

2022 focus

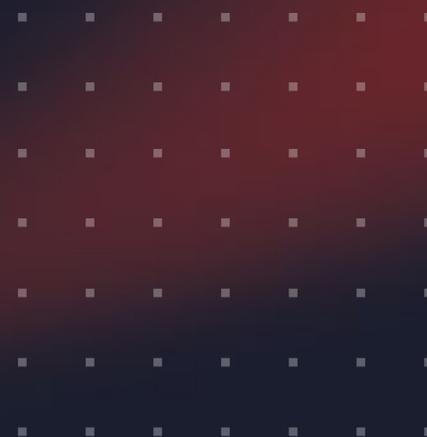


Integrated
Report
2022

A year of contrasts in which we knew how to make decisions focused on what matters most.

Aspects that integrate the strategic goals of the businesses and brought positive results for the Group.

This is the story...



GLOBA LIZA TION



[&]

regionalization

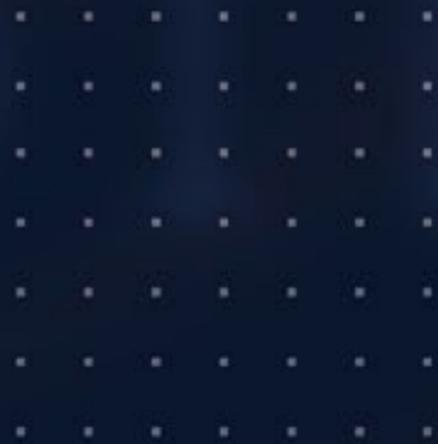
We reshaped our value chain focused on strategic planning and management of resources.



SUS TAINA BILITY

[&]

profitability



We listen carefully, both to the needs of the markets and those of the sustainability agenda, focused in responding in a positive, timely and accurate manner.

LEADER SHIP



empowerment

We work on the personal and professional development of our team, focused on generating opportunities for specialization and growth.



content

10
Highlights

12
Message from the Chairman
and Chief Executive Officer

18
About KUO

34
Risk management
and Monitoring

46
Sustainability
Model

How to read this report

We are pleased to present KUO's sixth integrated annual report for the fiscal year 2022. The information contained in this report shows the results of Environmental, Social and Corporate Governance (ESG) impact management, in addition to the Company's relevant Financial, Operational and Sustainable results. Throughout the document you will appreciate the commitment to transparency and accountability to all stakeholders on material issues.

In order to identify what content is referred to, at the beginning of each section, the reader will find the respective codes for the GRI standard (GRI 2-6, for instance) or SASB benchmark. The reader can also refer to the GRI or SASB index at the end of this report.

Corporate
Governance **50**

Employee
Development **62**

Customer
Satisfaction **88**

Sustainable Processes
and Products **94**

Operational Efficiency
and Continuity **106**

112
Annexes

138
Financial
Information

1. The scope for ESG impact management results includes the companies Kekén, Dynasol, Resirene, Tremec and Aftermarket. The financial information considers all entities, including Branded Food and Megamex.

highlights

Millions of Mexican Pesos	2022	2021	22 vs 21
Revenue	63,964	57,324	11.6%
Exports	34,761	32,795	6.0%
Operating Profit	3,321	5,086	-34.7%
<i>Operating Margin</i>	<i>5.2%</i>	<i>8.9%</i>	<i>-3.7 pp</i>
EBITDA Operating Cash Flow²	6,046	7,016	-13.8%
<i>EBITDA Margin</i>	<i>9.5%</i>	<i>12.2%</i>	<i>-2.7 pp</i>
Majority Net Income	1,872	2,710	-30.9%
Leverage Ratio ³	2.19x		
Interest Coverage Ratio ⁴	6.00x		
Capitalization Index ⁵	0.49x		

1. Outstanding figures are presented based on the Proforma Combined Information, as a result of the financial information consolidation of all subsidiaries, including the proportional consolidation in joint ventures.
2. EBITDA calculation is determined as follows: Proforma Operating Profit plus Proforma Depreciation and Amortization (including the period cost for Proforma labor obligations).
3. Debt-Cash / Operating Cash Flow (EBITDA*) for the last 12 months.
4. Operating Cash Flow (EBITDA*) for the last 12 months / Net Interest Paid for the last 12 months.
5. Total Debt / Total Debt + Total Equity*.

Revenue (mm mxn)

\$63,964

consumer

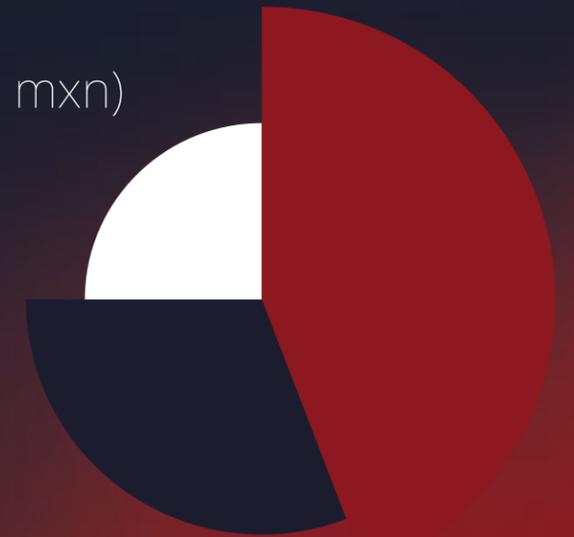
\$28,169

chemical

\$19,766

automotive

\$15,795



EBITDA (mm mxn)

6,046

consumer

1,871

chemical

2,532

automotive

1,594



DEAR

Shareholders,
partners,
customers and
employees:

On behalf of the Board of Directors and KUO's Management Team, we would like to share with you the results achieved during 2022 derived from ongoing projects, which reflect the Group's financial, operational, and sustainable performance, as well as our strategy going forward.

Last year was characterized by global events that had a major impact on most industries. First of all, the conflict between Russia and Ukraine had strong repercussions in different sectors, including, among other factors, the substantial increase in the prices of numerous raw materials worldwide.

Since the beginning of the conflict, oil prices rose abruptly to record highs, generating a sharp increase in the costs of commodities that are correlated with it, setting unprecedented values for some agricultural supplies, such as corn, cereals, and fertilizers.

This, combined with the escalation of supply chain disruptions, which affected distribution and transportation times and costs, as well as the availability of some commodities, caused inflationary pressures in all the markets in which KUO operates.

This brought mixed results in the business portfolio. Pro forma consolidated revenue achieved double-digit growth, explained by increased product demand in all of KUO's businesses, which partially offset the sharp rise in raw material costs, such as corn, soybean, avocado, steel, aluminum, and cardboard, leading to a contraction in EBITDA.

Despite the high degree of uncertainty experienced during this period, we were able to adapt to the circumstances and react to the requirements of the markets and customers we serve.

Our business model's focus on diversification in industries, geographies, currencies, and customers, as well as our growth strategy in export markets, has continued to be key to overcoming the many challenges we faced during 2022.

Serving markets in the Americas, Europe, and Asia, as well as concentrating and strengthening production chains in each of these continents, has generated competitive advantages through the regionalization of operations. With strategic resource planning and management, we have been able to regionalize a large part of our activities in order to reduce our dependence on suppliers and customers in remote areas, thus avoiding the difficulties of global supply chains.

The results achieved during the year are the result of the talent and commitment of more than 24,000 employees who make up our work teams

During the year, Chemicals businesses showed high dynamism, the growth in the volume of applications, underpinned by the increase in prices, as well as the focus on value-added and sustainable solutions, was reflected in positive results for the sector.

In Pork Meat business, it is worth mentioning the set-up of the new processing plant in Sahé, which, together with the Umán and Irapuato plants, will boost exports of speciality meat products, while continuing to strengthen the development of the remaining distribution channels.

In Herdez Del Fuerte business, the increased demand of tomato puree, mole, and salsas categories in Mexico stands out, as well as the innovation in presentations and products in the export market.

It is worth mentioning the recent acquisition of Interdeli and Deli, Dips & Snacks, a Mexican company pioneer in Lebanese origin products, adding new brands in hummus, dry lebnah, pita bread, and goat cheese categories, which will widen product offering, focusing on new consumer trends with high growth potential.

Automotive businesses experienced higher demand for transmissions and components, as well as brake, engine, and powertrain parts. This was reinforced by the focus on the development of new proposals that meet the needs of customers, adapting to industry trends. The increase in Revenue was obtained despite supply chain disruptions and the availability of inputs such as semiconductors.

The results achieved during the year are the result of the talent and commitment of more than 24,000 employees who make up our work teams. Our human capital has been the basis for maintaining operational continuity, overcoming challenges, and consolidating future growth. We would like to thank them for their professionalism and focus on the Group's long-term strategy.

SUSTAINABILITY AGENDA

At KUO, the sustainability model is based on an articulated medium and long-term strategy for risk management. The integration of the model aims to ensure the operational continuity and growth of each of the businesses in the portfolio, intensifying the scope of the positive impacts that our operations have on stakeholders.

During the year, we defined initiatives at the business and Group levels to develop a structure of key indicators or "scorecard" that allow us to monitor progress in the ESG (Environmental, Social and Governance) area.

Sustainability at KUO is focused on: decision making that allows for sustainability over time; a work culture that fosters the development of employees in a safe work environment; customer satisfaction through product quality and innovation; the implementation of sustainable products and processes by strengthening the circularity of resources; and operational efficiency through energy, emissions, and water management.

Each of the businesses has implemented a number of initiatives in the ESG dimensions to ensure KUO's value creation over time. We will continue to periodically review and communicate the targets set to strengthen the strategy.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

During 2022, pro forma consolidated revenue grew 12% to MXN\$63.964 billion, as a result of higher demand across all of KUO's businesses. EBITDA contracted by 14% to MXN\$6.044 billion, largely explained by the sharp increase in the prices of main raw materials, in addition to higher distribution and transportation costs.

Exports continued to register a positive trend, representing 58% of pro forma consolidated revenue, driven mainly by Chemical and Transmissions businesses.

The Consumer sector accounted for 44% of the Group's total revenue, followed by Chemical sector with 31% and Automotive with 25%.

The two businesses in Chemical sector showed high dynamism, with growth in volume and prices, highlighting higher demand in construction and consumer segments in Polymers, and asphalt modifiers in Synthetic Rubber. It is worth mentioning this sector's focus on higher value-added applications, circular economies, sustainable solutions, and improved logistics integration.

In Consumer sector, Pork Meat business showed a good performance in terms of revenue, with growth in volume in the domestic and export markets, however, this was not enough to offset the high level of prices in corn and soypaste, during the year, causing a contraction in EBITDA. It is worth mentioning that during 2022 the business achieved significant efficiencies in energy and water, in addition to obtaining animal welfare certification throughout the production chain.

Herdez Del Fuerte experienced an increase in demand in the categories of tomato puree, salsas, and mole in domestic market, along with avocado products and salsas in the United States. This, together with greater consolidation in the distribution of new brands in the portfolio, as well as new product presentations, translated into positive results for the business. This offset the sharp increase in avocado costs.

The Automotive sector achieved growth in revenue and EBITDA, due to higher sales of transmissions and components in the Transmissions business, as well as brakes, engine, and powertrain parts in Aftermarket. This offset the increase in the price of steel, aluminum, and cardboard, in addition to the shortage of semiconductors in the industry.

The emphasis on operational continuity, favoring the growth of export revenues, with a prudent approach to leverage levels, has been fundamental to maintaining a solid financial structure. As part of our strategy to strengthen our balance sheet, during the year we refinanced two bank facilities that allowed us to extend our maturity profile and improve our financial cost. With this, we are protecting our ongoing projects and laying the foundations for future growth.

GRI
2-22

We are proud of our past and the present we have forged

GOING FORWARD

This year has a special meaning for us as we celebrate the Group's 50th anniversary.

It has been five decades in which we have actively participated in the economic and social development of Mexico, fifty years of learning, consolidation, innovation, and leadership in the industries in which we are present.

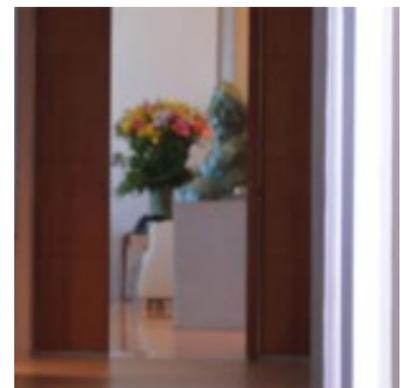
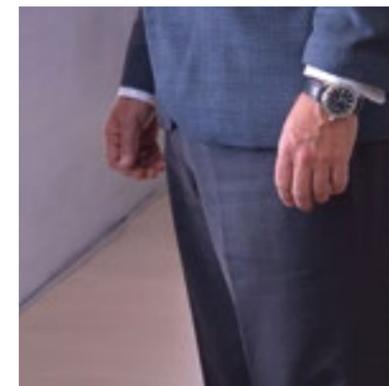
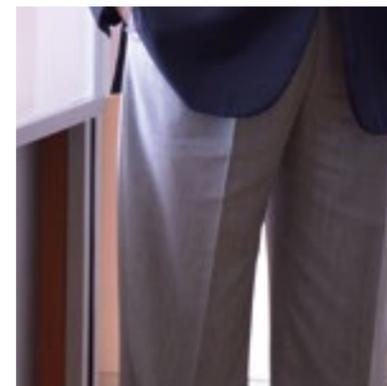
We have learned to anticipate and adapt to new realities. We know that new challenges will come, but we are confident in the competitive advantages of our business model and the teams that make up our backbone.

We will continue to take advantage of Mexico's exceptional geographic position within the North American bloc, one of the regions with the greatest growth potential in the world. We are convinced that the portfolio businesses are an ideal vehicle too boost "Nearshoring" opportunities.

We will continue to invest in the safety and development of our employees and communities, in the growth of our operations, in sustainable processes and products, favoring innovation and technology. We will maintain our emphasis on increasing flexibility in our supply chains, while implementing strategies to achieve greater energy and water efficiency.

The successes that have materialized over the years have been possible thanks to the commitment, talent, and professionalism of our people, those of us who are here today and those who have gone before us. Beyond different geographies, languages, and projects, we are united by our focus on Value Creation, responding appropriately to each of our stakeholders.

We are proud of our past and the present we have forged. We are deeply grateful to our partners and shareholders for the trust they have placed in KUO over the years, and we will continue to lay the foundations for a promising future full of opportunities.



Sincerely,

FERNANDO SENDEROS MESTRE
Executive President and Chairman of the Board

ALEJANDRO DE LA BARREDA GÓMEZ
CEO

ABOUT

Presence in
+70
countries

KUO

FOCUS
ON EXCELLENCE



GRI
2-1
2-6



We are

We are KUO, a Mexican industrial conglomerate with operations in Consumer, Chemical and Automotive sectors, with sales activities in more than 70 countries and over 24 thousand employees. Our business model is based on a constant focus on generating value in all its dimensions: economic, social, and environmental.

Our strategy is focused on the diversification of industries, geographies, currencies, and customers, as well as a growth plan based on exports.



consumer
chemical
automotive

3
sectors

6
businesses



5
countries

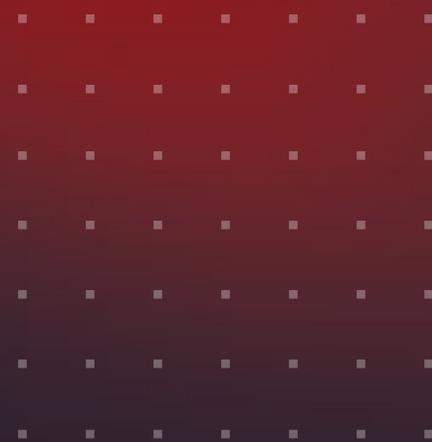
MEXICO
UNITED STATES
SPAIN
BELGIUM
CHINA

27
facilities

GRI
2-1
2-6

mission

Our mission is to create sustainable and satisfying value for our stakeholders through the effective management of a dynamic portfolio of businesses.



vision

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

THE PRIDE we feel for being a socially responsible company that maintains a reputation of integrity, solidity, and capacity to generate value for its stakeholders.

THE HIGH PROFITABILITY of the company reflected in the sustained generation of business value.

THE ALLIANCES we establish with our partners and suppliers, always aimed at creating value for them.

THE SATISFACTION derived from exceeding our customers' expectations as we are their best option in terms of quality, service, innovation, and technology.

THE STRENGTH obtained as part of a first-class team of motivated employees, who see their constant training as a priority and who share KUO's objectives and values.

AN ORGANIZATION made up of a dynamic portfolio of companies oriented to create sustained value, with an agile and flexible structure that encourages timely adaptation to market demands.

COMMITMENT to the communities in where we operate.

OUR TEAM systematically focuses its actions and commitment to the value creation.

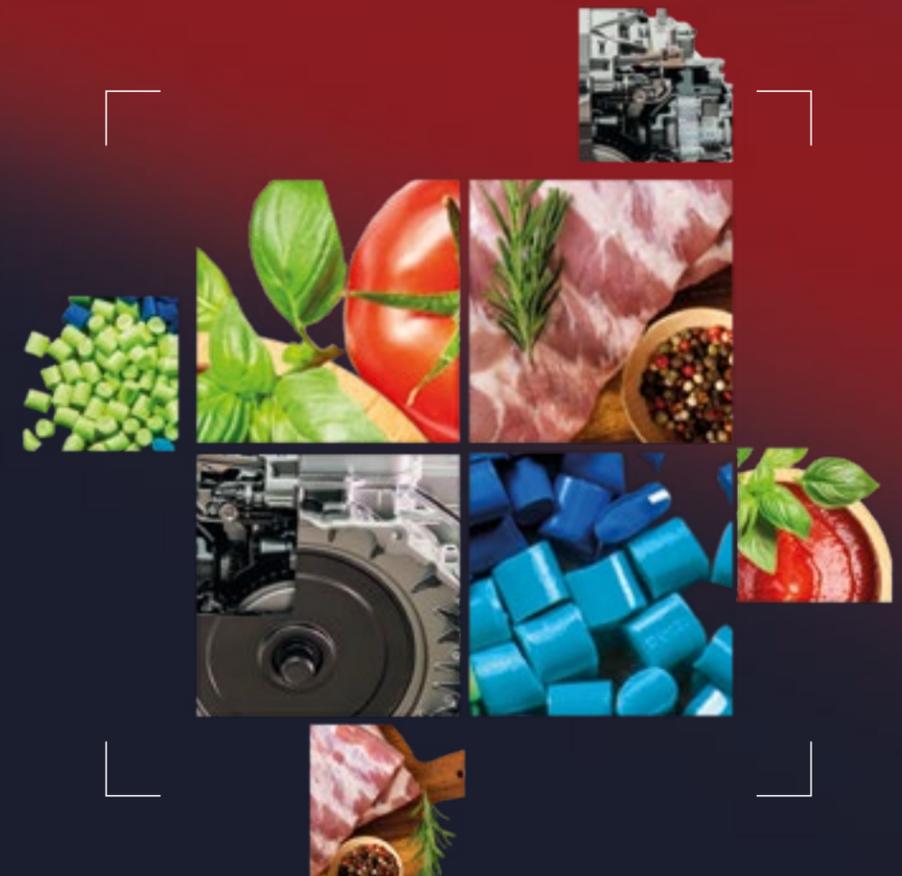
During 2022, we worked on projects strengthening the company's financial, operational, and sustainable performance. Most of the company's success is due to corporate management aligned with the high ethical and transparency standards that accompany our sustainability strategy, which we have significantly strengthened in recent years.

Business portfolio

The Group's business model has proven to be highly competitive, achieving outstanding results, even in an environment of global challenges

2022 was a year in which we proved, once again, the competitive advantage of having a conglomerate business model. Despite the episodes of crisis that we experienced around the world, we were able to maintain our focus, adapt to the circumstances and execute efficient solutions to continue serving each of our markets.

Thanks to a combination of perseverance and a focus on operational continuity, we were able to adapt with agility to the challenges presented in the different sectors in which we operate, achieving double-digit sales growth for the year.



GRI
2-6

SASB
FB-MP-000.A
FB-MP-000.B



Largest pork
meat producer
in Mexico

CONSUMER SECTOR

PORK MEAT

We produce, market, and distribute pork in different products: cuts, seasoned meat, frozen food, and live pork. The business is vertically integrated, from genetics, breeding farms, feeding plants, to processing plants and our own distribution channels, which enable us to have complete control of the products quality we offer and generate a higher added value, obtaining high bio-sanitary standards and becoming a global reference in the sector.

Our commercial strategy is divided into domestic, with the Kekén® brand, and additionally, under the Kinitón® brand, we export our products to countries such as Japan, China, United States, and South Korea mainly.

Nationwide, we have a network of more than 450 Maxicarne® stores, where we sell pork, chicken, and beef products. In addition, we have strategically located distribution centers, routes for direct delivery to businesses, self-service sales, wholesalers, food service and packing plants.

All processing plants are TIF (Federal Inspection Type) certified, ensuring that they meet the most rigorous standards of hygiene and sanitation.

In addition, we have HACCP certification, which addresses food safety by identifying, analyzing, and controlling physical, chemical, biological, and radiological hazards. Finally, we have FSSC 22000 certification, which guarantees the implementation of a food safety management system, and ISO 9001-2015 certification, which ensures the highest quality in processes.

KEKEN.COM.MX

- +50 OWN FARMS
- 2 ARTIFICIAL INSEMINATION CENTERS
- 3 FEED MILLS
Umán, Yucatán
Komchén, Yucatán
Hunucmá, Yucatán
- +450 MEXICARNE STORES
+30,000 sqm
- 3 PLANTS WITH INSTALLED CAPACITY TO PROCESS APPROXIMATELY 3 MILLION PIGS PER YEAR
Umán, Yucatán
Sahé, Yucatán
Irapuato, Guanajuato



BRANDED FOODS

Herdez Del Fuerte

In a strategic alliance with Grupo Herdez, we maintain a Joint Venture under Herdez del Fuerte. Through this partnership, we produce and market foods with the highest quality through a portfolio of highly recognized brands in the categories of tomato puree, ketchup, homemade salsas, mole, canned vegetables, among others. This year we innovated in products and presentations for the export market. In addition, in order to respond to new consumer trends, we acquired Libanius, a leading company in categories such as hummus, dry lebnah, pita bread, goat cheese, among others.

MegaMex Foods

Is the product of a joint venture between Herdez del Fuerte and Hormel Foods. We produce and distribute a wide variety of food products mainly in United States in three main categories: guacamole, salsas, and frozen foods. We are the largest guacamole marketer and have achieved an important position for the sauce category in the U.S. market.

HERDEZ.COM.MX
MEGAMEXFOODS.COM



Leading brands in
different categories

24 DISTRIBUTION CENTERS
22 Mexico
2 United States

10 FACILITIES
2 Sinaloa
2 Coahuila
2 Querétaro
1 San Luis Potosí
1 Oaxaca
1 Guanajuato
1 Texas



CHEMICAL SECTOR

SYNTHETIC RUBBER

Operating in more than 70 countries and with production facilities in the Americas, Asia, and Europe, in a joint venture with Repsol, we are the largest producer of Synthetic Rubber in Mexico and one of the world's leading producers. We maintain a focus on continuous innovation to offer differentiated and more sustainable solutions. Our applications are targeted to several segments such as asphalt modifiers, tires, adhesives, sealants, waterproofing membranes, thermoplastic compounds, among others.

Having facilities on three continents is a competitive advantage that we have taken advantage of thanks to the regionalization trend in the chemical industry.

DYNASOLGROUP.COM

POLYMERS

For over 40 years, Resirene has been producing polymers, used by our customers in different applications, such as packaging and disposable products, electronics, lighting, school supplies, consumer, office equipment, among others. Additionally, we commercialize industrial chemicals and offer comprehensive services through a distribution center. We currently export to more than 20 countries around the world.

Our strategy has constantly evolved, focusing on the development of new, higher value-added applications and on strengthening circular economies.

RESIRENE.COM.MX

Top 10 in global Synthetic Rubber production

6

FACILITIES WITH INSTALLED CAPACITY OF MORE THAN 520 THOUSAND TONS PER YEAR

2 Mexico
2 Spain
2 China

Main polystyrene producer in Mexico

2

FACILITIES WITH AN INSTALLED CAPACITY OF 200 THOUSAND TONS PER YEAR

1 Facility | Tlaxcala
1 Distribution center | Veracruz

SASB
TR-AP-000.A

TREMEC



AUTOMOTIVE SECTOR

TRANSMISSIONS

Tremec is dedicated to the manufacture and assemble of transmissions and components for high performance vehicles, exporting to 17 countries. The company stands out for its continuous innovation and the quality of its products, which are used in a wide variety of platforms, from sports to recreational and agricultural vehicles.

The strategy is based on the development of innovative products with the best technology, meeting the highest market standards, while maintaining a focus on automation, emissions control, fuel efficiency and torque capacity.

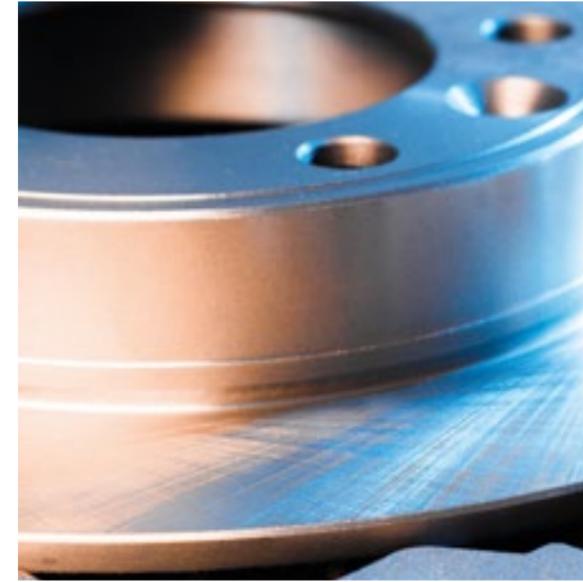
TREMEC.COM

4

FACILITIES WITH AN APPROXIMATE AREA OF 150,000 sqm

- 2 Mexico
- 1 Belgium
- 1 United States

Focused technology for high performance vehicles



Dacomsa



AFTERMARKET

The Aftermarket business serves three main segments, engine, brakes, and powertrain parts. Over the years, we have developed brands that are highly recognized for their quality and durability, seeking to promote marketing and distribution solutions for the automotive aftermarket.

Dacomsa's distribution center, located in Mexico, stores all the products coming from the production facilities to be sold to customers.

DACOMSA.COM

3

FACILITIES WITH AN APPROXIMATE AREA OF 44,700 sqm

- 2 Guanajuato
- 1 Mexico City

Highly recognized brands

Partnership Organizations

During our Company's history, we have established numerous partnerships with different organizations in order to continue growing and generating alliances over time.

