non-current | Performing             | 12-month                 | 104,960                              | -              | 104,960                            |

| December 31, 2018                                    | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount <sup>(i)</sup> | Loss allowance | Net carrying amount <sup>(i)</sup> |
|------------------------------------------------------|------------------------|--------------------------|--------------------------------------|----------------|------------------------------------|
| 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                            |

(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.

**d. Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with Entity's Management, 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.

| As of December 31,<br>2020                                 | Six months |            | One year |         | 1 and 3<br>years | More than<br>3 years | Total          |
|------------------------------------------------------------|------------|------------|----------|---------|------------------|----------------------|----------------|
| Bank loans including the current portion of long-term debt | Ps.        | 327,380    | Ps.      | 619,667 | Ps. 2,464,058    | Ps. 17,550,200       | Ps. 20,961,305 |
| Notes and accounts payable to suppliers                    |            | 7,264,190  |          | -       | -                | -                    | 7,264,190      |
| Lease liability                                            |            | 172,980    |          | 171,000 | 836,856          | 1,570,762            | 2,751,598      |
| Other payables and accrued liabilities                     |            | 2,724,429  |          | -       | -                | -                    | 2,724,429      |
| Accounts payable to related parties                        |            | 4,580      |          | -       | -                | -                    | 4,580          |
| Total                                                      | Ps.        | 10,493,559 | Ps.      | 790,667 | Ps. 3,300,914    | Ps. 19,120,962       | Ps. 33,706,102 |

| As of December 31,<br>2019                                 | Six months |           | One year |         | 1 and 3<br>years | More than<br>3 years | Total          |
|------------------------------------------------------------|------------|-----------|----------|---------|------------------|----------------------|----------------|
| Bank loans including the current portion of long-term debt | Ps.        | 164,905   | Ps.      | 588,113 | Ps. 4,022,681    | Ps. 16,650,479       | Ps. 21,426,178 |
| Notes and accounts payable to suppliers                    |            | 7,021,850 |          | -       | -                | -                    | 7,021,850      |
| Lease liability                                            |            | 164,239   |          | 164,027 | 887,318          | 1,578,865            | 2,794,449      |
| Other payables and accrued liabilities                     |            | 2,464,412 |          | -       | -                | -                    | 2,464,412      |
| Accounts payable to related parties                        |            | 21,335    |          | -       | -                | -                    | 21,335         |
| Total                                                      | Ps.        | 9,836,741 | Ps.      | 752,140 | Ps. 4,909,999    | Ps. 18,229,344       | Ps. 33,728,224 |

| As of December 31,<br>2018                                 | Six months |           | One year |         | 1 and 3<br>years | More than<br>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 |

### 17. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The Entity's cash and cash equivalents, as well as accounts receivable and payable from and to third and related parties, and the current portion of bank loans and long-term debt approximate to 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 that generates interest at fixed and variable rates related to market indicators.

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

|                                                                 | 2020             |                  | 2019             |                  | 2018             |                  |
|-----------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                                                 | Carrying amount  | Fair value       | Carrying amount  | Fair value       | Carrying amount  | Fair value       |
| <b>Financial liabilities at amortized cost (level 2)</b>        |                  |                  |                  |                  |                  |                  |
| Bank loans and current portion of long-term debt <sup>(1)</sup> | Ps. (16,757,487) | Ps. (17,646,955) | Ps. (15,590,184) | Ps. (16,513,194) | Ps. (14,535,973) | Ps. (14,255,618) |
| <b>Derivatives designated as hedging instruments (level 2)</b>  |                  |                  |                  |                  |                  |                  |
| Forwards <sup>(2)</sup>                                         | -                | -                | -                | -                | 3,922            | 3,922            |
| Total                                                           | Ps. (16,757,487) | Ps. (17,646,955) | Ps. (15,590,184) | Ps. (16,513,194) | Ps. (14,532,051) | Ps. (14,251,696) |

(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 determine the price for bonds issued by KUO that can be exchanged. This value represents the fair amount for these instruments to be exchanged on their respective expiration 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.

### 18. 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 that influence the Entity's operations.

As of December 31, 2019 and 2018, the effect in other comprehensive income (loss) is Ps.423 and Ps.(4,250) net of deferred tax, respectively.

### 19. FINANCIAL INSTRUMENTS TO HEDGE NET INVESTMENTS IN FOREIGN OPERATIONS

As of January 2, 2020, the Entity designated the bond in the amount of US450 million as a hedging instrument for its net foreign investments Resirene, S.A. de C.V., Transmisiones y Equipos Mecánicos, S.A. de C.V., Resirene USA LLC and Tremec Corporation; such designation was made in order to mitigate variations in exchange rates arising between the functional currency of such operation and the functional currency of the holding company that holds these investments.

The Entity formally designated and documented the hedging relationship, establishing the objectives, the strategy for hedging the risk, the identification of the hedging instrument, the hedged item, the nature of the risk to be hedged and the methodology for assessing effectiveness. Since the hedging relationship is clear, the method used by the Entity to assess effectiveness consisted of a qualitative effectiveness test comparing the critical terms between the hedging instruments and the hedged items. The hedge will be effective as long as the notional debt designated as a hedging instrument is equal to or less than the value of the net assets of the hedged foreign operation. When the value of the net assets of the foreign operation is less than the notional amount of the designated debt, the Entity rebalances the hedging relationship and recognizes the ineffectiveness in the income statement.

