

**We've
learned
a lot...**



Integrated
Report



2023

KUO, S.A.B. de C.V. and Subsidiaries

Consolidated Financial Statements for the
Years Ended December 31, 2023, 2022
and 2021, and Independent Auditors' Report
Dated March 18, 2024

122.

Independent
Auditors' Report

126.

Consolidated Statements
of Financial Position

128.

Consolidated Statements
of profit and Comprehensive
Income

130.

Consolidated Statements
of Changes in Stockholders'
Equity

132.

Consolidated Statements
of Cash Flows

134.

Notes to the Consolidated
Financial Statements

Independent Auditors' Report to the Board of Directors and Stockholders of KUO, S.A.B. de C.V. and Subsidiaries

OPINION

We have audited the accompanying consolidated financial statements of KUO, S.A.B. de C.V. and Subsidiaries (the Entity or KUO), which comprise the consolidated statements of financial position as of December 31, 2023, 2022 and 2021 and the related consolidated statements of profit and comprehensive income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows, for the years ending on those dates, as well as the explanatory notes to the consolidated financial statements containing information on material accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of KUO, S.A.B. de C.V. and Subsidiaries as of December 31, 2023, 2022 and 2021, 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 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, 2023, the balance of assets subject to impairment testing amounts to Ps.6,203 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.

OTHER INFORMATION INCLUDED IN THE DOCUMENT CONTAINING THE AUDITED FINANCIAL STATEMENTS

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 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 KUO'S MANAGEMENT AND AUDIT COMMITTEE KUO FOR THE ACCOMPANYING CONSOLIDATED FINANCIAL STATEMENTS

Management of 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 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 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 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 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 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 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 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 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.
Affiliated to a Member Firm of Deloitte Touche Tohmatsu Limited

C.P.C. Erik Padilla Curiel
March 18, 2024

KUO, S.A.B. de C.V. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2023, 2022 and 2021

(Thousands of Mexican pesos)

Assets	Notes	2023	2022	2021
Current assets:				
Cash and cash equivalents	8 Ps.	1,831,985 Ps.	2,332,851 Ps.	4,379,304
Accounts and notes receivable, net	9	4,023,670	4,430,470	4,491,219
Accounts receivable from related parties	24	110,081	216,065	158,434
Inventories, net	10	7,375,740	8,483,008	7,609,345
Biological assets	11	1,674,128	1,969,340	1,692,156
Prepaid expenses		286,849	516,486	280,793
Total current assets		15,302,453	17,948,220	18,611,251
Non - current assets:				
Property, plant and equipment, net	12	11,037,774	11,963,144	11,973,361
Right-of-use asset	13	1,209,070	1,470,607	1,379,578
Biological assets	11	698,497	714,890	579,070
Intangible and other assets, net	15	3,401,767	4,215,370	5,028,745
Investments in joint ventures and other investments	14	10,127,413	11,255,458	11,454,994
Other accounts receivable		63,172	71,112	94,473
Accounts receivable from related parties	24	91,379	-	111,344
Deferred income tax	25	2,056,801	1,724,749	1,087,652
Total non - current assets		28,685,873	31,415,330	31,709,217
Total assets	Ps.	43,988,326 Ps.	49,363,550 Ps.	50,320,468
Liabilities and stockholders' equity				
Current liabilities:				
Bank loans and current portion of long-term debt	20 Ps.	95,601 Ps.	546,227 Ps.	551,995
Notes and accounts payable to suppliers		7,637,077	10,082,939	10,072,373
Short-term lease liability	13	292,990	310,881	324,678
Other accounts payable and accrued liabilities	21	4,855,038	4,985,735	5,693,574
Derivative financial instruments	18	117,346	-	808

	Notes	2023	2022	2021
Accounts payable to related parties	24	15,930	6,659	46,864
Total current liabilities		13,013,982	15,932,441	16,690,292
Non - current liabilities:				
Bank loans	20	11,572,998	13,164,718	14,511,388
Lease liability	13	1,044,155	1,271,644	1,159,238
Employee benefits	22	612,051	607,791	661,677
Other long-term liabilities		51,036	-	-
Deferred income taxes	25	1,200,078	1,245,863	923,467
Deferred income tax arising from tax deconsolidation	25	-	-	143,439
Total non - current liabilities		14,480,318	16,290,016	17,399,209
Total liabilities		27,494,300	32,222,457	34,089,501
Stockholders' equity:				
Contributed capital-				
Capital stock	23	2,727,534	2,727,534	2,727,534
Shares repurchase reserve		(664,786)	(651,362)	(626,062)
Earned capital-				
Retained earnings		13,947,143	13,626,919	12,195,802
Foreign operations translation effect		495,176	499,570	568,528
Derivative financial instruments	18	2,230	-	(566)
Actuarial loss from employee benefits		(97,761)	(80,732)	(120,237)
Equity in other comprehensive income of joint ventures		84,257	1,018,904	1,485,696
Controlling interest		16,493,793	17,140,833	16,230,695
Non - controlling interest		233	260	272
Total stockholders' equity		16,494,026	17,141,093	16,230,967
Total liabilities and stockholders' equity		\$ 43,988,326	\$ 49,363,550	\$ 50,320,468

See accompanying notes to consolidated financial statements.

KUO, S.A.B. de C.V. and Subsidiaries
Consolidated Statements of profit and Comprehensive Income

For the years ended December 31, 2023, 2022 and 2021

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

	Notes	2023	2022	2021
Continuing operations:				
Net sales	Ps.	38,782,211	Ps. 44,704,452	Ps. 40,309,414
Cost of sales	26	33,349,245	38,975,158	33,987,847
Gross profit		5,432,966	5,729,294	6,321,567
Administrative expenses	26	1,805,493	1,862,876	1,842,908
Selling and distribution expenses	26	2,867,328	2,952,193	2,529,473
General expenses		4,672,821	4,815,069	4,372,381
Equity in results of joint ventures	14	648,965	1,350,730	1,441,336
Other income, net	27	(28,220)	(608,720)	(1,121,642)
Income from operations		1,437,330	2,873,675	4,512,164
Interest income		113,231	111,100	73,316
Interest expense		(995,936)	(972,259)	(912,914)
Other financial expenses		(599,286)	(447,022)	(263,950)
Exchange gain (loss), net		883,931	582,229	(215,867)
Income before income taxes and discontinued operations		839,270	2,147,723	3,192,749
Income taxes expense	25	103,747	275,966	482,716
Consolidated net income	Ps.	735,523	Ps. 1,871,757	Ps. 2,710,033
Other comprehensive (loss) income:				
Items that will not be reclassified subsequently to profit or loss, net of income taxes:				
Actuarial (loss) gain from employee benefits	22	(17,029)	36,790	(15,787)
Items that will be reclassified to profit or loss, net of income taxes:				
Cumulative translation adjustment		(4,427)	(68,972)	(250)
Derivative financial instruments	18	2,230	566	(566)

	Notas	2023	2022	2021
Equity in other comprehensive income of joint ventures	14	(934,647)	(466,792)	45,712
Total other comprehensive (loss) income		(953,873)	(498,408)	29,109
Consolidated comprehensive (loss) income	Ps.	(218,350)	Ps. 1,373,349	Ps. 2,739,142
Distribution of consolidated income:				
Controlling interest	Ps.	735,517	Ps. 1,871,755	Ps. 2,710,040
Non - controlling interest		6	2	(7)
	Ps.	735,523	Ps. 1,871,757	Ps. 2,710,033
Distribution of consolidated comprehensive (loss) income:				
Controlling interest	Ps.	(218,323)	Ps. 1,373,361	Ps. 2,739,404
Non - controlling interest		(27)	(12)	(262)
	Ps.	(218,350)	Ps. 1,373,349	Ps. 2,739,142
Basic earnings per common share:				
From continuing operations	Ps.	1.61	Ps. 4.10	Ps. 5.94
From discontinued operations		0.00	0.00	0.00
Basic earnings per share	Ps.	1.61	Ps. 4.10	Ps. 5.94
Net income from controlling interest without repurchased shares	Ps.	1.68	Ps. 4.27	Ps. 6.17
Weighted average common shares outstanding		456,366,148	456,366,148	456,366,148
Weighted average common shares outstanding without repurchased shares		437,534,811	437,978,186	438,881,953

See accompanying notes to consolidated financial statements.

KUO, S.A.B. de C.V. and Subsidiaries
**Consolidated Statements of Changes in
 Stockholders' Equity**

For the years ended December 31, 2023, 2022 and 2021

(In thousands of Mexican pesos, except shares information)

	Number of Shares	Contributed capital		Earned Capital							Total stockholders' equity
		Capital stock	Shares repurchase reserve	Retained earnings	Foreign operations translation effects	Derivative financial instruments	Actuarial loss from employee benefits	Equity in other comprehensive income of joint ventures	Controlling interest	Non - controlling interest	
Balances as of January 1, 2021	456,366,148	Ps. 2,727,534	Ps. (587,938)	Ps. 9,924,492	Ps. 568,492	Ps. -	Ps. (144,691)	Ps. 1,436,157	Ps. 13,924,046	Ps. 544	Ps. 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	2,727,534	(651,362)	13,626,919	499,570	-	(80,732)	1,018,904	17,140,833	260	17,141,093
Dividends declared	-	-	-	(415,293)	-	-	-	-	(415,293)	-	(415,293)
Sale of repurchased common shares, net	-	-	(13,424)	-	-	-	-	-	(13,424)	-	(13,424)
Consolidated comprehensive loss	-	-	-	735,517	(4,394)	2,230	(17,029)	(934,647)	(218,323)	(27)	(218,350)
Balances as of December 31, 2023	456,366,148	Ps. 2,727,534	Ps. (664,786)	Ps. 13,947,143	Ps. 495,176	Ps. 2,230	Ps. (97,761)	Ps. 84,257	Ps. 16,493,793	Ps. 233	Ps. 16,494,026

See accompanying notes to consolidated financial statements.