CONSUMER SECTOR

CONCAMIN	Industrial Chambers Confederation
CNA	National Agricultural Council
CANAINCA	Canned Food Industry National Chamber
CONMEXICO	Consumer Products Industry National Council
CONCANACO	Commerce, Services and Tourism National Chamber
CANACINTRA	Transformation Industry National Chamber
COPARMEX	Mexican Republic Employers' Confederation
CAY	Yucatan Agri-Food Council
CANAINMA	Timber Industry National Chamber
CECC Yucatán T-incluye	Yucatan Climate Change Business Coalition Government, Companies, Civil Associations

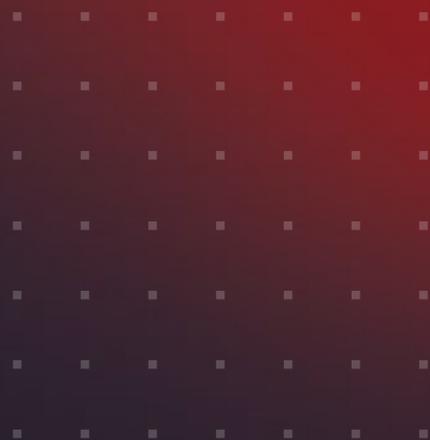
CHEMICAL SECTOR

AMAAC	Asphalts Mexican Association
ACC	American Chemistry Council
ANIPAC	Plastic Industry National Association
ANIQ	Chemical Industry National Association
AI	Asphalt Institute
CNIH	Rubber Industry National Chamber
IRSG	International Rubber Study Group
USTMA	United States Tire Manufacture Association
CIPRES	Suschem Plastics Industry Commission

AUTOMOTIVE SECTOR

CANACINTRA	Transformation Industry National Chamber
COPARMEX	Mexican Republic Employers' Confederation
AERI	Industrial Relations Executives Association
CCMX	Mexican Center for Competitiveness
ARRA	Automotive Rectifiers and Rebuilders Association
ARIDRA	Aftermarket and Accessories Importers and Distributors Representatives Association
SEMA	Specialty Equipment Market Association
MEMA	Motor & Equipment Manufacturers Association
SAE	Society of Automotive Engineers

RISK MANAGEMENT and Monitoring



WE HAVE A RISK MANAGEMENT PROCESS THAT INVOLVES DIFFERENT MEMBERS OF THE ORGANIZATION AND IS APPLIED THROUGHOUT THE COMPANY TO IDENTIFY POSSIBLE EVENTS THAT MAY AFFECT OPERATIONS

3

lines of defense in the risk monitoring and management system



GRI
3-3
2-12
2-13

Risk management and Monitoring

At KUO we apply policies and procedures for the identification, monitoring and management of risks that may affect the achievement of strategic and business goals, including financial, operational, reputational, cybersecurity, environmental and other risks.

We have a risk management process that involves different members of the organization and is applied throughout the company to identify possible events that may affect operations. This process is based on the COSO methodology and provides guidelines for the management and control of business risks.

The Audit Committee oversees its application, while General Management and Finance Management are responsible for implementing a robust internal control system. The Internal Audit Department evaluates the effectiveness of the system and makes improvements in controls to reduce risks, reporting to the Committee and the General Management.

The methodology implemented was carried out by means of "The three lines of defense", which means multiple teams with different tasks and responsibilities that work together with the objective of generating value and managing internal control:

First line	Comprised by the six businesses, the shared services units and the service and control units, which are responsible for enforcing KUO's general internal control guidelines.
Second Line	Comprised by the General Management, responsible for proposing business and risk management strategies. The Deputy CEO, the CFO and the Comptroller's Office are responsible for supporting management in identifying trend lines, preparing scales of critical and emerging issues, classifying, analyzing, and reporting on internal control and providing regulatory frameworks.
Third Line	Comprised by the Board of Directors, which works in conjunction with the Audit Committee, which has the duty to supervise, evaluate and provide feedback to the compliance area and supervise the main risks.

METHODOLOGY COMPONENTS

- 1** INTERNAL ENVIRONMENT
- 2** OBJECTIVES ESTABLISHMENT
- 3** EVENT IDENTIFICATION
- 4** RISK ASSESSMENT
- 5** RISK RESPONSE
- 6** CONTROL ACTIVITIES
- 7** INFORMATION AND COMMUNICATION
- 8** MONITORING



GRI

2-6
204-1
205-2
308-1
308-2
407-1
408-1
409-1
414-1
414-2

SASB

FB-MP-410^a.3
FB-MP-430^a.2
FB-MP-440^a.1
FB-MP-440^a.2
FB-MP-440^a.3

GRI

13.23.1
13.23.2
13.23.3
13.23.4

Sustainable Supply Chain

Ensuring a constant flow of goods and services is crucial to the proper functioning of production and support processes

We strive to establish equitable, honest, and beneficial relationships with all our suppliers, which allows us to maintain operational continuity.

In order to carry out a correct management, each business has a responsible area, in addition to having a Purchasing Policy, transparent and auditable processes, supported by a central supplier platform. Additionally, all suppliers must accept and sign the Code of Conduct, through which they assume the commitment to maintain an ethical behavior, complying with the standards and premises included in it.

We select suppliers that operate with good ethical, environmental, and labor practices. They must have a solid reputation and the capacity to provide the required services or produce the required goods. Additionally, all our national suppliers must adhere to the signing of an ESG charter, where they commit to:

- Work and operate in accordance with legislation and regulations.
- Ensure the health of its partners.
- Comply with and ensure respect for human rights, prohibiting child or forced labor, and no tolerance of discrimination.
- Comply with environmental regulations.
- Work and operate with zero corruption, bribery, or extortion.

Therefore, we do not purchase products or contract services with suppliers that have a negative track record within KUO companies, as well as those suppliers of goods and services that do not present the letter of adherence to the Code of Conduct and the ESG Compliance Letter duly signed.

During the period we have not identified suppliers with negative environmental or social impacts.



PORK MEAT

The business is vertically integrated, from genetics, through breeding and feeding, to processing and marketing. Our artificial insemination processes and animal breeding farms ensure the quality and welfare of our animals. The facilities have been certified by Cloverleaf Animal Welfare for compliance with animal welfare standards.

All of the animal feed used to nurture the pigs comes from our three feed facilities located in Yucatán, which is not considered a water stress area.

The main inputs we use for the production of balanced feed are yellow corn, soy paste, and sorghum. To guarantee their supply, we purchase products from suppliers with whom we have long-term relationships.

With respect to service providers, we have contracts for the transportation of raw materials and live pigs.

During 2022, the spending on local suppliers was 19% of total procurement spend.

Going forward, we have set ourselves the goal of identifying suppliers certified in sustainable sourcing standards and conducting audits on environmental or social issues throughout our supply chain.

GRI

2-6
204-1
205-2
308-1
308-2
407-1
408-1
414-1
414-2



SYNTHETIC RUBBER

The main raw materials in this business are butadiene and acrylonitrile, with which we produce synthetic rubber in emulsion, synthetic rubber in solution and chemicals for the asphalt modifier industry, tires, industrial compounds, pesticides, among others.

Most of these inputs are imported, so we establish both long-term and spot contractual relationships with our monomer, chemical and packaging suppliers.

By 2022, we have identified 270 relevant suppliers, those who are essential to maintaining our supply chain and ensuring uninterrupted production.

Spending on local suppliers accounted for 22% of total procurement spending.

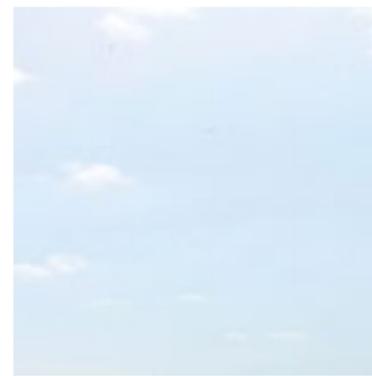
POLYMERS

In the production of polymers, one of the most widely used inputs is styrene, which is essential for the manufacture of various products such as glass polystyrene (GPPS), high impact polystyrene (HIPS), transparent styrene copolymers (SMMA) and plastic compounds for the packaging, lighting, and home accessories industries, among others.

However, most of the inputs needed for this industry are imported. In our case, we have established commercial relationships with different suppliers located in countries such as the United States, China, Guatemala, and European countries, who supply us with the raw materials and the logistics and storage services necessary to carry out our activity.

During 2022, we have worked with more than 500 suppliers to ensure the quality and timely supply of our inputs.

Spending on local suppliers represented 2% of our entire procurement budget.



We keep
long-term relationships
with our suppliers

TRANSMISSIONS

For the production of high-performance transmissions and components, we mainly use steel and aluminum. The relationship with our suppliers is critical, due to the supply of the Company's inputs and services, their lack of supply could impact our ability to produce and sell.

Spending on local suppliers represented 20% of total procurement spending.

AFTERMARKET

The main raw materials are steel and aluminum, with which we produce pistons, bearings, brakes, among other products, as well as packaging materials, such as cardboard.

We have suppliers from China, Mexico, and Taiwan, who provide us with two types of services: goods supply and national and international transportation, maintenance, training, among others.

Spending on local suppliers represented 54% of total procurement spending.

GRI
203-1
203-2
413-1
413-2

SASB
RT-CH-210a.1

Social Management



At KUO, it is essential that all operations are carried out in an environment of harmony with the communities, demonstrating our commitment to the creation of shared value, with actions that contribute to the group's sustainability objectives.

We have a Social Responsibility Policy that is aligned with the Code of Conduct, which allows us to ensure compliance with corporate values in all our activities. In addition, we develop community relations programs based on the results of a social diagnosis, which allows us to know the socioeconomic characteristics and possible socio-environmental impacts that may affect each community.

We maintain constant communication with municipal and local authorities. As a responsible company, we comply with current legislation in all countries where we operate, and respect internationally recognized human rights.

In 2022, we will develop programs and initiatives linked to the promotion of employment and local productive development, foster access to health and education, care for the environment, and promoting sports. We generate alliances with the educational, business, government and civil society sectors. We have not identified negative impacts.

We also promote a culture of social responsibility through social participation programs and corporate volunteering, in which we work together with civil society organizations and in which our employees have the opportunity to participate freely in order to share our values.

+ \$26 MILLION
PESOS INVESTED IN SOCIAL ISSUES

GRI

- 13.14.1
- 13.14.2
- 13.14.3
- 13.14.4
- 13.13.1
- 13.13.2
- 13.13.3



Zero incidents of non-compliance with the rights of indigenous communities

ENVIRONMENT

- Second Tremec Environmental Week: Awareness campaign on environmental preservation and its impact on society.
- ESR Recertification.
- Installation of waste container: Promoting the circular economy of plastic.
- Aftermarket Recyclathon: Recycling of more than 500 kg of plastic, caps, and other waste.

EDUCATION AND EMPLOYMENT

- Summer camp for employees' children.
- Training internships for university students in our facilities.
- Young Talent Program: Training program for recent graduates.

HEALTH

- TREMEC Health Week: Activities on disease detection, active breaks, psychology, nutrition, and physiotherapy.
- Ruta de la Salud (Health Route): Itinerant care provided by nurses and doctors.
- Save The Children - For a Healthy Community: Partnership to address health and human rights needs.
- Opening of three new health care centers in areas lacking health services.

DONATIONS

- Acquisition of oxygen concentrators for senior citizens' retirement homes.
- Donation of chairs and computers to public education institutes.
- Donation of wheelchairs.
- Donation to Civil Protection.
- Donation of pipes for field lighting.

SPORTS

- Sports coaches for children and teenagers.
- Sports equipment: for children's baseball, soccer, basketball, boxing, and softball.
- Donation of sports uniforms for youth soccer, women's softball, and Zumba teams.

LAND USE AND RESOURCE RIGHTS - PORK MEAT

We have implemented commitments to promote respect for land and natural resource rights. We do not have operations in locations where land and natural resource rights may be affected.

INDIGENOUS COMMUNITIES - PORK MEAT

Our strategy with indigenous communities is based on a cross-cutting approach, addressing economic, social, and cultural aspects. We are committed to working in partnership with indigenous communities and relevant authorities to ensure respect for and promotion of their rights and sustainable development.

The specific outreach activities we carried out during the year were as follows:

- Contacting Mayan-speaking Kekén personnel to establish relationships within Mayan-speaking indigenous communities.
- Developing cultural activities focused on Mayan events and concepts of the region.
- Providing technical training based on local practices.

During 2022 there were no incidents of non-compliance regarding the rights of indigenous communities.

SUS TAINA BILITY

Model

5
key pillars for the
creation of
sustainable value



GRI
2-23
2-24

Sustainability Model

Sustainability is a central priority in the management of KUO's operations

During 2022, we strengthened the ESG model, which includes Group-wide priorities and specific strategies for each business, based on five main areas: Corporate Governance, Employee Development, Customer Satisfaction, Sustainable Processes and Products, and Operational Efficiency and Continuity. Each area has its own lines of action and is related to the SDGs.

In addition, the Sustainability Model responds to a long- and medium-term strategy for risk management. The integration of this model aims to ensure the operational continuity and growth of each of the businesses, while seeking to maximize the positive impacts and minimize the negative impacts that the Company's operations may have on our stakeholders.

To ensure compliance with the strategy, the Sustainability area works constantly to prioritize initiatives and coordinate efforts. It is also responsible for monitoring progress on the Scorecard indicators and reporting the results to the Board of Directors.



LINES OF ACTION

- | | |
|--|---------------------------------------|
| 1.1 Corporate governance structure and operation | 2.1 Occupational health and safety |
| 1.2 Ethics and compliance culture | 2.2 Talent attraction and development |
| | 2.3 Inclusion and diversity |

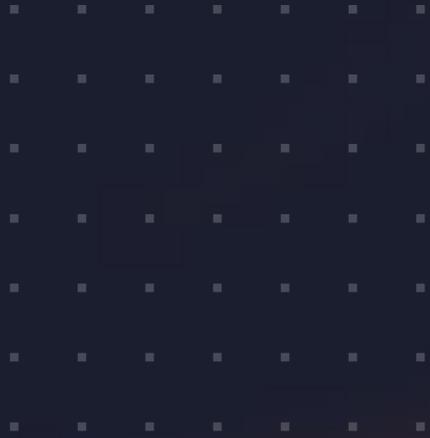
- | | | |
|--------------------------------|---|---|
| 3.1 Product quality and safety | 4.1 Circularity of resources (water, waste, and other supplies) | 5.1 Energy and emissions management (GHG, particulates) |
| 3.2 Innovation | 4.2 Supply chain sustainability | 5.2 Climate risk management |
| | 4.3 Consumer (customer) practices | 5.3 Technological transformation |
| | 4.4 Environmental development | |

C O R P O R A P O R R A

T E

Governance

58%
of Board
members are
Independent



Corporate Governance

GOVERNANCE FRAMEWORK

Corporate Governance is composed, among other bodies, of the Board of Directors, which is supported by the Corporate Practices Committee and the Audit Committee, both of which are part of the Board itself.

The Shareholders' Meeting is the highest decision-making body in the Company and has key responsibilities. Each year it may ratify, remove or appoint the members of the Board of Directors, considering criteria such as professional prestige, knowledge of the sector, good reputation and, in accordance with the corresponding applicable provisions, their independent status.

In addition, it annually approves the report submitted by the Board of Directors, the Committees and the General Management, ensuring that they comply with the approved strategic objectives. Likewise, it approves the compensation of the Board Members and, with the favorable opinion of the Corporate Practices Committee, the Board of Directors approves the compensation of the General Management and Relevant Officers, guaranteeing compensation in accordance with the performance and responsibilities assumed.

BOARD OF DIRECTORS

The Board of Directors is the highest management body. It is currently composed of 12 male members, out of which 5 are related and 7 are independent, i.e., more than half of the percentage required by law. The average length of service as a Board member is 22 years, 8% of the members are between 30 and 50 years old, while 92% are over 50 years old. Additionally, 10 of the members belong to other committees in different companies, which indicates their broad experience in business management.

All members of the Board are chosen for their professional prestige and broad experience in the sector, which enables them to make strategic decisions and ensure the smooth running of the company. The Board meets quarterly, and may unanimously resolve matters out of session.

FERNANDO SENDEROS MESTRE
Related Counselor

Executive President and Chairman of the Board of Directors of KUO and Dine

JAVIER ARRIGUNAGA GÓMEZ DEL CAMPO
Independent Counselor

Chairman of the Board of Directors of Grupo Aeroméxico and Investment Advisor

JOSÉ MANUEL CANAL HERNANDO
Independent Counselor

Independent Counselor, Commissioner and Advisor on Corporate Governance

ARTURO D'ACOSTA RUIZ
Related Counselor

Independent Business Advisor

JOSÉ MANUEL DEL BARRIO MOLINA
Independent Counselor

Integra M&A Partner

ALEJANDRO DE LA BARREDA GÓMEZ
Related Counselor

CEO of KUO and DINE

VALENTÍN DÍEZ MORODO
Independent Counselor

President of Nevadi International Group

ARTURO ELÍAS AYUB
Independent Counselor

Director of Strategic Alliances and Contents of América Móvil

FEDERICO FERNÁNDEZ SENDEROS
Related Counselor

Chairman of Grupo Sim and Independent Counselor of Grupo Chedraui

CARLOS GÓMEZ Y GÓMEZ
Related Counselor

Chairman of the Board of Directors of Estudia Más

VÍCTOR RIVERO MARTÍN
Independent Counselor

Managing Director of Telehotel

ERNESTO VEGA VELASCO
Independent Counselor

Business Independent Counselor

RAMÓN F. ESTRADA RIVERO
Secretary of the Board

Deputy Managing Director / General Counsel of KUO and DINE

The Board of Directors plays a crucial role in the management of the company, ensuring its sustainable growth and the creation of value for all stakeholders. Its main functions include defining the company's strategy and goals, supervising management and results, appointing and evaluating senior management, and overseeing regulatory and ethical compliance.

In addition, we have a board member in charge of presenting relevant sustainability issues at the Board's meetings, which will promote the knowledge, skills and experience of the highest governance body on these issues.

GRI

2-9
2-10
2-11
2-12
2-13
2-14
2-15
2-16
2-17
2-18

CHAIRMAN OF THE BOARD

Fernando Senderos Mestre, Chairman of the Board of Directors and Chief Executive President of the Company, is also the Chairman of the Executive Committee, which is responsible for directing the management, conduct and execution of the Company's business, subject to the strategies, policies and guidelines approved by the Board.

CORPORATE PRACTICES COMMITTEE

The Committee meets every three months, and additional meetings may be called when necessary. One of its most relevant functions is to issue its opinion for the approval of the Board of Directors on the appointment or removal of the Chief Executive Officer, and his respective compensation, as well as to propose and issue its opinion on the appointment and compensation policies of the Relevant Officers. In addition, the Committee is responsible for issuing its opinion and recommendation to the Board of Directors on relevant matters and related party transactions. It is currently composed of 3 Independent board members:

VALENTÍN DÍEZ MORODO

Presidente

ERNESTO VEGA VELASCO

VÍCTOR RIVERO MARTÍN

RAMÓN F. ESTRADA RIVERO

Secretario

AUDIT COMMITTEE

Sessions are held every quarter and an additional session is held in December of each year, mainly dedicated to the review of the financial statements at the end of the fiscal year. This Committee is in charge of determining, implementing and evaluating the Company's internal control and internal audit system, and follows up on the main risks to which the Company is exposed. In addition, the Committee reviews and proposes, for the approval of the Board of Directors, the accounting policies and financial statements, verifying the administration and management of the company and implementing the resolutions adopted by the General Shareholders' Meeting. Likewise, the Committee evaluates and proposes to the Board of Directors for its approval the hiring of the legal entity that will provide external auditing services. It is currently composed of 3 Independent board members:

JOSÉ MANUEL CANAL HERNANDO

Presidente

JOSÉ MANUEL DEL BARRIO MOLINA

ERNESTO VEGA VELASCO

RAMÓN F. ESTRADA RIVERO

Secretario

CHIEF EXECUTIVE OFFICER AND MANAGEMENT TEAM

Alejandro de la Barrera Gómez, Chief Executive Officer, is in charge of managing, conducting and executing the Company's business. He has broad powers to represent the Company, subject to the terms and conditions established by the Board of Directors and the Company's bylaws. In addition, he/she must submit, for approval of the Board of Directors, the business strategies, comply with the resolutions approved by the Shareholders' Meeting and the Board of Directors, disclose relevant information to the public, among other functions.

Together with the Chief Executive Officer, the Management Team is in charge of managing, conducting and executing KUO's business. This Committee is composed of the following members:

ALEJANDRO DE LA BARREDA GÓMEZ

Chief Executive Officer

RAMÓN F. ESTRADA RIVERO

Deputy Chief Executive Officer / General Counsel

ROGER PATRÓN GONZÁLEZ

Deputy Chief Executive Officer and Aftermarket Director

JORGE F. PADILLA EZETA

Chief Financial Officer

CLAUDIO ÁNGEL FREIXES CATALÁN

Pork Meat Director

HÉCTOR HERNÁNDEZ-PONS TORRES

Branded Food Director

FELIPE DE JESÚS VARELA HERNÁNDEZ

Synthetic Rubber Director

SERGIO PAREDES CASTAÑEDA

Polymers Director

ANTONIO HERRERA RIVERO

Transmissions Director

GRI

2-15
2-19
2-20
2-21
13:21.1
13.21.2
13.21.3

Conflict of Interest Prevention

By law and bylaws, all Corporate Governance Bodies must perform their duties free of conflicts of interest. The Corporate Practices Committee is responsible for reviewing and evaluating transactions with related parties, which must be carried out without conflicts of interest, and is also in charge of establishing measures to prevent them.

COMPENSATION

We have policies that establish guidelines to ensure equitable compensation based on performance management results and in line with corporate strategy and the specific business.

The compensation of the General Management and other Relevant Executives is based on an analysis that is presented by the Human Capital Department to the Corporate Practices Committee for approval by the Board of Directors, based on the corresponding policies.

The base salary is determined by internal tabulators and depends on the evaluation level assigned to the position. There are short and long-term variable payment schemes to ensure the recognition and permanence of key workforce. Termination payments are made in accordance with the law. In addition, as part of our benefits, there is a contributory retirement benefit plan that provides benefits in addition to those required by law.



MEASURES TO ENSURE A LIVING WAGE

A living wage not only means paying a fair and sufficient amount to cover employees' basic needs, but also providing stability and economic security for them and their families. In addition, a living wage can increase employees' loyalty and commitment to the company, which in turn can lead to higher productivity and quality at work. It can also help reduce workforce turnover and the cost of training new employees.

We conduct periodic benchmarking studies with other companies in the industry and monitor best practices in order to arrive at the optimal pay for our employees.

The operation is managed in an integrated manner, and the total cost of operations, including the payment of salaries for the employees, is already included in each year's budget.

None of the employees are paid below minimum wage. 100% of the employees who belong to a collective bargaining agreement have wage agreements and the term of remuneration has been determined.

GRI
3-3
2-23
2-24

Business Ethics and Transparency

We strive to do business in an ethical environment of intellectual honesty, integrity and transparency, consistent with our organizational values

VALUES

INTEGRITY

"Conviction to do the right thing."

We act in congruence between what we think, say, and do.

We manage the company's resources responsibly and transparently. We express what we think and believe. We comply with ethical standards, bearing in mind the consequences of our actions.

INSTITUTIONALISM

"We consider the DESC Group's interests to be a priority when making decisions."

We act in accordance with the DESC Group's mission, vision, and values, adhering to its systems and policies, guiding our actions, tasks, and responsibilities, both inside and outside the company, for the benefit of the organization, its strategy, and its stakeholders.

LEADERSHIP

"We are an example, both in words and actions."

We are committed to sharing with our employees a clear vision of change, consolidating it with challenging purposes that inspire them to reach higher goals.

TEAMWORK

"Growing together."

We are committed to collaborative work in order to achieve higher goals.

We unite talents and creativity, generating synergies with our skills, competencies, and experience. We understand the needs and interests of others, we promote diversity and the ability to disagree, favoring collaboration.

INNOVATION

"We implement new ideas and improvements."

We create value by transforming ideas into new processes, products and services that are appreciated by our stakeholders.

We challenge incremental and disruptive improvement solutions with tolerance for risk and failure, as long as they result in visible learning.

We have a system to recognize personnel who exemplify and live the five organizational values. All employees can participate in the annual call to select a employee who best represents each value and serves as a role model. This person is named a "Value Ambassador".

In addition, we employ policies and practices that enable responsible business conduct and compliance with laws and regulations. In addition, our policies include combating bribery, extortion, and other forms of corruption; adhering to good fiscal practices; and following due diligence to identify, prevent and account for them. Among our most important codes and policies, the following stand out:

GRI

3-3
2-25
2-26
2-27
205-1
205-2
205-3

SASB

RT-CH-140a.2
RT-CH-530a.1
RT-CH-540a.1
TR-AP-520a.1

**CODE OF CONDUCT**

Our corporate social responsibility standards establish the general guidelines for conducting our activities, long-term strategies, and best practices in the way we interact with our various stakeholders. All members of our organization, including officers, directors, employees, partners, shareholders, suppliers, customers, and communities, must comply with these standards. The premises included in the code are as follows:

- Supplier and contractor selection process to ensure that our value chain operates with the best environmental, social, anti-corruption, and labor practices.
- Travel policy that regulates gifts, hospitality, and travel.
- We do not make contributions to political parties or electoral campaigns.
- We comply with the Donations Policy that establishes the guidelines for making social contributions, which must be aligned with the Sustainable Development Goals issued by the UN and be previously authorized by the General Management.

INTEGRITY POLICY

This policy establishes the integrity program intended to safeguard and protect from negative consequences, the assets of the organization, its employees, associates, suppliers, customers, and investors. This model is based on the UN Global Compact Management Model - Integrity Program and the COSO methodology⁴.

WHISTLE - BLOWING SYSTEM

We have confidential mechanisms to receive feedback on the application of the Code of Conduct and to report inappropriate situations.

- Feedback and Transparency Mailbox: denunciaskuo@kuo.com.mx
- Via telephone:
 - Mexico: 800 700 GKUO (800 700 4586)
 - United States: 1 866 494 80 05
- Doubts in the interpretation of the Code and internal policies: 5261 8000 ext. 7368

SOCIAL RESPONSIBILITY POLICY

Social Responsibility Policy is based on three pillars: KUO People, Environment and Community. In addition, it is governed by the principles established in the Code of Conduct and Sustainability Model.

ANTI-CORRUPTION MANAGEMENT

KUO has a zero-tolerance guideline for acts of corruption. In addition, as mentioned in the integrity program, 100% of our operations have been assessed for risks related to corruption.

During 2022, 100% of our employees were communicated and trained on our Code of Conduct, in addition to other topics related to transparency and anti-corruption.

Our management has allowed us to have good results and we have not presented any confirmed cases of corruption.

UNFAIR TRADE PRACTICES PREVENTION

During 2022 we were not involved in any legal proceedings related to unfair trade practices in any of our operations.

REGULATORY COMPLIANCE

At KUO we make sure to comply with the regulations of the sectors and each country where we operate, in environmental, social, economic and Corporate Governance issues.

Likewise, the products we offer are focused on the food, medical and automotive sectors, among others; therefore, depending on their application, they must comply with a series of regulations or certifications, so it is necessary for our management to be efficient and constantly updated.

We have a Regulatory Compliance Manual, in addition to internal and external audits of the various certifications to which we adhere.

During 2022, none of our business units presented any significant non-compliance in environmental, social, economic or Corporate Governance matters.

4. COSO (Committee of Sponsoring Organizations of the Treadway Commission) methodology is a widely used framework for assessing and improving internal control and risk management in an organization.

EM PLO YEE development

+290k
Training hours



WE ARE
AN EXTRAORDINARY
TEAM

GRI
3-3

Employee Development

“Human Capital is a key element for effectiveness and long-term value generation”



Our people relationship is based on our values. We believe that providing healthy work environments promotes a high sense of responsibility, productivity, development, and well-being to our employees.

For this purpose, we have a management system that allows us to ensure good Labor Relations, positively impacting the organization, achieving operational continuity free of labor conflicts, maintaining a healthy work environment and climate, as well as ensuring the quality of the service we provide to customers and consumers.

Through this work system we define, establish, regulate, and develop all the elements that make up the management, such as the workday, roles and responsibilities of the employees, competitiveness of remuneration, recognition, productivity, technical and organizational competencies, among others.