The Entity maintains the hedging relationships described below:

As of January 2, 2020:

| Holding                   | Functional currency | Hedging instruments | Notional value (US) | Covered item                                    | Covered assets of the hedged item (US) |
|---------------------------|---------------------|---------------------|---------------------|-------------------------------------------------|----------------------------------------|
| Grupo KUO, S.A.B. de C.V. | MXN                 | Bond                | 450,000             | Resirene, S.A. de C.V.                          | 75,640                                 |
|                           |                     |                     |                     | Transmisiones y Equipos Mecánicos, S.A. de C.V. | 263,761                                |
|                           |                     |                     |                     | Resirene USA LLC                                | 246                                    |
|                           |                     |                     |                     | Tremec Corporation                              | 5,699                                  |

Al 31 de diciembre de 2020

| Holding                   | Functional currency | Hedging instruments | Notional value (US) | Covered item                                    | Covered assets of the hedged item (US) |
|---------------------------|---------------------|---------------------|---------------------|-------------------------------------------------|----------------------------------------|
| Grupo KUO, S.A.B. de C.V. | MXN                 | Bond                | 450,000             | Resirene, S.A. de C.V.                          | 43,196                                 |
|                           |                     |                     |                     | Transmisiones y Equipos Mecánicos, S.A. de C.V. | 397,799                                |
|                           |                     |                     |                     | Resirene USA LCC                                | 939                                    |
|                           |                     |                     |                     | Tremec Corporation                              | 6,713                                  |

The Entity’s average hedge ratio amounted to 100% from the date of designation until December 31, 2020. Due to the above, and the Entity’s hedging strategy of 100% as the maximum hedging percentage, the exchange rate fluctuation generated by the designated portion of the hedging instruments amounted to a loss of Ps.478,636, which was recognized in other comprehensive income, offsetting the translation effect generated by foreign investments for the same amount and generating a zero effect in comprehensive income. The excess of the exchange fluctuation of the hedging instrument was recognized directly in the statement of income for the period.

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

20.BANK LOANS

|                                                         |                | 2020           |     | 2019       |     | 2018       |
|---------------------------------------------------------|----------------|----------------|-----|------------|-----|------------|
| I) Senior Notes 2027                                    | Ps.            | 8,892,184      | Ps. | 8,435,517  | Ps. | 8,755,445  |
| II) Bank of America committed line                      |                | 3,474,412      |     | 3,296,913  |     | -          |
| III) HSBC simple credit                                 |                | 1,489,891      |     | 1,500,803  |     | -          |
| IV) Syndicated credit                                   |                | 1,646,665      |     | 861,502    |     | -          |
| V) BBVA Bancomer simple credit                          |                | 764,057        |     | 822,920    |     | 1,489,230  |
| VI) Bank of America committed line                      |                | 490,278        |     | 672,529    |     | 383,817    |
| VII) Bancomext simple credit                            |                | -              |     | -          |     | 995,533    |
| VIII) Club Deal committed line                          |                | -              |     | -          |     | 1,771,461  |
| IX) Scotiabank committed line                           |                | -              |     | -          |     | 590,487    |
| X) Sumitomo committed line                              |                | -              |     | -          |     | 550,000    |
|                                                         |                | 16,757,487     |     | 15,590,184 |     | 14,535,973 |
| Less - Bank loans and current portion of long-term debt |                | (487,628)      |     | (276,968)  |     | (171,275)  |
|                                                         | Long-term debt | Ps. 16,269,859 | Ps. | 15,313,216 | Ps. | 14,364,698 |

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) **Bank of America committed line** - Contracted in March 2019 with Bank of America, N.A., for US175 million. Pays interest at LIBOR rate + 1.40%, with a maturity of 5 years.
- III) **Simple credit** - With HSBC México, S.A. for Ps.1,500 million granted in July 2019 and pays interest quarterly to TIIE at 91 days + 1.45%, with increasing amortizations over 6 years beginning in 2021.
- IV) **Syndicated loan** - Signed on April 10, 2019, in which HSBC Bank USA, N.A., Bank of America, N.A., HSBC México, S.A., BBVA Bancomer, S.A., Mizuho Bank México, S.A., Mizuho Bank, LTD., Sumitomo Mitsui Banking Corporation, SMBC, S.A.P.I. de C.V. SOFOM, E.N.R., Banco Nacional de México, S.A. and Cooperative Rabobank, U.A. New York Branch, act as lending banks of a line of credit for up to US200 million and Ps.1,892 million. Pays interest according to its provisions at LIBOR rate + 1.50% for US dollars and TIIE at 91 days + 1.60% for Mexican pesos, with a maturity of 5 years.
- V) **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.
- VI) **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 2020. 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.
- VII) **Simple credit** - Credit with Bancomext for Ps.1,000 million granted in July 2017. This credit paid interest quarterly at a rate of 91-day TIIE + 1.80%, with 10 year increasing amortizations, beginning in 2019. The resources of this loan were used to prepay in 2019 the loan with Bank of America without additional costs for the prepayment of the loan.
- VIII) **Club Deal committed line** - Credit signed on October 21, 2016 and restructured in February 2018, in which Bank of America, Cooperative Rabobank, U.A. New York Branch and HSBC México, S.A. act as lenders of the credit line for up to US180 million. Paid interest a rate LIBOR + 1.45, with a 3 years’ maturity. The credit was prepaid in 2019 without additional costs for the prepayment of the committed line.

**IX) Scotiabank committed line** - Credit with The Bank of Nova Scotia in June 2018 for US30 million that generated interest at LIBOR rate + 1.45%, with maturity of 3 years. The resources of this credit were used to cover working capital requirements and investment in new projects. The credit was prepaid in 2019 without additional costs for the prepayment of the committed line.

**X) 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 credit earned interest at 28 days TIIE + 2.20%, with a maturity of 5 years. The resources were used to cover working capital requirements and investment in new projects. The loan was prepaid in 2019 without additional costs for the prepayment of the committed line.

Long-term debt maturities as of December 31, 2020 are as follows:

|      |     |            |
|------|-----|------------|
| 2022 | Ps. | 540,935    |
| 2023 |     | 478,657    |
| 2024 |     | 5,696,181  |
| 2025 |     | 661,902    |
| 2027 |     | 8,892,184  |
|      | Ps. | 16,269,859 |

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

|                                   |     | 2020    |     | 2019    |     | 2018    |
|-----------------------------------|-----|---------|-----|---------|-----|---------|
| Current portion of long-term debt | Ps. | 487,628 | Ps. | 276,968 | Ps. | 171,275 |

Bank loans measured at amortized cost are net of unamortized issuance costs which as of December 31, 2020, 2019 and 2018, amount Ps.90,056, Ps.106,387 and Ps.110,745, respectively.