KUO, S.A.B. de C.V. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2023, 2022 and 2021

(Thousands of Mexican pesos)

	2023		2022		2021	
Cash flows from operating activities:						
Consolidated net income	Ps.	735,523	Ps.	1,871,757	Ps.	2,710,033
Adjustments for:						
Income tax expense from continuing operations		103,747		275,966		482,716
Depreciation and amortization of continuing operations		1,607,697		1,726,001		1,651,914
Loss on sale of property, plant and equipment of continuing operations		30,452		12,159		6,599
Income in sinister of property, plant and equipment		-		(639,729)		(669,656)
Profit on sale of other assets		-		-		(44,485)
Net period cost for employee benefit plans of continuing operations		68,768		54,678		42,126
Impairment of property, plant and equipment of continued operations		95,869		23,047		17,934
Depreciation of right-of-use asset		247,732		286,474		266,626
Disposals of right-of-use asset		(8,145)		(12,202)		(16,727)
Other financial expenses		599,286		447,022		263,950
Equity in results of joint ventures		(648,965)		(1,350,730)		(1,441,336)
Interest expense from continuing operations		995,936		972,259		912,914
Profit on sale of shares		-		-		(18,265)
Derivative financial instruments		120,531		-		-
Interest income from continuing operations		(113,231)		(111,100)		(73,316)
		3,835,200		3,555,602		4,091,027
Changes in working capital:						
(Increase) decrease in:						
Accounts receivable		408,784		305,652		(917,657)
Inventories		1,128,085		(873,663)		(1,712,072)
Biological assets		311,605		(413,004)		(466,420)
Other accounts receivable, prepayment and other assets		416,799		(445,035)		(405,376)
Increase (decrease) in:						
Notes and accounts payable to suppliers		(2,451,920)		10,566		3,281,796

	2023		2022		2021	
Other payables and accrued liabilities		(550,571)		(84,868)		1,302,431
Accounts payable to related parties		23,876		13,508		(323)
Income taxes paid		(868,982)		(867,833)		(599,390)
Net cash flows generated by operating activities		2,252,876		1,200,925		4,574,016
Acquisition of property, plant and equipment		(779,935)		(1,310,657)		(2,246,947)
Proceeds from sale of property, plant and equipment		115,070		11,893		19,149
Proceeds from other assets		-		-		69,207
Sale of intangible assets		70,802		-		-
Dividends from joint ventures		842,730		1,083,517		645,984
Investment on intangible assets		(91,876)		(115,732)		(524,499)
Sale in shares		-		-		18,265
Interest received		113,231		111,100		73,316
Acquisition of business		(218,804)		-		-
Claim recovery from properties, plant and sinister equipment		-		-		669,656
Net cash flows (used in) generated by investing activities		51,218		(219,879)		(1,275,869)
Cash flows from financing activities:						
Proceeds from debt		587,508		1,164,263		-
Payments of debt		(1,094,782)		(1,798,361)		(2,147,462)
Other financial expenses		(599,286)		(447,022)		(263,950)
Lease payments		(311,110)		(354,241)		(344,749)
Interest paid		(896,167)		(847,520)		(756,861)
Dividends paid		-		(437,923)		(394,641)
Repurchase of common shares, net of dividends		(13,424)		(25,300)		(38,124)
Net cash flows used in in financing activities		(2,327,261)		(2,746,104)		(3,945,787)
Effects of exchange rate changes on cash and cash equivalents		(477,699)		(281,395)		214,254
Decrease in cash and cash equivalents		(500,866)		(2,046,453)		(433,386)
Cash and cash equivalents at beginning of year		2,332,851		4,379,304		4,812,690
Cash and cash equivalents at end of year	Ps.	1,831,985	Ps.	2,332,851	Ps.	4,379,304

See accompanying notes to consolidated financial statements.

KUO, S.A.B. de C.V. and Subsidiaries

Notes to the Consolidated Financial Statements

For the years ended December 31, 2023, 2022 and 2021

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

1. PRINCIPAL ACTIVITIES

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

- **Business acquisition:**
 - **PCP del Sureste:** On January 12, 2023 KUO, through its subsidiaries KUO Consumo, S.A.P.I de C.V. and Grupo Porcicola Mexicano, S.A. de C.V., purchased a business dedicated to the production of flour and fats based on meat residues left by the two processing plants of the Porcicola segment in Yucatan. The acquisition is part of the strategy of increasing the value chain, with the incorporation of products into the owned food production. The acquisition amounted to Ps. 274 million, of which 70% was paid at the signing of the contract and the remaining 30% within 12 months.
 - **Electric GT:** On August 15, 2023, Tremec Corporation acquired the "Electric GT" business, a conversion systems supplier designed to transform internal combustion engine vehicles ("ICE") into battery electric vehicles (Battery Electric Vehicle "BEV"). This acquisition aims to strengthen the presence in the high-performance vehicle segment, expanding the offering with applications in the electric market. The purchase value includes an Earnout scheme subject to the business growth results for the years 2024 to 2027. See note 7.
- **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 2023, 2022 and 2021, the Entity made significant investments in strategic projects for the Consumer and Automotive Segments for Ps. 332 million, Ps.942 million and Ps. 1,967 million in property, plant and equipment, respectively, and for Ps. 92 million, Ps.116 million and Ps. 524 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 KUO contracted and renewed committed credit lines with different financial institutions for US 450 million. 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 20 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.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

New and amended IFRS Accounting Standards that are 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 1 January 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements— Disclosure of Accounting Policies	<p>The group has adopted the amendments to IAS 1 for the first time in the current year. 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.</p> <p>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.</p> <p>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.</p>
Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction	<p>The group has adopted the amendments to IAS 12 for the first time in the current year. 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 profit nor taxable profit.</p> <p>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.</p>

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates	The group has adopted the amendments to IAS 8 for the first time in the current year. 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.
--	---

New and revised IFRS Accounting Standards in issue but not yet effective

At the date of authorization of these financial statements, the group has not applied the following new and revised IFRS Accounting 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	<i>Non-current Liabilities with Covenants</i>
Amendments to IAS 7 and IFRS 7	<i>Supplier Finance Arrangements</i>
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i>

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the group in future periods, except if indicated below.

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 parent 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 Non-current

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 1 January 2024, with early application permitted. The IASB has aligned the effective date with the 2022 amendments to IAS 1. If an entity applies the 2020 amendments for an earlier period, it is also required to apply the 2022 amendments early. The directors of the parent 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—Non-current Liabilities with Covenants

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity’s right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or noncurrent). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity’s financial position at the reporting date that is assessed for compliance only after the reporting date).

The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity’s right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

The amendments are applied retrospectively for annual reporting periods beginning on or after 1 January 2024. Earlier application of the amendments is permitted. If an entity applies the amendments for an earlier period, it is also required to apply the 2020 amendments early.

The directors of the parent 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 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures—Supplier Finance Arrangements

The amendments add a disclosure objective to IAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

The term 'supplier finance arrangements' is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information.

To meet the disclosure objective, an entity will be required to disclose in aggregate for its supplier finance arrangements:

- The terms and conditions of the arrangements
- The carrying amount, and associated line items presented in the entity's statement of financial position, of the liabilities that are part of the arrangements
- The carrying amount, and associated line items for which the suppliers have already received payment from the finance providers
- Ranges of payment due dates for both those financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of a supplier finance arrangement
- Liquidity risk information

The amendments, which contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments, are applicable for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted.

Amendment to IFRS 16 Leases—Lease Liability in a Sale and Leaseback

The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognize a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date.

The amendments do not affect the gain or loss recognized by the seller-lessee relating to the partial or full termination of a lease. Without these new requirements, a seller-lessee may have recognized a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in IFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.

As part of the amendments, the IASB amended an Illustrative Example in IFRS 16 and added a new example to illustrate the subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The illustrative examples also clarify that the liability, that arises from a sale and leaseback transaction that qualifies as a sale applying IFRS 15, is a lease liability.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. If a seller-lessee applies the amendments for an earlier period, it is required to disclose that fact.

A seller-lessee applies the amendments retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied IFRS 16.

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 the derivatives 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, 2023, 2022 and 2021 of the Entity are:

Consumer Segment:	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%

Automotive segment:		
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, 2023, 2022 and 2021 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.

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 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.

Debt instruments classified as at FVTOCI

The corporate bonds held by the group are classified as at FVTOCI. Fair value is determined in the manner described in note 62(a)(i). The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses (see below), impairment gains or losses (see below), and interest income calculated using the effective interest method (see (i) above) are recognized in profit or loss. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these corporate bonds had been measured at amortized cost. All other changes in the carrying amount of these corporate bonds are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these corporate bonds are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

Equity instruments designated as at FVTOCI

On initial recognition, the group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'Finance income - Other' line item in profit or loss. The group designated all investments in equity instruments that are not held for trading as at FVTOCI on initial recognition.

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).

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (iii) above).
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria (see (i) and (ii) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses'. Fair value is determined in the manner described in note 17.

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 guaranteed 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.

(i) 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 guaranteed 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.

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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.

Compound instruments

The component parts of convertible loan notes issued by the group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the parent company's own equity instruments is an equity instrument.

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. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case the balance recognized in equity will be transferred to other equity. Where the conversion option remains unexercised at the maturity date of the convertible loan note, the balance recognized in equity will be transferred to other equity. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

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 at FVTPL

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

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

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

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

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

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

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

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

Fair value is determined in the manner described in note 62(a)(i)

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.