The main tools with which we manage personnel management are the following:

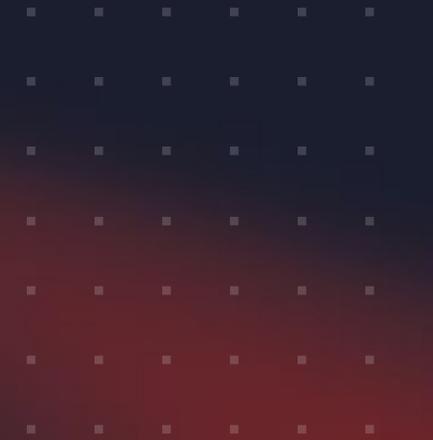
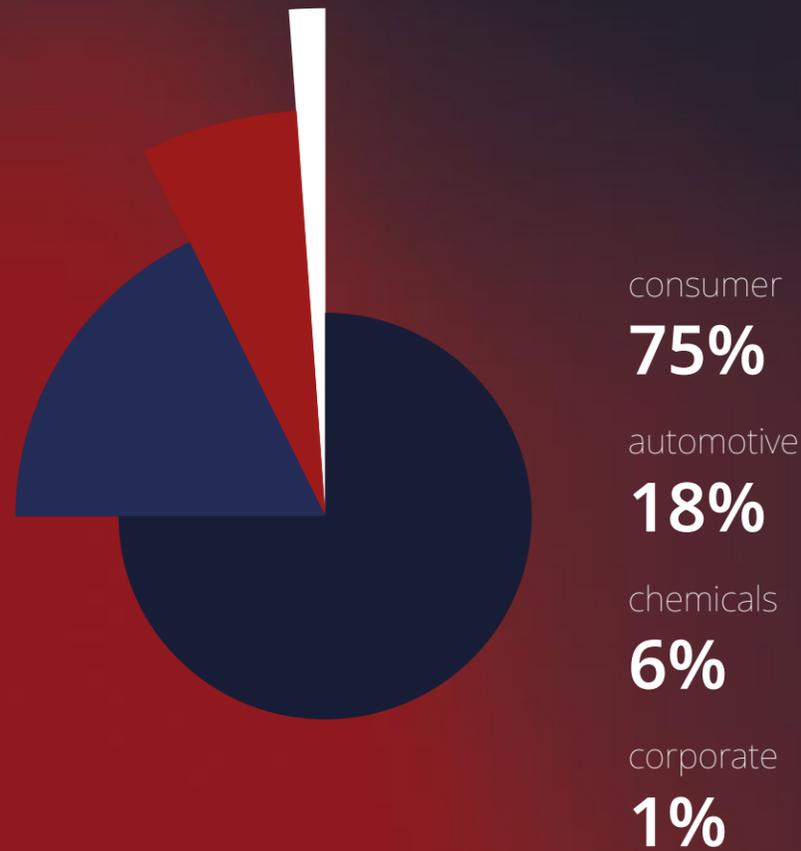
- Operational Work Plan
- Internal Work Regulations
- Conduct Code
- Labor Procedures Manual
- Talent Identification and Recruitment Policy
- Talent Identification, Training and Coaching Procedures
- Annual Development and Training Plans
- Annual Performance Management Program
- Succession Planning
- Labor Thermometer
- Work-life Balance Campaigns

In addition, we maintain strict compliance with the corresponding legislation in each of the places where we operate, including the Federal Labor Law, which establishes the right to collective-union organization, regulated through the Ministry of Labor and Social Welfare (STPS), the Mexican Social Security Institute (IMSS), the National Workers' Housing Fund Institute (Infonavit), and the National Workers' Consumer Fund Institute (Fonacot).

We measure management through various indicators, such as employee satisfaction levels, productivity levels, results of collective bargaining agreement revisions, number of operational stoppages, number of lawsuits, absenteeism, turnover, accident rates, training hours, results of NOM 35 surveys, and other similar indicators. It is important to note that we use the results to propose continuous improvement actions in accordance with the objectives and goals of each business.

GRI
2-7
2-8

At the end of 2022, the Group's workforce consisted of approximately 24,000 employees, the variation compared to the end of 2021 is a minimal reduction of 0.39%. Ninety-four percent of our employees are located in Mexico, 3% in Spain, 2% in the USA and 1% in Belgium. Below are the percentages by sector, which do not have a significant variation in relation to the year 2021.



94%
EMPLOYEES
IN MEXICO

97% of the employees are permanent, an increase of more than 2 percentage points compared to 2021.

On the other hand, during the year we added 331 women to our workforce, with 32% female personnel, up one percentage point compared to 2021.

In relation to age ranges, 60% of the personnel are between 30 and 50 years of age, with no variations with respect to the previous year.

With respect to workers who are not employees of the Company, we have a non-significant number.



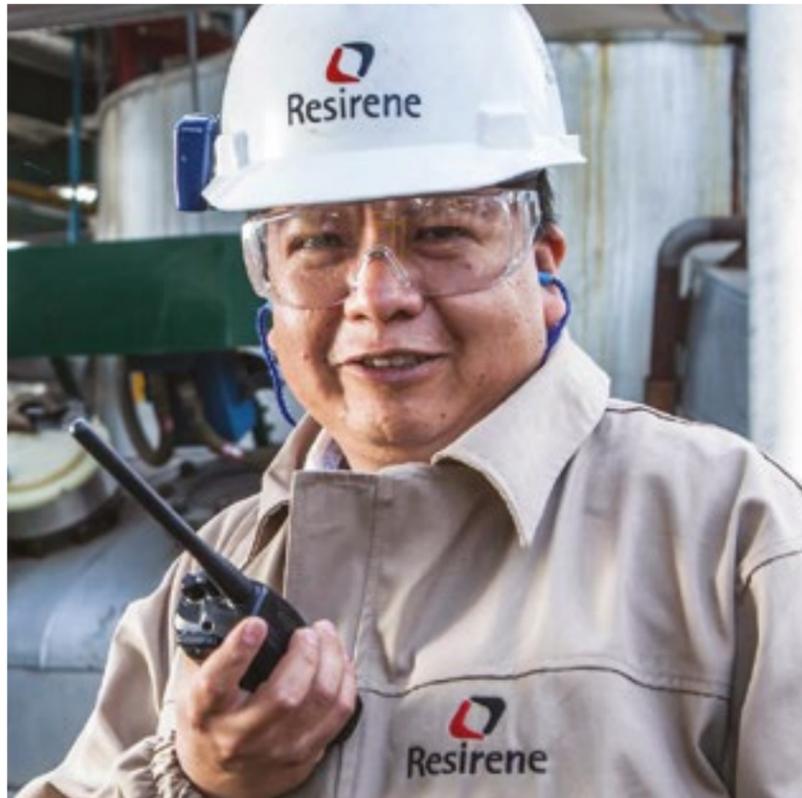
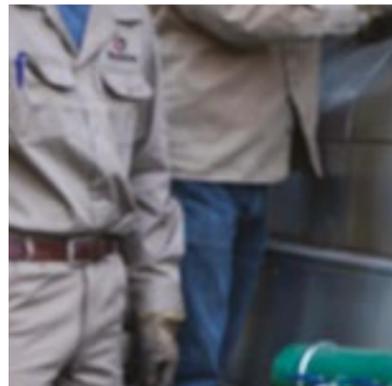
The scope of the figures shown includes the Pork Meat, Synthetic Rubber, Polymers, Transmissions and Aftermarket businesses, as well as Herdez del Fuerte and Megamex. Herdez del Fuerte and Megamex will not be considered in this chapter.

GRI

401-2
407-1
408-1
409-1
13.15.5

BENEFITS WE OFFER OUR PEOPLE

Regardless of the business unit to which they belong, all of our employees receive the same benefits, including health insurance, parental leave, disability coverage, and life insurance. We also provide some additional benefits, such as food coupons, a savings fund, paid leave for special occasions, and other similar benefits.



HUMAN RIGHTS

As stated in the Code of Conduct, KUO respects human rights and labor standards, so employees and third parties who have a relationship with the company or act on its behalf must:

- Treat everyone with dignity and respect.
- Promote equal opportunities between men and women and not allow gender violence.
- Ensure that there is no forced or child labor.
- Eliminate any practice of discrimination based on sex, marital status, age, religion, race, physical ability, health status, political preferences, social class, etc.
- Any type of discrimination is prohibited at KUO.

We also have a Social Responsibility Policy, whose compliance is based on our three pillars: KUO People, Environment and Community. For the purposes of this chapter, we highlight the following principles directly related to the KUO People pillar:

- Employment Practices: Equal opportunities, free association, rejection of child labor in our operations as well as in those of our employees, customers, and suppliers; and quality of life in the company, providing our personnel with an environment that promotes a high sense of responsibility, productivity, development, safety, and quality of life; in accordance with the environment and situation of the business to which they belong.
- Health, safety, and hygiene.

In this same policy, we recognize and adopt the "Universal Declaration of Human Rights" and its corresponding guidelines. Likewise, KUO works for the principles of the Global Compact and the Sustainable Development Goals (SDGs) of the United Nations. More information about the SDGs can be found in Annex 3 of this document.

Finally, we have a labor inclusion policy defined as "the creation of favorable conditions for the participation of any person eligible to provide services within the labor market. These conditions are free of discrimination and with equal opportunities in access, permanence, remuneration and promotion in employment; and in accordance with all the rights and obligations set forth in the Federal Labor Law.

Today, we continue to work on awareness-raising activities, talks and training to minimize and eliminate behaviors that could be considered discrimination in the Company.

GRI

2-30
402-1
407-1
401-3

TRADE UNION

"We respect the ideology and principles of the trade union organizations that represent the interests of the workers in our companies and establish an environment of trust, as a condition for generating highly productive and mutually beneficial partnerships. Likewise, we fully respect the management autonomy of the trade union organizations and the freedom of unionization."

Aligned with the negotiations and collective bargaining agreements we have with unionized workers, the deadlines for notifying about organizational changes depend on the magnitude of the situation and are estimated according to the needs of each business. These can vary from two weeks in advance to notification at annual meetings.

It is important to note that we have an Organizational Communication Policy and a Union Relations Policy, which helps us to maintain transparency in the company.

PARENTAL LEAVE

All employees are entitled to parental leave, both men¹ and women. During 2022, 564 employees requested parental leave, of which 86% returned after the corresponding leave and 80% remained in the Company after their reinstatement.

1. Article 132, section XXVII Bis of the Federal Labor Law (LFT) establishes the employer's obligation to grant paternity leave of 5 working days with pay to working men at the time their child is born.



GRI

404-1
404-2
404-3

EMPLOYEES' TRAINING AND DEVELOPMENT

"We grow together." We assume with commitment the collaborative work to achieve higher goals. We unite talents and creativity, generating synergies with our skills, competencies, and experience².

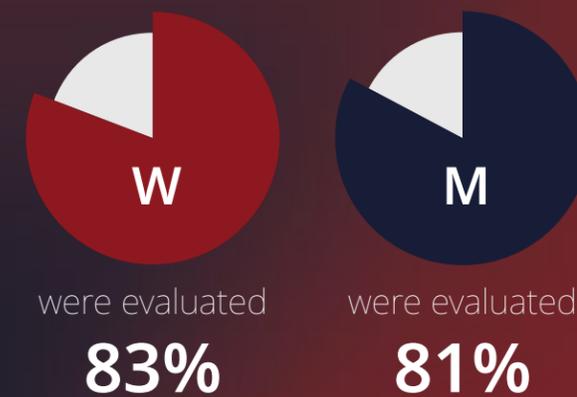
In the Code of Conduct we declare the Company's commitment to promote equitable professional development, encouraging the training of employees and favoring the improvement of those skills and competencies that are related to the performance of their duties. Likewise, personnel hiring, and promotions are based on the capacity, results, and demonstrable professional merits.

We provide courses and training from the induction process to the preparation of employees to assume new functions both in the company and in their professional life; developing their technical, digital, management and cultural competencies and skills, which ensure the fulfillment of their current functions, the resolution of complex problems and their adaptation to work environments according to short, medium and long-term trends. The courses range from specialties specific to each business, to leadership and management skills, in order to ensure the professional and personal development of employees. To this end, we have a Training and Coaching Manual and Procedures.

The total number of training hours increased 6% over the previous year, totaling 295,795 hours, of which 69% were for men and 31% for women, slightly proportional to the number of employees by gender. The average number of training hours was 15.4, lower than the average for the previous year, which was 17.7 hours.

In addition, we periodically evaluate and monitor the performance of our employees, which allows us to manage the needs of our human capital more efficiently, as well as align the objectives of the entire workforce with KUO's general strategy. To this end, we have a Performance Management Policy, which establishes the guidelines and standards for defining, aligning, evaluating, and providing feedback on the progress and achievement of personnel objectives.

During the year, we carried out performance evaluations of 81% of the total number of employees, increasing the number of evaluations carried out in 2021, a year in which 77% of the personnel were evaluated.



Our future goal is to evaluate 100% of our employees, regardless of their job category and/or function.

It is important to note that we have an Organizational Succession Planning Policy in place to ensure the continuity of KUO. The Directors of each business are responsible for ensuring that all their employees are qualified by the leaders in one of the 9 Talent Groups considered in the talent management tool, as well as in the commitment criteria, within the Succession Module of the Integral Organizational Management System (SIGO). In addition, review sessions are held every six months to analyze the talent within each business, identify successors for key positions, and make decisions on the development and retention of such talent.

ROTATION

Compared to 2021, during 2022, revenues have been similar, and terminations have been lower.

GRI

- 3-3
- 401-1
- 403-1
- 403-7

LEVELS OF PREPARATION FOR SUCCESSION



HEALTH AND SAFETY AT WORK

The well-being of our employees is one of KUO's priorities. An adequate management of people's health and safety allows all the company's activities to be carried out in a healthy and safe environment, which in turn improves the company's work environment, thus demonstrating the commitment of the Top Management with all the employees. It is important to point out that establishing strict safety controls reduces costs and increases productivity.

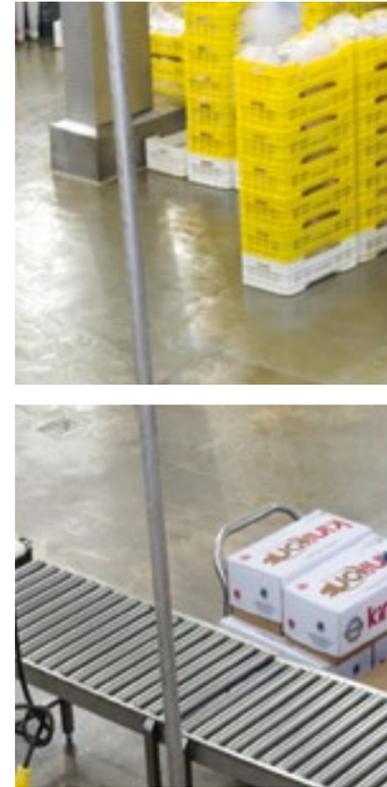
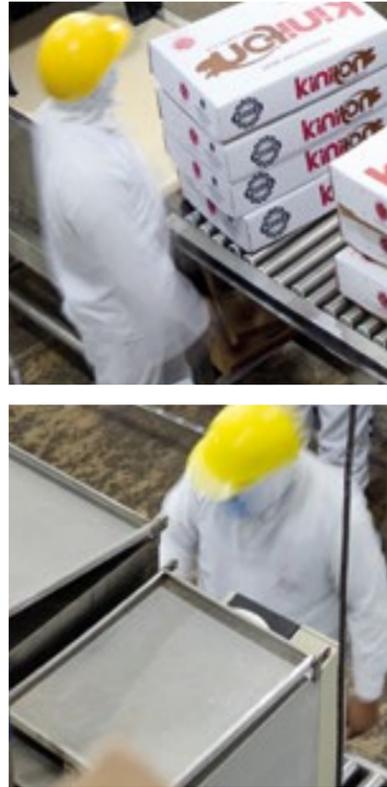
In addition to the Official Mexican Standards on Occupational Health and Safety, our Occupational Health and Safety Policy establishes the guidelines and behaviors to be followed in this matter, with the purpose of protecting the employees and preventing injuries; as well as avoiding risks in the safety of the processes through the implementation and execution of the guidelines of the Occupational Health and Safety System, the identification of hazards, risk assessment and the establishment of prevention, correction, control and/or transfer measures.

In our Social Responsibility Policy, we highlight the following principles:

- In addition to operating within the legal framework and applicable laws to which our productive activities are subject, our goal is to protect the integrity of our employees, contractors, and visitors, as well as the surrounding community. We apply national and international safety standards and guidelines, promoting training and performance measurement. We promote healthy, safe, and healthy workplaces, and develop safety awareness among our employees.
- We apply a preventive attitude of zero tolerance to unsafe actions and risk situations.
- We monitor the health of our employees, taking care of their integral condition for the best performance of their functions, and we also comply with current Social Security regulations.

The Psychosocial Risk Factors Prevention Policy (PRF) establishes guidelines to identify, analyze and prevent risks, as well as to promote a favorable organizational environment. We promote a favorable organizational environment through a friendly treatment between employees and other people with whom we interact, we conduct active listening meetings so that employees can express their doubts, we provide training focused on the welfare and development of employees, we implement promotion plans, and periodic medical examinations, among others. It also establishes the dynamics of communication, promoting a sense of belonging, ensuring that each employee knows their responsibilities and is trained to perform them.

GRI

403-1
403-2
403-8

CONSUMER

The Pork Meat business has established a Safety Management System, through which it strengthens its commitment to occupational health and safety, providing a healthy and safe environment for employees, ensuring legal compliance, eliminating, or minimizing risks and promoting the participation of all workers. The system is implemented through 21 interrelated elements, in which criteria are established to ensure the involvement of senior management, the competencies of all workforces, participation in preventive safety activities, health care, industrial hygiene, mechanical integrity, and change management, among others.

Each year, challenging objectives are defined to improve the safety and health culture and indicators; it also establishes minimum standards and requirements to ensure the identification, evaluation, and control of operational risks and to ensure legal compliance.

The effectiveness of occupational health and safety management is evaluated through internal audits and the monitoring of various indicators, which are monitored during the Operational, Tactical and Strategic Committees, with the participation of the employees. In order to reinforce these meetings, we also carry out training and safety rallies, which allow the implementation of a safety culture aimed at maintaining the integrity of the workforce.

In processing facilities, we adapted the Occupational Health and Safety Management System (OHSMS) to ensure compliance with ISO 45001:2018.

In 2022, there was a 7.5% decrease in the number of disabling injury accidents.

We have a procedure for the reporting, investigation and monitoring of incidents and accidents, which indicates that all incidents or accidents must be reported and establishes the steps to follow for the investigation and definition of permanent actions to address the root causes of the events and thus prevent recurrence. We have software for recording accidents, investigations, and action plans, which allows us to track in real time the status of actions until they are closed.

Through ISO 45001:2018, the Medical Service, in conjunction with a team, determines the hazards to which employees are exposed and which could cause injury or health deterioration; they also propose preventive measures and monitoring for the identified risks. The identification of risk factors includes, in addition to the occupational medical evaluation, the analysis of risk factor reports, and studies according to:

- Time of exposure to risk factors during the workday
- Concentration and levels of contaminants in the environment, areas, and workstations
- Physicochemical characteristics of contaminants
- Occupational health and safety prevention measures identified in the health surveillance program for employees in previous years

Once the hazards have been identified, medical examinations are determined by position, indicating the type of evaluation and frequency; and the information is recorded in the job profile by risk of exposure.

GRI

403-3

403-6

SASB

FB-MP-320Aa.2

PREVENTIVE HEALTH

We have occupational health services contributing to the identification, prevention, and elimination of hazards, and to the minimization of risks.

These are classified as follows:

1. Promotion
2. Prevention
3. Surveillance
4. Assistance
5. Management

On the other hand, on an annual basis, the Medical Service, in coordination with Safety, prepares and implements occupational safety programs in accordance with the Master Occupational Health Plan, considering at least the following:

- Industrial hygiene programs required by applicable regulations.
- Epidemiological surveillance activities for work-related illnesses and absenteeism.
- Medical examinations for selecting employees according to risk factors in the work environment.
- Early detection campaigns for chronic degenerative diseases.
- Wellness programs for health promotion and addiction prevention.
- Occupational health training in accordance with risk factors and production processes.
- Internal first aid brigade program.
- Recording, analysis and evaluation of indicators of consultations and occupational illnesses.
- Definition of objectives to improve the occupational health of employees.

Additionally, the Occupational Health area carries out frequent studies of its employees in relation to specific health problems, whether or not they are occupational diseases, accidents, or exposure to occupational risk factors.



GRI
403-4
403-5

The Safety Management System is based on the participation and consultation of employees

EMPLOYEE ENGAGEMENT AND TRAINING

Participation and consultation of the employees is the basis of the Safety Management System. The activities in which the workforce participates are defined in the Administrative Participation standard, which establishes the preventive safety activities to be carried out by the employees depending on their job position. Similarly, the employees participate in risk analyses (ASTs) and accident investigations, as well as in labor surveys to determine the level of satisfaction on different issues, including the safety and health of the facility. In addition, our facilities have Safety and Hygiene Commissions, which conduct tours to identify substandard conditions and to ensure the corresponding improvement.

In the case of processing facilities, the Participation Plan and Consultation Plan define all the consultation and participation mechanisms, the frequency of execution, those responsible, evidence and indicators.

The safety courses given to the workforce include the Safety Induction, which provides the policy, an introduction to the Safety Management System, emergency response plans, use of fire extinguishers, main risks at the facilities, personal protective equipment, the Hazardous Work Permit System, procedures in the event of an accident, and the main accidents at the facility.

In order for the supervisors to be able to investigate their accidents properly, they are given the TASC accident investigation technique. Also, all middle managers are trained annually in the Administrative Participation Procedures and the use of safety software.

In the production area, all partners are given the "Behavior-based safety" course, both middle management and workforce.

In the case of Processors and in accordance with the ISO45001: 2018 standard, there is a training needs detection and an annual training program that establishes the minimum courses that the workforce must have depending on their job position and the annual schedule to meet the competencies defined for each of them.

CHEMICAL

Health and safety management focuses on the integrity and well-being of the workforce, as well as on reducing absenteeism due to illness and accidents. A safe work environment, with healthy employees, brings in turn, an increase in their productivity, thus a decrease in the company's risk premium.

We comply with safety and health regulations and procedures for strengthening good practices, recognition, reorientation and correction of unsafe acts and conditions. We also implement occupational health and safety campaigns and programs that are part of our employees' daily lives. We also have health and safety diagnostics and procedures for the identification, prevention, and management of ergonomic risks.

It should be noted that the Synthetic Rubber facilities, have ISO 4500:2018 certification in Occupational Safety and Health. These certified management systems include the definition of the necessary actions to drive continuous improvement in operations.

We measure management through accident and accident rate indicators, as well as health indicators such as percentage of healthy and sick population, morbidity, medical examinations, attention and follow-up of COVID-19 cases, occupational risk management, follow-up of critical cases either due to illness or accidents.

In order to prevent accidents and promote the health care and well-being of our personnel, in 2022 we carried out the following activities:

- We apply and strictly comply with the procedure for high-risk jobs.
- We identify agents and risk factors through mapping of work areas, controls, and effectiveness evaluation.
- We carry out an annual health and safety diagnosis.
- We comply with current safety and health regulations.
- We conduct training on health and safety issues.
- We implemented the DESContigo Program³.

3. DESContigo is a service that provides psychological care for emotional distress through a helpline that operates via telephone (24/7) and/or an on-site psychologist.

GRI

403-3
403-4
403-5
403-6



PREVENTIVE HEALTH

The role of the medical service is based on the identification and minimization of risks, through the assessment and medical diagnosis of each employee and candidate, following up annually on their health condition, together with the identification of risks. This service, after the corresponding evaluations, provides recommendations, if necessary, for the control or elimination of the source of risk.

It should be noted that equipment calibration is performed by certified suppliers, and laboratory analyses are performed by certified institutions. All employees are provided with medical consultation and advice.

In order to evaluate, monitor and mitigate acute and chronic respiratory illnesses, we conduct periodic medical studies of the workforce, training on the use of personal protective equipment, risk analysis and regulatory studies in accordance with the risks identified.

EMPLOYEE ENGAGEMENT AND TRAINING

The participation of employees is mainly through the Health and Safety at Work Committees, as well as through the Annual Health Program, which establishes the execution of communication campaigns, vaccinations, first aid brigade training, online training, delivery of information of interest in health matters, talks to internal workforce, communications on health care issues, webinars, promotion of good nutrition, disease prevention, as well as detections before COVID-19.

Among the main health and safety courses, the following training was provided in 2022:

- Hazard communication
- Pressure vessels
- Emergency organization chart
- Working at heights, confined spaces, cutting and welding
- Access to Restricted Areas
- Accident and incident investigation reports
- Use of fire extinguishers, ladders and workforce protection equipment, evacuation, and use of autonomous air equipment

AUTOMOTIVE

The health and safety of the employees is mainly supported by the Occupational Health and Safety Policy, and other tools and processes, highlighting the following:

- Integrated Safety, Quality and Environmental Policy
- Monthly accident rate report
- Follow-up of unsafe conditions and acts
- Monthly medical reports for corporate medical coordination
- Weekly work meetings of the internal Industrial Safety Committee (ISC).
- Planning and management of safety program: Critical Conditions and Errors that lead to accidents.

To guarantee the quality of our prevention activities, we received multiple audits, such as those from the Ministry of Health, the Federal Commission for Protection against Health Risks (COFEPRIS), STPS, and internal audits.

As a result of the activities carried out, including the implementation of a culture of self-care among our employees, and the follow-up and control of vulnerable workforce, we have achieved the following results:

- Decrease in the risk premium reported to the IMSS.
- Decrease in absenteeism due to occupational hazards and illnesses in general (days lost, absenteeism, partial and permanent disability).

Among the actions for the safety of our employees, we can highlight the following:

- Health and safety diagnosis
- Medical care procedure
- COVID-19 Protocol
- Mapping and communication of health risks
- Ergonomic risk identification, prevention, and management procedure.
- Legal Compliance
- Behavioral observations methodology
- CSH tours
- Supply management under environmental and health and safety policies
- Risk analysis
- Environmental, safety and hygiene inductions
- Security Week



GRI

403-3
403-4
403-5
403-6

PREVENTIVE HEALTH

Among the accident prevention programs and initiatives focused on promoting the health care and well-being of our employees, in 2022 we carried out the following:

- Evaluation of psychosocial risks in compliance with NOM 030 STPS⁴
- Preventive occupational health and safety program.
- Medical Health Surveillance Procedure
- Periodic and REVENUE medical examinations.
- Assessment of employees and contractors assigned to hazardous work within the company.
- DESContigo Program
- Compliance with NOM 036⁵
- Health and accident prevention campaigns
- Management of occupational risks before the IMSS-STPS

We also perform annual medical examinations to identify changes in the state of health, data of incipient disease or by direct reference after perception of any change in "usual" health. This examination includes the respiratory part: physical examination of lung fields, with measurement of oxygen saturation and heart rate, spirometry, chest X-ray, according to the employee's job.

Extra health promotion campaigns are carried out, such as "Lose weight, gain health" and "Health for women", where we work to modify eating habits, family violence, physical activation, and addictions. These programs are extended to the employees' families. We also hold a "Health Week" where we promote talks with invited experts, inviting the workforce to participate in multiple check-ups: optometric, dental, nutritional, venous, and benefits with gyms.

The health area has integrated programs related to the monitoring and control of disease prevention such as hearing conservation, respiratory function, occupational epidemiological surveillance, risk maps, general medical consultation and care, and emergency care.

EMPLOYEE ENGAGEMENT AND TRAINING

In addition to complying with applicable legislation, in general, all workforce participates in an induction course on topics related to occupational safety, occupational hazards, identification of hazardous activities and emergency plans, as well as the use of fire extinguishers. The induction also includes training on specific Medical Service topics, such as types of care, periodic medical examinations, health campaigns, pregnancy, addiction control, general emergency protocol, IMSS disability procedures, among others.

According to the position or position of the employees, we have a training matrix that includes basic and job-specific knowledge.

In addition, we conduct monthly theoretical and practical health talks on occupational disease risks: noise, extreme temperatures, vibrations, ergonomics, psychosocial risks, skin, and respiratory tract damage due to exposure to chemicals, prevention of metabolic diseases, etc.

It is important to point out that we maintain communication with our personnel through the NOM 035 Complaints Mailbox for psychosocial risk factors in the workplace.



4. Mexican Official Standard NOM-030-STPS-2009, Preventive services of safety and health at work-Functions and activities. Establish the functions and activities to be performed by preventive occupational safety and health services to prevent occupational accidents and diseases.
5. The objective of NOM 036 STPS Ergonomic Risk Factors is to establish the elements to identify, analyze, prevent, and control Ergonomic Risk Factors in work centers derived from the manual handling of loads, in order to prevent alterations to the health of employees.