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.

The Entity obtained on April 30, 2020 from HSBC Bank USA, National Association the approval of the waiver for not constituting and consider a breach of its obligations under Sections 7.14 (c) and 7.14 (d) of the Agreement Credit for the 2020 period, concluding that having a ratio of consolidated indebtedness to consolidated EBITDA greater than 3.5 will not be considered an event of default, as long as it is not greater than 5.00 to 1.00, and that the relationship between the consolidated indebtedness and the total capitalization on each of those dates does not exceed 0.70 to 1.00, a situation that was fulfilled as of December 31, 2020. Additionally, on December 23, 2020, the Entity obtained from HSBC Bank USA, National Association the corresponding waiver for the full year of 2021; therefore, the debt is disclosed based on its original maturities.

#### 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,<br>2019 |     | Financing cash<br>flows, net <sup>(i)</sup> |     | Other<br>changes <sup>(ii)</sup> |     | December 31,<br>2020 |
|------------|-----|----------------------|-----|---------------------------------------------|-----|----------------------------------|-----|----------------------|
| Bank loans | Ps. | 15,590,184           | Ps. | 781,830                                     | Ps. | 385,473                          | Ps. | 16,757,487           |

|            |     | December 31,<br>2018 |     | Financing cash<br>flows, net <sup>(i)</sup> |     | Other<br>changes <sup>(ii)</sup> |     | December 31,<br>2019 |
|------------|-----|----------------------|-----|---------------------------------------------|-----|----------------------------------|-----|----------------------|
| Bank loans | Ps. | 14,535,973           | Ps. | 1,537,067                                   | Ps. | (482,856)                        | Ps. | 15,590,184           |

|            |     | December 31,<br>2018 |     | Financing cash<br>flows, net <sup>(i)</sup> |     | Other<br>changes <sup>(ii)</sup> |     | December 31,<br>2018 |
|------------|-----|----------------------|-----|---------------------------------------------|-----|----------------------------------|-----|----------------------|
| Bank loans | Ps. | 9,788,937            | Ps. | 4,696,272                                   | Ps. | 50,764                           | Ps. | 14,535,973           |

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.

## 21. OTHER ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

|                                                               |     | 2020      |     | 2019      |     | 2018      |
|---------------------------------------------------------------|-----|-----------|-----|-----------|-----|-----------|
| Provisions <sup>(i)</sup>                                     | Ps. | 294,453   | Ps. | 174,058   | Ps. | 730,722   |
| Tax liabilities                                               |     | 561,296   |     | 471,714   |     | 394,108   |
| Others creditors                                              |     | 2,416,587 |     | 1,934,034 |     | 1,641,315 |
| Current portion of tax consolidation deferred taxes (Note 25) |     | 201,680   |     | 268,581   |     | 274,534   |
| Interest payable                                              |     | 296,635   |     | 318,497   |     | 288,306   |
| Dividends payable                                             |     | 11,207    |     | 211,881   |     | 10,953    |
| Direct employee benefits                                      |     | 444,820   |     | 352,342   |     | 371,252   |
|                                                               | Ps. | 4,226,678 | Ps. | 3,731,107 | Ps. | 3,711,190 |

|                                   |     | 2020      |     | 2019      |     | 2018      |
|-----------------------------------|-----|-----------|-----|-----------|-----|-----------|
| Provisions <sup>(i)</sup> :       |     |           |     |           |     |           |
| Beginning balance as of January 1 | Ps. | 174,058   | Ps. | 730,722   | Ps. | 770,955   |
| Increase                          |     | 266,070   |     | 49,864    |     | 88,561    |
| Applications                      |     | (43,954)  |     | (112,759) |     | (108,370) |
| Cancellation                      |     | (101,721) |     | (493,769) |     | (20,424)  |
| Final balance as of December 31   | Ps. | 294,453   | Ps. | 174,058   | Ps. | 730,722   |

The provisions recorded as of December 31, 2020, 2019 and 2018 include the reserve for the 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.

## 22. EMPLOYEE BENEFITS

|                                                       |     | 2020    |     | 2019    |     | 2018    |
|-------------------------------------------------------|-----|---------|-----|---------|-----|---------|
| a. Defined contribution plans for retirement benefits | Ps. | 65,718  | Ps. | 68,062  | Ps. | 54,300  |
| b. Defined benefit plans                              |     | 594,041 |     | 600,505 |     | 545,589 |
| Total                                                 | Ps. | 659,759 | Ps. | 668,567 | Ps. | 599,889 |

#### 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.

#### 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 7.25%, 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 4.0% 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, 2020 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:

|                                                                    | 2020  | 2019  | 2018  |
|--------------------------------------------------------------------|-------|-------|-------|
|                                                                    | %     | %     | %     |
| Discount rate                                                      | 7.25  | 7.75  | 8.30  |
| Expected rate of salary increase                                   | 5.00  | 5.00  | 4.00  |
| Pension increase rate                                              | 4.80  | 4.80  | 4.80  |
| Expected return on plan assets                                     | 7.25  | 7.75  | 8.30  |
| Average longevity at retirement age for current pensioners (years) |       |       |       |
| Males                                                              | 22.29 | 22.03 | 21.28 |
| Females                                                            | 24.70 | 24.24 | 24.12 |