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, 2023, 2022 and 2021, 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 - 22 years
Industrial machinery	15 years
Tooling	3 - 5 years
Plant and equipment	10 years
Vehicles	4 years
Laboratory equipment	10 years
Airplane	25 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

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.

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.

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.

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. Goodwill

Goodwill is initially recognized and measured as set out above. 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 group'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 group's policy for goodwill arising on the acquisition of an associate is described below.

q. Investments in joint ventures

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

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

The results and assets and liabilities of joint ventures or associates are incorporated in the financial statements using the equity method, except if the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, *"Non-current Assets Held for Sale and Discontinued Operations"*.

Under the equity method, investments in joint ventures or associates are initially recognized in the consolidated statement of financial position at cost and adjusted for subsequent changes to the acquisition by the Entity's participation in the profit or loss and comprehensive income of the associate or joint venture. When the Entity's participation in the losses of an associate or a joint business entity exceeds the Entity's participation in the joint venture or associate, or (which includes the long-term interests that, in substance, form part of the net investment in the joint venture entity or associate) the Entity stops recognizing its share of losses. Additional losses are recognized only when the Entity has incurred in a legal or constructive obligation or made payments on behalf of the joint venture or associate.

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

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

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

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

The Entity continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Entity reduces its ownership interest in an associate or a joint venture but the Entity continues to use the equity method, the Entity reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

r. 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 acquiree or share-based payment arrangements of the Entity entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2, "Share-Based Payment" at the acquisition date; and
- Assets (or a group of assets for disposal) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with 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 acquiree (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.

s. 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 16d.

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

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

- The lease term is modified or there is a significant event or change in the circumstances of the lease resulting in a change in the evaluation of the purchase option exercise, in which case the lease liability is measured by discounting the updated rental payments using an updated discount rate.
- The rent payments are modified as a consequence of changes in indexes, rate or in the expected payment under a guaranteed residual value, in which cases the lease liability is re-evaluated by discounting the updated rent payments using the same discount rate (unless that the change is due to a change in the variable interest rate, in which case an updated discount rate is used).

- A lease is amended, and the modification of the lease is not accounted for as a separate lease, in which case the lease liability is re-evaluated based on the lease term of the modified lease, discounting updated rental payments using a discount rate updated to the effective date of the modification.

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

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

In some cases, rights-of-use assets are depreciated over the shorter period between the lease period and the useful life of the underlying asset. If a lease 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 26).

t. 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.

u. 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, 2023, 2022 and 2021, 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.

v. 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.

w. 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.

x. 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.

y. 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.

z. 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.
- **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 9, 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 expected credit loss**

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

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

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

- **Impairment of long-lived assets**

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

- **Estimation of inventory obsolescence**

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

- **Discount rate of employee benefits**

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

- **Provisions**

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

- **Valuation techniques**

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

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

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Note 17.

6. SEGMENT INFORMATION

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

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

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

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

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

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

Consolidated financial information

For the year ended December 31, 2023	Consumer		Chemical		Automotive		KUO and others		Eliminations	Total	Elimination of joint ventures	Consolidated information
Nets sales	Ps. 27,881,570	Ps. 11,667,417	Ps. 15,050,075	Ps. 1,132,278	Ps. (845,697)	Ps. 54,885,643	Ps. (16,103,432)	Ps. 38,782,211				
General expenses	5,355,609	1,072,698	1,016,669	1,131,006	(722,190)	7,853,792	(3,180,971)	4,672,821				
Other income, net	(5,948)	(69,602)	(5,028)	4,641	(234)	(76,171)	47,951	(28,220)				
Depreciation and amortization	895,748	455,478	1,042,978	28,036	-	2,422,240	(566,811)	1,855,429				
Net employee benefit cost	31,712	5,590	29,297	19,979	-	86,578	(17,810)	68,768				
Impairment of fixed and intangible assets	(997)	-	1,871	94,995	-	95,869	-	95,869				
Equity in results of joint ventures	-	-	-	-	-	-	(648,965)	(648,965)				
Income from operations	879,709	166,444	630,978	(3,370)	-	1,673,761	(236,431)	1,437,330				
Interest income	159,189	73,600	30,229	543,761	(577,734)	229,045	(115,814)	113,231				
Interest expense	(299,316)	(94,705)	(237,886)	(1,041,066)	577,734	(1,095,239)	99,303	(995,936)				
Other financial expenses	(338,314)	(119,955)	(101,965)	(33,177)	-	(593,411)	(5,875)	(599,286)				
Exchange gain, net	594,435	58,801	300,687	(61,825)	-	892,098	(8,167)	883,931				
Equity in results of subsidiaries and associates	-	(2,808)	-	1,619,682	(1,619,682)	(2,808)	2,808	-				

For the year ended December 31, 2023	Consumer	Chemical	Automotive	KUO and others	Eliminations	Total	Elimination of joint ventures	Consolidated information
Income taxes	390,205	(108,214)	(201,596)	288,487	-	368,882	(265,135)	103,747
Net income (loss)	605,498	189,591	823,641	735,516	(1,619,682)	734,564	959	735,523
Cash and cash equivalents	679,441	801,484	121,706	1,580,230	-	3,182,861	(1,350,876)	1,831,985
Total assets	25,779,207	10,726,711	14,895,078	33,433,135	(33,751,022)	51,083,109	(7,094,783)	43,988,326
Total liabilities	14,030,064	5,202,347	5,734,055	17,146,347	(7,528,520)	34,584,293	(7,089,993)	27,494,300
Total financial debt	-	1,002,227	-	11,668,598	-	12,670,825	(1,002,226)	11,668,599
Lease liability	506,323	445,722	640,545	39,382	-	1,631,972	(294,827)	1,337,145
Investment in intangibles	1,805	6,304	80,177	3,590	-	91,876	-	91,876
Additions to property, plant and equipment	303,480	489,635	185,619	390,433	-	1,369,167	(589,232)	779,935
Business acquisition	-	-	-	218,804	-	218,804	-	218,804

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)	\$ 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
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
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

- 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, 2023, 2022 and 2021.

	2023	%	2022	%	2021	%
Pork meat	Ps. 17,359,525	44.8	Ps. 18,049,396	40.4	Ps. 16,210,839	40.2
Polystyrene	6,029,808	15.5	10,570,851	23.7	9,217,258	22.9
Transmissions and components	10,249,196	26.4	11,397,934	25.5	10,908,401	27.0
Auto parts	4,800,879	12.4	4,396,809	9.8	3,734,753	9.3
Others	342,803	0.9	289,462	0.6	238,163	0.6
Total	Ps. 38,782,211	100	Ps. 44,704,452	100	Ps. 40,309,414	100

- b. The following tables present sales classified by geographic area for the years ended December 31, 2023, 2022 and 2021:

	2023	2022	2021
México	Ps. 19,857,455	Ps. 23,110,038	Ps. 19,418,759
United States of America and Canada	11,978,360	14,213,442	13,354,791
Asia	5,227,534	5,199,508	5,451,693
Europe	1,312,062	1,464,220	1,321,782
Rest of the world	406,800	717,244	762,389
Total	Ps. 38,782,211	Ps. 44,704,452	Ps. 40,309,414

- c. KUO has a diverse customer base in the three segments in which it mainly operates. For the years ended December 31, 2023, 2022 and 2021, no customer represents more than 5% of consolidated net sales; except in the automotive segment, where it has a client, whose sales represent more than 17%, 12% and 10% of the total consolidated sales.

7. BUSINESS COMBINATION

- a. Business acquisitions - During 2023, KUO acquired several businesses, which were recorded using the purchase method. The results of these businesses have been included in these consolidated financial statements since the date of acquisition. The acquisitions are as follows:
- On January 12, 2023, KUO acquired PCP del Sureste, S.A. de C.V. by purchasing shares. The business is dedicated to the production of flour and fats based on meat residues left by the two processing plants of Porcicola in Yucatan. The acquisition is part of the strategy of increasing the value chain, with the incorporation of products into the own food production. The amount amounted to Ps. 274 million, of which Ps. 193 million was paid and the remainder will be liquidated within 12 months.
 - On August 15, 2023, KUO, through its subsidiary Tremec Corporation, acquired the business "Electric GT, LLC.", a conversion systems supplier designed to transform internal combustion engine (ICE) vehicles into battery electric vehicles (BEV).

Electric GT's proven conversion systems will allow Tremec to enter the electric market, along with EDU developments for OEMs, expanding the offer to customers in the Transmissions business.

With this strategic acquisition, KUO strengthens its presence in the high-performance vehicle segment, expanding the offering with applications in the electric market.

KUO has agreed to pay the previous shareholders an additional present value compensation in the event of achieving the annual growth percentage targets of "Net sales" and "Gross profit" during the next four financial years beginning January 1, 2024. KUO recorded a contingent liability for Ps. 50,790 as contingent additional consideration, which represents the fair value at the acquisition date, and which will be adjusted as the objectives are achieved.

b. Compensation Transferred

	Payment Amount	Amount pending payment	Amount Paid
PCP del Sureste, S.A. de C.V.	Ps. 274,217	Ps. (81,000)	Ps. 193,217
Electric GT, LLC.	81,067	(53,653)	27,414
Total	Ps. 355,284	Ps. (134,653)	Ps. 220,631

Procurement-related costs have been excluded from the transferred consideration and have been recognized as an expenditure over the period in the consolidated statements of integral utility.

- c. Assets acquired and liabilities assumed at the date of acquisition.