CUSTOMER Satisfaction

WE MAINTAIN LONG-TERM
RELATIONSHIPS WITH OUR
CUSTOMERS



Customer Satisfaction

At KUO, we seek to maintain long-term relationships with our customers by offering innovative products that meet their needs, with high quality and at a fair price. In addition, we focus on providing excellent service.

We ensure that we manage our commercial relationships correctly by complying with the internal policies of each business related to labeling, communications, and marketing, which are also aligned with the regulations of Mexico and the countries where we export. This helps us to maintain our customers' and consumers' trust in our brands.

In addition, we maintain a culture of ethics and integrity, establishing commercial relationships in accordance with our Code of Conduct and ensuring that customers and consumers receive transparent information on prices, terms and conditions and other relevant information through various channels, such as telephone, social networks, website, institutional communication, and labels and packaging.

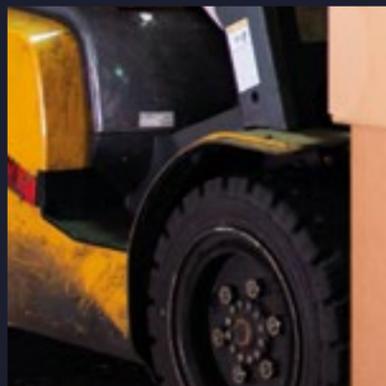
We focus on serving customers effectively. That is why we have feedback mechanisms so that they can communicate their complaints or comments about our products. We follow up immediately on all complaints received to ensure that they are properly addressed and resolved in a timely manner. We take your comments into account in order to develop marketing strategies, develop new campaigns and improve our products or services.

To ensure the peace of mind of our customers and other stakeholders, we protect your workforce's personal information as indicated in our data protection policy, which is aligned with the Federal Law for the Protection of Personal Data.



GRI

3-3
417-1
417-2
417-3



Zero cases of non-compliance related to marketing

In 2022, none of our businesses reported any cases of non-compliance related to communications or marketing.

CONSUMER

All our products have labels aligned with NOM-051-SCFI/SSA1-2010, for food and beverage labeling. Therefore, labels and packaging state SKU number or inventory identification number, product description, expiration date, preservation method, net weight, date and place of production, facility address, among other relevant information.

CHEMICAL

The labeling and packaging of our Synthetic Rubber products and derivatives have information about the content, their safe use, and procedures for their correct disposal.

In the case of the Polymers business, being a company that offers and handles various industrial petrochemical materials, all the information about our products is communicated and delivered to customers through various documents such as bill of lading, invoice, Bill of Landing, among others. The information includes the origin of the components, content, safe use, and disposal methods.

AUTOMOTIVE

We comply with labeling requirements for our direct customers, which is evidenced by our packaging, including the necessary information about its origin and safe use. However, there may be instances where a customer repackages material, which it does in accordance with its own policies and procedures.

SUSTAINABLE
 PRO
 CES
 SES
 and Products

WE OFFER INNOVATIVE
 PRODUCTS AND SOLUTIONS
 WITH HIGH QUALITY
 STANDARDS



GRI
3-3

Product and Service Innovation

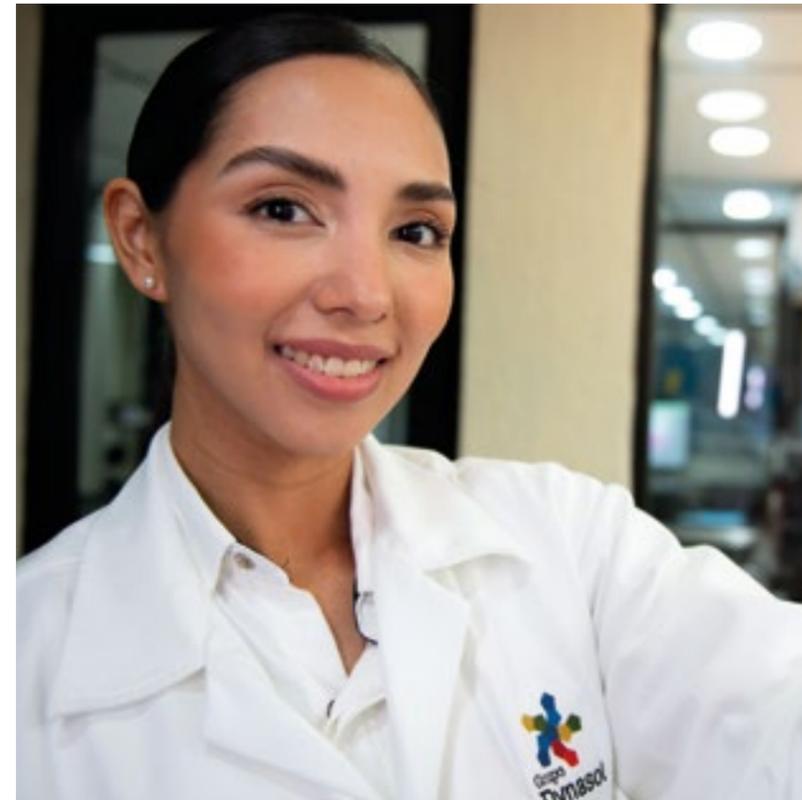
At KUO we strive to offer customers innovative products and solutions with high quality standards. We know that the world evolves rapidly, so we constantly develop updates to the products and services we have in our portfolio. In this way, we ensure that we meet consumers' needs and preferences. In addition, in our commitment to innovation, we employ technological and digital advances to create products that are efficient and sustainable.

We work hard to ensure that the products we offer are manufactured following the best environmental practices, reducing greenhouse gas emissions, implementing energy saving systems and promoting the circular economy.

We implement processes so that innovation is embedded in our DNA. We train our employees and develop research and development centers where product improvements are developed in all our businesses.

CONSUMER

In the Consumer sector, we improved our product offering to increase our competitiveness in the market. To this end, we implemented optimizations to existing products and created new cuts of meat to meet the needs of our customers. In addition, we have worked to improve process efficiency and minimize the environmental impact of our operations. In marketing, we have developed tools such as an application to identify and segment customers, as well as home delivery services and alliances with grocery stores to increase our presence at points of sale.



CHEMICAL

The Chemical sector has experienced a high dynamism in its business, thanks to the growing volume of applications that have focused on added value and sustainable solutions, which has translated into better results. We focus on improving product properties such as quality, strength, durability, and performance. In addition, we strive to develop new products with sustainable characteristics that contribute to the circular economy by optimizing our processes through highly specialized techniques and process simulation tools.

We are also constantly developing new technological platforms to generate new products and applications with differentiated performance.

AUTOMOTIVE

The Automotive sector has witnessed a growing demand for transmissions and components, as well as parts for brakes, engines, and powertrains. To meet customer needs, new approaches have been developed, including product optimization and diversification, the development of all-electric variants, and the development of new technologies. In addition, businesses in the Automotive sector have adopted practices to minimize environmental impact, such as waste reduction or reuse and cost optimization in formulations. Efforts have also been made to install new production lines and replace machinery to increase capacity and reduce unsafe conditions.

100% products evaluated for health and safety impacts

PRODUCT CONTROL, QUALITY AND SAFETY

Today's consumers have higher expectations and are looking for higher quality and safer products. At KUO, we are aware of this demand and therefore, we carry out a rigorous quality control process at every stage of the production chain. Thanks to this process, we can generate improved and safer products, while reducing production costs and increasing the efficiency of the value chain. All of this translates into greater consumer confidence in our brands, maintaining high demand, as consumers feel secure in acquiring quality and prestige products.

In 2022, 100% of our portfolio of products and services have been subject to evaluation in health and safety impacts, in order to promote improvements in each sector. We have not identified any non-compliance related to product quality or safety.

CONSUMER

For the Consumer sector, quality assurance and the safety of the final products that go to market are a priority throughout the entire production chain. We comply with all national and international regulations throughout the process, from primary production to processing and final distribution.

At KUO we have a Quality and Safety Policy which embodies our commitment to produce pork products with high standards, ensuring the safety and health of our consumers.

BREEDING FARMS

In our breeding farms and artificial insemination centers, we use a Quality Management System that complies with ISO 9000:2015 standards. In this way, we guarantee an efficient and safe production process that meets the highest standards of quality and safety. In addition, we make use of the Biosafety Policy that supports measures that prevent the introduction and spread of diseases in the operation.

We constantly undergo evaluations to verify our performance in terms of the quality and safety of our products. Every two months, we conduct biosafety audits to identify risks and verify the implementation of the Biosafety Policy in our operations.

In addition, we conduct monthly audits of the entire farm system to verify compliance with procedures and management in terms of sustainability and safety, ensuring constant cycles of improvement in our products and processes. The latter is supported by the external audit plan and certification of Good Animal Husbandry Practices in 100% of our farms, which ensure that we comply with the standards established by the National Agri-Food Health, Safety and Quality Service (SENASICA).



SASB

FB-MP-250^a.1
 FB-MP-250^a.2
 FB-MP-250^a.3
 FB-MP-260^a.1
 FB-MP-410^a.3

GRI

13.10.4
 13.10.5
 13.11.1
 13.11.2

ANIMAL WELFARE

In the Pork Meat business, we have an animal welfare policy, through which we guarantee good treatment and care, high level nutrition, comfort and good transfer conditions that allow an optimal state in the life of the pigs. We have a work plan and animal welfare audits to verify the standardization of our procedures. In addition, we are subject to external audits that are carried out to meet the requirements of different criteria defined by international bodies such as the United States Department of Agriculture (USDA), the World Organization for Animal Health (OMSA) and the common pork industry in the USA.

Recently, in June 2022, we obtained the Animal Welfare Certification granted by the international company "Cloverleaf Animal Welfare". This certification corresponds to an external verification program in the farm and processing facility system. This demonstrates our commitment to ensure animal welfare and guarantee that our practices meet the highest industry standards.

USE OF ANTIBIOTICS

The use of antibiotics on the farm is a common practice, in the Pork Meat business we use only those that have the approval of the government's animal health authority (SENASICA). At the farms, we ensure that we strictly follow withdrawal time procedures, which means that all animals go to market without antibiotic residues, 0% of animals received medically important antibiotics and 100% received non-medically important antibiotics.

In addition, over the past four years we have implemented a phased reduction program for antibiotic use, and we are pleased to report that we have achieved a 28% reduction compared to 2018, the year the plan began. Our commitment to animal health and food safety is a priority, and we will continue to work to further reduce antibiotic use in our operations.

PROCESSING FACILITIES

The processing facilities in Umán, Irapuato and Sahé have quality management and food safety as a priority in their production processes.

At Umán and Irapuato, the facilities have already joined the Global Food Safety Initiative (GFSI) through Food Safety System Certification (FSSC22000), which demonstrates their constant improvement in food safety management. All three facilities have implemented safety management procedures based on the Hazard Analysis and Critical Control Point (HACCP) System, Food Defense Plan and Food Fraud Plan. In addition, hygiene procedures have been established based on ISO TS 22002-1 and official Mexican standards⁶. Each process has quality, safety, and regulatory control points that are monitored and verified with an established frequency according to the level of risk and impact on the process or product. The objective of these practices is to ensure compliance with customer requirements and continuous process improvement.



Quality and safety management is supported by the quality assurance department, which permanently monitors and verifies the established procedures and controls. In addition, each facility has a team in charge of verifying that processes remain in compliance with established procedures and current regulations, guaranteeing official approval from the national "Federal Inspection Type" (TIF) authority, compliance with national regulations, and the certifications they handle. In addition, each facility has a HACCP leader and a multidisciplinary safety team trained in the FSSC22000 standard, responsible for implementing control measures to prevent risks and verify compliance.

At the end of 2022, there have been no non-conformities arising from audits, nor have any products been withdrawn from the market due to suspicion or certainty of non-compliance with food laws or product quality standards.

BALANCED FEED FACILITIES

In our feed facilities, we have sustainable production policies that comply with international standards and an internal laboratory, approved under ISO/IEC 17025, which guarantee quality feed for pigs, meeting the requirements and accuracy of the nutritional design of our formulas.

We also implement a Good Manufacturing Practices system and are audited annually to obtain the certification granted by SENASICA and the Ministry of Agriculture and Rural Development (SADER). We also have annual Hazard Analysis and Critical Control Point (HACCP) audits to verify the effectiveness of our Hazard Analysis and Critical Control Point system, which guarantees the safety of the food we produce.

6. Mexican Standards: NOM-008-ZOO, NOM-009-ZOO and NOM-194-SSA1

SASB

F RT-CH-410a.1
 RT-CH-410b.1
 RT-CH-410b.2

GRI

13.10.4
 13.10.5

CHEMICAL

We ensure the quality and safety of our products by complying with the legislation of the different markets where we operate and trade and with the requirements of the customers who purchase our products.

SYNTHETIC RUBBER

We manage quality through our Quality, Safety and Environmental Policy, which establishes our commitment to continuous improvement, respect for the environment and occupational safety. In addition, we have Good Manufacturing Practices procedures, which ensure the consistency and quality of our products.

To verify compliance with our Quality, Safety and Environmental Policy, we conduct periodic internal and external audits to evaluate the effectiveness of our procedures and identify opportunities for improvement.

We guarantee our management through the certifications we have in our facilities and brands, in that line we are validated by the Food and Drug Administration (FDA), Regulation (EU) 10/2011⁸, RoHS Directive 2011/65/EU⁹, Prop. 65 y and finally, we have the REACH regulation¹⁰. These certifications, in addition to guaranteeing quality, set the guidelines and establish restrictions for the treatment of hazardous substances.

All products with a category 1 or 2 classification according to the Globally Harmonized System of Classification (GHS), are risk assessed for containing hazardous chemicals to health and the environment.

SUSTAINABLE PRODUCTS

In 2022, we launched new high-vinyl SBS grades for asphalts, which increase their profit life and reduce the need for maintenance. In addition, we contributed to the circular economy with rubbers for mechanical recycling of plastics.

8. Regulation (EU) 10/2011 is a European Union (EU) regulation that sets requirements for materials and articles intended to come into contact with food. It was adopted in 2011 and has been applicable since May 1st, 2011.
 9. It establishes restrictions on the use of six hazardous substances in manufacturing, including lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls (PBBs) and polybrominated diphenyl ethers (PBDEs).
 10. We have REACH for the European Union, the United Kingdom, Korea, and Turkey. This regulation refers to the management of chemical substances and establishes a system for the identification, evaluation, and control of the risks of chemical substances manufactured or imported into the European Union.

**POLYMERS**

Quality management is essential due to the presence in different markets, such as food packaging, electronics, medical and pharmaceutical products, which require high standards of quality, consumer safety and performance. Quality management is carried out through the implementation and maintenance of standardized procedures and methodologies that ensure regulatory compliance. In addition, we conduct internal audits that enable us to verify the effectiveness of our quality, safety, hygiene, and environmental management. In this way, we can identify opportunities and implement actions to contribute to the continuous improvement of our processes. We also consider the recommendations of customers and regulatory bodies that certify us, in order to ensure that our products meet the required standards.

By the end of 2022, the Tlaxcala facility was certified under the Comprehensive Responsibility Management System of the National Association of the Chemical Industry (Asociación Nacional de la Industria Química). In addition, our products have ISO 9001:2015, USP¹¹, UL¹² and RoHS Directive certification, which establishes the restriction of hazardous substances.

11. USP stands for United States Pharmacopeia. USP publishes a series of compendia that contain information on the quality and purity standards for pharmaceutical products, as well as the procedures and testing techniques necessary to ensure compliance.
 12. UL stands for Underwriters Laboratories, an independent safety certification and compliance testing organization based in the United States.

SASB

TR-AP-250a.1
TR-AP-440b.1
TR-AP-440b.2

AUTOMOTIVE

TRANSMISSIONS

In the Transmissions business, the effective management of product quality and safety allows us to have more efficient processes and reduce costs. Therefore, we have implemented a quality management system that allows us to guarantee the excellence of our products, thus maintaining the satisfaction and loyalty of our customers.

We manage quality through an Integral Policy, a Management Manual, procedures and work instructions, continuous improvement plans and updates at different levels of the organization. These elements allow us to have control of the production process, from design to delivery of the final product, ensuring that each stage complies with the established quality standards.

In addition, to guarantee the efficiency of our processes, we have IATF 16949:2016 and ISO 14001:2015 certifications. These certifications are internationally recognized and demonstrate our commitment to quality and the environment.

Our focus on quality and product safety has been reflected in the recognition we have received from customers. For two consecutive years, we have been honored by GM with the "Supplier Quality Excellence Award" and have earned "Silver Supplier Status" recognition.

In 2022, no product had to be recalled.



MATERIALS EFFICIENCY

In compliance with international standards and customer requirements, more than 95% of the parts that make up a transmission system are recyclable, and are composed primarily of steel, aluminum, and lubricants. Generally, recycled and/or remanufactured materials are not used as input due to the nature of our product and the stringent requirements set by our customers.

With respect to products designed to reduce fuel consumption and carbon footprint, we can say that we supply to automotive manufacturers, therefore, it is our customers who comply with regulations such as those of the NHTSA (National Highway Traffic Safety Administration) and CAFE (Corporate Average Fuel Economy) in the United States. In turn, customers set their requirements for us to meet these standards, which we translate into efficiency values. All products meet these requirements, which contributes to improved fuel efficiency.

AFTERMARKET

In the Aftermarket business, we understand that the image that customers and end users have about the quality of our brands is considered a competitive advantage, for this reason, we manage quality through an ISO 9001:2015 Quality Management System and product certifications according to the specific requirements of the markets in which we have presence. In addition, we have an ISO 17025:2017 accredited laboratory, which demonstrates our commitment to quality and excellence in our products.

We also implement continuous improvement methodologies such as Lean Manufacturing and Six Sigma¹³, which allows us to identify improvement opportunities in our processes and reduce costs. We conduct system, product, and regulatory compliance audits to evaluate management implementation and ensure compliance with established standards. In addition, we conduct layered internal audits (LPAs) on key processes to ensure consistency and efficiency in our operations. We use the results of these assessments to implement corrective actions and prevent future recurrences.

We are committed to continuous improvement in all our operations and processes. We constantly strive to maintain product and service quality and to exceed customer expectations.

In 2022, no product had to be recalled.

13. Six Sigma is a quality improvement process that focuses on reducing process variability and increasing the quality of products and services.

OPERATIONAL EFFICIENCY and Continuity



+2.5K
m³ of recycled
or reused water

SUSTAINABLE
OPERATION

GRI
3-3

Operational Efficiency and Continuity

In order to ensure operational continuity without compromising the well-being of our employees, communities, and their environment, we have implemented strategies to achieve efficiency in the use of resources in our production chains, always aligned with the following:

- Code of Conduct, ensuring that the value chain operates following best environmental practices.
- Sustainability Model, aligned with the Sustainable Development Goals of the 2030 Agenda, focused on innovation for sustainable production.
- Environmental Policy, defining guidelines and commitments to operational efficiency in our operations.
- Social Responsibility Policy, developing environmentally friendly processes and promoting the sustainable development of neighboring communities.

In this way, we maintain our commitment to operate within environmental regulations and best practices through circularity initiatives, energy efficiencies and the development of carbon inventories.

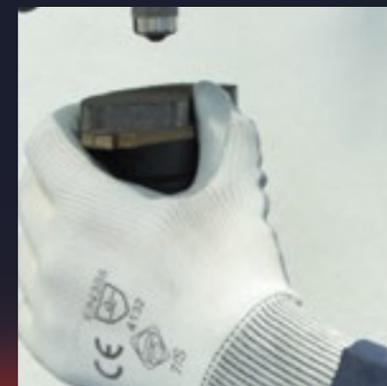
ENERGY AND EMISSIONS

Aware of the importance of energy in production, we seek to maintain operational continuity by implementing initiatives to reduce energy consumption through actions such as:

- Implementation of natural light spaces and replacement of lighting fixtures with LED¹
- Generation of electricity from biogas.
- Installation of photovoltaic panels in Maxicarne® stores
- Clean energy purchase agreements

The implementation of energy consumption initiatives allows us to make progress in our efforts to reduce greenhouse gas (GHG) emissions (Scope 1 and 2)².

1. LED lights are energy efficient because they radiate very little heat, so they require much less energy to emit the same amount of light than their conventional counterparts.
2. Heavy oil is a medium-viscosity fuel, refined from petroleum, commonly used for steam generation boilers, heaters, burners, furnaces, and as a diluent.



GRI

- 3-3
- 303-1
- 303-2
- 303-3
- 303-4
- 303-5
- 305-4
- 304-1
- 304-2
- 304-3
- 304-4
- 13.4.2
- 13.4.3
- 13.4.4
- 13.4.5
- 13.5.1

SASB

- FB-MP-403a.1
- FB-MP-140a.1
- FB-MP-140a.2
- FB-MP-140a.3
- FB-MP-160a.2
- RT-CH-140a.1
- RT-CH-140a.3



BIODIVERSITY

Aware of the importance of biodiversity, in 2016 we constituted a Conservation Area, which formalizes a permanent restricted area for preservation and ecological research purposes, which has more than 800 hectares located around one of the farm complexes, located in the municipality of Maxcanú, Yucatán, Mexico. The conservation area represents a space of protection for the region's wild flora and fauna, as well as a partner in the capture of atmospheric carbon emissions thanks to the forest species in the area.

Currently, this conservation area is a space that facilitates the participation of local authorities and academics for biodiversity research in the area. A recent study, in collaboration with the Centro de Investigación Científica de Yucatán (CICY) carried out in 2022, resulted in the discovery of more than 500 species of vascular plants of high ecosystemic richness, as part of the elaboration of a floristic list in the conservation area.

All Pork Meat farms have as a guideline to use only 7% of the total area of the facilities, thus allowing the presence of endemic species of flora and fauna within the space not used for productive areas.



1.7 thousand
CUBIC METERS OF WATER REUSED
IN THE CONSUMER SECTOR

40 thousand
m³ OF WATER REUSED IN THE CONSUMER SECTOR

SMART WATER CONSUMPTION

Considering the importance of efficient water management, our water-saving measures and reuse practices allow us to reduce water consumption each year.

We are constantly monitoring the most demanding processes in order to subsequently apply reduction actions. In line with this, it is important to mention our water recycling and reuse processes, which are previously treated internally based on the applicable parameters established by the National Water Commission (CONAGUA) for each operation.

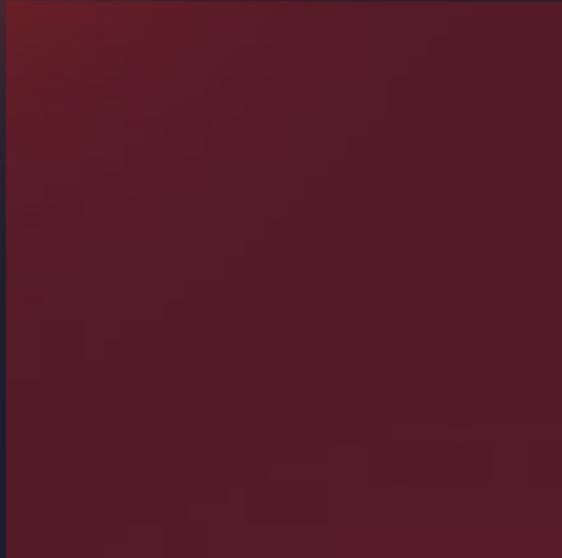
CONAGUA, as environmental supervisor, authorizes and monitors water use and discharge processes, thus ensuring that our operations use water responsibly from extraction to discharge within the established parameters. It is also important to note that our operations consume all the water they extract.

WASTE MANAGEMENT

One of the Company's objectives is the efficient use of inputs or materials and, consequently, the reduction of waste generation. Among the actions carried out for responsible management is the correct disposal based on applicable environmental legislation and the establishment of relationships with external value chains for the reuse or recycling of waste suitable for this purpose.

We also work on the optimization of sustainable packaging processes, ensuring the quality and integrity of the products. In the same line, we cannot fail to mention the continued use of "big bags" in our laboratories in the chemical sector, these are containers for waste that store, maintain, and transport both products generated in bulk and products that will be derived to disposal and also avoid the use of additional small packaging.

annexes



About
this Report **114**

GRI Index,
SASB Index **116**

Human Rights
Due Diligence **134**

Contribution
to SDGs **136**

GRI
 2-2
 2-3
 2-4
 2-5
 2-29
 3-1
 3-2

Annex 1 About this Report

This report, corresponding to the period from January 1 to December 31, 2022, was prepared in accordance with the Global Reporting Initiative - GRI Standards, using the new Universal Standards 2021 and the parameters of the Sustainability Accounting Standards Board (SASB) for the following sectors: (i) Chemicals, (ii) Meat, Poultry and Dairy and (iii) Automotive Parts. The report also reports the actions taken based on the Sustainable Development Goals (SDGs) and the 10 principles of the United Nations Global Compact.

The ESG report includes the Pork Meat, Synthetic Rubber, Polymers, Transmissions and Aftermarket business units. The financial information considers all entities, including Herdez del Fuerte and Megamex. For more information, please refer to Annex IV.

The previous edition corresponded to the year 2021 and was published in 2022. This document is published annually. The document was prepared by an external consultant together with KUO's sustainability area, and was validated by the Board of Directors, and will not be subject to external verification by an independent third party. No information was updated during this period.

STAKEHOLDER ENGAGEMENT

We maintain open and transparent communication with stakeholders. In particular, we carry out the following actions:

Group of Interest	Action
SHAREHOLDERS AND PARTNERS	We share quarterly and annual information about the Group's financial, operational, social, and environmental performance.
EMPLOYEES AND FAMILY MEMBERS	Through various communication channels to listen and address issues of interest. In addition, we have established a Feedback and Transparency mailbox, as well as a whistleblower hotline, to comply with our Code of Conduct.
CLIENTS AND CONSUMERS	We maintain long-term relationships with our customers and consumers by providing them with quality products and services and by maintaining fluid and transparent communication. Details of communication methods for each business unit can be found in the Customer Satisfaction chapter.

Group of Interest	Action
SUPPLIERS	We maintain fair and honest long-term relationships, requiring them to comply with our Code of Conduct and best environmental, anti-corruption and social practices.
SOCIETY	Our employees are part of social participation and volunteer programs where they interact with various groups in society.
AUTHORITIES	We maintain a respectful dialogue with the governments of the regions where we operate.
NGOs	We maintain continuous communication and establish alliances with Non-Governmental Organizations and other civil.

MATERIALITY STUDY

In 2020, we conducted the materiality analysis in order to identify the topics with the greatest environmental, economic, and social impact within KUO towards stakeholders. We reviewed the list of material topics, considering the GRI guidelines. We considered sectoral documents, internal documents, press clippings, previous stakeholder surveys, as well as direct and indirect consultations.

During 2021, we carried out the merger of financial materiality with impact materiality, which considers the perception of stakeholders on the effects of the Company, as well as the A-risks of the business evaluated by the capital market.

To perform it we used the parameters of the Sustainability Accounting Standards Board (SASB), for the industrial sectors of: Auto Parts, Chemicals, Meat/Poultry/Dairy and Processed Foods.