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

|                                                                                                            | 2020       | 2019       | 2018       |
|------------------------------------------------------------------------------------------------------------|------------|------------|------------|
| Service cost:                                                                                              |            |            |            |
| Current service cost                                                                                       | Ps. 28,338 | Ps. 18,681 | Ps. 17,489 |
| Cost (income) past services                                                                                | (7,319)    | -          | 7,050      |
| Financial cost                                                                                             | 42,048     | 41,522     | 37,560     |
| Reductions and early settlement                                                                            | (48,568)   | (1,276)    | -          |
| Interest income                                                                                            | (604)      | (1,585)    | (1,452)    |
| Components of defined benefits costs recognized in profit or loss (continuing and discontinued operations) | Ps. 13,895 | Ps. 57,342 | Ps. 60,647 |

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:

|                    | 2020         | 2019       | 2018       |
|--------------------|--------------|------------|------------|
| Cost of sales      | Ps. (12,873) | Ps. 20,872 | Ps. 19,765 |
| Operating expenses | 26,768       | 36,470     | 40,882     |
| Total              | Ps. 13,895   | Ps. 57,342 | Ps. 60,647 |

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:

|                                                             | 2020        | 2019        | 2018        |
|-------------------------------------------------------------|-------------|-------------|-------------|
| Present value of defined benefit obligation                 | Ps. 658,829 | Ps. 646,384 | Ps. 598,637 |
| Fair value of plan assets                                   | (64,788)    | (45,879)    | (53,048)    |
| Net liabilities generated by the defined benefit obligation | Ps. 594,041 | Ps. 600,505 | Ps. 545,589 |

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

|                                                                            |     | 2020     |     | 2019     |     | 2018     |  |
|----------------------------------------------------------------------------|-----|----------|-----|----------|-----|----------|--|
| Opening balance of defined benefit obligation                              | Ps. | 646,384  | Ps. | 598,637  | Ps. | 635,808  |  |
| Current service cost                                                       |     | 28,338   |     | 18,681   |     | 17,489   |  |
| Interest cost                                                              |     | 42,048   |     | 41,522   |     | 37,560   |  |
| Actuarial (gains) and losses arising from changes in financial assumptions |     | 43,496   |     | 73,669   |     | (4,214)  |  |
| Cost of past service including (gains) losses on reductions                |     | (7,319)  |     | -        |     | 7,050    |  |
| Contributions from plan affiliates                                         |     | 957      |     | 650      |     | 680      |  |
| Early settlement                                                           |     | (48,568) |     | (1,276)  |     | -        |  |
| Translation effect                                                         |     | 15,506   |     | (5,038)  |     | (3,081)  |  |
| Benefits paid                                                              |     | (62,013) |     | (80,461) |     | (92,655) |  |
| Ending balance of defined benefit obligation                               | Ps. | 658,829  | Ps. | 646,384  | Ps. | 598,637  |  |

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

|                                                                           |     | 2020    |     | 2019    |     | 2018     |  |
|---------------------------------------------------------------------------|-----|---------|-----|---------|-----|----------|--|
| Opening balance of fair value of plan assets                              | Ps. | 45,879  | Ps. | 53,048  | Ps. | 58,076   |  |
| Interest income                                                           |     | 604     |     | 1,585   |     | 1,452    |  |
| Remeasurement gains                                                       |     | 422     |     | 702     |     | 2,355    |  |
| Contributions from employer                                               |     | 14,045  |     | 9,163   |     | 9,544    |  |
| Recovery of Trust's funds                                                 |     | -       |     | (9,516) |     | (14,606) |  |
| Contributions from employees                                              |     | 957     |     | 650     |     | 680      |  |
| Benefits paid                                                             |     | (4,256) |     | (6,877) |     | (2,905)  |  |
| Translation effect                                                        |     | 7,137   |     | (2,876) |     | (1,548)  |  |
| Ending balance of the fair value of plan assets in financial institutions | Ps. | 64,788  | Ps. | 45,879  | Ps. | 53,048   |  |

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:

|                                    |     | 2020   |     | 2019   |     | 2018     |  |
|------------------------------------|-----|--------|-----|--------|-----|----------|--|
| Changes in demographic assumptions | Ps. | 3,250  | Ps. | 1,265  | Ps. | 7,523    |  |
| Changes in financial assumptions   |     | 29,688 |     | 45,036 |     | (34,242) |  |
| Experience                         |     | 10,136 |     | 26,666 |     | 20,150   |  |
| Actuarial loss (gain)              | Ps. | 43,074 | Ps. | 72,967 | Ps. | (6,569)  |  |

If the discount rate is 50 basis points higher (lower), the defined benefit obligation would decrease by Ps.31,178 (increase by Ps.34,155).

If the expected salary growth increases (decreases) by 0.5%, the defined benefit obligation would increase by Ps.5,613 (decrease by Ps.5,594).

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.

23.STOCKHOLDERS' EQUITY

Contributed capital

As of December 31, 2020, 2019 and 2018, 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 April 30, 2020, it was approved to allocate Ps.200,000 to the share repurchase fund for a period of twelve months.

At the Ordinary General Stockholders' Meeting held on April 29, 2019, a dividend payment of Ps.401,602 was approved, which was applied to retained earnings. Likewise, the repurchase of shares was approved for up to Ps.200,000 for a period of twelve months.

The total payment of the aforementioned dividend will take place in two exhibitions. The first payment corresponding to 50% was made on December 23, 2019 and the remaining payment will be made from the date and in the terms determined by the Chairman of the Board and / or Secretary of the Board of Directors, in accordance with the power delegated by the Stockholders at the Meeting.

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, it was approved to allocate the amount of Ps.200,000 for the repurchase of shares.

The net amount of repurchased shares is recorded in the share repurchase fund and represents the repurchase and sale transactions of treasury shares; those that originated an increase (decrease) of Ps. (57,701), Ps. (19,667) and Ps.80,513 at December 31, 2020, 2019 and 2018, respectively.

As of December 31, 2020, 2019 and 2018 there are 17,061,195, 15,883,951 and 15,429,115 treasury shares, respectively.