	PCP	Electric GT	Total
Assets:			
Cash and cash equivalents	Ps. 1,827	Ps. -	Ps. 1,827
Accounts receivable	49,738	7,013	56,751
Inventories	11,315	9,502	20,817
Advance payment	1,240	1,240	
Property, plant, and equipment	66,674	689	67,363
Intangible assets	0	4,959	4,959
Other assets	1,100	92	1,192
Liability:			
Current liabilities	(57,436)	(26,130)	(83,566)
Deferred tax liabilities	(7,303)	-	(7,303)
Non-current liabilities	(261)	-	(261)
Net assets	Ps. 66,894	Ps. (3,875)	Ps. 63,019

d. Goodwill

	Consideration transferred	The value of the net assets acquired	Goodwill
PCP del Sureste, S.A. de C.V.	Ps. 274,217	Ps. 66,894	Ps. 207,323
Electric GT, LLC	81,067	(3,875)	84,942
Total	Ps. 355,284	Ps. 63,019	Ps. 292,265

e. Net cash flow on the acquisition of subsidiaries

		2023
Compensation paid in cash	Ps.	220,631
Less: Account Balances cash and cash equivalent acquired		(1,827)
Net	Ps.	218,804

8. 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:

	2023		2022		2021
Cash and cash equivalents	Ps.	253,012	Ps.	228,562	Ps. 171,542
Investments		1,578,973		2,104,289	4,207,762
Total	Ps.	1,831,985	Ps.	2,332,851	Ps. 4,379,304
Investments:					
Banknote paper	Ps.	1,578,973	Ps.	2,104,289	Ps. 4,204,436
Short-term investments		-		-	3,326
Total	Ps.	1,578,973	Ps.	2,104,289	Ps. 4,207,762

9. ACCOUNTS AND NOTES RECEIVABLE

	2023		2022		2021
Trade	Ps.	2,707,218	Ps.	3,095,752	Ps. 3,388,787
Allowance for discounts		(132,576)		(171,308)	(162,256)
Allowance for doubtful accounts		(94,422)		(54,494)	(50,928)
		2,480,220		2,869,950	3,175,603
Other debtors		204,983		146,695	142,089
Recoverable taxes		1,338,467		1,413,825	1,173,527
Total	Ps.	4,023,670	Ps.	4,430,470	Ps. 4,491,219

Trade receivables

The average credit period on sales of goods is 60 days. The Entity has recognized a loss allowance of 59.11% 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. 84% of the accounts receivable from customers that are not due or impaired, have the best attributable credit rating according to the external credit rating system used by the Entity.

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

December 31, 2023	Trade receivables - days past due					Total
	<30	31 - 60	61 - 90	91 - 120	>120	
Expected credit loss rate	2.00%	4.49%	1.52%	1.51%	59.11%	
Estimated total gross carrying amount at default	2,283,850	169,338	50,630	138,471	64,929	Ps. 2,707,218
Lifetime ECL	(45,584)	(7,601)	(770)	(2,088)	(38,379)	(94,422)
						Ps. 2,612,796

December 31, 2022	Trade receivables - days past due					Total
	<30	31 - 60	61 - 90	91 - 120	>120	
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)
						Ps. 3,041,258

December 31, 2021	Trade receivables - days past due					Total
	<30	31 - 60	61 - 90	91 - 120	>120	
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)
						Ps. 3,337,859

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.

	2023		2022		2021
Balance at the beginning of the year	Ps.	(54,496)	Ps.	(50,928)	Ps. (31,511)
Amounts written off		17,246		1,037	2,237
Accounts considered uncollectible during the year		7,320		12,127	5,386
Impairment		(64,492)		(16,730)	(27,040)
Balance at the end of the year	Ps.	(94,422)	Ps.	(54,494)	Ps. (50,928)

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, 2023, 2022 and 2021, the Entity sold as non-recourse accounts receivables with an accumulated carrying value of US281,288, US260,539 and, US229,192, to a bank for cash funds of US278,601, US259,111 and US227,870, 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 2023, 2022 and 2021, the carrying amount of short-term accounts receivable, which are current and derecognized, amounts to Ps.587,911, Ps. 650,914 and Ps. 515,642, respectively.

10. INVENTORIES

	2023		2022		2021	
Finished goods and work in process	Ps.	3,370,000	Ps.	3,646,021	Ps.	2,572,008
Raw materials, supplies and others		4,142,983		4,811,202		4,880,160
		7,512,983		8,457,223		7,452,168
Allowance for obsolete and slow-moving inventories		(285,145)		(294,419)		(301,176)
Goods in transit		147,902		320,204		458,353
	Ps.	7,375,740	Ps.	8,483,008	Ps.	7,609,345

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

	2023		2022		2021	
Balances at the beginning of the year	Ps.	(294,419)	Ps.	(301,176)	Ps.	(226,138)
Increase in the allowance		(95,088)		(54,389)		(156,050)
Application		32,194		(10,375)		30,373
Decreases		72,168		71,521		50,639
Balances at the end of the year	Ps.	(285,145)	Ps.	(294,419)	Ps.	(301,176)

The cost of inventories recognized as an expense during the year in respect to continuing operations was Ps.25,677,290, Ps.30,999,107 and Ps.26,755,388 for the years ended December 31, 2023, 2022 and 2021, respectively.

11. BIOLOGICAL ASSETS

	2023		2022		2021	
Balances at the beginning of the year	Ps.	2,684,230	Ps.	2,271,226	Ps.	1,804,806
Production costs		9,518,619		10,939,150		9,129,112
Transfer to inventories		(9,830,224)		(10,526,146)		(8,662,692)
Balances at the end of the year	Ps.	2,372,625	Ps.	2,684,230	Ps.	2,271,226
Biological assets – short-term	Ps.	1,674,128	Ps.	1,969,340	Ps.	1,692,156
Biological assets – long-term		698,497		714,890		579,070
	Ps.	2,372,625	Ps.	2,684,230	Ps.	2,271,226

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.

12. PROPERTY, PLANT AND EQUIPMENT

Reconciliation of beginning and ending balances as of December 31, 2023, 2022 and 2021 is as follows:

	Balance as of December 2022		Additions		Business Acquisition		Disposals		Impairment		Transferred assets		Translation effect		Balance as of December 31, 2023	
Investment:																
Land	Ps.	1,316,081	Ps.	-	Ps.	6,812	Ps.	(2,759)	Ps.	-	Ps.	24	Ps.	(101,900)	Ps.	1,218,258
Building and installations		7,353,929		-		21,518		(71,415)		-		175,883		(199,399)		7,280,516
Industrial machinery and equipment		12,116,346		6,311		38,553		(333,510)		-		470,011		(1,051,231)		11,246,480
Office furniture and equipment		202,639		1,702		351		(871)		-		2,669		(7,451)		199,039
Vehicles		330,445		180,016		129		(202,466)		-		22,465		(563)		330,026
Aircraft		-		207,372		-		-		-		595,625		-		802,997
Other assets		21,314		-		-		-		-		8,872		(2,192)		27,994
Projects-in-progress		1,212,997		384,534		-		-		-		(1,275,549)		(11,295)		310,687
Total investment		22,553,751		779,935		67,363		(611,021)		-		-		(1,374,031)		21,415,997
Depreciation:																
Building and installations		(2,293,439)		(301,414)		-		40,393		-		-		101,481		(2,452,979)
Industrial machinery and equipment		(7,841,150)		(696,449)		-		307,268		(874)		-		773,650		(7,457,555)
Office furniture and equipment		(164,194)		(9,053)		-		805		-		-		5,283		(167,159)
Vehicles		(276,707)		(23,560)		-		117,030		(94,995)		-		302		(277,930)
Aircraft		-		(5,353)		-		-		-		-		-		(5,353)
Other assets		(15,117)		(3,835)		-		-		-		-		1,705		(17,247)
Total accumulated depreciation		(10,590,607)		(1,039,664)		-		465,496		(95,869)		-		882,421		(10,378,223)
Net investment	Ps.	11,963,144	Ps.	(259,729)	Ps.	67,363	Ps.	(145,525)	Ps.	(95,869)	Ps.	-	Ps.	(491,610)	Ps.	11,037,774

	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 at the beginning of 2021		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

(i) Includes loss in sinister of Ps. 1,500 for the years 2021 (see Note 27).

13. 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:

	2023	2022	2021
Building	9	10	12
Computer equipment	4	4	4
Machinery and equipment	6	6	6
Transportation equipment	5	4	7
Airplane	-	12	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, 2022		Acquisitions	Disposals ¹	Net	Translation effect	Balance as of December 31, 2023					
Costs:												
Building	Ps.	1,689,382	Ps.	63,827	Ps.	(76,202)	Ps.	-	Ps.	(132,949)	Ps.	1,544,058
Computer equipment		21,172		4,392		-		(1,103)		-		24,461
Machinery and equipment		83,349		6,914		(935)		-		(9,864)		79,464
Transportation equipment		203,084		63,460		(17,916)		(11,624)		(22,025)		214,979
Airplane		132,641		-		(132,641)		-		-		-
Total investment		2,129,628		138,593		(227,694)		(12,727)		(164,838)		1,862,962
Accumulated depreciation:												
Building		(419,541)		(163,031)		27,870		-		55,252		(499,450)
Computer equipment		(10,848)		(5,721)		-		1,103		-		(15,466)
Machinery and equipment		(36,276)		(22,208)		941		-		5,787		(51,756)
Transportation equipment		(72,229)		(54,269)		9,929		11,624		17,725		(87,220)
Airplane		(120,127)		(2,503)		122,630		-		-		-
Total accumulated depreciation		(659,021)		(247,732)		161,370		12,727		78,764		(653,892)
Net cost	Ps.	1,470,607	Ps.	(109,139)	Ps.	(66,324)	Ps.	-	Ps.	(86,074)	Ps.	1,209,070

	Balances as of December 31, 2021		Acquisitions	Disposals ¹	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 at the beginning of 2021		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	

Amounts recognized as expenses in results:

	2023		2022		2021	
Depreciation right-of-use asset	Ps. 247,732	Ps. 286,474	Ps. 266,626			
Interest on lease liability	91,243	92,989	107,276			
Short-term leases	210,121	232,665	202,233			

Total cash outflows for leases amounted to Ps.311,110, Ps.354,241 and Ps.344,749 in 2023, 2022 and 2021, respectively.