For more details on the materiality process, please click on the following link:
https://kuo.com.mx/site/uploads/es/documents/general_documents/Kuo_Materialidad_2020.pdf
https://kuo.com.mx/site/uploads/es/documents/annual_reports/kuo-ia-21.pdf

Annex 2

GRI Index, SASB Index

GRI Standard	Content	GRI Sectorial 13	Location	Omission		
				Omitted Requirement	Reason	Explanation
General Contents						
	2-1 Organization details		20, 21, 22			
	2-2 Entities included in the organization's sustainability reports		114, 115			
	2-3 Reporting period, frequency, and point of contact		114, 115, 135			
	2-4 Reformulations of information		113, 115			
	2-5 External assurance		114, 115			
	2-6 Operations, value chain, and other business relationships		20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 38, 39, 40, 41,			
	2-7 Employees		66, 69 Annex ESG Indicators			
	2-8 Non-employees		67 Annex ESG Indicators			
	2-9 Governance structure and composition		52, 53, 54, 55			
	2-10 Appointment and selection of the highest governance body		52, 53, 54, 55			
	2-11 Chair of the highest governance body		52, 53, 54, 55			
	2-12 Role of the highest governance body in overseeing the management of impacts		36, 52, 53, 54, 55			
GRI 2: 2021 General Contents	2-13 Delegation of responsibility for impact management		36, 52, 53, 54, 55			
	2-14 Role of the highest governance body in sustainability reporting		55			
	2-15 Conflicts of interest		56			
	2-16 Communication of critical concerns		52, 53, 54, 55			
	2-17 Highest governance body's collective knowledge of sustainable development		52, 53, 54, 55			
	2-18 Evaluation of the highest governance body's performance		52, 53, 54, 55			
	2-19 Compensation policies		56, 57			
	2-20 Process for determining compensation		56, 57			
	2-21 Annual Total Compensation Ratio			2-21.	Confidentiality	This information is considered sensitive as it could jeopardize the safety of our employees
	2-22 Sustainable development strategy statement		12, 13, 14, 15, 16, 17			
	2-23 Policy commitments related to responsible behavior, such as commitments to human rights, climate change impacts, among others		48, 49, 58, 59, 60			
	2-24 How policy commitments related to responsible behavior are incorporated		48, 49, 58, 59, 60			
	2-25 Processes for remediating negative impacts		60, 61			

GRI Standard	Content	13 Sectorial GRI	Location	Omission		
				Omitted Requirement	Reason	Explanation
	2-26 Mechanisms for seeking advice on the creation of policies and procedures toward commitment to responsible behavior aligned with business concerns		60, 61			
	2-27 Compliance with laws and regulations		61			
	2-28 Membership associations		32, 33			
	2-29 Approach to Stakeholder engagement		114, 115			
	2-30 Collective Bargaining Agreements		70			
GRI 3: 2021 Material Topics	3-1 Process for determining material topics		114, 115			
	3-2 List of material topics		114, 115			
Business Ethics and Transparency						
GRI 3: 2021 Material Topics	3-3 Management of material issues	13.26.1	58, 59, 60, 61			
GRI 205: 2016 Anti-corruption	205-1 Operations assessed for corruption-related risks	13.26.2	60, 61			
	205-2 Communication and training on anti-corruption policies and procedures	13.26.3	38, 60, 61			
	205-3 Confirmed corruption cases and implemented measures	13.26.4	61			
GRI 13: Public Policies	Program, plans or actions to manage contribution to public policies	13.24.1	60, 61			
	415-1 Political contribution	13.24.2	60, 61			
GRI 13: Anti-Competitive Behavior	Program, plans or actions to manage anti-competitive behavior	13.25.1	60, 61			
	206-1 Legal actions related to unfair competition, monopolistic practices and against free competition	13.25.2	61			
Regulatory Compliance						
GRI 3: 2021 Material Topics	3-3 Management of material issues		60, 61			
Product Control, Quality and Safety						
GRI 3: 2021 Material Issues	3-3 Management of material issues	13.10.1	98, 99, 100, 101, 102, 103, 104, 105			
GRI 416: 2016 Customer Health and Safety	416-1 Assessment of health and safety impacts of categories of products or services	13.10.2	98			
	416-2 Instances of non-compliance concerning health and safety impacts of categories of products and services	13.10.3	98			
GRI 13: Food Safety	Percentage of production from sites certified to safety standards	13.10.4	98, 100, 101			
	Number of recalls	13.10.5	101			
GRI 13: Animal Health & Welfare	Plan and policies for ensuring animal health and welfare	13.11.1	100			
	Report the percentage of production volume from the organization's sites certified to third party animal health and welfare standards	13.11.2	100			
	Report the percentage of aquatic farm animal survival and the main causes of mortality	13.11.3		13.11.3	N/A	

GRI Standard	Content	13 Sectorial GRI	Location	Omission		
				Omitted Requirement	Reason	Explanation
Occupational Health and Safety						
GRI 403: 2018 Occupational Safety and Health	3-3 Management of material issues	13.19.1	75			
	403-1 Occupational health and safety management system	13.19.2	75, 76, 77			
	403-2 Hazard identification, risk assessment and incident investigation	13.19.3	75, 76, 77			
	403-3 Occupational health services	13.19.4	78, 79, 83, 84, 86, 87			
	403-4 Worker participation, consultation and communication on occupational health and safety	13.19.5	80, 81, 83, 84, 86, 87			
	403-5 Occupational health and safety training for workers	13.19.6	80, 81, 83, 84, 86, 87			
	403-6 Worker health promotion	13.19.7	78, 83, 86			
	403-7 Prevention and mitigation of impacts on the health and safety of workers directly linked to business relationships	13.19.8	75			
	403-8 Coverage of occupational health and safety management system	13.19.9	76, 77, 81, 84			
	403-9 Occupational injuries	13.19.10	Annex ESG Indicators (website)			
	403-10 Occupational illnesses and diseases	13.19.11		403-10a, 403-10.b	Confidentiality issues	We mention disease prevention actions but due to the confidentiality of our employees we do not disclose the types and number of occupational diseases
Customer Relationship						
GRI 3: 2021 Material Issues	3-3 Management of material issues		90, 91, 92, 93			
	417-1 Requirements for product and service information and labeling		90, 91, 92, 93			
GRI 417: 2016 Marketing and Labeling	417-2 Instances of non-compliance related to product and service information and labeling		90, 91, 92, 93			
	417-3 Cases of non-compliance related to marketing communications		90, 91, 92, 93			
Operational Efficiency						
GRI 3: 2021 Material Issues	3-3 Management of material issues	13.1.1, 13.3.1, 13.4.1	108			
	302-1 Energy consumption within the organization		Annex ESG Indicators (website)			
GRI 302: 2016 Energy	303-2 Energy consumption outside the organization		-		N/A	No records are currently kept regarding energy consumption outside the organization
	302-3 Energy intensity		Annex ESG Indicators (website)			
	303-4 Reduction of energy consumption		-		N/A	No reduction in the energy requirements of products and services has been recorded in this edition
	303-5 Reduction of energy requirements of products and services		-		N/A	No reduction in energy consumption has been recorded in this edition
GRI 304: 2016 Biodiversity	304-1 Operations owned, leased, or managed that are located within or adjacent to protected areas or areas of high biodiversity value outside protected areas	13.3.2	110			
	304-2 Significant impacts of activities, products, and services on biodiversity	13.3.3	110			
	304-3 Protected or restored habitats	13.3.4	110			
	304-4 Species on the IUCN Red List and national conservation lists whose habitats occur in areas affected by operations	13.3.5	110			
	Report additional content from the aquaculture sector	13.3.6	-			N/A
	Report additional content from the fisheries sector	13.3.7	-			N/A

GRI Standard	Content	13 Sectorial GRI	Location	Omission		
				Omitted Requirement	Reason	Explanation
GRI 305: 2016 Emissions	305-1 Direct GHG emissions (Scope 1)	13.1.2	Annex ESG Indicators (website)			
	305-2 Indirect GHG emissions from energy generation (Scope 2)	13.1.3	Annex ESG Indicators (website)			
	305-3 Other indirect GHG emissions (Scope 3)	13.1.4	-		N/A	No records of Scope 3 emissions are currently kept
	305-4 Intensity of GHG emissions	13.1.5	Annex ESG Indicators (website)			
	305-5 Reduction of GHG emissions	13.1.6	-		N/A	No reduction in GHG emissions generation has been recorded in this edition
	305-6 Emissions of ozone-depleting substances (SDG)	13.1.7	-		N/A	No records are currently kept of the generation of ozone-depleting substances
	305-7 Nitrogen oxides (NOX), sulfur oxides (SOX) and other significant air emissions	13.1.8	-			No information available
GRI 13: Pesticide Use	Pesticide management plan	13.6.1	-		N/A	No use of pesticides in the Pork Meat business operations
	Volume and intensity of pesticides used	13.6.2	-		N/A	No use of pesticides in the Pork Meat business operations
GRI 13: Ecosystem Conversion	Percentage of land production volume determined to be free of deforestation or conversion	13.4.2	110			
	Products from deforestation-free production	13.4.3	110			
	Size, location, and type of converted ecosystems managed by the organization	13.4.4	110			
	Size, location, and type of ecosystems converted by suppliers	13.4.5	110			
GRI 13: Soil Health	Soil health plan	13.5.1	110			
Product and Service Innovation						
GRI 3: 2021 Material Issues	3-3 Management of material issues		96, 97			
Smart Water Consumption						
GRI 303: 2018 Water and Effluents	3-3 Management of material issues	13.7.1	111			
	303-1 Interaction with water as a shared resource	13.7.2	Annex ESG Indicators (website)			
	303-2 Management of impacts related to water discharge	13.7.3	111			
	303-3 Water withdrawal	13.7.4	Annex ESG Indicators (website)			
	303-4 Water discharge	13.7.5	Annex ESG Indicators (website)			
	303-5 Water consumption	13.7.6	Annex ESG Indicators (website)			
Risk Management and Monitoring						
GRI 3: 2021 Material Issues	3-3 Management of material issues	13.2.1, 13.12.1	36, 37			
GRI 203: 2016 Indirect Economic Impacts	203-1 Infrastructure investments and services supported	13.22.3	42, 43, 44			
	203-2 Significant indirect economic impacts	13.22.4	42, 43			
GRI 204: 2016 Procurement Practices	204-1 Proportion of spending on local suppliers		38, 39, 40, 41			

GRI Standard	Content	13 Sectorial GRI	Location	Omission		
				Omitted Requirement	Reason	Explanation
GRI 308: Environmental Assessment of Suppliers	308-1 New suppliers passing evaluation and selection filters in accordance with environmental criteria		38, 39, 40, 41			
	308-2 Negative environmental impacts in the supply chain and implemented actions		38, 39, 40, 41			
GRI 414: 2016 Environmental Assessment of Suppliers	414-1 New suppliers passing evaluation and selection filters in accordance with environmental criteria		38, 39, 40, 41			
	414-2 Negative environmental impacts in the supply chain and implemented actions		38, 39, 40, 41			
GRI 13: Traceability in the Value Chain	Methodology for tracing the source, origin, or production conditions of purchased products	13.23.1	39			
	Describe the level of traceability	13.23.2	39			
	Percentage of products purchased that are certified	13.23.3	39			
	Traceability improvement projects for suppliers	13.23.4	39			
GRI 413: 2016 Local Communities	413-1 Operations with local community involvement, impact assessments, and development programs	13.12.2	42, 43, 44, 45			
	413-2 Operations with significant actual or potential negative impacts on local communities	13.12.3	42, 43, 44, 45			
GRI 13: Land Use and Resource Rights	Commitment to respect land and natural resource rights	13.13.1	45			
	Locations of operations where land and natural resource rights may be affected by the organization's operations	13.13.2	45			
	Size in hectares and location of operations where land and natural resource use rights are affected	13.13.3	45			
GRI 13: Indigenous Community Rights	Approach to engaging with indigenous communities	13.14.1	45			
	Incidents of non-compliance with the rights of indigenous communities	13.14.2	45			
	Operations where indigenous communities may be affected by the company's operations	13.14.3	45			
	The organization has been involved in a process involving indigenous communities	13.14.4	45			
waste management						
GRI 3: 2021 Material Issues	3-3 Management of material issues	13.8.1	111			
GRI 306: 2020 Waste	306-1 Waste generation and significant waste-related impacts	13.8.2	Annex ESG Indicators (website)			
	306-2 Management of significant impacts related to waste	13.8.3	Annex ESG Indicators (website)			
	306-3 Waste generated	13.8.4	Annex ESG Indicators (website)			
	306-4 Wastes not destined for disposal	13.8.5	Annex ESG Indicators (website)			
	306-5 Wastes for disposal	13.8.6	Annex ESG Indicators (website)			
GRI 13: Food Safety	Food safety programs		In 2022, safety certifications were maintained in Pork Meat processing facilities and, in addition to not recording any recall, in the same year the rate of product seizures due to quality failures was reduced by 43%, which increases the availability of product for the population			
	Total weight of food loss		In 2022, the loss of products, associated with safety, sanitation, product expiration dates, among others, was 91 tons			

GRI Standard	Content	13 Sectorial GRI	Location	Omission		
				Omitted Requirement	Reason	Explanation
Work Relations						
GRI 3: 2021 Material Issues	3-3 Management of material issues	13.15.1, 13.20.1	64, 65			
GRI 401: 2016 Employment	401-1 New employee hires and employee turnover		Annex ESG Indicators (website)			
	401-2 Benefits for full-time employees that are not given to part-time or temporary employees		68			
	401-3 Parental permission		70			
GRI 13: Living Wage	Commitment to providing a living wage	13.21.1	57			
	Percentage of workers whose work has terms related to wage levels and frequency of wage payment	13.21.2	57			
	Percentage of workers whose work is paid above a living wage	13.21.3	57			
GRI 402: 2016 Labor/ Management Relations	402-1 Minimum notice periods for operational changes		70			
	404-1 Average hours of training per year per employee		72			
GRI 404: 2016 Training and Education	404-2 Programs to enhance employee skills and transition assistance programs		72, 73			
	404-3 Percentage of employees receiving regular performance evaluations and professional development		73			
	405-1 Diversity in governance bodies and employees	13.15.2	67			
GRI 405: 2016 Diversity and Equal Opportunities	405-2 Ratio of basic salary and remuneration of women to men	13.15.3		405-2	Confidentiality issues	This information is considered sensitive because it may jeopardize the safety of our employees
	GRI 406: 2016 Non-discrimination	406-1 Discrimination cases and corrective actions taken	13.15.4	406-1	Confidentiality issues	Complaints received through the ethics hotline are confidential
GRI 13: Forced Labor	Policies and programs against forced labor	13.16.1	38, 69			
	409-1 Own and suppliers' operations where there is a risk of forced labor	13.16.2	38, 69			
GRI 13: Child Labor	Policies and programs against child labor	13.17.1	38, 69			
	408-1 Operations and suppliers where there is a risk of child labor	13.17.2	38, 69			
GRI 13: Freedom of Collective Association	Policies and programs to promote freedom of collective bargaining	13.18.1	69, 70			
	407-1 Suppliers' and employees' operations where there is a risk of collective bargaining	13.18.2	69,70			
GRI 13: Non-discrimination and Equal Opportunities	Compensation differences based on nationality	13.15.5	69			

Meat, Poultry and Dairy			
Subject	Parameter	Location	Omission
Greenhouse Gas Emissions	Global gross Scope 1 emissions	Annex ESG Indicators (website)	
	Analysis of the long- and short-term strategy or plan to manage Scope 1 emissions, emission reduction targets, and analysis of performance against those targets	108	
Energy Management	(1) Total energy consumed, (2) percentage of electricity from network, (3) percentage of renewable	Annex ESG Indicators (website)	
Water Management	(1) Total water withdrawn, (2) total water consumed, percentage of each in regions with high or extremely high initial water stress	Annex ESG Indicators (website)	
	Description of water management risks and analysis of strategies and practices to mitigate them	111	
	Number of incidents of non-compliance with water quality permits, standards, and regulations	61, 111	
Land Use & Ecological Impacts	Amount of manure and animal waste generated, percentage managed according to a nutrient management plan	Annex ESG Indicators (website)	
	Percentage of pasture and rangeland managed according to Natural Resources Conservation Service (NRCS) conservation plan criteria	110	
	Production of animal protein from concentrated animal feeding operations (CAFOs)	N/A	This parameter does not apply since CAFO only applies in the U.S. Pork Meat operations are carried out in Mexico
Food Safety	Global Food Safety Initiative (GFSI) audit: (1) rate of non-compliance and (2) rate of corrective actions for (a) major and (b) minor non-compliances	100	
	Percentage of supplier facilities certified under a Global Food Safety Initiative (GFSI) food safety certification program	100, 101, 102	
	(1) Number of recalls issued and (2) total weight of recalled products	101	
	Analysis of markets that prohibit the importation of the entity's products	101	
Antibiotic Use in Animal Production	Percentage of animal production that received (1) medically important antibiotics and (2) non-medically important antibiotics, by type of animal	100	
Workforce Health and Safety	(1) Total Recordable Incident Rate (TRIR) and (2) mortality rate		No information available
	Description of activities to assess, monitor and mitigate acute and chronic respiratory conditions	78	
Animal Care and Welfare	Percentage of pork produced without farrowing crates		No information available
	Percentage of sales of eggs from cage-free hens		N/A
	Percentage of production certified to an external animal welfare standard	39, 100	
Environmental and Social Impacts of the Animal Supply Chain	Percentage of livestock from suppliers that apply Natural Resources Conservation Service (NRCS) conservation plan criteria or equivalent	110	
	Percentage of supplier and contracted production facilities verified to meet animal welfare standards	39	
Feed and Animal Procurement	Percentage of feed sourced from regions with high or extremely high initial water stress	39	
	Percentage of contracts with producers located in regions with high or extremely high initial water stress	39	
	Analysis of strategy for managing opportunities and risks to feed and livestock supply presented by climate change	39	
NA	Number of processing and manufacturing facilities	26	
NA	Animal protein production, by category; percentage outsourced	26	

Chemicals and Substances			
Subject	Parameter	Location	Omission
Greenhouse Gas Emissions	Global gross Scope 1 emissions, percentage covered by emission limitation regulations	Annex ESG Indicators (website)	
	Analysis of the long- and short-term strategy or plan to manage Scope 1 emissions, emission reduction targets, and analysis of performance against these targets	108	
Air Quality	Air emissions of the following pollutants: (1) NOX (except N2O), (2) SOX, (3) volatile organic compounds (VOCs), and (4) hazardous air pollutants (HAPs)	-	No information available
Energy Management	(1) Total energy consumed, (2) percentage of network electricity, (3) percentage of renewables, (4) total self-generated energy	Annex ESG Indicators (website)	
Water Management	(1) Total water withdrawn, (2) total water consumed, percentage of each in regions with high or extremely high initial water stress	Annex ESG Indicators (website)	
	Number of incidents of non-compliance related to water quality permits, standards, and regulations	61	
	Description of water management risks and analysis of strategies and practices to mitigate them	111	
Hazardous Waste Management	Amount of hazardous waste generated, percentage recycled	Annex ESG Indicators (website)	
Community Relations	Analysis of engagement processes to manage risks and opportunities associated with community interests	42, 43	
Workforce Health and Safety	(1) Total recordable incident rate (TRIR) and (2) fatality rate for a) direct employees and b) contract employees	Annex ESG Indicators (website)	Accident rate reported, no fatalities were recorded in 2022
	Description of initiatives undertaken to assess, monitor, and reduce exposure of employees and contracted employees to long-term (chronic) health risks	83	
Product Design for Use-Phase Efficiency	Revenues from products designed for resource efficiency in the use phase	103	We report on products designed to generate efficiencies, but we do not quantify the revenues
Chemicals Management to Protect Safety and the Environment	1) Percentage of products containing chemicals hazardous to health and the environment that fall into categories 1 and 2 of the Globally Harmonized System of Classification and Labeling of Chemicals (GHS), 2) percentage of such products that have undergone a risk assessment	102	We report on the treatment of products that have a category 1 or 2 classification. We have not quantified the percentage of products that these products represent
	Analysis of strategy for 1) management of chemicals of concern and 2) development of alternatives that have a reduced impact on humans or the environment	102, 103	
Genetically Modified Organisms	Percentage of products, by revenue, containing genetically modified organisms (GMOs)	-	We do not have products containing intentionally added Genetically Modified Organisms (GMOs) in their composition
Managing the Legal and Regulatory Environment	Analysis of corporate positioning related to governmental regulations or policy proposals that address environmental and social factors affecting the industry	60, 61	
Operational Safety, Emergency Readiness and Response	Process safety incident count (PSIC), total process safety incident rate (PSTIR) and process safety incident severity rate (PSISR)	-	Values associated with this GRI content will not be reported in this edition of the report due to confidentiality restrictions
	Number of transportation incidents	-	No information available
NA	Production per reportable segment	-	No information available

Automotive Parts (Aftermarket)			
Subject	Parameter	Location	Omission
Energy management	(1) Total energy consumed, (2) percentage of network electricity, (3) percentage of renewables	Annex ESG Indicators (website)	
Waste management	(1) Total amount of manufacturing waste, (2) percentage hazardous, (3) percentage recycled	Annex ESG Indicators (website)	
Product safety	Number of recalls issued, total number of units recalled	104, 105	
Design for fuel efficiency	Revenues from products designed to increase fuel efficiency or reduce emissions	105	We supply to automotive manufacturers, therefore, it is our customers who comply with regulations such as NHTSA and CAFE in the US
Materials supply	Description of management of risks associated with the use of critical materials	104, 105	
Material efficiency	Percentage of products sold that are recyclable	105	
	Percentage of input materials with recycled or remanufactured content	105	
Competitive performance	Total amount of monetary losses as a result of legal proceedings related to unfair competition standards	61	
NA	Number of parts produced	-	No information available
NA	Weight of parts produced	-	No information available
NA	Area of manufacturing facilities	30, 31	

Annex 3

Human Rights Due Diligence

The following is based on the Organization for Economic Co-operation and Development (OECD) Due Diligence Guidance for Responsible Business Conduct:

Process	Performance	Details
Incorporating responsible business conduct into management policies and systems	Code of Conduct Integrity Policy Social Responsibility Policy Environmental Policy Quality and Safety Policy Occupational Health and Safety Policy Remuneration Policy ESG Compliance Charter for Suppliers	Business Ethics and Transparency Anti-Corruption Management Social Management Responsible Supply Chain Corporate Governance Efficiency and Operational Continuity
Identifying and assessing the actual and potential negative impacts associated with the company's activities, products, or services	Risk management process based on the COSO methodology, which involves different members of the organization and is applied throughout the company, through three lines of defense, to identify possible events that could affect operations.	Risk Management and Monitoring
Halting, preventing, and mitigating negative impacts	Compliance with regulations and standards in each of the places where we operate. Requirement to our suppliers to commit to the protection of human rights through the signing of an ESG charter. Occupational Health and Safety System that allows us to ensure the safety of our employees, contractors, and visitors. Relationship with the communities near the areas where we operate, considering that dialogue and cooperation are fundamental for sustainable development. Implementation of eco-efficiency measures to reduce resource consumption and minimize environmental impact. Evaluation of all our products and processes to guarantee their quality and safety, which allows us to offer reliable and sustainable solutions to our customers.	Employee Development Customer Satisfaction Sustainable Processes and Products Efficiency and Operational Continuity
Monitoring implementation and results	Monitoring the implementation of sustainability and risk management initiatives through specific committees.	Sustainability Strategy Risk Management and Monitoring
Reporting on how impacts are addressed	Impact management approaches are developed throughout the report.	Corporate Governance Employee Development Customer Satisfaction Sustainable Processes and Products Efficiency and Operational Continuity
Managing risks and mitigating impacts, where appropriate	Risk prevention approach reflected in policies and codes. We have not incurred in significant cases of human rights violations.	Gobierno corporativo

Annex 4

Contribution to SDGs

SDG	Contribution	Outstanding Indicators
3 Health and Wellness	All employees have the same benefits, including health insurance, parental leave, disability coverage and life insurance, as well as additional benefits. The Occupational Health and Safety Management System applies to all our operations and includes hazard identification, risk assessment, and the establishment of prevention, correction, control, and/or transfer measures. We promote the participation of employees as main players in their health by encouraging healthy behaviors, habits, and lifestyles, as well as a culture focused on prevention.	Consumer Sector: 7.5% decrease in the number of disabling injury accidents. Aftermarket Business: reduction in frequency rate from 1.21 to 0.70
4 Quality Education	We provide training during the induction process, offer technical and specialized programs and soft skills training, focused on the development of leadership, communication, and performance competencies.	The average number of training hours was 19.13 per employee. A total of 295,795 training hours were provided. Donations to Public Education Institutions
5 Gender Equity	We support and encourage the development of employees regardless of gender, marital status, age, religion, race, physical ability, preferences, or social class	83% of female employees were evaluated based on their performance. The compensation ratio between women and men is similar.
6 Clean Water and Sanitation	We incorporate water-saving measures and best practices in our production processes to reduce water consumption. We implement technological tests and projects to recycle and reuse water.	Consumer Sector: 1,751 thousand cubic meters of reused water Chemical Sector: 298 thousand cubic meters of water reused. Automotive Sector: 44 thousand cubic meters of water recycled or reused for irrigation of green areas.
7 Affordable and Clean Energy	We implement various technologies to reduce energy consumption, such as photovoltaic panels, biodigesters, use of less polluting alternative fuels, installation of LED lighting, among others.	24% of electricity comes from clean energy sources. 1,629 MWh of clean energy generated on farms.

SDG	Contribution	Outstanding Indicators
8 Decent Work and Economic Growth	We contribute to the well-being of our employees through job stability, legal and additional benefits, professional and technical development programs. We measure the work environment and implement improvement actions. We have several policies and procedures to ensure the proper management of Human Capital and the protection of the workforce. We provide an environment of equality, free of any type of discrimination.	81% of employees received performance evaluation.
9 Industry, Innovation, and Infrastructure	Generation of clean energy through motor-generators. Use of recyclable or compostable inputs in some production processes. Start-up of a recycling facility. Development of transmission design concepts for hybrid and electric vehicles.	1,629 MWh of clean energy generated in 2022. Collection of 28T of post-consumer polystyrene that were integrated as raw material.
10 Reduced inequalities	We support and encourage the development of employees regardless of gender, marital status, age, religion, race, physical ability, preferences, or social class.	There were no cases of discrimination
12 Responsible Production and Consumption	We incorporate the circular economy for waste management. We carry out efficient packaging to reduce the use of inputs and waste. We have awareness programs for the correct separation and management of waste. We generate biosolids on farms for the production of fertilizers for the agricultural sector.	Consumer Sector: 81% of waste is revalued. Release of 2.8mil cubic meters in landfills, thanks to the collection of 28T of post-consumer polystyrene.
13 Climate Action	Initiatives to reduce energy consumption and greenhouse gas (GHG) emissions. Responsible management of water consumption, reuse, and discharge. Incorporation of circular economy for waste management.	24% of electricity comes from clean energy. Consumer Sector: 1,751 thousand cubic meters of reused water Chemical Sector: 298 thousand cubic meters of water reused Automotive Sector: 44 thousand cubic meters of water recycled or reused for irrigation of green areas
16 Peace, Justice, and Strong Institutions	The Board of Directors is the highest management body, its members are nominated and elected for their prestige and high experience in the sector. Our Code of Conduct guides our activities and allows us to follow best practices. We comply with 100% of the legal provisions regarding health, labor rights, tax regulation, safety, sustainability, etc. We conduct internal and external audits to verify compliance with our guidelines and regulations.	We have no fines or non-monetary sanctions for non-compliance with environmental, social, economic, communications and marketing rules and regulations in the jurisdictions in which we operate, or for unfair competition.
17 Partnerships for the goals	We have several certifications to ensure the quality and safety of our products. We are affiliated to several organizations with which we have common objectives.	Certification: FSSC22000, TIF Certification, Clean Industry, ISO 9001, HACCP, among others.

FINANCIAL

Information

GRUPO KUO, S. A. B. de C. V. y Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2022, 2021 and 2020, and Independent Auditors' Report Dated March 20, 2023

140	Independent Auditors' Report
144	Consolidated Statements of Financial Position
146	Consolidated Statements of Income (loss) and Comprehensive Income
148	Consolidated Statements of Changes in Stockholders' Equity
150	Consolidated Statements of Cash Flows
152	Notes to the Consolidated Financial Statements

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, 2022, 2021 and 2020 and the related consolidated statements of income (loss) 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, 2022, 2021 and 2020, 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 audits 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.

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.

Assessment of tests of impairment of long-lived assets in the automotive segment

As described in Note 4o. to the consolidated financial statements, the Entity tests its tangible and intangible assets for impairment when impairment indicators exist. The Entity uses the "Discounted Cash Flows" ("DCF") valuation methodology, under the income approach, which requires the Entity's management to make significant estimates and assumptions related to the selection of discount rates, future revenue forecasts, financial projections, cash flows, operating margins and profits, used to estimate the recoverable amount of the cash generating unit ("CGU") of the automotive segment, because it generates identifiable cash flows and independently. Changes in these assumptions could have a significant impact on either the fair value or the amount of any

impairment charges or both. As of December 31, 2022, the balance of assets subject to impairment testing amounts to Ps.7,504 million pesos.