As of December 31, 2020, 2019 and 2018 there are no common shares with potential dilution effects.

Legal reserve:

The net income of the Entity and each subsidiary is subject to the legal provision requiring that 5% of the net income of each year be transferred to the reserve fund until it equals 20% of its capital stock. The reserve fund is not distributable to stockholders during the existence of each entity, except upon dissolution. As of December 31, 2020 the reserve fund amounts to Ps.219,718, and as of December 31, 2019 and 2018 the reserve fund amounts to Ps.108,083, and is recorded in retained earnings.

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.

Dividends paid from profits generated as of January 1, 2015 to individuals resident in Mexico and foreign residents may be subject to an additional income tax of up to 10%, which must be withheld by the Entity.

The balances of the tax accounts of stockholders’ equity as of December 31 are as follows:

|                              |     | 2020       |     | 2019       |     | 2018       |
|------------------------------|-----|------------|-----|------------|-----|------------|
| Capital contribution account | Ps. | 13,712,305 | Ps. | 13,115,604 | Ps. | 12,930,695 |
| Net tax income account a     |     | 11,702,917 |     | 9,799,076  |     | 8,635,635  |
| Total                        | Ps. | 25,415,222 | Ps. | 22,914,680 | Ps. | 21,566,330 |

24.BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

|                                  |     | 2020    |     | 2019    |     | 2018    |
|----------------------------------|-----|---------|-----|---------|-----|---------|
| Revenues -                       |     |         |     |         |     |         |
| Sales                            | Ps. | 613,754 | Ps. | 697,921 | Ps. | 916,687 |
| Administrative services rendered | Ps. | 133,513 | Ps. | 154,110 | Ps. | 158,484 |
| Interest income                  | Ps. | 2,014   | Ps. | 3,397   | Ps. | 3,392   |
| Air transportation               | Ps. | 14,148  | Ps. | 11,234  | Ps. | 10,972  |
| Recovery of expenses             | Ps. | 67,345  | Ps. | 56,810  | Ps. | 1,791   |
| Expenses -                       |     |         |     |         |     |         |
| Purchase of inventories          | Ps. | 65,776  | Ps. | 107,632 | Ps. | 125,604 |
| Administrative services received | Ps. | 2,643   | Ps. | 1,693   | Ps. | 1,554   |
| Others                           | Ps. | 384     | Ps. | 176     | Ps. | 409     |

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

|                                                                     |     | 2020    |     | 2019    |     | 2018    |
|---------------------------------------------------------------------|-----|---------|-----|---------|-----|---------|
| Accounts receivable -                                               |     |         |     |         |     |         |
| Short-term:                                                         |     |         |     |         |     |         |
| Dynasol Elastómeros, S.A. de C.V.                                   | Ps. | 96,022  | Ps. | 82,224  | Ps. | 87,549  |
| Industrias Negromex, S.A. de C.V.                                   |     | 4,935   |     | 42,139  |     | 55,836  |
| Herdez del Fuerte, S.A. de C.V.                                     |     | 2,618   |     | 6,059   |     | 2,434   |
| Dine 28, S.A. de C.V.                                               |     | 6,799   |     | 17,186  |     | 1,680   |
| Fernando Senderos Mestre                                            |     | 657     |     | 603     |     | 626     |
| Dynasol Gestión México, S.A.P.I. de C.V.                            |     | 1,294   |     | 2,023   |     | 1,255   |
| Plaza Bosques, S.A. de C.V.                                         |     | 1,417   |     | 402     |     | 388     |
| Promociones Bosques, S.A. de C.V.                                   |     | -       |     | 17,818  |     | -       |
| Dynasol Altamira, S.A. de C.V.                                      |     | 802     |     | 1,113   |     | 46      |
| Administración de Riesgo, Agente de Seguros y Fianzas, S.A. de C.V. |     | 263     |     | -       |     | -       |
| Seradri, S.A. de C.V.                                               |     | 548     |     | -       |     | -       |
|                                                                     | Ps. | 115,355 | Ps. | 169,567 | Ps. | 149,814 |
| Long-term:                                                          |     |         |     |         |     |         |
| Fideicomiso de Administración con Actividad Empresarial F/3293      | Ps. | 111,816 | Ps. | 104,960 | Ps. | 107,775 |
| Promociones Bosques, S.A. de C.V.                                   |     | -       |     | -       |     | 14,459  |
|                                                                     | Ps. | 111,816 | Ps. | 104,960 | Ps. | 122,234 |

|                                                                     |     | 2020  |     | 2019   |     | 2018   |
|---------------------------------------------------------------------|-----|-------|-----|--------|-----|--------|
| Accounts payable-                                                   |     |       |     |        |     |        |
| Short-term:                                                         |     |       |     |        |     |        |
| Dynasol Elastómeros, S.A. de C.V.                                   | Ps. | 838   | Ps. | 19,228 | Ps. | 19,928 |
| Industrias Negromex, S.A. de C.V.                                   |     | 3,489 |     | 1,704  |     | 5,066  |
| Dynasol Altamira, S.A. de C.V.                                      |     | -     |     | -      |     | 303    |
| Cantiles de Mita, S.A. de C.V.                                      |     | 99    |     | 423    |     | 172    |
| Administración de Riesgo, Agente de Seguros y Fianzas, S.A. de C.V. |     | 154   |     | -      |     | -      |
|                                                                     | Ps. | 4,580 | Ps. | 21,355 | Ps. | 25,469 |

25.INCOME TAXES

The Entity is subject to ISR. Under the ISR Law the rate for 2020, 2019 and 2018 was 30% and will continue to be 30% thereafter.