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

	2023	2022	2021
Building and installations	7.69%	5.30%	4.36%
Computer equipment	8.05%	3.98%	3.78%
Machinery and equipment	7.92%	4.86%	3.97%
Transportation equipment	7.89%	5.05%	3.82%
Airplane	7.38%	5.54%	3.83%

14. INVESTMENTS IN JOINT VENTURES AND OTHER INVESTMENTS:

	2023		2022		2021	
Investments in joint ventures	Ps. 10,125,182	Ps. 11,253,594	Ps. 11,453,173			
Other investments	2,231	1,864	1,821			
Total	Ps. 10,127,413	Ps. 11,255,458	Ps. 11,454,994			

Joint ventures

a. As of December 31, 2023, 2022 and 2021, the balance of investments in joint ventures is as follows:

	Location	Activity	2023		2022		2021	
			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. 5,357,866	50%	Ps. 5,734,013	50%	Ps. 5,990,762
Synthetic rubber ⁽ⁱ⁾	Mexico, Spain and China	Production of synthetic rubber	50%	4,767,316	50%	5,519,581	50%	5,462,411
Total				Ps. 10,125,182		Ps. 11,253,594		Ps. 11,453,173

(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:

	2023		2022		2021	
Balance as of January 1	Ps. 11,253,594	Ps. 11,453,173	Ps. 10,612,109			
Participation in the results of the period	648,965	1,350,730	1,441,336			
Dividend distribution	(842,730)	(1,083,517)	(645,984)			
Participation in other comprehensive income items	(934,647)	(466,792)	45,712			
Balance as of December 31	Ps. 10,125,182	Ps. 11,253,594	Ps. 11,453,173			

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

Equity in results	2023		2022		2021	
Herdez del Fuerte, S.A. de C.V. and Subsidiaries	Ps. 821,627	Ps. 671,784	Ps. 614,552			
Synthetic Rubber	(172,662)	678,946	826,784			
Total	Ps. 648,965	Ps. 1,350,730	Ps. 1,441,336			

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

Equity in results:	2023		2022		2021	
Herdez del Fuerte, S.A. de C.V. and Subsidiaries	Ps.	(355,043)	Ps.	7,593	Ps.	72,521
Synthetic Rubber		(579,604)		(474,385)		(26,809)
Total	Ps.	(934,647)	Ps.	(466,792)	Ps.	45,712

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

Herdez del Fuerte, S.A. de C.V. and Subsidiaries	2023		2022		2021	
Current assets	Ps.	9,574,479	Ps.	8,971,009	Ps.	8,818,938
Non-current assets		10,291,606		10,552,957		10,503,529
Current liabilities		7,558,938		6,678,893		5,822,230
Non-current liabilities		790,186		574,926		723,760
Net assets		11,516,961		12,270,147		12,776,477
Non - controlling interest		(9,580)		(10,470)		(3,303)
Controlling interest net assets	Ps.	11,507,381	Ps.	12,259,677	Ps.	12,773,174
Cash and cash equivalents	Ps.	999,144	Ps.	1,274,060	Ps.	1,443,751
Revenue	Ps.	14,134,444	Ps.	12,517,868	Ps.	10,414,273
Income from operations		1,560,687		1,382,216		984,724
Net income		1,641,334		1,340,518		1,223,740
Net loss of non - controlling interest		(1,918)		(3,049)		(5,364)
Net income of controlling interest		1,641,334		1,343,567		1,229,104
The income of the period includes:						
Depreciation and amortization		338,727		292,518		289,567
Net period cost		35,621		28,929		29,104
Interest income		(165,604)		(119,762)		(58,035)
Interest expense		21,634		16,009		20,470
Income tax expense		853,950		634,976		594,444

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:

	2023		2022		2021	
Net assets of the joint venture	Ps.	11,507,381	Ps.	12,259,677	Ps.	12,773,174
Participation		50%		50%		50%
Equity of the Entity's interest in the joint venture		5,753,691		6,129,838		6,386,587
Goodwill	Ps.	(395,825)	Ps.	(395,825)	Ps.	(395,825)
Carrying amount of the interest in the joint venture	Ps.	5,357,866	Ps.	5,734,013	Ps.	5,990,762
Net income of controlling interest	Ps.	1,643,252	Ps.	1,343,567	Ps.	1,229,104
Participation		50%		50%		50%
Profit for the period	Ps.	821,627	Ps.	671,784	Ps.	614,552
Synthetic Rubber						
Current assets	Ps.	6,095,379	Ps.	8,631,036	Ps.	8,387,356
Non-current assets		7,483,845		7,824,037		8,029,513
Current liabilities		3,028,868		4,411,769		4,409,448
Non-current liabilities		1,015,724		1,004,141		1,082,597
Net assets controlling interest	Ps.	9,534,632	Ps.	11,039,163	Ps.	10,924,824
Cash and cash equivalents	Ps.	1,481,798	Ps.	1,184,372	Ps.	947,951
Revenue	Ps.	10,418,604	Ps.	17,280,989	Ps.	15,740,586
(Loss) income from operations		(721,307)		1,542,872		2,045,586
Net (loss) income		(345,323)		1,357,892		1,653,569
Net (loss) income of controlling interest		(345,323)		1,357,892		1,653,569
Income of the period includes:						
Depreciation and amortization		494,696		571,052		541,466
Interest income		(66,041)		(43,668)		(38,526)
Interest expenses		106,007		56,536		30,136
Income tax (benefit) expense		(430,159)		252,371		552,006

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:

		2023		2022		2021	
Net assets of the joint venture	Ps.	9,534,632	Ps.	11,039,163	Ps.	10,924,824	
Participation		50%		50%		50%	
Carrying amount of the interest in the joint venture	Ps.	4,767,316	Ps.	5,519,581	Ps.	5,462,411	
Net (loss) income of controlling interest	Ps.	(345,323)	Ps.	1,357,892	Ps.	1,653,569	
Participation		50%		50%		50%	
(Loss) profit for the period	Ps.	(172,662)	Ps.	678,946	Ps.	826,784	

15. INTANGIBLES AND OTHER ASSETS

		2023		2022		2021	
Intangible assets (a)	Ps.	2,980,874	Ps.	3,987,544	Ps.	4,798,178	
Other assets (b)		420,893		227,826		230,567	
	Ps.	3,401,767	Ps.	4,215,370	Ps.	5,028,745	

a. Intangible assets

	Balances as of December 31, 2022		Business acquisition		Translation effect		Disposals		Balances as of December 31, 2023			
Investment:												
Projects and capitalized development costs	Ps.	5,291,344	Ps.	83,768	Ps.	4,959	Ps.	(648,589)	Ps.	(145,200)	Ps.	4,586,282
Capitalized costs associated with contracts with clients		690,109		-		-		(86,106)		-		604,003
Patents and trademarks		222,255		-		-		-		-		222,255
Licenses		215,524		8,108		-		(1,552)		(11,459)		210,621
Total		6,419,232		91,876		4,959		(736,247)		(156,659)		5,623,161
Accumulated amortization:												
Projects and capitalized development	Ps.	(1,893,717)	Ps.	(464,735)	Ps.	-	Ps.	225,436	Ps.	74,398	Ps.	(2,058,618)
Capitalized contract compliance costs		(328,529)		(92,244)		-		44,697		-		(376,076)
Patents and trademarks		(84,874)		-		-		-		-		(84,874)
Licenses		(124,568)		(11,054)		-		1,444		11,459		(122,719)
Total		(2,431,688)		(568,033)		-		271,577		85,857		(2,642,287)
	Ps.	3,987,544	Ps.	(476,157)	Ps.	4,959	Ps.	(464,670)	Ps.	(70,802)	Ps.	2,980,874

	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 at the beginning of 2021		Additions		Translation effect		Disposals		Balances as of December 31, 2021	
Investment:										
Projects and capitalized development costs	\$	5,277,107	\$	49,470	\$	159,365	\$	-	\$	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	\$	(841,746)	\$	(551,615)	\$	(26,964)	\$	-	\$	(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)
	\$	5,280,208	\$	(631,248)	\$	149,528	\$	(310)	\$	4,798,178

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 2023, 2022 and 2021, investments were made for Ps.80 million, Ps.92 million and Ps.49 million, respectively.

b. Other assets

	2023		2022		2021
Goodwill	Ps.	292,677	Ps.	-	Ps. 515
Guarantee deposits		47,801		147,183	149,614
Artworks		76,883		76,883	76,883
Others		3,532		3,760	3,555
	Ps.	420,893	Ps.	227,826	Ps. 230,567

16. FINANCIAL INSTRUMENTS**a. Financial risk management objectives**

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

KUO seeks to minimize the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Entity's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes

b. Market risk

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

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

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

Foreign currency risk management

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

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

	Assets			Liabilities		
	2023	2022	2021	2023	2022	2022
US dollars	67,165	131,817	161,311	699,156	672,326	690,075
Ps. pesos	37,773	121,280	285,756	229,662	256,946	320,522

- (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.

	2023	2022	2021
Results	Ps. 1,069,455	Ps. 1,197,738	Ps. 1,149,090 ⁽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 TIEE 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 2023 Ps.5,157, in 2022 Ps. 9,941 and Ps. 10,981 in 2021. 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 9 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, 2023 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 9).