We identified impairment testing of the Automotive segment's assets as a key audit matter, primarily because impairment testing involves the application of significant judgments and estimates by the Entity's management to estimate the recoverable amount of the CGU, this required a high degree of auditor judgment and a higher degree of audit effort, including the need to incorporate our expert fair value specialists.

We performed the following audit procedures on the significant assumptions that the Entity considered in estimating future projections to assess the recoverable value of long-lived assets, as follows:

- We tested the design and implementation of internal controls for the determination of the value in use of the automotive segment CGU.
- We corroborated that the models applied for the determination of the recoverable value of the assets consisted of methods used and recognized for valuing assets of similar characteristics.
- We evaluated the factors and variables used for the identification of the CGUs, among which were considered: the analysis of operating flows and indebtedness policies, analysis of the legal structure, allocation of production and understanding of the operation of the commercial and sales areas.
- We reviewed the financial projections, comparing them with the performance and historical trends of the business and whether the projections are consistent with the budgets approved by the Board of Directors.
- We analyzed the methodology and projection assumptions used in the impairment model, specifically including cash flow projections, operating margins, earnings before interest, taxes, depreciation and amortization ("EBITDA"), and long-term growth. We tested the mathematical accuracy, completeness and accuracy of the impairment model. The fair value specialists performed a sensitivity analysis, independent recoverable amount calculation to conclude whether the assumptions used would need to be modified and the probability that such modifications are submitted.
- Independent evaluation of the discount rates used against the discount rates used by management.
- We compared that the carrying value of the CGU on which the impairment test was performed included all long-lived assets.

The results of our procedures were satisfactory, and we agree with the determination of the recoverable value of the CGU of the automotive segment and the assumptions used are appropriate.

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, and 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. Emeterio Barrón Perales
March 20, 2023

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

Consolidated Statements of Financial PositionAs of December 31, 2022, 2021 and 2020
(Thousands of Mexican pesos)

Assets	Notes	2022	2021	2020
Current assets:				
Cash and cash equivalents	7 Ps.	2,332,851 Ps.	4,379,304 Ps.	4,812,690
Accounts and notes receivable, net	8	4,430,470	4,491,219	3,322,628
Accounts receivable from related parties	23	216,065	158,434	115,355
Inventories, net	9	8,483,008	7,609,345	5,897,273
Biological assets	10	1,969,340	1,692,156	1,354,980
Prepaid expenses		516,486	280,793	157,502
Assets classified as held for sale		-	-	28,573
Total current assets		17,948,220	18,611,251	15,689,001
Non - current assets:				
Property, plant and equipment, net	11	11,963,144	11,973,361	10,613,585
Right-of-use asset	12	1,470,607	1,379,578	1,628,374
Biological assets	10	714,890	579,070	449,826
Intangible and other assets, net	14	4,215,370	5,028,745	5,527,801
Investments in joint ventures and other investments	13	11,255,458	11,454,994	10,613,490
Other accounts receivable		71,112	94,473	11,138
Accounts receivable from related parties	23	-	111,344	111,816
Deferred income tax	24	1,724,749	1,087,652	1,250,821
Total non - current assets		31,415,330	31,709,217	30,206,851
Total assets		Ps. 49,363,550	Ps. 50,320,468	Ps. 45,895,852

Liabilities and stockholders' equity

Current liabilities:				
Bank loans and current portion of long-term debt	19 Ps.	546,227 Ps.	551,995 Ps.	487,628
Notes and accounts payable to suppliers		10,082,939	10,072,373	7,264,190
Short-term lease liability	12	310,881	324,678	329,667
Other accounts payable and accrued liabilities	20	4,985,735	5,693,574	4,226,678
Derivative financial instruments	17	-	808	-
Accounts payable to related parties	23	6,659	46,864	4,580
Total current liabilities		15,932,441	16,690,292	12,312,743

	Notas	2022	2021	2020
Non - current liabilities:				
Bank loans	19	13,164,718	14,511,388	16,269,859
Lease liability	12	1,271,644	1,159,238	1,387,095
Employee benefits	21	607,791	661,677	659,759
Deferred income taxes	24	1,245,863	923,467	1,051,066
Deferred income tax arising from tax deconsolidation	24	-	143,439	290,740
Total non - current liabilities		16,290,016	17,399,209	19,658,519
Total liabilities		32,222,457	34,089,501	31,971,262
Stockholders' equity:				
Contributed capital-				
Capital stock	22	2,727,534	2,727,534	2,727,534
Shares repurchase reserve		(651,362)	(626,062)	(587,938)
Earned capital-				
Retained earnings		13,626,919	12,195,802	9,924,492
Foreign operations translation effect		499,570	568,528	568,492
Derivative financial instruments	17	-	(566)	-
Actuarial loss from employee benefits		(80,732)	(120,237)	(144,691)
Equity in other comprehensive income of joint ventures		1,018,904	1,485,696	1,436,157
Controlling interest		17,140,833	16,230,695	13,924,046
Non - controlling interest	13	260	272	544
Total stockholders' equity		17,141,093	16,230,967	13,924,590
Total liabilities and stockholders' equity		Ps. 49,363,550	Ps. 50,320,468	Ps. 45,895,852

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Income (loss) and Comprehensive Income

For the years ended December 31, 2022, 2021 and 2020
(Thousands of Mexican pesos, except shares and earnings per common share)

	Notes	2022	2021	2020
Continuing operations:				
Net sales		Ps. 44,704,452	Ps. 40,309,414	Ps. 30,935,869
Cost of sales	25	38,975,158	33,987,847	25,749,667
Gross profit		5,729,294	6,321,567	5,186,202
Administrative expenses	25	1,862,876	1,842,908	1,591,172
Selling and distribution expenses	25	2,952,193	2,529,473	2,496,783
General expenses		4,815,069	4,372,381	4,087,955
Equity in results of joint ventures	13	1,350,730	1,441,336	1,085,187
Other (income) expenses, net	26	(608,720)	(1,121,642)	930,776
Income from operations		2,873,675	4,512,164	1,252,658
Interest income		111,100	73,316	29,223
Interest expense		(972,259)	(912,914)	(1,095,159)
Other financial expenses		(447,022)	(263,950)	(212,040)
Exchange gain (loss), net		582,229	(215,867)	(516,514)
Income (loss) before income taxes and discontinued operations		2,147,723	3,192,749	(541,832)
Income taxes expense	24	275,966	482,716	30,159
Income (loss) from continuing operations		1,871,757	2,710,033	(571,991)
Discontinued operations:				
Income from discontinued operations, net of income taxes		-	-	2,015
Consolidated net income (loss)		1,871,757	2,710,033	(569,976)
Other comprehensive income (loss):				
Items that will not be reclassified subsequently to profit or loss, net of income taxes:				
Actuarial gain (loss) from employee benefits	21	36,790	(15,787)	(30,152)
Items that will be reclassified to profit or loss, net of income taxes:				
Cumulative translation adjustment		(68,972)	(250)	236
Derivative financial instruments	17	566	(566)	-
Equity in other comprehensive income of joint ventures	13	(466,792)	45,712	627,050
Total other comprehensive (loss) income		(498,408)	29,109	597,134
Consolidated comprehensive income		Ps. 1,373,349	Ps. 2,739,142	Ps. 27,158

	Notes	2022	2021	2020
Distribution of consolidated income (loss):				
Controlling interest		Ps. 1,871,755	Ps. 2,710,040	Ps. (569,884)
Non - controlling interest		2	(7)	(92)
		Ps. 1,871,757	Ps. 2,710,033	Ps. (569,976)
Distribution of consolidated comprehensive income:				
Controlling interest		Ps. 1,373,361	Ps. 2,739,404	Ps. 26,982
Non - controlling interest		(12)	(262)	176
		Ps. 1,373,349	Ps. 2,739,142	Ps. 27,158
Basic earnings (loss) per common share:				
From continuing operations		Ps. 4.10	Ps. 5.94	Ps. (1.25)
From discontinued operations		0.00	0.00	0.00
Basic earnings (loss) per share		Ps. 4.10	Ps. 5.94	Ps. (1.25)
Net income (loss) from controlling interest without repurchased shares		Ps. 4.27	Ps. 6.17	Ps. (1.30)
Weighted average common shares outstanding		456,366,148	456,366,148	456,366,148
Weighted average common shares outstanding without repurchased shares		437,978,186	438,881,953	439,978,738

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2022, 2021 and 2020
(In thousands of Mexican pesos, except shares information)

	Contributed capital			Earned Capital							
	Number of Shares	Capital stock	Shares repurchase reserve	Retained earnings	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
Balances as of January 1, 2020	456,366,148	Ps. 2,727,534	Ps. (530,237)	Ps. 10,503,529	Ps. 568,524	Ps. -	Ps. (130,685)	Ps. 809,107	Ps. 13,947,772	Ps. 368	Ps. 13,948,140
Recycling of actuarial losses due to employee benefit from recovery of plan assets	-	-	-	(16,146)	-	-	16,146	-	-	-	-
Sale of repurchased common shares, net	-	-	(57,701)	6,993	-	-	-	-	(50,708)	-	(50,708)
Consolidated comprehensive income	-	-	-	(569,884)	(32)	-	(30,152)	627,050	26,982	176	27,158
Balances as of December 31, 2020	456,366,148	2,727,534	(587,938)	9,924,492	568,492	-	(144,691)	1,436,157	13,924,046	544	13,924,590
Recycling of actuarial losses due to employee benefit from recovery of plan assets	-	-	-	(44,068)	-	-	40,241	3,827	-	-	-
Dividends declared	-	-	-	(410,729)	-	-	-	-	(410,729)	-	(410,729)
Dilution of non - controlling interest	-	-	-	(21)	31	-	-	-	10	(10)	-
Sale of repurchased common shares, net	-	-	(38,124)	16,088	-	-	-	-	(22,036)	-	(22,036)
Consolidated comprehensive income	-	-	-	2,710,040	5	(566)	(15,787)	45,712	2,739,404	(262)	2,739,142
Balances as of December 31, 2021	456,366,148	2,727,534	(626,062)	12,195,802	568,528	(566)	(120,237)	1,485,696	16,230,695	272	16,230,967
Recycling of actuarial losses due to employee benefit from recovery of plan assets	-	-	-	(2,715)	-	-	2,715	-	-	-	-
Dividends declared	-	-	-	(456,366)	-	-	-	-	(456,366)	-	(456,366)
Sale of repurchased common shares, net	-	-	(25,300)	18,443	-	-	-	-	(6,857)	-	(6,857)
Consolidated comprehensive income	-	-	-	1,871,755	(68,958)	566	36,790	(466,792)	1,373,361	(12)	1,373,349
Balances as of December 31, 2022	456,366,148	Ps. 2,727,534	Ps. (651,362)	Ps. 13,626,919	Ps. 499,570	Ps. -	Ps. (80,732)	Ps. 1,018,904	Ps. 17,140,833	Ps. 260	Ps. 17,141,093

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

Consolidated Statements of Cash FlowsFor the years ended December 31, 2022, 2021 and 2020
(Thousands of Mexican pesos)

	2022	2021	2020
Cash flows from operating activities:			
Consolidated net income (loss)	Ps. 1,871,757	Ps. 2,710,033	Ps. (569,976)
Adjustments for:			
Income tax expense from continuing operations	275,966	482,716	30,159
Depreciation and amortization of continuing operations	1,726,001	1,651,914	1,661,460
Loss on sale of property, plant and equipment of continuing operations	12,159	6,599	18,700
(Income) loss in sinister of property, plant and equipment	(639,729)	(669,656)	661,270
Profit on sale of other assets	-	(44,485)	0
Net period cost for employee benefit plans of continuing operations	54,678	42,126	13,895
Impairment of property, plant and equipment of continued operations	23,047	17,934	6,545
Depreciation of right-of-use asset	286,474	266,626	271,921
Disposals of right-of-use asset	(12,202)	(16,727)	(10,741)
Other financial expenses	447,022	263,950	212,040
Equity in results of joint ventures	(1,350,730)	(1,441,336)	(1,085,187)
Interest expense from continuing operations	972,259	912,914	1,095,159
Profit on sale of shares	-	(18,265)	0
Interest income from continuing operations	(111,100)	(73,316)	(29,223)
	3,555,602	4,091,027	2,276,022
Changes in working capital:			
(Increase) decrease in:			
Accounts receivable	305,652	(917,657)	(460,471)
Inventories	(873,663)	(1,712,072)	(102,962)
Biological assets	(413,004)	(466,420)	(200,479)
Other accounts receivable, prepayment and other assets	(445,035)	(405,376)	(26,622)
Increase (decrease) in:			
Notes and accounts payable to suppliers	10,566	3,281,796	324,280
Other payables and accrued liabilities	(84,868)	1,302,431	616,065
Accounts payable to related parties	13,508	(323)	30,581
Income taxes paid	(867,833)	(599,390)	(561,516)
Net cash flows generated by operating activities	1,200,925	4,574,016	1,894,898

	2022	2021	2020
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(1,310,657)	(2,246,947)	(871,571)
Proceeds from sale of property, plant and equipment	11,893	19,149	5,387
Proceeds from other assets	-	69,207	0
Dividends from joint ventures	1,083,517	645,984	2,434,847
Investment on intangible assets	(115,732)	(524,499)	(183,536)
Sale in shares	-	18,265	0
Interest received	111,100	73,316	29,223
Claim recovery from properties, plant and sinister equipment	-	669,656	921,505
Net cash flows (used in) generated by investing activities	(219,879)	(1,275,869)	2,335,855
Cash flows from financing activities:			
Proceeds from debt	1,164,263	-	2,355,173
Payments of debt	(1,798,361)	(2,147,462)	(1,573,343)
Other financial expenses	(447,022)	(263,950)	(212,040)
Lease payments	(354,241)	(344,749)	(356,692)
Interest paid	(847,520)	(756,861)	(967,370)
Dividends paid	(437,923)	(394,641)	(200,674)
Repurchase of common shares, net of dividends	(25,300)	(38,124)	(50,708)
Net cash flows used in in financing activities	(2,746,104)	(3,945,787)	(1,005,654)
Effects of exchange rate changes on cash and cash equivalents	(281,395)	214,254	46,515
(Decrease) increase in cash and cash equivalents	(2,046,453)	(433,386)	3,271,614
Cash and cash equivalents at beginning of year	4,379,304	4,812,690	1,541,076
Cash and cash equivalents at end of year	Ps. 2,332,851	Ps. 4,379,304	Ps. 4,812,690

See accompanying notes to consolidated financial statements.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2022, 2021 and 2020

(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, which 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 2021 and 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. 68 and Ps.96 million pesos as of December 31, 2021 and 2020 respectively, which were recorded under other expenses.

During the 2022 fiscal year, the Entity continued with the hybrid-operating model without operational disruption, on the other hand, the world economy began its recovery as the vaccination programs against COVID-19 were implemented, helping to reduce restrictions on blockades, promoting the growth of commercial activity and the recovery of mobility.

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.303.9 and Ps. 217.5 million and a net profit (loss) of Ps.79.1 and Ps. (286.9) million for the year ended December 31, 2022 and 2021, respectively. With the information available to date, for the year 2023 the Entity does not expect significant impacts on its financial results and consolidated cash flows.

- **Strengthening joint venture** - On October 21, 2022, KUO, through Herdez del Fuerte a joint venture with Grupo Herdez, acquired 100% of the shares of Interdeli and Deli Dips & Snacks ("Libanius"), a Mexican company pioneer in Lebanese products, leaders in categories such as hummus, dry jocoque, pita bread and goat cheese, among others. The acquisition responds to the strategy of expanding the food portfolio with new leading brands that generate value by entering new categories and taking advantage of strategic, operational, and commercial synergies in the Consumer segment. The investment made amounted to Ps.587 million.
- **Investments in projects** - During 2022, 2021 and 2020, the Entity made significant investments in strategic projects for the Consumer and Automotive Segments for Ps.942 million, Ps. 1,967 million, and Ps.854 million in property, plant and equipment, respectively, and for Ps.116 million, Ps. 524 million and Ps.184 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 line disposal and credit payment** - During 2022 and 2020, KUO contracted and renewed committed credit lines with different financial institutions for US.450 million and Ps.2,701 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 is included in Note 19 to the consolidated financial statements.
- **Labor Reform** - On April 23, 2021, the Reform that regulates the personnel-subcontracting regime ("outsourcing") was approved and published in the Official Gazette of the Federation. To comply with the new provisions, the Entity carried out the following actions (i) corresponding classification between service providers and operating employees, (ii) certification of certain companies as specialized service providers and (iii) the analysis and expansion of processes based on technological infrastructure, for the management of specialized service providers.
- **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. In December 2021, the Entity concluded the liquidation process with the insurance, recovering a total of Ps.2,955.8 million. For further details, see Note 26 to the consolidated financial statements.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**New and amended IFRS Accounting Standards that are effective for the current year**

- **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 Group has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- Amendments to IFRS 3 Reference to the Conceptual Framework

The Group has adopted the amendments to IFRS 3 Business Combinations for the first time in the current year. 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 Provisions, Contingent Liabilities and Contingent Assets, 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.

- Amendments to IAS 16 Property, Plant and Equipment— Proceeds before Intended Use

The Group has adopted the amendments to IAS 16 Property, Plant and Equipment for the first time in the current year. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

- Amendments to IAS 37 Onerous Contracts—Cost of Fulfilling a Contract

The Group has adopted the amendments to IAS 37 for the first time in the current year. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

- Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle

The Group has adopted the amendments included in the Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle for the first time in the current year. The Annual Improvements include amendments to four standards.

- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- IFRS 9 *Financial Instruments*
- IFRS 16 *Leases*
- IAS 41 *Agriculture*

- New and revised IFRS Accounting 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:

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Noncurrent

The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted. The IASB is currently considering further amendments to the requirements in IAS 1 on classification of liabilities as current or non-current, including deferring the application of the January 2020 amendments.

The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term ‘significant accounting policies’ with ‘material accounting policy information’. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The IASB has also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty.”

The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors

The IASB added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the Standard. The IASB has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after January 1, 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The IASB also adds an illustrative example to IAS 12 that explains how the amendments are applied.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with:
 - Right-of-use assets and lease liabilities
 - Decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the cost of the related asset
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

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 consider those characteristics 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.

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 principal subsidiaries located in Mexico as of December 31, 2022, 2021 and 2020 of the Entity are:

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

Joint ventures of December 31, 2022, 2021 and 2020 are:

	Equity percentage
Consumer Segment:	
Herdez del Fuerte, S.A. de C.V. and Subsidiaries	50%
Chemical Segment:	
Dynasol Gestión México, S.A.P.I. de C.V. and Subsidiaries	50%
Dynasol Gestión, S.L. and Subsidiaries	50%

Control is achieved when the Entity:

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

The Company 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 Company has less than a majority of the voting rights of an investee, it considers that 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 Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders
- Potential voting rights held by the Company, other vote holders or other parties
- Rights arising from other contractual arrangements
- Any additional facts and circumstances that indicate that the Company 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.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group'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.

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

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 according to IAS 39, or 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 investment's 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 expected credit losses 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".

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

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 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 investment's 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 investment's 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 amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

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

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

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

Financial liabilities

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

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

Financial liabilities 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.

Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9 (see financial assets above).
- The amount recognized initially less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out above.

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 recognized in other comprehensive income and accumulated in the foreign currency translation reserve. 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.

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

l. 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.

m. 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.

As of December 31, 2022, 2021 and 2020, 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

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.

n. 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. 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.

o. 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.

p. 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.

When the Entity is committed to a sale plan that involves the loss of control in a subsidiary, all assets and liabilities of that subsidiary are classified as available for sale when the criteria described above are met, regardless of whether the Entity will retain a non-controlling interest in its former subsidiary after the sale.

When the Entity is committed to a sale plan that involves the disposal of an investment (or a portion of an investment) in an associate or joint venture, the investment or the portion of the investment that is subject to disposal is classified as held for sale when the criteria described above are met, and the Entity discontinues the use of the equity method with respect to the portion that is classified as held for sale. Any retained interest of an investment in an associate or a joint venture that has not been classified as held for sale continues to be recognized using the equity method.

q. Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previous equity interest in the acquiree (if any) over the net of the amounts of identifiable assets acquired and liabilities assumed at the acquisition date.

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.

r. 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 comprehen-

sive 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.

s. 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.

t. 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.

Incremental rates are determined monthly and depend on contract term, currency of country and the start date of the lease. The incremental rate is determined based on a series of input data, including rate risk based on the government bond rate, the adjustment of country risk, a credit risk adjustment based on yield bonds, and the adjustment specific to an entity based on the risk profile of that Entity

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 15d.

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 transfer's 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 25).

u. Translation of financial statements of foreign subsidiaries

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

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

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

rate for assets and liabilities; 2) historical exchange rates for stockholders' equity, and 3) the rate on the date of accrual of revenues, costs and expenses. The effects of translation are recorded in stockholders' equity.

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

Subsidiary	Local currency	Functional currency
Resirene, S.A. de C.V.	Mexican peso	US dollar
Transmisiones y Equipos Mecánicos, S.A. de C.V.	Mexican peso	US dollar
Tremec Corporation	US dollar	US dollar

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

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. (joint venture of Herdez del Fuerte, S.A. de C.V.)	US dollar	US dollar

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

v. Borrowing costs

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

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

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

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

w. Employee benefits

Employee benefits from termination and retirement and others

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

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

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

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

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

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

Short-term and other long-term employee benefits

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

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

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

Labor Reform Regarding Vacation Time

On December 27, 2022, the decree amending articles 76 and 78 of the Federal Labor Law ("LFT") for Mexico was published, which will become effective on January 1, 2023. The main changes originated by this labor reform consider the increase in the minimum annual vacation period for workers with more than one year of service.

The Company evaluated the accounting impacts generated by this labor reform and determined that the increases to the vacation and vacation premium provision, as a consequence of the increase in vacation days, were not significant as of December 31, 2022.

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, 2022, 2021 and 2020, PTU is determined based on taxable income, according to Section I of Article 9 of the that Law.

Contributions from employees or third parties to defined benefit plans

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

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

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

x. Income taxes

Income tax expense 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

y. Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

The subsidiary Transmisiones y Equipos Mecánicos, S.A. de C.V. (Tremec) guarantees 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 four years.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

z. 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.

aa. 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.

bb. 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 4v, 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 16.

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 December 31, 2022

	Consumer	Chemical	Automotive	KUO and others	Eliminations	Total	Elimination of joint ventures	Consolidated information
Net sales	Ps. 28,168,924	Ps. 19,766,319	Ps. 15,794,743	Ps. 1,136,966	Ps. (902,888)	Ps. 63,964,064	Ps. (19,259,612)	Ps. 44,704,452
General expenses	5,292,631	1,199,324	986,242	1,164,382	(768,365)	7,874,214	(3,059,145)	4,815,069
Other income, net	(616,149)	(76,164)	(2,401)	(336)	-	(695,050)	86,330	(608,720)
Depreciation and amortization	832,238	526,681	1,215,897	57,966	-	2,632,782	(620,306)	2,012,476
Net employee benefit cost	21,477	4,947	25,394	17,325	-	69,143	(14,465)	54,678
Impairment of fixed and intangible assets	20,205	-	2,842	-	-	23,047	-	23,047
Equity in results of joint ventures	-	-	-	-	-	-	(1,350,730)	(1,350,730)
Income from operations	996,964	2,000,512	350,230	(27,080)	-	3,320,626	(446,951)	2,873,675
Interest income	87,455	35,347	9,060	354,036	(291,558)	194,340	(83,240)	111,100
Interest expense	(148,471)	(82,851)	(197,791)	(916,599)	291,558	(1,054,154)	81,895	(972,259)
Other financial expenses	(279,041)	(87,587)	(72,125)	(4,932)	-	(443,685)	(3,337)	(447,022)
Exchange gain, net	163,827	43,809	144,240	238,569	-	590,445	(8,216)	582,229
Equity in results of subsidiaries and associates	-	(3,554)	-	2,588,756	(2,588,756)	(3,554)	3,554	-
Income taxes	188,773	437,689	(253,673)	360,996	-	733,785	(457,819)	275,966
Income (loss) from continuing operations	631,961	1,467,987	487,287	1,871,754	(2,588,756)	1,870,233	1,524	1,871,757
Net income (loss)	631,961	1,467,987	487,287	1,871,754	(2,588,756)	1,870,233	1,524	1,871,757
Cash and cash equivalents	839,290	767,814	102,851	2,108,332	-	3,818,287	(1,485,436)	2,332,851
Total assets	27,633,455	13,130,146	16,531,087	36,181,727	(36,588,272)	56,888,143	(7,524,593)	49,363,550
Total liabilities	15,319,884	6,733,456	6,897,665	19,247,900	(8,457,090)	39,741,815	(7,519,358)	32,222,457
Total financial debt	-	942,339	53,016	13,657,930	-	14,653,285	(942,340)	13,710,945
Additions to property, plant and equipment	751,919	515,255	344,654	341,635	-	1,953,463	(642,806)	1,310,657
Investment in intangibles	10,384	-	103,947	1,401	-	115,732	-	115,732
Business acquisition	293,704	-	-	-	-	293,704	(293,704)	-

For the year ended December 31, 2021

	Consumer	Chemical	Automotive	KUO and others	Eliminations	Total	Elimination of joint ventures	Consolidated information
Net sales	Ps. 24,896,258	Ps. 17,599,675	Ps. 14,643,154	Ps. 1,035,804	Ps. (850,912)	Ps. 57,323,979	Ps. (17,014,565)	Ps. 40,309,414
General expenses	4,569,981	1,216,489	917,799	1,199,567	(720,860)	7,182,976	(2,810,595)	4,372,381
Other (income) expenses, net	(1,023,223)	(44,876)	(3,014)	(62,553)	-	(1,133,666)	12,024	(1,121,642)
Depreciation and amortization	759,911	515,149	1,193,335	57,299	-	2,525,694	(607,153)	1,918,541
Net employee benefit cost	24,082	4,170	12,632	15,827	-	56,711	(14,585)	42,126
Impairment of fixed and intangible assets	1,500	-	16,434	-	-	17,934	-	17,934
Recovery on property, plant and equipment claim	(669,656)	-	-	-	-	(669,656)	-	(669,656)
Equity in results of joint ventures	-	-	-	-	-	-	(1,441,336)	(1,441,336)
Income from operations	3,043,358	1,887,299	256,166	(101,210)	-	5,085,613	(573,449)	4,512,164
Interest income	70,911	23,629	13,989	186,756	(171,992)	123,293	(49,977)	73,316
Interest expense	(77,486)	(65,965)	(150,438)	(859,410)	171,992	(981,307)	68,393	(912,914)
Other financial expenses	(137,360)	(49,047)	(52,862)	(31,029)	-	(270,298)	6,348	(263,950)
Exchange loss, net	(67,645)	(61,405)	(72,563)	(317)	-	(201,930)	(13,937)	(215,867)
Equity in results of subsidiaries and associates	-	56,611	-	3,539,604	(3,539,604)	56,611	(56,611)	-
Income taxes	593,894	488,101	(1,717)	24,353	-	1,104,631	(621,915)	482,716
Income (loss) from continuing operations	2,237,884	1,303,021	(3,991)	2,710,041	(3,539,604)	2,707,351	2,682	2,710,033
Net income (loss)	2,237,884	1,303,021	(3,991)	2,710,041	(3,539,604)	2,707,351	2,682	2,710,033
Cash and cash equivalents	1,055,767	630,883	89,428	4,205,846	-	5,981,924	(1,602,620)	4,379,304
Total assets	24,727,750	13,730,007	17,116,038	36,275,034	(34,208,479)	57,640,350	(7,319,882)	50,320,468
Total financial debt	-	1,021,475	281,044	14,782,340	-	16,084,859	(1,021,476)	15,063,383
Total liabilities	12,121,537	7,660,029	7,534,174	20,251,345	(6,159,353)	41,407,732	(7,318,231)	34,089,501
Additions to property, plant and equipment	1,827,770	374,157	297,770	259,528	-	2,759,225	(512,278)	2,246,947
Investment in intangibles	1,415	-	523,084	-	-	524,499	-	524,499

For the year ended December 31, 2020

	Consumer		Chemical		Automotive		KUO and others		Eliminations		Total		Elimination of joint ventures		Consolidated information	
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 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 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

- 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, 2022, 2021 and 2020.