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

|                                                               |     | 2020      |     | 2019      |     | 2018    |
|---------------------------------------------------------------|-----|-----------|-----|-----------|-----|---------|
| ISR:                                                          |     |           |     |           |     |         |
| Income tax for the year                                       | Ps. | 394,131   | Ps. | 357,142   | Ps. | 350,211 |
| Restatement of deferred income tax due to tax deconsolidation |     | 19,804    |     | 23,558    |     | 46,580  |
| Insufficiency (excess) from previous years                    |     | 851       |     | 1,272     |     | (435)   |
|                                                               |     | 414,786   |     | 381,972   |     | 396,356 |
| Deferred tax                                                  |     | (384,627) |     | (148,677) |     | 419,141 |
|                                                               |     | (384,627) |     | (148,677) |     | 419,141 |
| ISR Total                                                     | Ps. | 30,159    | Ps. | 233,295   | Ps. | 815,497 |

b. Deferred tax recognized in other comprehensive income:

|                          |     | 2020   |     | 2019     |     | 2018    |
|--------------------------|-----|--------|-----|----------|-----|---------|
| Financial instruments    | Ps. | -      | Ps. | (114)    | Ps. | (1,822) |
| Employee benefits        |     | 12,922 |     | 21,957   |     | 1,499   |
| Exchange rate difference |     | 16,223 |     | (24,559) |     | (1,649) |
| Total deferred taxes     | Ps. | 29,145 | Ps. | (2,716)  | Ps. | (1,972) |

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

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

|                                       |     | 2020      |     | 2019      |     | 2018      |
|---------------------------------------|-----|-----------|-----|-----------|-----|-----------|
| Deferred income tax asset             | Ps. | 1,250,821 | Ps. | 819,754   | Ps. | 478,049   |
| Deferred income tax liability         |     | 1,051,066 |     | 1,033,771 |     | 838,027   |
| Deferred income tax (liability) asset | Ps. | 199,755   | Ps. | (214,017) | Ps. | (359,978) |

d. Tax assets and liabilities:

|                                                                        | 2020 |         | 2019 |         | 2018 |           |
|------------------------------------------------------------------------|------|---------|------|---------|------|-----------|
| <b>Assets:</b>                                                         |      |         |      |         |      |           |
| ISR                                                                    | Ps.  | 97,862  | Ps.  | 112,820 | Ps.  | 215,505   |
| <b>Liabilities:</b>                                                    |      |         |      |         |      |           |
| ISR                                                                    | Ps.  | 174,082 | Ps.  | 98,241  | Ps.  | 45,644    |
| Deferred income tax arising from tax consolidation current liabilities |      | 492,420 |      | 745,123 |      | 998,147   |
|                                                                        | Ps.  | 666,502 | Ps.  | 843,364 | Ps.  | 1,043,791 |

e. Deferred tax balances:

The tax effects of temporary differences that generated assets (liabilities) of deferred taxes as of December 31, 2020, 2019 and 2018, are as follows:

|                                              | December 31, 2019 |             | Recognized<br>in profit or loss<br>for the year |           | Other<br>comprehensive<br>income items |          | December 31, 2020 |
|----------------------------------------------|-------------------|-------------|-------------------------------------------------|-----------|----------------------------------------|----------|-------------------|
| <b>Deferred ISR asset:</b>                   |                   |             |                                                 |           |                                        |          |                   |
| Effect of tax loss carryforwards             | Ps.               | 454,114     | Ps.                                             | 25,643    | Ps.                                    | (18)     | Ps. 479,739       |
| Reserves and provisions                      |                   | 559,462     |                                                 | 104,288   |                                        | 38,527   | 702,277           |
| Advances from customers                      |                   | 19,762      |                                                 | 129,017   |                                        | 3,499    | 152,278           |
| Employee benefits                            |                   | 145,290     |                                                 | (27,147)  |                                        | 17,330   | 135,473           |
| Simplified tax regime on purchases and sales |                   | 323,790     |                                                 | 178,178   |                                        | 676      | 502,644           |
| Income deferral                              |                   | 218,491     |                                                 | 20,277    |                                        | (1,403)  | 237,365           |
| Lease liability                              |                   | 877,467     |                                                 | (390,556) |                                        | 6,929    | 493,840           |
| Others                                       |                   | 18,652      |                                                 | 106,851   |                                        | (5,525)  | 119,978           |
| Deferred ISR asset:                          |                   | 2,617,028   |                                                 | 146,551   |                                        | 60,015   | 2,823,594         |
| <b>Deferred ISR liability:</b>               |                   |             |                                                 |           |                                        |          |                   |
| Inventories                                  |                   | (842,621)   |                                                 | (103,650) |                                        | (1,533)  | (947,804)         |
| Property, plant and equipment                |                   | (944,708)   |                                                 | 119,893   |                                        | (67,773) | (892,588)         |
| Right-of-use asset                           |                   | (853,436)   |                                                 | 393,161   |                                        | (7,216)  | (467,491)         |
| Prepaid expenses                             |                   | (38,388)    |                                                 | (121,640) |                                        | (1,192)  | (161,220)         |
| Financial instruments                        |                   | 68          |                                                 | -         |                                        | (68)     | -                 |
| Intangible assets                            |                   | (151,960)   |                                                 | (49,688)  |                                        | 46,912   | (154,736)         |
| Deferred ISR liability                       |                   | (2,831,045) |                                                 | 238,076   |                                        | (30,870) | (2,623,839)       |
| Net deferred ISR asset (liability)           | Ps.               | (214,017)   | Ps.                                             | 384,627   | Ps.                                    | 29,145   | Ps. 199,755       |