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 2023, 2022 and 2021.

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, 2023	Six months	One year	1 and 3 years	More than 3 years	Total
Bank loans including the current portion of long-term debt	Ps. 335,604	Ps. 428,775	Ps. 2,020,570	Ps. 11,470,762	Ps. 14,255,711
Notes and accounts payable to suppliers	7,637,077	-	-	-	7,637,077
Lease liability	151,414	149,373	768,968	797,455	1,867,210
Other payables and accrued liabilities	4,236,089	-	16,939	34,098	4,287,126
Accounts payable to related parties	15,930	-	-	-	15,930
Total	Ps. 12,376,114	Ps. 578,148	Ps. 2,806,477	Ps. 12,302,315	Ps. 28,063,054

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

Al 31 de diciembre de 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. 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

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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:

	2023		2022		2021	
	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. (11,668,599)	Ps. (11,240,874)	Ps. (13,710,945)	Ps. (13,436,534)	Ps. (15,063,383)	Ps. (15,545,662)
Derivatives designated as hedging instruments (level 2)						
Forwards ⁽²⁾	Ps. (117,346)	Ps. (117,346)	Ps. -	Ps. -	Ps. (808)	Ps. (808)
Total	Ps. (11,785,945)	Ps. (11,358,220)	Ps. (13,710,945)	Ps. (13,436,534)	Ps. (15,064,191)	Ps. (15,546,470)

- (1) The fair value of debt issued on the stock market was obtained based on the financial indicators provided by Accival Casa de Bolsa Banamex and Thomson Reuters, which determine the price for bonds issued by KUO that can be exchanged. This value represents the fair amount for these instruments to be exchanged on their respective expiration dates.
- (2) Discounted cash flows. The future cash flows are estimated on the basis of the rates of forward exchange rates (starting from observable forward exchange rates at the end of the reporting period) and rates of forward contract, discounted at a rate that reflects credit risk of various counterparties.

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

18. DERIVATIVE FINANCIAL INSTRUMENTS

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

As of December 31, 2023, 2022 and 2021, the effect in other comprehensive income (loss) is Ps.2,230, Ps.566 and Ps.(566), net of deferred tax, respectively.

19. FINANCIAL INSTRUMENTS TO HEDGE NET INVESTMENTS IN FOREIGN OPERATIONS

As of January 2, 2020, the Entity designated the bond in the amount of US450 million as a hedging instrument for its net foreign investments Resirene, S.A. de C.V., Transmisiones y Equipos Mecánicos, S.A. de C.V., Resirene USA 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, 2023:

Holding	Functional currency	Hedging instruments	Notional value (US)	Covered item	Covered assets of the hedged item (US)
KUO, S.A.B. de C.V.	MXN	Bond	425,274	Resirene, S.A. de C.V.	39,391
	MXN	Debt	38,864	Transmisiones y Equipos Mecánicos, S.A. de C.V.	399,174
				Resirene USA Inc	5,835
				Tremec Corporation	19,738

As of December 31, 2022:

Holding	Functional currency	Hedging instruments	Notional value (US)	Covered item	Covered assets of the hedged item (US)
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)
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

The Entity's average hedge ratio amounted to 100% from the date of designation until December 31, 2023, 2022 and 2021, 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.107,346, Ps.(596,491) and Ps.276,978, 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.

20. BANK LOANS

			2023	2022	2021
I)	Senior Notes 2027	Ps.	7,196,495	Ps.	8,327,044
II)	Bilateral credit Bank of America		2,958,955		3,393,509
III)	HSBC simple credit		-		774,153
IV)	Syndicated credit		355,362		-
V)	BBVA simple credit		-		710,164
VI)	Bank of America committed line		-		53,016
VII)	Scotiabank simple credit		811,697		998,202
VIII)	Short-term loan Bank of America		346,090		165,021
			11,668,599		13,710,945
	Less - Bank loans and current portion of long-term debt		(95,601)		(546,227)
	Long-term debt	Ps.	11,572,998	Ps.	13,164,718
				Ps.	14,511,388

a. Summary of loan agreements:

- I) Senior Notes 2027- Bond for US\$450 million dollars, at a fixed rate of 5.75% issued in international markets in July 2017, with maturity date in July 2027. Pays interest every 180 days in the months of January and July (certain subsidiaries are granted as guarantors). As part of the optimization strategy in liability management, during 2022 and 2023 Ps.18.3 million dollars and Ps.4.2 million dollars respectively of the KUO 2027 bond were repurchased in the open market, the repurchased securities of this bond were canceled, thus reducing the total amount of the debt.
- II) Bank of America Bilateral Credit - held in March 2019 with Bank of America, N.A., for US\$175 million. It pays interest at LIBOR rate + 1.40%, with a maturity of 5 years, which was modified in January 2022, extending the maturity date to 2027 at a rate of SOFR 3m + 1.25% + 0.10%.
- III) Simple Credit - with HSBC Mexico, S.A. for the 1,500m SEP granted in July 2019 and pays interest quarterly to TIIE at 91 days + 1.45%, with amortizations increasing to 6 years starting in 2021. This credit was fully prepaid in October 2023.
- IV) Syndicated credit - In March 2022, KUO entered into a revolving syndicated loan contract for US\$180 million and \$2.399 million pesos, in which they act as lending banks: Bank of America N.A., JP Morgan Chase N.A., Coöperatieve Rabobank U.A., HSBC Mexico S.A. and BBVA Mexico S.A. It pays interest according to provisions at the rate SOFR 3m + 1.40% +0.10% dollars and TIIE 91 + 1.40% for pesos, with a maturity of 5 years; the loan is for general corporate purposes and is due in 2027. A provision of USD 21 million was made during 2023 and is due in March 2027.
- V) Simple credit - With BBVA Bancomer, S.A. for Ps.1,500 million granted in June 2018 and pays interest to TIIE at 28 days + 1.60%, with increasing amortizations over 7 years starting in 2019. The resources of this loan were used to cover investment requirements in new projects; This credit was settled in full early in May 2022.
- VI) Tremec Bank of America Credit - held in March 2018 with Bank of America, N.A., for US\$40 million that pays interest at LIBOR rate 3m + 1.60%, with maturity at 5 years, with 1.75 years of disposal and 3.25 years of linear amortizations beginning in 2020. The subsidiary TREMEC Corporation is the one accredited and acts as guarantors KUO and some subsidiaries. The resources are used to meet the requirements of the accredited flows. This credit was due in March 2023.

VII) Simple Scotiabank Credit - In May 2023, KUO entered into a bilateral credit contract with Scotiabank Inverlat S.A. for a sum of 1,000 million pesos, pays interest quarterly to TIIE for 91 days + 1.25%, With amortizations increasing since 2023 and due in 2027, destined to the total payment of the credit with BBVA Bancomer S.A. and to the partial payment with HSBC Mexico S.A. In December 2023, a partial prepayment of 130 million pesos was made.

VIII) Bank of America Credit - In August 2023, KUO entered into a credit contract with Bank of America N.A. for USD 20.8 million, pays interest monthly to SOFR 1m + 1.80% + 0.10%, With monthly amortizations of USD 90 thousand and payment at maturity of USD 10 million, whose destination of funds was for the purchase of the aircraft, due in August 2033.

Long-term debt maturities as of December 31, 2023 are as follows:

Year	Ps.	Amount
2025		207,263
2026		363,934
2027		10,728,898
2028		18,297
2029		18,297
2030		18,297
2031		18,297
2032		18,297
2033		181,417
	Ps.	11,572,997

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

	2023	2022	2021
Current portion of long-term debt	Ps. 95,601	Ps. 546,227	Ps. 551,995

The Bank loans measured at amortized cost are net of unamortized issuance costs which as of December 31, 2023, 2022 and 2021, amount Ps.49,183, Ps.65,200 and Ps.73,725, 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 December 2020, the entity obtained approval to the waivers requested from banks with existing loans confirming the agreement that the failure of the entity to comply with its obligations of the credit contracts, in each case, On the last day of each of the fiscal quarters of the entity ending on March 31, 2021, June 30, 2021, September 30, 2021, and December 31, 2021, They shall not constitute and shall not constitute a breach provided that and only to the extent that the leverage ratio in effect as at 31 March 2021 is not greater than 5.00 to 1.00, as at 30 June 2021 is not greater than 4.75 to 1.00, as of September 30 it is not greater than 4.50 to 1.00 and as of December 31 it is not greater than 4.25 to 1.00, in respect of the ratio of consolidated debt to total capitalization in effect on the last day of each of those dates, do not exceed 0.70 times to 1.00. The indices were fully met as at December 31, 2021.

In August 2023, the entity obtained approval to the waivers requested from banks with existing loans confirming the agreement that the failure of the entity to comply with its obligations of the credit contracts, in each case, On the last day of each of the fiscal quarters of the entity ending on September 30, 2023, December 31, 2023 and March 31, 2024, They shall not constitute or be deemed to constitute a breach or non-compliance event provided and only to the extent that the net leverage ratio in effect (1) as of 30 September 2023 is not greater than 4.00 to 1.00, (2) as of December 31, 2023 is not greater than 4.00 to 1.00 and (3) at 31 March 2024 is not greater than 3.75 to 1.00. The indices were fully met as of December 31, 2023.

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, 2022	Financing cash flows, net ⁽ⁱ⁾	Other changes ⁽ⁱⁱ⁾	December 31, 2023
Bank loans	Ps. 13,710,945	Ps. (507,274)	Ps. (1,535,072)	Ps. 11,668,599

	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

	January 1, 2021	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

i) The cash flows from bank loans are the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statements of cash flows.

ii) Other changes include exchange fluctuations and expenses associated with the issue of the Bonds recognized at amortized cost.