	2022		2021		2020	
	Ps.	%	Ps.	%	Ps.	%
Pork meat	18,049,396	40.4	16,210,839	40.2	14,219,760	46.0
Polystyrene	10,570,851	23.7	9,217,258	22.9	5,734,727	18.5
Transmissions and components	11,397,934	25.5	10,908,401	27.0	7,786,868	25.1
Auto parts	4,396,809	9.8	3,734,753	9.3	2,992,278	9.7
Others	289,462	0.6	238,163	0.6	202,236	0.7
Total	Ps. 44,704,452	100	Ps. 40,309,414	100	Ps. 30,935,869	100

- b. The following tables present sales classified by geographic area for the years ended December 31, 2022, 2021 and 2020:

	2022		2021		2020	
	Ps.		Ps.		Ps.	
México	23,110,038		19,418,759		14,093,213	
United States of America and Canada	14,213,442		13,354,791		9,558,987	
Asia	5,199,508		5,451,693		5,817,538	
Europe	1,464,220		1,321,782		903,353	
Rest of the world	717,244		762,389		562,778	
Total	Ps. 44,704,452		Ps. 40,309,414		Ps. 30,935,869	

- c. KUO has a diverse customer base in the three segments in which it mainly operates. For the years ended December 31, 2022, 2021 and 2020, no customer represents more than 5% of consolidated net sales; except in the automotive segment, only in the year ended December 31, 2022 and 2021, where it has a client whose sales represent more than 10% and 15% of the 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:

	2022		2021		2020	
	Ps.		Ps.		Ps.	
Cash and cash equivalents	228,562		171,542		159,083	
Investments	2,104,289		4,207,762		4,653,607	
Total	Ps. 2,332,851		Ps. 4,379,304		Ps. 4,812,690	
Investments:						
Banknote paper	2,104,289		4,204,436		4,652,449	
Short-term investments	-		3,326		1,158	
Total	Ps. 2,104,289		Ps. 4,207,762		Ps. 4,653,607	

8. ACCOUNTS AND NOTES RECEIVABLE

	2022		2021		2020	
Trade	Ps.	3,095,752	Ps.	3,388,787	Ps.	2,393,858
Allowance for discounts		(171,308)		(162,256)		(104,402)
Allowance for doubtful accounts		(54,494)		(50,928)		(31,511)
		2,869,950		3,175,603		2,257,945
Other debtors		146,695		142,089		120,558
Recoverable taxes		1,413,825		1,173,527		944,125
Total	Ps.	4,430,470	Ps.	4,491,219	Ps.	3,322,628

Trade receivables

The average credit period on sales of goods is 60 days. The Entity has recognized a loss allowance of 9.67% 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, 2022	<30	31 - 60	61 - 90	91 - 120	>120	Total
Expected credit loss rate	1.08%	6.15%	2.75%	2.85%	9.67%	
Estimated total gross carrying amount at default	2,630,001	228,269	118,300	39,652	79,530	Ps. 3,095,752
Lifetime ECL	(28,373)	(14,049)	(3,248)	(1,130)	(7,694)	(54,494)
						<u>Ps. 3,041,258</u>

Trade receivables - days past due						
December 31, 2021	<30	31 - 60	61 - 90	91 - 120	>120	Total
Expected credit loss rate	0.97%	0.46%	2.81%	21.56%	57.76%	
Estimated total gross carrying amount at default	2,848,254	414,972	89,636	5,622	30,303	Ps. 3,388,787
Lifetime ECL	(27,770)	(1,928)	(2,516)	(1,212)	(17,502)	(50,928)
						<u>Ps. 3,337,859</u>

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)
						<u>Ps. 2,362,347</u>

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.

	2022		2021		2020	
Balance at the beginning of the period	Ps.	(50,928)	Ps.	(31,511)	Ps.	(38,178)
Amounts written off		1,037		2,237		5,732
Accounts considered uncollectible during the year		12,127		5,386		12,160
Impairment		(16,730)		(27,040)		(11,225)
Balance at the end of the year	Ps.	(54,494)	Ps.	(50,928)	Ps.	(31,511)

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, 2022, 2021 and 2020, the Entity sold as non-recourse accounts receivables with an accumulated carrying value of US260,539, US229,192 and, US175,702, to a bank for cash funds of US259,111, US227,870 and US173,503, 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 2022, 2021 and 2020, the carrying amount of short-term accounts receivable, which are current and derecognized, amounts to Ps.650,914, Ps. 515,642 and Ps.519,458, respectively.

9. INVENTORIES

	2022		2021		2020	
Finished goods and work in process	Ps.	3,646,021	Ps.	2,572,008	Ps.	2,452,081
Raw materials, supplies and others		4,811,202		4,880,160		3,399,988
		8,457,223		7,452,168		5,852,069
Allowance for obsolete and slow-moving inventories		(294,419)		(301,176)		(226,138)
Goods in transit		320,204		458,353		271,342
	Ps.	8,483,008	Ps.	7,609,345	Ps.	5,897,273

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

	2022		2021		2020	
Balances at the beginning of the year	Ps.	(301,176)	Ps.	(226,138)	Ps.	(248,275)
Increase in the allowance		(54,389)		(156,050)		(66,819)
Application		(10,375)		30,373		83,435
Decreases		71,521		50,639		5,521
Balances at the end of the year	Ps.	(294,419)	Ps.	(301,176)	Ps.	(226,138)

The cost of inventories recognized as an expense during the year in respect to continuing operations was Ps.30,999,107, Ps. 26,755,388 and Ps. 19,012,653 for the years ended December 31, 2022, 2021 and 2020, respectively.

10. BIOLOGICAL ASSETS

	2022		2021		2020	
Balances at the beginning of the year	Ps.	2,271,226	Ps.	1,804,806	Ps.	1,604,327
Production costs		10,939,150		9,129,112		7,443,592
Transfer to inventories		(10,526,146)		(8,662,692)		(7,243,113)
Balances at the end of the year	Ps.	2,684,230	Ps.	2,271,226	Ps.	1,804,806
Biological assets – short-term	Ps.	1,969,340	Ps.	1,692,156	Ps.	1,354,980
Biological assets – long-term		714,890		579,070		449,826
	Ps.	2,684,230	Ps.	2,271,226	Ps.	1,804,806

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 as of December 31, 2022, 2021 and 2020 is as follows:

	Balance as of December 2021		Additions		Disposals		Impairment		Transferred assets		Translation effect		Balance as of December 31, 2022	
Investment:														
Land	Ps.	1,362,334	Ps.	613	Ps.	-	Ps.	-	Ps.	938	Ps.	(47,804)	Ps.	1,316,081
Building and installations		6,309,970		-		(19,857)		(11,630)		1,167,804		(92,358)		7,353,929
Industrial machinery and equipment		11,495,024		4,427		(77,135)		(867)		1,174,648		(479,751)		12,116,346
Office furniture and equipment		200,938		580		(2,297)		(28)		6,897		(3,451)		202,639
Vehicles		312,916		1,707		(10,588)		-		26,587		(177)		330,445
Other assets		22,342		-		-		-		-		(1,028)		21,314
Projects-in-progress		2,308,330		1,303,330		-		-		(2,376,874)		(21,789)		1,212,997
Total investment		22,011,854		1,310,657		(109,877)		(12,525)		-		(646,358)		22,553,751
Depreciation:														
Building and installations		(2,058,081)		(280,411)		7,547		-		-		37,506		(2,293,439)
Industrial machinery and equipment		(7,560,287)		(707,265)		66,261		(1,715)		-		361,856		(7,841,150)
Office furniture and equipment		(157,452)		(11,164)		2,227		-		-		2,195		(164,194)
Vehicles		(252,802)		(32,678)		9,790		(1,127)		-		110		(276,707)
Other assets		(9,871)		(5,703)		-		-		-		457		(15,117)
Total accumulated depreciation		(10,038,493)		(1,037,221)		85,825		(2,842)		-		402,124		(10,590,607)
Net investment	Ps.	11,973,361	Ps.	273,436	Ps.	(24,052)	Ps.	(15,367)	Ps.	-	Ps.	(244,234)	Ps.	11,963,144

	Balance as of December 2020		Additions		Disposals / Disposals from sinister ⁽ⁱ⁾		Impairment	Transferred assets		Translation effect		Balance as of December 31, 2021		
Investment:														
Land	Ps.	1,261,078	Ps.	21,504	Ps.	-	Ps.	-	Ps.	51,071	Ps.	28,681	Ps.	1,362,334
Building and installations		6,121,403		-		(32,458)		-		192,094		28,931		6,309,970
Industrial machinery and equipment		11,159,968		2,444		(236,258)		-		386,716		182,154		11,495,024
Office furniture and equipment		194,181		2,388		(92)		-		2,700		1,761		200,938
Vehicles		302,736		118		(7,142)		-		17,154		50		312,916
Other assets		21,544		-		-		-		247		551		22,342
Projects-in-progress		725,123		2,220,493		-		-		(649,982)		12,696		2,308,330
Total investment		19,786,033		2,246,947		(275,950)		-		-		254,824		22,011,854
Depreciation:														
Building and installations		(1,801,294)		(254,796)		26,049		(14,198)		-		(13,842)		(2,058,081)
Industrial machinery and equipment		(7,002,193)		(659,262)		218,334		(2,236)		-		(114,930)		(7,560,287)
Office furniture and equipment		(144,482)		(11,913)		92		-		-		(1,149)		(157,452)
Vehicles		(220,717)		(37,763)		5,727		-		-		(49)		(252,802)
Other assets		(3,762)		(6,047)		-		-		-		(62)		(9,871)
Total accumulated depreciation		(9,172,448)		(969,781)		250,202		(16,434)		-		(130,032)		(10,038,493)
Net investment	Ps.	10,613,585	Ps.	1,277,166	Ps.	(25,748)	Ps.	(16,434)	Ps.	-	Ps.	124,792	Ps.	11,973,361

	Balance at the beginning of 2020		Additions		Disposals / Disposals from sinister ⁽ⁱ⁾		Impairment	Transferred assets		Translation effect		Balance as of December 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

(i) Includes loss in sinister of Ps.1,500 and Ps.1,582,775 for the years 2021 and 2020, respectively (see Note 26).

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:

	2022	2021	2020
Building	10	12	12
Computer equipment	4	4	4
Machinery and equipment	6	6	7
Transportation equipment	4	7	5
Airplane	12	15	15

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 as of December 31, 2021		Acquisitions		Disposals		Net		Translation effect		Balance as of December 31, 2022	
Costs:												
Building	Ps.	1,561,109	Ps.	472,357	Ps.	(307,336)	Ps.	-	Ps.	(36,748)	Ps.	1,689,382
Computer equipment		44,423		2,969		-		(26,220)		-		21,172
Machinery and equipment		83,504		10,631		-		(1,717)		(9,069)		83,349
Transportation equipment		202,988		138,025		(84,607)		(53,987)		665		203,084
Airplane		148,617		(15,976)		-		-		-		132,641
Total investment		2,040,641		608,006		(391,943)		(81,924)		(45,152)		2,129,628
Accumulated depreciation:												
Building		(396,508)		(169,460)		156,398		-		(9,971)		(419,541)
Computer equipment		(25,652)		(11,416)		-		26,220		-		(10,848)
Machinery and equipment		(20,585)		(23,524)		-		1,717		6,116		(36,276)
Transportation equipment		(129,148)		(51,117)		64,479		53,987		(10,430)		(72,229)
Airplane		(89,170)		(30,957)		-		-		-		(120,127)
Total accumulated depreciation		(661,063)		(286,474)		220,877		81,924		(14,285)		(659,021)
Net cost	Ps.	1,379,578	Ps.	321,532	Ps.	(171,066)	Ps.	-	Ps.	(59,437)	Ps.	1,470,607

	Balances as of December 31, 2020		Acquisitions		Disposals		Net		Translation effect		Balance as of December 31, 2021	
Costs:												
Building	Ps.	1,638,370	Ps.	80,206	Ps.	(159,346)	Ps.	-	Ps.	1,879	Ps.	1,561,109
Computer equipment		40,795		3,628		-		-		-		44,423
Machinery and equipment		41,315		61,542		(26,028)		-		6,675		83,504
Transportation equipment		233,516		48,018		(71,727)		(10,416)		3,597		202,988
Airplane		148,617		-		-		-		-		148,617
Total investment		2,102,613		193,394		(257,101)		(10,416)		12,151		2,040,641
Accumulated depreciation:												
Building		(261,449)		(156,326)		22,597		-		(1,330)		(396,508)
Computer equipment		(14,739)		(10,913)		-		-		-		(25,652)
Machinery and equipment		(16,912)		(11,085)		13,694		-		(6,282)		(20,585)
Transportation equipment		(121,693)		(58,578)		40,942		10,416		(235)		(129,148)
Airplane		(59,446)		(29,724)		-		-		-		(89,170)
Total accumulated depreciation		(474,239)		(266,626)		77,233		10,416		(7,847)		(661,063)
Net cost	Ps.	1,628,374	Ps.	(73,232)	Ps.	(179,868)	Ps.	-	Ps.	4,304	Ps.	1,379,578

	Balance at the beginning of 2020		Acquisitions		Disposals		Net		Translation effect		Balance as of December 31, 2020	
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

Amounts recognized as expenses in results:

	2022		2021		2020	
Depreciation right-of-use asset	Ps.	286,474	Ps.	266,626	Ps.	271,921
Interest on lease liability		92,989		107,276		123,662
Short-term leases		232,665		202,233		152,999

Total cash outflows for leases amounted to Ps.354,241, Ps. 344,749 and Ps. 356,692 in 2022, 2021 and 2020, respectively.

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

	2022		2021		2020	
Building and installations		4.03%		4.36%		5.71%
Computer equipment		0.74%		1.28%		2.56%
Machinery and equipment		4.05%		3.97%		5.50%
Transportation equipment		4.07%		3.82%		5.29%
Airplane		1.19%		1.34%		3.49%

13. INVESTMENTS IN JOINT VENTURES AND OTHER INVESTMENTS:

	2022		2021		2020	
Investments in joint ventures	Ps.	11,253,594	Ps.	11,453,173	Ps.	10,612,109
Other investments		1,864		1,821		1,381
	Ps.	11,255,458	Ps.	11,454,994	Ps.	10,613,490

Joint ventures

- a. As of December 31, 2022, 2021 and 2020, the balance of investments in joint ventures is as follows:

	Location	Activity	2022		2021		2020	
			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. 5,734,013	50%	Ps. 5,990,762	50%	Ps. 5,634,756
Synthetic rubber ⁽ⁱ⁾	Mexico, Spain and China	Production of synthetic rubber	50%	5,519,581	50%	5,462,411	50%	4,977,353
				Ps. 11,253,594		Ps. 11,453,173		Ps. 10,612,109

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

Movements in the joint ventures balance is as follows:

	2022	2021	2020
Balance as of January 1	Ps. 11,453,173	Ps. 10,612,109	Ps. 11,334,719
Participation in the results of the period	1,350,730	1,441,336	1,085,187
Dividend distribution	(1,083,517)	(645,984)	(2,434,847)
Participation in other comprehensive income items	(466,792)	45,712	627,050
Balance as of December 31	Ps. 11,253,594	Ps. 11,453,173	Ps. 10,612,109

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

Equity in results	2022	2021	2020
Herdez del Fuerte, S.A. de C.V. and Subsidiaries	Ps. 671,784	Ps. 614,552	Ps. 782,272
Synthetic Rubber	678,946	826,784	302,915
Total	Ps. 1,350,730	Ps. 1,441,336	Ps. 1,085,187

- c. The equity in the comprehensive income of such joint venture is as follows:

Equity in results:	2022	2021	2020
Herdez del Fuerte, S.A. de C.V. and Subsidiaries	Ps. 7,593	Ps. 72,521	Ps. 133,658
Synthetic Rubber	(474,385)	(26,809)	493,392
Total	Ps. (466,792)	Ps. 45,712	Ps. 627,050

- d. A summary of the financial information regarding each joint venture is detailed below:

Herdez del Fuerte, S.A. de C.V. and Subsidiaries

	2022	2021	2020
Current assets	Ps. 8,971,009	Ps. 8,818,938	Ps. 7,276,682
Non-current assets	10,552,957	10,503,529	9,978,446
Current liabilities	6,678,893	5,822,230	4,832,686
Non-current liabilities	574,926	723,760	352,788
Net assets	12,270,147	12,776,477	12,069,654
Non - controlling interest	(10,470)	(3,303)	(8,492)
Controlling interest net assets	Ps. 12,259,677	Ps. 12,773,174	Ps. 12,061,162
Cash and cash equivalents	Ps. 1,274,060	Ps. 1,443,751	Ps. 1,364,906

Revenue	2022	2021	2020
Income from operations	Ps. 1,382,216	984,724	1,979,838
Net income	1,340,518	1,223,740	1,564,354
Net loss of non - controlling interest	(3,049)	(5,364)	(190)
Net income of controlling interest	1,343,567	1,229,104	1,564,544
The income of the period includes:			
Depreciation and amortization	292,518	289,567	299,079
Net period cost	28,929	29,104	24,778
Interest income	(119,762)	(58,035)	(62,162)
Interest expense	16,009	20,470	22,561
Income tax expense	Ps. 634,976	Ps. 594,444	Ps. 583,026

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:

	2022	2021	2020
Net assets of the joint venture	Ps. 12,259,677	Ps. 12,773,174	Ps. 12,061,162
Participation	50%	50%	50%
Equity of the Entity's interest in the joint venture	6,129,838	6,386,587	6,030,581
Goodwill	Ps. (395,825)	Ps. (395,825)	Ps. (395,825)
Carrying amount of the interest in the joint venture	Ps. 5,734,013	Ps. 5,990,762	Ps. 5,634,756
Net income of controlling interest	Ps. 1,343,567	Ps. 1,229,104	Ps. 1,564,544
Participation	50%	50%	50%
Profit for the period	Ps. 671,784	Ps. 614,552	Ps. 782,272

Synthetic Rubber

Current assets	Ps. 8,631,036	Ps. 8,387,356	Ps. 6,345,377
Non-current assets	7,824,037	8,029,513	7,471,547
Current liabilities	4,411,769	4,409,448	2,936,129
Non-current liabilities	1,004,141	1,082,597	926,089
Net assets controlling interest	Ps. 11,039,163	Ps. 10,924,824	Ps. 9,954,706
Cash and cash equivalents	Ps. 1,184,372	Ps. 947,951	Ps. 1,426,212

	2022		2021		2020	
Revenue	Ps.	17,280,989	Ps.	15,740,586	Ps.	10,785,124
Income from operations		1,542,872		2,045,586		925,258
Net income		1,357,892		1,653,569		605,829
Net income of controlling interest		1,357,892		1,653,569		605,829
Income of the period includes:						
Depreciation and amortization		571,052		541,466		603,971
Interest income		(43,668)		(38,526)		(45,084)
Interest expenses		56,536		30,136		36,648
Income tax expense		252,371		552,006		296,783

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:

	2022		2021		2020	
Net assets of the joint venture	Ps.	11,039,163	Ps.	10,924,824	Ps.	9,954,706
Participation		50%		50%		50%
Carrying amount of the interest in the joint venture	Ps.	5,519,581	Ps.	5,462,411	Ps.	4,977,353
Net income of controlling interest	Ps.	1,357,892	Ps.	1,653,569	Ps.	605,829
Participation		50%		50%		50%
Profit for the period	Ps.	678,946	Ps.	826,784	Ps.	302,915

14. INTANGIBLES AND OTHER ASSETS

	2022		2021		2020	
Intangible assets (a)	Ps.	3,987,544	Ps.	4,798,178	Ps.	5,280,208
Other assets (b)		227,826		230,567		247,593
	Ps.	4,215,370	Ps.	5,028,745	Ps.	5,527,801

a. Intangible assets

	Balances as of December 31, 2021		Additions		Translation effect		Disposals		Balances as of December 31, 2022	
Investment:										
Projects and capitalized development costs	Ps.	5,485,942	Ps.	101,906	Ps.	(296,504)	Ps.	-	Ps.	5,291,344
Capitalized costs associated with contracts with clients		731,301		-		(41,192)		-		690,109
Patents and trademarks		222,255		-		-		-		222,255
Licenses		202,426		13,826		(728)		-		215,524
Total		6,641,924		115,732		(338,424)		-		6,419,232
Accumulated amortization:										
Projects and capitalized development	Ps.	(1,420,325)	Ps.	(556,355)	Ps.	82,963	Ps.	-	Ps.	(1,893,717)
Capitalized contract compliance costs		(231,361)		(114,407)		17,239		-		(328,529)
Patents and trademarks		(84,874)		-		-		-		(84,874)
Licenses		(107,186)		(18,019)		637		-		(124,568)
Total		(1,843,746)		(688,781)		100,839		-		(2,431,688)
	Ps.	4,798,178	Ps.	(573,049)	Ps.	(237,585)	Ps.	-	Ps.	3,987,544

	Balances as of December 31, 2020		Additions		Translation effect		Disposals		Balances as of December 31, 2021	
Investment:										
Projects and capitalized development costs	Ps.	5,277,107	Ps.	49,470	Ps.	159,365	Ps.	-	Ps.	5,485,942
Capitalized costs associated with contracts with clients		708,755		-		22,546		-		731,301
Patents and trademarks		222,362		-		(107)		-		222,255
Licenses		200,919		1,416		401		(310)		202,426
Total		6,409,143		50,886		182,205		(310)		6,641,924
Accumulated amortization:										
Projects and capitalized development	Ps.	(841,746)	Ps.	(551,615)	Ps.	(26,964)	Ps.	-	Ps.	(1,420,325)
Capitalized contract compliance costs		(116,913)		(108,889)		(5,559)		-		(231,361)
Patents and trademarks		(84,982)		-		108		-		(84,874)
Licenses		(85,294)		(21,630)		(262)		-		(107,186)
Total		(1,128,935)		(682,134)		(32,677)		-		(1,843,746)
	Ps.	5,280,208	Ps.	(631,248)	Ps.	149,528	Ps.	(310)	Ps.	4,798,178

	Balance at the beginning of 2020		Additions ⁽ⁱ⁾	Translation effect		Disposals	Balances as of December 31, 2020			
Investment:										
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	Ps.	6,188,520	Ps.	101,596	Ps.	119,027	Ps.	-	Ps.	6,409,143
Accumulated amortization:										
Projects and capitalized development costs	Ps.	(298,451)	Ps.	(550,425)	Ps.	7,130	Ps.	-	Ps.	(841,746)
Capitalized costs for compliance with contracts		(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

(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 2022, 2021 and 2020, investments were made for Ps.92 million, Ps.49 million and Ps.89 million, respectively.

b. Other assets

	2022	2021	2020
Guarantee deposits	Ps. 147,183	Ps. 149,614	Ps. 164,889
Artworks	76,883	76,883	76,883
Goodwill	-	515	998
Others	3,760	3,555	4,823
	Ps. 227,826	Ps. 230,567	Ps. 247,593

15. 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		
	2022	2021	2020	2022	2021	2020
US dollars	Ps. 55,390	Ps. 131,817	Ps. 161,311	Ps. 672,326	Ps. 690,075	Ps. 709,966
Ps. pesos	Ps. 221,186	Ps. 121,280	Ps. 285,756	Ps. 256,946	Ps. 320,522	Ps. 423,183

(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.

	2022	2021	2020
Results	Ps. 1,197,738	Ps. 1,149,090	Ps. 1,094,495 ⁽ⁱ⁾

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

(ii) Interest rate risk management

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

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

When reporting internally to key executive personnel on the interest rate risk, an increase or decrease of 50 basis points is used, which represents Management's evaluation of the possible reasonable change in interest rates.

If the interest rates were 50 basis points above/below and all the other variables remained constant:

The result would decrease/increase in 2022 Ps.9,941, in 2021 Ps.10,981 and Ps. 36,876 in 2020. 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, 2022 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 2022, 2021 and 2020.

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.

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, 2022	Six months	One year	1 and 3 years	More than 3 years	Total
Bank loans including the current portion of long-term debt	Ps. 318,206	Ps. 608,786	Ps. 3,476,304	Ps. 12,545,771	Ps. 16,949,067
Notes and accounts payable to suppliers	10,082,939	-	-	-	10,082,939
Lease liability	169,145	154,447	847,925	1,106,476	2,277,993
Other payables and accrued liabilities	4,322,115	-	-	-	4,322,115
Accounts payable to related parties	6,659	-	-	-	6,659
Total	Ps. 14,899,064	Ps. 763,233	Ps. 4,324,229	Ps. 13,652,247	Ps. 33,638,773

As of December 31, 2021	Six months	One year	1 and 3 years	More than 3 years	Total
Bank loans including the current portion of long-term debt	Ps. 335,842	Ps. 646,428	Ps. 10,853,906	Ps. 10,327,771	Ps. 22,163,947
Notes and accounts payable to suppliers	10,072,373	-	-	-	10,072,373
Lease liability	172,868	164,283	726,398	1,136,939	2,200,488
Other payables and accrued liabilities	4,513,111	-	-	-	4,513,111
Accounts payable to related parties	46,864	-	-	-	46,864
Total	Ps. 15,141,058	Ps. 810,711	Ps. 11,580,304	Ps. 11,464,710	Ps. 38,996,783

As of December 31, 2020	Six months	One year	1 and 3 years	More than 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

16. 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.

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

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

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

	2022		2021		2020	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities at amortized cost (level 2)						
Bank loans and current portion of long-term debt ⁽¹⁾	Ps. (13,710,945)	Ps. (13,436,534)	Ps. (15,063,383)	Ps. (15,545,662)	Ps. (16,757,487)	Ps. (17,646,955)

	2022		2021		2020	
Derivatives designated as hedging instruments (level 2)						
Forwards ⁽²⁾	Ps.	- Ps.	- Ps.	(808) Ps.	(808) Ps.	- Ps.
Total	Ps.	(13,710,945)	Ps. (13,436,534)	Ps. (15,064,191)	Ps. (15,546,470)	Ps. (16,757,487)
						Ps. (17,646,955)

(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.

17. DERIVATIVE FINANCIAL INSTRUMENTS

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

As of December 31, 2022, 2021 and 2020, the effect in other comprehensive income (loss) is Ps. 566 Ps. (566) and Ps.0 net of deferred tax, respectively.

18. 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 Inc 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 December 31, 2022:

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	431,719	Resirene, S.A. de C.V.	40,919
	MXN	Debt	14,472	Transmisiones y Equipos Mecánicos, S.A. de C.V.	389,323
				Resirene USA Inc	4,645
				Tremec Corporation	11,304

As of December 31, 2021:

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.	26,778
				Transmisiones y Equipos Mecánicos, S.A. de C.V.	384,179
				Resirene USA Inc	2,973
				Tremec Corporation	9,539

As of December 31, 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 Inc	939
				Tremec Corporation	6,713

The Entity's average hedge ratio amounted to 100% from the date of designation until December 31, 2022, 2021 and 2020, respectively. 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 (profit) loss of Ps.(596,491), Ps.276,978 and Ps.478,636, respectively, 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.