|                                              | December 31, 2019 |           | Recognized<br>in profit or loss<br>for the year |           | Other<br>comprehensive<br>income items |          | December 31, 2019 |
|----------------------------------------------|-------------------|-----------|-------------------------------------------------|-----------|----------------------------------------|----------|-------------------|
| <b>Deferred ISR asset:</b>                   |                   |           |                                                 |           |                                        |          |                   |
| Effect of tax loss carryforwards             | Ps.               | 390,962   | Ps.                                             | 69,024    | Ps.                                    | (5,872)  | Ps. 454,114       |
| Reserves and provisions                      |                   | 449,321   |                                                 | 123,895   |                                        | (13,754) | 559,462           |
| Advances from customers                      |                   | 21,834    |                                                 | (1,575)   |                                        | (497)    | 19,762            |
| Employee benefits                            |                   | 129,896   |                                                 | (6,563)   |                                        | 21,957   | 145,290           |
| Simplified tax regime on purchases and sales |                   | 362,225   |                                                 | (38,030)  |                                        | (405)    | 323,790           |
| Lease liability                              |                   | -         |                                                 | 875,124   |                                        | 2,343    | 877,467           |
| Others                                       |                   | 18,753    |                                                 | (101)     |                                        | -        | 18,652            |
| Deferred ISR asset                           |                   | 1,372,991 |                                                 | 1,021,774 |                                        | 3,772    | 2,398,537         |

|                                    |     |             |     |           |     |          |               |
|------------------------------------|-----|-------------|-----|-----------|-----|----------|---------------|
| <b>Deferred ISR liability:</b>     |     |             |     |           |     |          |               |
| Inventories                        |     | (742,732)   |     | (100,415) |     | 526      | (842,621)     |
| Property, plant and equipment      |     | (993,544)   |     | 62,707    |     | (13,871) | (944,708)     |
| Right of use assets                |     | -           |     | (850,796) |     | (2,640)  | (853,436)     |
| Deferred income                    |     | 91,761      |     | 124,157   |     | 2,573    | 218,491       |
| Prepaid expenses                   |     | (38,758)    |     | (709)     |     | 1,079    | (38,388)      |
| Financial instruments              |     | (1,176)     |     | 1,358     |     | (114)    | 68            |
| Intangible assets                  |     | (48,520)    |     | (109,399) |     | 5,959    | (151,960)     |
| Deferred ISR liability             |     | (1,732,969) |     | (873,097) |     | (6,488)  | (2,612,554)   |
| Net deferred ISR asset (liability) | Ps. | (359,978)   | Ps. | 148,677   | Ps. | (2,716)  | Ps. (214,017) |

|                                              | Balance as ofat<br>the beginning<br>of 2018 |             | Initial<br>application<br>of IFRS 9 |       | Recognized<br>in profit or loss<br>for the year |           | Other<br>comprehensive<br>income items |         | December 31,<br>2018 |
|----------------------------------------------|---------------------------------------------|-------------|-------------------------------------|-------|-------------------------------------------------|-----------|----------------------------------------|---------|----------------------|
| <b>Deferred ISR asset:</b>                   |                                             |             |                                     |       |                                                 |           |                                        |         |                      |
| 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            |
| <b>Deferred ISR liability:</b>               |                                             |             |                                     |       |                                                 |           |                                        |         |                      |
| 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 (liability)           | Ps.                                         | 56,054      | Ps.                                 | 1,137 | Ps.                                             | (419,141) | Ps.                                    | 1,972   | Ps. (359,978)        |

**f. Tax loss carryforwards**

As of December 31, 2020, KUO has tax loss carryforwards, which will be indexed for inflation through the year applied or recovered, in the following restated amounts:

| <b>Maturity</b> | <b>Tax loss carryforwards</b> |
|-----------------|-------------------------------|
| 2024            | Ps. 23,156                    |
| 2025            | 219,099                       |
| 2026            | 1,085,583                     |
| 2027            | 368,174                       |
| 2028            | 289,733                       |
| 2029            | 462,646                       |
| 2030            | 1,108,024                     |
|                 | Ps. 3,556,415                 |

In determining deferred income taxes as of December 31, 2020, 2019 and 2018 the effects of tax loss carryforwards were included for Ps.1,599,130, Ps.1,513,713 and Ps.1,303,207, respectively. In the determination of deferred income taxes as of December 31, 2020, 2019 and 2018 the effects of deferred tax assets related to the carryforward of tax losses not recognized amounted to Ps.1,957,285, Ps.1,676,233 and Ps.1,530,601, respectively, because Management believes it is unlikely that the benefits of such losses will be realized.

**g. Tax consolidation:**

The income tax liability as of December 31, 2020 related to the effects of benefits and tax deconsolidation shall be paid in the following years:

| <b>Year</b>         | <b>Amount</b> |
|---------------------|---------------|
| 2021 (Note 21)      | Ps. 201,680   |
| 2022 and thereafter | 290,740       |
|                     | Ps. 492,420   |

**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:

|                                                   | <b>2020</b>   | <b>2019</b> | <b>2018</b> |
|---------------------------------------------------|---------------|-------------|-------------|
| Income tax at statutory rate                      | Ps. (162,550) | Ps. 739,146 | Ps. 893,466 |
| Add (deduct) the effect of permanent differences: |               |             |             |
| Non-deductible expenses                           | 126,595       | 68,810      | 65,622      |
| Non-taxable income                                | (7,198)       | (167,365)   | (20,401)    |
| Inflation effect of deconsolidation deferred tax  | 19,804        | 23,558      | 46,580      |
| Annual adjustment for inflation                   | 172,980       | 130,183     | 181,596     |
| Tax losses, net                                   | 83,665        | (105,342)   | 21,857      |
| Equity in results of joint ventures               | (325,556)     | (310,364)   | (385,185)   |
| Tax effect on sale of shares                      | -             | -           | 67,813      |
| Translation effect of foreign operations          | 139,609       | (153,613)   | (47,086)    |
| Others                                            | (17,190)      | 8,282       | (8,765)     |
| Effective rate                                    | Ps. 30,159    | Ps. 233,295 | Ps. 815,497 |

**26.DISCONTINUED OPERATIONS**

On December 31, 2014, KUO discontinued its Alaxia project, which would focus on producing and marketing precision-machined components for the commercial aeronautical industry. The conditions of the industry made it difficult to obtain contracts that could provide volumes in the short term; reason why Alaxia did not achieve the scale required by an emerging player in the industry to generate profits and even to operate at an equilibrium point.