21. OTHER ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2023	2022	2021
Provisions (i)	Ps. 591,081	Ps. 652,952	Ps. 694,254
Tax liabilities	493,152	569,338	636,986
Other creditors	2,183,410	2,268,752	2,268,987
Customer advances	618,949	663,620	540,734
Deferred Tax	-	-	639,729
Current portion of tax consolidation deferred taxes (Note 25)	-	154,625	168,736
Interest payable	259,187	303,620	299,077
Dividends payable	426,995	11,702	11,413
Direct employee benefits	282,264	361,126	433,658
	Ps. 4,855,038	Ps. 4,985,735	Ps. 5,693,574

	2023		2022		2021	
Provisions (i):						
Beginning balance as of January 1	Ps.	652,952	Ps.	694,254	Ps.	294,453
Increase		429,298		619,860		555,197
Applications		(302,747)		(651,433)		(103,101)
Cancellation		(188,422)		(9,729)		(52,295)
Final balance as of December 31	Ps.	591,081	Ps.	652,952	Ps.	694,254

The provisions recorded as of December 31, 2023, 2022 and 2021 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.

22. EMPLOYEE BENEFITS

	2023		2022		2021	
a. Defined contribution plans for retirement benefits	Ps.	81,229	Ps.	93,266	Ps.	78,789
b. Defined benefit plans		530,822		514,525		582,888
Total	Ps.	612,051	Ps.	607,791	Ps.	661,677

a. Defined contribution plans for retirement benefits

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

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

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

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

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

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

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

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

b. Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Interest rate risk

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

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

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

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

Currently, for KUO, the discount rate used was 9.33%, 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, 2023 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:

	2023	2022	2021
	%	%	%
Discount rate	9.33	9.17	7.80
Expected rate of salary increase	8.00	5.00	5.00
Pension increase rate	4.80	4.80	4.80
Expected return on plan assets	9.33	9.17	7.80
Average longevity at retirement age for current pensioners (years)			
Males	22.47	22.38	22.32
Females	24.83	24.8	24.76

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

	2023	2022	2021
Service cost:			
Current service cost	Ps. 22,169	Ps. 28,771	Ps. 30,788
Cost past services	2,678	-	-
Financial cost	46,939	40,710	37,626
Reductions and early settlement	(73)	(13,743)	(25,389)
Interest income	(2,945)	(1,060)	(899)
Components of defined benefits costs recognized in profit or loss	Ps. 68,768	Ps. 54,678	Ps. 42,126

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:

	2023		2022		2021	
Cost of sales	Ps.	26,238	Ps.	25,743	Ps.	26,550
Operating expenses		42,530		28,935		15,576
Total	Ps.	68,768	Ps.	54,678	Ps.	42,126

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:

	2023		2022		2021	
Present value of defined benefit obligation	Ps.	598,824	Ps.	587,429	Ps.	655,506
Fair value of plan assets		(68,002)		(72,904)		(72,618)
Net liabilities generated by the defined benefit obligation	Ps.	530,822	Ps.	514,525	Ps.	582,888

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

	2023		2022		2021	
Opening balance of defined benefit obligation	Ps.	587,429	Ps.	655,506	Ps.	658,829
Current service cost		22,169		28,771		30,788
Interest cost		46,939		40,710		37,626
Actuarial (gains) and losses arising from changes in financial assumptions		18,135		(52,100)		22,963
Cost of past service including losses on reductions		2,678		-		-
Contributions from plan affiliates		414		704		877
Early settlement		(73)		(13,743)		(25,389)
Liabilities transfer		260		-		282
Translation effect		(20,874)		(9,612)		(5,221)
Benefits paid		(58,253)		(62,807)		(65,249)
Ending balance of defined benefit obligation	Ps.	598,824	Ps.	587,429	Ps.	655,506

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

	2023		2022		2021	
Opening balance of fair value of plan assets	Ps.	72,904	Ps.	72,618	Ps.	64,788
Interest income		2,945		1,060		899
Remeasurement gains		(3,727)		176		410
Contributions from employer		5,170		10,726		13,312
Contributions from employees		414		704		877
Benefits paid		(3,139)		(3,668)		(4,556)
Translation effect		(6,565)		(8,712)		(3,112)
Ending balance of the fair value of plan assets in financial institutions	Ps.	68,002	Ps.	72,904	Ps.	72,618

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:

	2023		2022		2021	
Changes in demographic assumptions	Ps.	(20,560)	Ps.	(5,618)	Ps.	(979)
Changes in financial assumptions		26,379		(88,378)		(38,835)
Experience		16,043		41,720		62,367
Actuarial gain (loss)	Ps.	21,862	Ps.	(52,276)	Ps.	22,553

If the discount rate is 50 basis points higher (lower), the defined benefit obligation would decrease by Ps.21,090 (increase by Ps.23,610).

If the expected salary growth increases (decreases) by 0.5%, the defined benefit obligation would increase by Ps.6,322 (decrease by Ps.8,459).

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

23. STOCKHOLDERS' EQUITY

Contributed capital

As of December 31, 2023, 2022 and 2021, capital stock is represented by:

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

At the Ordinary General Meeting of Shareholders held on April 24, 2023, the change of name of the company was approved to be "KUO, S.A.B. de C.V. and consequently to reform the first clause of the social statutes.

At the Ordinary General Meeting of Shareholders held on April 24, 2023, a dividend payment of Ps. 415,293 was approved for the annual profit account, which will be paid in accordance with Statement of cash flows the entity's earnings. In addition, it was approved to allocate the amount of Ps.1,000,000 to the share repurchase fund for a twelve-month period.

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.

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.13,424, Ps.25,300 and Ps. 38,124 as of December 31, 2023, 2022 and 2021, respectively.

As of December 31, 2023, 2022 and 2021 there are 18,831,337, 18,471,996 and 17,896,062 treasury shares, respectively.

As of December 31, 2023, 2022 and 2021 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, 2023, 2022 and 2021 the reserve fund amounts to Ps.448,807, Ps.355,220 and 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:

	2023		2022		2021	
Capital contribution account	Ps.	16,369,138	Ps.	15,869,804	Ps.	14,720,159
Net tax income account		19,969,952		17,005,364		14,107,364
Total	Ps.	36,339,090	Ps.	32,875,168	Ps.	28,827,523

24. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

	2023		2022		2021	
Revenues -						
Sales	Ps.	727,900	Ps.	1,300,917	Ps.	1,186,645
Administrative services rendered	Ps.	303,689	Ps.	183,794	Ps.	143,617
Services charged in advances	Ps.	101,000	Ps.	-	Ps.	-
Interest income	Ps.	9,708	Ps.	1,127	Ps.	1,288
Air transportation	Ps.	17,131	Ps.	18,272	Ps.	16,616
Recovery of expenses	Ps.	49,642	Ps.	76,644	Ps.	119,455
Expenses -						
Purchase of inventories	Ps.	99,780	Ps.	117,685	Ps.	116,479
Administrative services received	Ps.	2,512	Ps.	2,567	Ps.	2,737
Others	Ps.	525	Ps.	435	Ps.	408

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

	2023		2022		2021	
Accounts receivable -						
Short-term:						
Dynasol Elastómeros, S.A. de C.V.	Ps.	43,393	Ps.	63,876	Ps.	74,310
Industrias Negromex, S.A. de C.V.		27,487		20,009		25,764
Herdez del Fuerte, S.A. de C.V.		5,607		2,653		5,149
Dine 28, S.A. de C.V.		155		3,977		3,000
Fernando Senderos Mestre		626		662		678
Dynasol Gestión México, S.A.P.I. de C.V.		8,756		1,668		3,231
Plaza Bosques, S.A. de C.V.		-		61		-
Promociones Bosques, S.A. de C.V.		348		283		252
Administración de Riesgo, Agente de Seguros y Fianzas, S.A. de C.V.		-		348		105
Cantiles de Mita, S.A. de C.V.		6,494		6,570		34,201
Dine, S.A.B. de C.V.		5,320		2,673		5,666
Inmobiliaria Dine, S.A. de C.V.		1,445		2,122		5,120
Corporativo Dine, S.A. de C.V.		280		231		406
Costa Cantiles, S.A. de C.V.		5,196		4,173		
Others		431		389		124
Seradri, S.A. de C.V.		-		259		428
Fideicomiso 4757		3,368		-		-
Fideicomiso de Administración con Actividad Empresarial F/3293		1,175		106,111		-
	Ps.	110,081	Ps.	216,065	Ps.	158,434

	2023		2022		2021	
Long-term:						
Fideicomiso de Administración con Actividad Empresarial F/3293	Ps.	91,379	Ps.	-	Ps.	111,344
Accounts payable-						
Short-term:						
Dynasol Elastómeros, S.A. de C.V.	Ps.	11,663	Ps.	-	Ps.	40,671
Industrias Negromex, S.A. de C.V.		4,267		6,341		6,193
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		-
	Ps.	15,930	Ps.	6,659	Ps.	46,864

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*.

	2023		2022		2021	
Short-term and long-term benefits	Ps.	188,200	Ps.	215,303	Ps.	159,670

25. INCOME TAXES

The Entity is subject to ISR. Under the ISR Law the rate for 2023, 2022 and 2021 was 30% and will continue to be 30% thereafter.