19. BANK LOANS

	2022	2021	2020
I) Senior Notes 2027	Ps. 8,327,044	Ps. 9,185,562	Ps. 8,892,184
II) Bilateral credit Bank of America	3,393,509	3,588,596	3,474,412
III) HSBC simple credit	774,153	1,298,018	1,489,891
IV) Syndicated credit	-	-	1,646,665
V) BBVA simple credit	-	710,164	764,057
VI) Bank of America committed line	53,016	281,043	490,278
VII) Scotiabank simple credit	998,202	-	-
VIII) Short-term loan Bank of America	165,021	-	-
	13,710,945	15,063,383	16,757,487
Less - Bank loans and current portion of long-term debt	(546,227)	(551,995)	(487,628)
Long-term debt	Ps. 13,164,718	Ps. 14,511,388	Ps. 16,269,859

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). As part of the liability management optimization strategy, during 2022, Ps.18.3 million dollars were repurchased in the open market, the repurchased securities of this bond were cancelled, thus reducing the total amount of debt.
- II) Bilateral credit Bank of America - 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, which was amended in January 2022, extending the maturity date to 2027 at a rate of SOFR 3m + 1.25% + 0.10%.
- 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, 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. During 2021, this loan was paid off. During 2021 this loan was paid off and in 2022 the agreement was terminated. In March 2022, Grupo KUO entered into a new syndicated revolving credit agreement for an amount of US180 million dollars and Ps.2,399 million pesos, in which the following banks act as lenders: Bank of America N.A., JP Morgan Chase N.A., Coöperatieve Rabobank U.A., HSBC Mexico S.A. and BBVA Mexico S.A. Pays interest according to the terms of the agreement, Coöperatieve Rabobank U.A., HSBC Mexico S.A. and BBVA Mexico S.A. It pays interest according to provisions at SOFR 3m + 1.40% for dollars and TIIE 91 + 1.40% for pesos, maturing in 5 years; the loan is for general corporate purposes and matures in 2027. At the end of 2022, there were no active debt drawdowns.
- V) Simple credit - Credit with BBVA 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. This facility was prepaid in full in May 2022.

- VI) Bank of America committed line (TREMEC)- 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 1.75 years of disposal and 3.25 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 Scotiabank loan - In May 2022, Grupo KUO entered into a bilateral loan agreement with Scotiabank Inverlat S.A. for an amount of Ps. 1,000 million, paying interest quarterly at 91-day TIIE + 1.25%, with increasing amortizations starting in 2023 and maturing in 2027, destined to the total payment of the loan with BBVA S.A. and the partial payment with HSBC Mexico S.A.
- VIII) Bank of America short-term credit facility - Short-term credit line granted to Grupo KUO with Bank of America N.A. for USD Ps.8.5 million maturing in November 2023.

Long-term debt maturities as of December 31, 2021 are as follows:

2024	Ps. 425,238
2025	385,068
2026	401,677
2027	11,952,735
	Ps. 13,164,718

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

	2022	2021	2020
Current portion of long-term debt	Ps. 546,227	Ps. 551,995	Ps. 487,628

The Bank loans measured at amortized cost are net of unamortized issuance costs which as of December 31, 2022, 2021 and 2020, amount Ps.65,200, Ps. 73,725 and Ps. 90,056, 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.

In April 2020, approval was obtained for the waivers requested from banks with current loans, confirming the agreement that the Entity's lack of compliance with its obligations under the credit agreements, on the last day of each of the quarters of the Entity that ended on June 30, 2020, September 30, 2020 and December 31, 2020, would not constitute a default provided that the leverage ratio in force on the last day of each of said dates was not greater than 5.00 to 1.00 and the Ratio of consolidated debt to total capitalization in force on the last day of each of said dates was not greater than 0.7 times 1.00. The indices were fully met as of December 31, 2020.

In December 2020, the Entity obtained approval for the waivers requested from banks with current loans, confirming the agreement that the lack of compliance by the Entity with its obligations under the credit agreements, in each case, on the last day of each of the Entity's fiscal quarters ending on March 31, 2021, June 30, 2021, September 30, 2021 and December 31, 2021, will not constitute or be understood to constitute a breach provided that and only to the extent in which the current leverage ratio as of March 31, 2021 is not greater than 5.00 to 1.00, as of June 30, 2021 is not greater than 4.75 to 1.00, as of September 30 is not greater than 4.50 to 1.00 and as of September 31, December is not greater than 4.25 to 1.00, with respect to the ratio of consolidated debt to total capitalization in force on the last day of each of said dates, is not greater than 0.70 times 1.00. The indices were fully met as of December 31, 2021.

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, 2021	Financing cash flows, net ⁽ⁱ⁾	Other changes ⁽ⁱⁱ⁾	December 31, 2022
Bank loans	Ps. 15,063,383	Ps. (634,098)	Ps. (718,340)	Ps. 13,710,945

	December 31, 2020	Financing cash flows, net ⁽ⁱ⁾	Other changes ⁽ⁱⁱ⁾	December 31, 2021
Bank loans	Ps. 16,757,487	Ps. (2,147,462)	Ps. 453,358	Ps. 15,063,383

	Balance at the beginning of 2020	Financing cash flows, net ⁽ⁱ⁾	Other changes ⁽ⁱⁱ⁾	December 31, 2020
Bank loans	Ps. 15,590,184	Ps. 781,830	Ps. 385,473	Ps. 16,757,487

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.

20. OTHER ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2022	2021	2020
Provisions (i)	Ps. 652,952	Ps. 694,254	Ps. 294,453
Tax liabilities	569,338	636,986	561,296
Other creditors	2,268,752	2,268,987	1,769,964
Customer advances	663,620	540,734	646,623
Deferred Tax	-	639,729	-
Current portion of tax consolidation deferred taxes (Note 24)	154,625	168,736	201,680
Interest payable	303,620	299,077	296,635
Dividends payable	11,702	11,413	11,207
Direct employee benefits	361,126	433,658	444,820
	Ps. 4,985,735	Ps. 5,693,574	Ps. 4,226,678

	2022	2021	2020
Provisions (i):			
Beginning balance as of January 1	Ps. 694,254	Ps. 294,453	Ps. 174,058
Increase	619,860	555,197	266,070
Applications	(651,433)	(103,101)	(43,954)
Cancellation	(9,729)	(52,295)	(101,721)
Final balance as of December 31	Ps. 652,952	Ps. 694,254	Ps. 294,453

The provisions recorded as of December 31, 2022, 2021 and 2020 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 four years.

21. EMPLOYEE BENEFITS

	2022	2021	2020
a. Defined contribution plans for retirement benefits	Ps. 93,266	Ps. 78,789	Ps. 65,718
b. Defined benefit plans	514,525	582,888	594,041
Total	Ps. 607,791	Ps. 661,677	Ps. 659,759

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, non-union 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 9.17%, considering the yield curve of government bonds.

Salary increases 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 increases 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 increases 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, 2022 by Mr. Fernando Rodríguez 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:

	2022	2021	2020
Discount rate	9.17	7.80	7.25
Expected rate of salary increase	5.00	5.00	5.00
Pension increase rate	4.80	4.80	4.80
Expected return on plan assets	9.17	7.80	7.25
Average longevity at retirement age for current pensioners (years)			
Males	22.38	22.32	22.29
Females	24.8	24.76	24.70

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

	2022	2021	2020
Service cost:			
Current service cost	Ps. 28,771	Ps. 30,788	Ps. 28,338
Cost (income) past services	-	-	(7,319)
Financial cost	40,710	37,626	42,048
Reductions and early settlement	(13,743)	(25,389)	(48,568)
Interest income	(1,060)	(899)	(604)
Components of defined benefits costs recognized in profit or loss (continuing and discontinued operations)	Ps. 54,678	Ps. 42,126	Ps. 13,895

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:

	2022	2021	2020
Cost of sales	Ps. 25,743	Ps. 26,550	Ps. (12,873)
Operating expenses	28,935	15,576	26,768
Total	Ps. 54,678	Ps. 42,126	Ps. 13,895

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:

	2022	2021	2020
Present value of defined benefit obligation	Ps. 587,429	Ps. 655,506	Ps. 658,829
Fair value of plan assets	(72,904)	(72,618)	(64,788)
Net liabilities generated by the defined benefit obligation	Ps. 514,525	Ps. 582,888	Ps. 594,041

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

	2022	2021	2020
Opening balance of defined benefit obligation	Ps. 655,506	Ps. 658,829	Ps. 646,384
Current service cost	28,771	30,788	28,338
Interest cost	40,710	37,626	42,048
Actuarial (gains) and losses arising from changes in financial assumptions	(52,100)	22,963	43,496
Cost of past service including (gains) losses on reductions	-	-	(7,319)
Contributions from plan affiliates	704	877	957
Early settlement	(13,743)	(25,389)	(48,568)
Liabilities transfer	-	282	-
Translation effect	(9,612)	(5,221)	15,506
Benefits paid	(62,807)	(65,249)	(62,013)
Ending balance of defined benefit obligation	Ps. 587,429	Ps. 655,506	Ps. 658,829

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

	2022	2021	2020
Opening balance of fair value of plan assets	Ps. 72,618	Ps. 64,788	Ps. 45,879
Interest income	1,060	899	604
Remeasurement gains	176	410	422
Contributions from employer	10,726	13,312	14,045
Contributions from employees	704	877	957
Benefits paid	(3,668)	(4,556)	(4,256)
Translation effect	(8,712)	(3,112)	7,137
Ending balance of the fair value of plan assets in financial institutions	Ps. 72,904	Ps. 72,618	Ps. 64,788

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:

		2022		2021		2020
Changes in demographic assumptions	Ps.	(5,618)	Ps.	(979)	Ps.	3,250
Changes in financial assumptions		(88,378)		(38,835)		29,688
Experience		41,720		62,367		10,136
Actuarial loss	Ps.	(52,276)	Ps.	22,553	Ps.	43,074

If the discount rate is 50 basis points higher (lower), the defined benefit obligation would decrease by Ps.21,910 (increase by Ps.23,671).

If the expected salary growth increases (decreases) by 0.5%, the defined benefit obligation would increase by Ps.6,161 (decrease by Ps.6,133).

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.

22. STOCKHOLDERS' EQUITY

Contributed capital

As of December 31, 2022, 2021 and 2020, 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

In the Ordinary and Extraordinary General Meeting of Stockholders held on April 25, 2022, a dividend payment of Ps.456,366 was approved and applied to the retained earnings account, and an additional Ps.1,000,000 was approved for the share repurchase fund for a period of twelve months.

At the Ordinary General Shareholders' Meeting held on April 26, 2021, it was approved to allocate the amount of Ps.200,000 for the share repurchase fund for a period of twelve months.

In the Ordinary and Extraordinary General Meeting of Shareholders held on November 9, 2021, a dividend payment of Ps.410,729 was approved, which was applied to the retained earnings account, in addition, it was approved to allocate the amount of Ps.1,000,000 for the share repurchase fund for a period of twelve months. The operations for the acquisition of the Company's own shares are ratified, on the understanding that said operations were carried out in consideration of what was previously approved in the meeting minutes of April 26, 2021.

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.

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 a decrease of Ps.25,300, Ps.38,124 and Ps. 57,701 as of December 31, 2022, 2021 and 2020, respectively.

As of December 31, 2022, 2021 and 2020 there are 18,471,996, 17,896,062 and 17,061,195 treasury shares, respectively.

As of December 31, 2022, 2021 and 2020 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, 2022 the reserve fund amounts to Ps.355,220 and as of December 31, 2021 and 2020 Ps.219,718, respectively 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:

	2022	2021	2020
Capital contribution account	Ps. 15,869,804	Ps. 14,720,159	Ps. 13,712,305
Net tax income account	17,005,364	14,107,364	11,702,917
Total	Ps. 32,875,168	Ps. 28,827,523	Ps. 25,415,222

23. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

	2022	2021	2020
Revenues -			
Sales	Ps. 1,300,917	Ps. 1,186,645	Ps. 613,754
Administrative services rendered	Ps. 183,794	Ps. 143,617	Ps. 133,513
Interest income	Ps. 1,127	Ps. 1,288	Ps. 2,014
Air transportation	Ps. 18,272	Ps. 16,616	Ps. 14,148
Recovery of expenses	Ps. 76,644	Ps. 119,455	Ps. 67,345
Expenses -			
Purchase of inventories	Ps. 117,685	Ps. 116,479	Ps. 65,776
Administrative services received	Ps. 2,567	Ps. 2,737	Ps. 2,643
Others	Ps. 435	Ps. 408	Ps. 384

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

	2022	2021	2020
Accounts receivable -			
Short-term:			
Dynasol Elastómeros, S.A. de C.V.	Ps. 63,876	Ps. 74,310	Ps. 96,824
Industrias Negromex, S.A. de C.V.	20,009	25,764	4,935
Herdez del Fuerte, S.A. de C.V.	2,653	5,149	2,618
Dine 28, S.A. de C.V.	3,977	3,000	6,799
Fernando Senderos Mestre	662	678	657
Dynasol Gestión México, S.A.P.I. de C.V.	1,668	3,231	1,294
Plaza Bosques, S.A. de C.V.	61	-	1,417
Promociones Bosques, S.A. de C.V.	283	252	-
Administración de Riesgo, Agente de Seguros y Fianzas, S.A. de C.V.	348	105	263
Cantiles de Mita, S.A. de C.V.	6,570	34,201	-
Dine S.A.B. de C.V.	2,673	5,666	-
Inmobiliaria Dine, S.A. de C.V.	2,122	5,120	-
Corporativo Dine, S.A. de C.V.	231	406	-
Costa Cantiles, S.A. de C.V.	4,173	-	-
Others	389	124	-
Seradri, S.A. de C.V.	259	428	548
Fideicomiso de Administración con Actividad Empresarial F/3293	106,111	-	-
	Ps. 216,065	Ps. 158,434	Ps. 115,355
Long-term:			
Fideicomiso de Administración con Actividad Empresarial F/3293	Ps. -	Ps. 111,344	Ps. 111,816
Accounts payable-			
Short-term:			
Dynasol Elastómeros, S.A. de C.V.	Ps. -	Ps. 40,671	Ps. 838
Industrias Negromex, S.A. de C.V.	6,341	6,193	3,489
Cantiles de Mita, S.A. de C.V.	-	-	99
Cantiles de Mita, S.A. de C.V. Administradoras de Clubes de Playa Punta Mita, S.A. de C.V.	78	-	-
Costa Cantiles, S.A. de C.V.	230	-	-
Herdez del Fuerte, S.A. de C.V.	4	-	-
Administración de Riesgo, Agente de Seguros y Fianzas, S.A. de C.V.	6	-	154
	Ps. 6,659	Ps. 46,864	Ps. 4,580

c. Remuneration of key management personnel

The remuneration of the directors, who are the key personnel of the Entity's management, is detailed below in aggregate form for each of the categories specified in IAS 24 *Related Party Disclosures*.

	2022	2021	2020
Short-term and long-term benefits	Ps. 215,303	Ps. 159,670	Ps. 103,603

24. INCOME TAXES

The Entity is subject to ISR. Under the ISR Law the rate for 2022, 2021 and 2020 was 30% and will continue to be 30% thereafter.

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

	2022	2021	2020
ISR:			
Income tax for the year	Ps. 610,606	Ps. 448,974	Ps. 394,131
Restatement of deferred income tax due to tax deconsolidation	14,207	25,228	19,804
Insufficiency from previous years	91	1,298	851
	624,904	475,500	414,786
Deferred tax	(348,938)	7,216	(384,627)
	Ps. 275,966	Ps. 482,716	Ps. 30,159

b. Deferred tax recognized in other comprehensive income:

	2022	2021	2020
Financial instruments	Ps. (243)	Ps. 243	Ps. -
Employee benefits	(15,486)	6,766	12,922
Exchange rate difference	(18,508)	(35,363)	16,223
	Ps. (34,237)	Ps. (28,354)	Ps. 29,145

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:

	2022	2021	2020
Deferred income tax asset	Ps. 1,724,749	Ps. 1,087,652	Ps. 1,250,821
Deferred income tax liability	1,245,863	923,467	1,051,066
	Ps. 478,886	Ps. 164,185	Ps. 199,755

d. Tax assets and liabilities:

	2022		2021		2020	
Assets:						
ISR	Ps.	148,051	Ps.	133,936	Ps.	97,862
Liabilities:						
ISR	Ps.	194,005	Ps.	266,660	Ps.	174,082
Deferred income tax arising from tax consolidation current liabilities		154,625		312,175		492,420
	Ps.	348,630	Ps.	578,835	Ps.	666,502

e. Deferred tax balances:

The tax effects of temporary differences that generated assets (liabilities) of deferred taxes as of December 31, 2022, 2021 and 2020, are as follows:

	Balance as of December 2021		Recognized in profit or loss for the year		Other comprehensive income items		December 31, 2022	
Deferred ISR asset:								
Effect of tax loss carryforwards	Ps.	375,790	Ps.	249,390	Ps.	(21,069)	Ps.	604,111
Reserves and provisions		966,188		(23,063)		(20,845)		922,280
Advances from customers		190,547		10,631		(2,093)		199,085
Employee benefits		134,922		(14,739)		(1,367)		118,816
Simplified tax regime on purchases and sales		596,747		167,774		(1,512)		763,009
Income deferral		31,749		41,765		-		73,514
Derivative financial instruments		243		-		(243)		-
Deferred income for claim recovery		191,919		(191,919)		-		-
Lease liability		421,858		47,102		(13,202)		455,758
Others		23,235		20,458		1,105		44,798
Deferred ISR liability:								
Inventories		(1,081,051)		(299,234)		728		(1,379,557)
Property, plant and equipment		(1,039,283)		123,072		12,204		(904,007)
Right-of-use asset		(391,541)		(43,029)		12,855		(421,715)
Prepaid expenses		(109,140)		33,881		634		(74,625)
Intangible assets		(147,998)		226,849		(1,432)		77,419
Net deferred ISR asset (liability)	Ps.	164,185	Ps.	348,938	Ps.	(34,237)	Ps.	478,886

	Balance as of December 2020		Recognized in profit or loss for the year		Other comprehensive income items		December 31, 2021	
Deferred ISR asset:								
Effect of tax loss carryforwards	Ps.	479,739	Ps.	(464,860)	Ps.	360,911	Ps.	375,790
Reserves and provisions		702,277		617,263		(353,352)		966,188
Advances from customers		152,278		37,147		1,122		190,547
Employee benefits		135,473		1,065		(1,616)		134,922
Simplified tax regime on purchases and sales		502,644		94,752		(649)		596,747
Income deferral		237,365		(205,590)		(26)		31,749
Derivative financial instruments		-		-		243		243
Deferred income from claim recovery		-		191,919		-		191,919
Lease liability		493,840		(147,534)		75,552		421,858
Others		119,978		(99,138)		2,395		23,235
Deferred ISR liability:								
Inventories		(947,804)		(132,846)		(401)		(1,081,051)
Property, plant and equipment		(892,588)		(109,539)		(37,156)		(1,039,283)
Right of use assets		(467,491)		151,092		(75,142)		(391,541)
Prepaid expenses		(161,220)		51,097		983		(109,140)
Intangible assets		(154,736)		7,956		(1,218)		(147,998)
Net deferred ISR asset (liability)	Ps.	199,755	Ps.	(7,216)	Ps.	(28,354)	Ps.	164,185
	Balance as of December 2020		Recognized in profit or loss for the year		Other comprehensive income items		December 31, 2020	
Deferred ISR asset:								
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 liability:								
Inventories		(842,621)		(103,650)		(1,533)		(947,804)
Property, plant and equipment		(944,708)		119,893		(67,773)		(892,588)
Asset for rights of use		(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)
Net deferred ISR asset (liability)	Ps.	(214,017)	Ps.	384,627	Ps.	29,145	Ps.	199,755

f. Tax loss carryforwards

As of December 31, 2022, KUO has tax loss carryforwards, which will be indexed for inflation through the year applied or recovered, in the following restated amounts:

Maturity	Tax loss carryforwards
2024	Ps. 13,216
2025	10,167
2026	6,024
2027	5,722
2028	166,807
2029	459,802
2030	1,136,892
2031	100,724
2032	1,395,582
	Ps. 3,294,936

In determining deferred income taxes as of December 31, 2022, 2021 and 2020 the effects of tax loss carryforwards were included for Ps.3,294,936, Ps.2,535,910 and Ps.3,556,415, respectively. In the determination of deferred income taxes as of December 31, 2022, 2021 and 2020 the effects of deferred tax assets related to the carryforward of tax losses not recognized amounted to Ps.1,283,233, Ps.1,283,277 and Ps.821,918, 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, 2022 related to the effects of benefits and tax deconsolidation shall be paid in the following years:

Year	Amount
2023	Ps. 154,625

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:

	2022	2021	2020
Income tax at statutory rate	Ps. 644,317	Ps. 957,825	Ps. (162,550)
Add (deduct) the effect of permanent differences:			
Non-deductible expenses	Ps. 48,948	Ps. 113,374	Ps. 126,595
Inflation effect of deconsolidation deferred tax	14,207	25,228	19,804
Non-taxable income	(19,360)	(9,680)	(7,198)
Annual adjustment for inflation	384,632	362,257	172,980
Tax for restatement of tax items	(136,181)	(158,265)	(96,597)
Fixed asset restatement tax	(161,848)	(129,239)	(52,365)
Tax Loss Valuation Reserve	(30,654)	(275,558)	232,627
Equity in results of joint ventures	(405,219)	(432,402)	(325,556)
Tax effect on sale of shares	-	(5,479)	-
Translation effect of foreign operations	(49,347)	(5,059)	139,609
Others	(13,529)	39,714	(17,190)
Effective rate	Ps. 275,966	Ps. 482,716	Ps. 30,159

25. COSTS AND EXPENSES BY NATURE

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

	2022	2021	2020
Cost of sales:			
Direct cost of sales	Ps. 30,999,107	Ps. 26,755,388	Ps. 19,012,653
Salaries and employee benefits	3,860,368	3,406,467	2,963,349
Freight and transportation	500,762	420,275	286,250
Maintenance, fees and leasing	1,325,348	1,346,677	1,436,029
Electric power	527,752	378,535	355,544
Depreciation of right-of-use asset	139,660	123,351	131,763
Depreciation and amortization	1,622,161	1,557,154	1,564,079
Total	Ps. 38,975,158	Ps. 33,987,847	Ps. 25,749,667
Administrative, selling and distribution expenses:			
Freight and transportation	Ps. 1,336,986	Ps. 929,212	Ps. 924,608
Salaries and employee benefits	1,685,236	1,526,890	1,502,176
Advertisement and marketing	62,534	60,951	40,734
Depreciation, amortization and impairment	106,682	111,194	103,926
Depreciation of right-of-use asset	146,814	143,275	140,158
Export costs	207,786	296,454	321,638
Maintenance, fees and leasing	705,255	715,366	610,638
Electric power	70,735	64,981	96,812
General expenses	493,041	524,058	347,265
Total	Ps. 4,815,069	Ps. 4,372,381	Ps. 4,087,955

26. OTHER (INCOME) EXPENSES

The other income item is composed as follows:

	2022	2021	2020
Recovery of property, plant and equipment claim	Ps. -	Ps. (669,656)	Ps. (921,505)
Recovery of inventory and other expenses claim	-	-	(103,605)
Recovery of Consequential Losses	(639,729)	(621,256)	-
Costs for property, plant and equipment claims ⁽ⁱ⁾	20,206	1,500	1,582,775
Costs for inventory claims and other expenses	13,512	189,488	279,705
(Profit) loss from sale of fixed assets	(2,200)	(45,377)	(1,992)
Profit on Sale of Shares	-	(18,265)	-
Health event expenses (Covid-19)	-	48,179	95,597
Others income	(509)	(6,255)	(199)
Total	Ps. (608,720)	Ps. (1,121,642)	Ps. 930,776

(i) The balance of the cost per claim of property, plant and equipment for the year 2020 includes a provision for Ps.7,410, corresponding to the residual value of equipment that was held on loan and was damaged.

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, plant and equipment, inventories and other costs for a total amount of Ps.1,862,480.

These assets were covered by an insurance policy that covered material damage, loss of benefits resulting from the reduction in income and additional costs, in which the Entity may incur as a result of the sinister. Losses due to business interruption are covered until normal business operations are resumed with the same quality of service existing immediately before the loss. The Entity estimates that this situation will be fulfilled during the following nine months of 2022.

As of December 31, 2020, the Entity recognized an income for reimbursement of the claim in the amount of Ps.1,025,110, corresponding to the recovery of inventories, property, plant and equipment, which was fully collected as of that date.

During 2021, the final agreement was made with the insurer where the Entity received the final compensation payment of Ps.1,930,641, of which correspond: (i) Ps.669,656 to the recovery of property, plant and equipment; (ii) Ps.621,256 to the recovery of consequential losses for the years 2020 and 2021; and (iii) Ps.639,729 for consequential losses that will be earned in fiscal year 2022 (see Note 20), as mentioned in the previous paragraph, once normal business operations are resumed.

27. CONTINGENCIES

Some subsidiaries have lawsuits pending in their favor or against them as a result of the normal course of their operations. Such lawsuits involve uncertainties and in some cases, it is possible that they may be resolved against them. Although it is not possible to determine the amounts involved in the pending lawsuits, management believes that based on the elements known, any resulting liability would not materially affect the financial position or results of operations of the Entity or its subsidiaries.

On September 28, 2021, Volvo Trucks filed an arbitration claim with the American Arbitration Association (AAA) against Tremec for an undetermined amount. The proceeding will be conducted under North Carolina law, with an estimated duration of eighteen to twenty-four months.

On February 2, 2022, the first meeting was held between the parties in order to establish the stages and dates for the arbitration process (hearings, exchange of documents, expert evidence, testimonies, among others).

On November 14, 2022, Volvo filed its statement of claim with the Arbitration Court, which is continuing its legal process.

Tremec performed a technical analysis where it concludes that the risk is low and has the necessary elements to respond to the customer's legal claim, consequently, as there are no contractually assumed obligations or possible unasserted claims or assessments specifically identified, Tremec and Entity management consider that as of the date of the consolidated financial statements it is not possible to determine the probability of success or the possible damages or losses in the event of an adverse outcome, therefore no accounting reserve was recorded.

28. SUBSEQUENT EVENTS

On January 12, 2023, KUO, through its subsidiaries KUO Consumo, S.A.P.I. de C.V. and Grupo Porcícola Mexicano, S.A. de C.V., acquired a business dedicated to the production of flour and fats based on meat waste generated by the processing plants of the Porcícola segment in Yucatán. The acquisition responds to the strategy of incorporating products into the company's own feed production and increasing the value chain. The amount amounted to Ps.270 million, 70% of which was paid at the time of signing the contract and the remaining 30% over a 12-month term.

29. FINANCIAL STATEMENT ISSUANCE AUTHORIZATION

The accompanying consolidated financial statements for the year ended December 31, 2022, were approved by the Chief Financial Officer of KUO Mr. Jorge Padilla Ezeta, on March 20, 2023; 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, 2021 and 2020 were approved at the Ordinary General Stockholders' Meeting on April 25, 2022 and April 26, 2021, respectively.

GRI
2-1
2-3



Investors Information

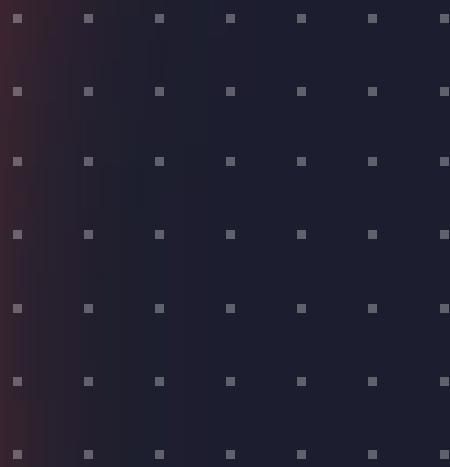
CORPORATE HEADQUARTERS
Paseo de los Tamarindos 400 B, piso 31,
Bosques de las Lomas, 05120, Mexico City, 05120
Ph. (52 55) 5261.8200

EXTERNAL AUDITORS
Galaz, Yamazaki, Ruiz Urquiza, S.C., Member of Deloitte
Touche Tohmatsu Limited Paseo de la Reforma 489,
Cuauhtémoc, Mexico City, Mexico, 06500
Ph. (52 55) 5080.6000

INVESTOR RELATIONS AND SUSTAINABILITY
Antonia Gutiérrez Bonifaz
antonia.gutierrez@desc.com
Ph. (52) 55 5261.8309

INFORMATION ABOUT SHARES
Grupo KUO, S.A.B. of C.V. is listed on the Mexican Stock
Exchange, S.A.B. of C.V. in its series "A" and "B" under
the symbol "KUO"

WWW.KUO.COM.MX



www

kuo

com

mx