|                            | <b>2020</b> | <b>2019</b> | <b>2018</b> |
|----------------------------|-------------|-------------|-------------|
| Financial income           | Ps. 2,015   | Ps. 2,150   | Ps. 47,385  |
| Profit before income taxes | Ps. 2,015   | Ps. 2,150   | Ps. 47,385  |

**27. COSTS AND EXPENSES BY NATURE**

Cost of sales, administrative expenses and selling and distribution expenses are comprised of the following:

|                                    | <b>2020</b>    | <b>2019</b>    | <b>2018</b>    |
|------------------------------------|----------------|----------------|----------------|
| Cost of sales:                     |                |                |                |
| Direct cost of sales               | Ps. 19,186,617 | Ps. 17,240,067 | Ps. 17,096,974 |
| Salaries and employee benefits     | 2,963,349      | 2,555,084      | 2,273,867      |
| Freight and transportation         | 286,250        | 302,281        | 262,248        |
| Maintenance, fees and leasing      | 1,262,065      | 776,268        | 774,063        |
| Electric power                     | 355,544        | 332,439        | 306,654        |
| Depreciation of right-of-use asset | 131,763        | 113,636        | -              |
| Depreciation and amortization      | 1,564,079      | 928,951        | 590,658        |
| Total                              | Ps. 25,749,667 | Ps. 22,248,726 | Ps. 21,304,464 |

|                                                           |               |               |               |
|-----------------------------------------------------------|---------------|---------------|---------------|
| <b>Administrative, selling and distribution expenses:</b> |               |               |               |
| Freight and transportation                                | Ps. 1,192,655 | Ps. 1,010,075 | Ps. 661,567   |
| Salaries and employee benefits                            | 1,502,176     | 1,453,578     | 1,437,321     |
| Advertisement and marketing                               | 40,734        | 41,606        | 49,361        |
| Depreciation, amortization and impairment                 | 103,926       | 85,266        | 60,989        |
| Depreciation of right-of-use asset                        | 140,158       | 137,930       | -             |
| Export costs                                              | 53,591        | 50,016        | 308,945       |
| Maintenance, fees and leasing                             | 610,638       | 601,919       | 695,807       |
| Electric power                                            | 96,812        | 139,234       | 64,439        |
| General expenses                                          | 347,265       | 469,720       | 344,312       |
| Total                                                     | Ps. 4,087,955 | Ps. 3,989,344 | Ps. 3,622,741 |

**28.OTHER (INCOME) EXPENSES**

Other (The other income) expenses or expense item is composed as follows:

|                                                               | <b>2020</b>   | <b>2019</b>   |
|---------------------------------------------------------------|---------------|---------------|
| Recovery of property, plant and equipment claim               | Ps. (921,505) | Ps. -         |
| Recovery of inventory and other expenses claim                | (103,605)     | -             |
| Costs for property, plant and equipment claims <sup>(i)</sup> | 1,582,775     | -             |
| Costs for inventory claims and other expenses                 | 279,705       | -             |
| Loss (profit) from sale of fixed assets                       | (1,992)       | 6,639         |
| Cancellation of provision                                     | -             | (455,606)     |
| Health event expenses (Covid-19)                              | 95,597        | -             |
| Others expenses                                               | (199)         | -             |
| Total                                                         | Ps. 930,776   | Ps. (448,967) |

(i) The property, plant and equipment claim balance includes a provision for Ps.7,410, corresponding to the residual value of equipment that was held on loan and was lost.

In May 2020, a fire broke out in one of the processing plants of the subsidiary Comercializadora Porcícola Mexicana, S.A. de C.V., located in Sahé, municipality of Tixpéhual, Yucatán. The fire affected property assets, plant and equipment, inventories and other costs for a total amount of Ps.1,862,480.

These assets were covered by an insurance policy. The Entity has concluded that said policy covers material damages, loss of profits resulting from the reduction in income and additional costs that the Entity may incur because of the loss. As of December 31, 2020, the Entity has recognized income for the reimbursement of the claim for Ps.1,025,110, which has been fully collected.

## 29.COMMITMENTS AND 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 resolutions 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.

## 30.SUBSEQUENT EVENTS

- **Claim** - As of the date of issuance of the consolidated financial statements, the Entity continues in the claim process with the insurance company to conclude the collection of the insurance in the shortest possible time. The Entity has coverage for Material Damages, Expenses and Consequential Losses and the Administration considers that it will not have significant problems to conclude with the recovery.
- **COVID-19 pandemic**- With the information obtained so far, for fiscal year 2021, the Entity does not expect significant impacts on its financial results and consolidated cash flows, however, the effectiveness will depend largely on the evolution of the COVID-19 pandemic, the sanitary vaccination campaign and mitigation measures, the proper functioning of the productive chains, as well as the economic recovery in the industries and markets where the Entity operates.

## 31. FINANCIAL STATEMENT ISSUANCE AUTHORIZATION

The accompanying consolidated financial statements for the year ended December 31, 2020, were approved by the Chief Financial Officer of KUO Mr. Jorge Padilla Ezeta, on March 25, 2021; consequently, they do not reflect any events that occurred after that date, and they are subject to the approval of the Ordinary Stockholders' General Meeting of the Entity, who may decide to modify them in accordance with the provisions established in the Mexican Securities Law and the General Corporate Law. The consolidated financial statements for the years ended December 31, 2019 and 2018 were approved at the Ordinary General Stockholders' Meeting on April 30, 2020 and April 29, 2019, respectively.

# INVESTORS Infor ma tion

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## INFORMATION ABOUT SHARES

Grupo KUO, S.A.B. de C.V. "A" shares and "B" shares are listed and admitted for trading on the Bolsa Mexicana de Valores, S.A.B. de C.V. (The Mexican Stock Exchange) under the ticker symbol "KUO"



KUO

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