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

	2023		2022		2021	
ISR:						
Income tax for the year	Ps.	597,368	Ps.	610,606	Ps.	448,974
Restatement of deferred income tax due to tax deconsolidation		2,506		14,207		25,228
Insufficiency from previous years		(3,758)		91		1,298
		596,116		624,904		475,500
Deferred tax		(492,369)		(348,938)		7,216
ISR Total	Ps.	103,747	Ps.	275,966	Ps.	482,716

b. Deferred tax recognized in other comprehensive result:

	2023		2022		2021	
Financial instruments	Ps.	(956)	Ps.	(243)	Ps.	243
Employee benefits		4,833		(15,486)		6,766
Exchange rate difference		(111,106)		(18,508)		(35,363)
Total deferred taxes	Ps.	(107,229)	Ps.	(34,237)	Ps.	(28,354)

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:

	2023		2022		2021	
Deferred income tax asset	Ps.	2,056,801	Ps.	1,724,749	Ps.	1,087,652
Deferred income tax liability		1,200,078		1,245,863		923,467
Deferred income tax asset	Ps.	856,723	Ps.	478,886	Ps.	164,185

d. Tax assets and liabilities:

	2023		2022		2021	
Assets:						
ISR	Ps.	170,832	Ps.	148,051	Ps.	133,936
Liabilities:						
ISR	Ps.	100,260	Ps.	194,005	Ps.	266,660
Deferred income tax arising from tax consolidation current liabilities		-		154,625		312,175
	Ps.	100,260	Ps.	348,630	Ps.	578,835

e. Deferred tax balances:

The tax effects of temporary differences that generated assets (liabilities) of deferred taxes as of December 31, 2023, 2022 and 2021, are as follows:

	Balance as of December 2022	Recognized in profit or loss for the year	Other comprehensive income items	Business acquisition	December 31, 2023
Deferred ISR asset:					
Effect of tax loss carryforwards	Ps. 604,111	Ps. 33,556	Ps. (46,545)	Ps. -	Ps. 591,122
Reserves and provisions	922,280	(116,190)	(46,191)	620	760,519
Advances from customers	199,085	(52,608)	(5,580)	-	140,897
Employee benefits	118,816	(959)	(471)	78	117,464
Simplified tax regime on purchases and sales	763,009	(161,822)	(6,549)	-	594,638
Income deferral	73,514	(5,256)	201	-	68,459
Derivative financial instruments	-	16,030	(956)	-	15,074
Lease liability	455,758	(40,265)	(28,985)	-	386,508
Others	44,798	99,963	3,343	-	148,104
Deferred ISR liability:					
Inventories	(1,379,557)	294,475	1,324	-	(1,083,758)
Property, plant and equipment	(904,007)	213,981	10,544	(7,990)	(687,472)
Right-of-use asset	(421,715)	39,039	27,976	-	(354,700)
Prepaid expenses	(74,625)	24,256	5,603	(11)	(44,777)
Intangible assets	77,419	148,169	(20,943)	-	204,645
Net deferred ISR asset (liability)	Ps. 478,886	Ps. 492,369	Ps. (107,229)	Ps. (7,303)	Ps. 856,723

	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 2021		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 for 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 asset		(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

f. Tax loss carryforwards

As of December 31, 2023, 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
2028	Ps. 158,017
2029	426,759
2030	1,142,021
2031	96,257
2032	1,223,758
2033	468,684
	Ps. 3,515,496

In determining deferred income taxes as of December 31, 2023, 2022 and 2021 the effects of tax loss carryforwards were included for Ps.3,515,496, Ps. 3,294,936 and Ps. 2,535,910, respectively. In the determination of deferred income taxes as of December 31, 2023, 2022 and 2021 the effects of deferred tax assets related to the carryforward of tax losses not recognized amounted to Ps.1,545,089, Ps. 1,283,233 and Ps. 1,283,277, respectively, because Management believes it is unlikely that the benefits of such losses will be realized.

g. Tax consolidation:

ISR's liabilities as of 31 December 2023 relating to profit and fiscal consolidation were liquidated during 2023.

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:

	2023		2022		2021	
Income tax at statutory rate	Ps.	251,781	Ps.	644,317	Ps.	957,825
Add (deduct) the effect of permanent differences:						
Non-deductible expenses	Ps.	104,389	Ps.	48,948	Ps.	113,374
Inflation effect of deconsolidation deferred tax Non-taxable income		2,506		14,207		25,228
Non-taxable income		(11,736)		(19,360)		(9,680)
Annual adjustment for inflation		189,712		384,632		362,257
Tax for restatement of tax items		(66,281)		(136,181)		(158,265)
Fixed asset restatement tax		(125,259)		(161,848)		(129,239)
Tax Loss Valuation Reserve		74,660		(30,654)		(275,558)
Equity in results of joint ventures		(194,690)		(405,219)		(432,402)
Tax effect on sale of shares		-		-		(5,479)
Translation effect of foreign operations		(89,759)		(49,347)		(5,059)
Others		(31,576)		(13,529)		39,714
Effective rate	Ps.	103,747	Ps.	275,966	Ps.	482,716

26. COSTS AND EXPENSES BY NATURE

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

	2023		2022		2021	
Cost of sales:						
Direct cost of sales	Ps.	25,677,290	Ps.	30,999,107	Ps.	26,755,388
Salaries and employee benefits		3,897,529		3,860,368		3,406,467
Freight and transportation		408,294		500,762		420,275
Maintenance, fees and leasing		1,184,478		1,325,348		1,346,677
Electric power		533,562		527,752		378,535
Depreciation of right-of-use asset		134,539		139,660		123,351
Depreciation and amortization		1,513,553		1,622,161		1,557,154
Total	Ps.	33,349,245	Ps.	38,975,158	Ps.	33,987,847
Administrative, selling and distribution expenses:						
Freight and transportation	Ps.	1,213,759	Ps.	1,336,986	Ps.	929,212
Salaries and employee benefits		1,777,449		1,685,236		1,526,890
Advertisement and marketing		63,582		62,534		60,951
Depreciation, amortization and impairment		191,010		106,682		111,194
Depreciation of right-of-use asset		113,193		146,814		143,275
Export costs		187,007		207,786		296,454
Maintenance, fees and leasing		503,439		705,255		715,366
Electric power		78,947		70,735		64,981
General expenses		544,435		493,041		524,058
Total	Ps.	4,672,821	Ps.	4,815,069	Ps.	4,372,381

27. OTHER (INCOME) EXPENSES

The other income item is composed as follows:

	2023		2022		2021	
Recovery of property, plant and equipment claim	Ps.	(6,735)	Ps.	-	Ps.	(669,656)
Recovery of inventory and other expenses claim		(21,898)		-		-
Recovery of Consequential Losses		-		(639,729)		(621,256)
Costs for property, plant and equipment claims (i)		(997)		20,206		1,500
Costs for inventory claims and other expenses		1,796		13,512		189,488
(Profit) loss from sale of fixed assets		923		(2,200)		(45,377)
Profit on Sale of Shares		-		-		(18,265)
Health event expenses (Covid-19)		-		-		48,179
Others income		(1,309)		(509)		(6,255)
Total	Ps.	(28,220)	Ps.	(608,720)	Ps.	(1,121,642)

- (i) The balance of the cost per claim of property, plant and equipment for the year 2021 includes a provision for Ps.7,410, corresponding to the residual value of equipment that was held on loan and was damaged.

In February 2023, a fire occurred in the engine control room at the Resirene Tlaxcala plant, affecting some electrical and electronic installations. The impact amount of damage to inventories, facilities, equipment and extraordinary expenses was Ps.42,865. As of December 31, the recovery amount paid is Ps.34,477 and the remainder amount is in the process of payment. The administration continues to negotiate the payment of Gross Profit coverage which will be an extraordinary income in the year of its recovery.

On December 12, 2022, the slaughterhouse located in Irapuato Guanajuato, suffered a fire in the packing warehouse area, affecting properties, plant and equipment, inventories, and others for the amount of Ps.33,717. The purpose of the building was to carry out the pork processing and maquila activities. At the end of the year, this area is operating normally. As of the date of the report, the entity completed the settlement process with the insurance recovering a total of Ps.16,414.

28. 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.

In September 2023, it was agreed, at Volvo's request, to postpone the hearing, setting a new date from 6 to 10 May 2024.

Tremec performed a technical analysis where it concludes that the risk is low and has sufficient 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 the 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.

29. SUBSEQUENT EVENTS

At the Extraordinary General Meeting of Shareholders held on December 13, 2023, the merger of KUO, S.A.B. de C.V., (merging company) with KUO Consumo, S.A.P.I. de C.V. (merged company) and KUO Automotriz, S.A. de C.V., (merged company) was approved with an effective date of January 1, 2024.

30. FINANCIAL STATEMENT ISSUANCE AUTHORIZATION

The accompanying consolidated financial statements for the year ended December 31, 2023, were approved by the Chief Financial Officer of KUO Mr. Jorge Padilla Ezeta, on March 18, 2024; 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, 2022 and 2021 were approved at the Ordinary General Stockholders' Meeting on April 24, 2023 and April 25, 2022, respectively.



CORPORATE INFORMATION

HEADQUARTERS

Paseo de los Tamarindos 400 B, piso 31,
Bosques de las Lomas, Ciudad de México,
México, 05120
Tel. (52) 55 5261 8000

EXTERNAL AUDITORS

Galaz, Yamazaki, Ruiz Urquiza, S.C.,
Miembro de Deloitte Touche Tohmatsu Limited
Paseo de la Reforma 489, Cuauhtémoc,
Ciudad de México, México, 06500
Tel. (52) 55 5080 6000

INVESTOR RELATIONS AND SUSTAINABILITY

Antonia Gutiérrez Bonifaz
antonia.gutierrez@desc.com
Tel. (52) 55 5261 8309
Ana Claudia Joaquín Revilla
ana.joachin@desc.com
Tel. (52) 55 5267 8 157

INFORMATION ABOUT SHARES

Kuo, S.A.B. de C.V. is listed on the Mexican Stock
Exchange, S.A.B. de C.V. in its series "A" and "B"
under the symbol "KUO"