

kuo

2021

the  
reflection  
of who  
we are

2021  
Achieving  
extraordinary  
results

1500S  
is the  
reflection of  
who we are



WE ARE

# FOCUS

OF 2020

**+25%**

revenue vs 2020

To consolidate our position in the markets in which we participate.

**+42%**

EBITDA vs 2020

# CONSISTENCY

WE ARE



To drive our efforts and achieve extraordinary results.



EX

PE

RI

WE ARE

EXPERIENCE

To bring together a top-level team with passion and common goals.

+270K

Training hours



WE ARE

# WELL BEING

# +40K

People benefited

WELL BEING  
To boost the development of the communities in which we operate.

# COMMITMENT



WE ARE

To make resources more efficient and mitigate impacts on the environment.

**+3.3K**

MWh generation clean energy



WE ARE A MEXICAN INDUSTRIAL CONGLOMERATE WITH OPERATIONS IN THE CONSUMER, CHEMICAL AND AUTOMOTIVE SECTORS, WITH PRESENCE IN MORE THAN 70 COUNTRIES. OUR BUSINESS MODEL IS BASED ON A CONSTANT FOCUS ON GENERATING VALUE IN ALL ITS DIMENSIONS: ECONOMIC, SOCIAL, AND ENVIRONMENTAL.

# WE ARE KUO

3 sectors

6 businesses

MEXICO  
UNITED STATES  
BELGIUM  
SPAIN  
CHINA

5 countries

27 facilities

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

Our constant focus on innovation and excellence has enabled us to maintain a leadership position in all of the businesses in which we participate, which are concentrated in the Consumer, Chemical and Automotive sectors.

A large part of the success of our strategy is to have a team of more than 24,000 employees who share the group's values and vision, together with a solid Corporate Governance with high ethical and transparency standards and a sustainability strategy that guarantees KUO's permanence over time.

## consumer



## chemical



## automotive



## mission

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

## values

INTEGRITY

INSTITUTIONALISM

LEADERSHIP

TEAMWORK

INNOVATION

## vision

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

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

**THE HIGH PROFITABILITY** of the company reflected in the sustained generation of business value. The alliances we establish with our partners and suppliers, always aimed at creating value for all of them.

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

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

**AN ORGANIZATION** made up of a dynamic portfolio of companies focused on the creation of sustained value, with an agile and flexible structure that encourages timely adaptation to market demands.

**COMMITMENT** with the communities in which we operate, reflected in our active participation in favor of their development.

# How to read this report

(GRI 2-1, 2-2, 2-3, 2-4, 2-5)

We are pleased to present the report for the year 2021, our fifth Integrated Annual Report. The information in this report contains impact management of environmental, social, and corporate governance (ESG) issues, as well as KUO's main financial results. It has also been prepared in accordance with the Global Reporting Initiative - GRI Standards, using the new Universal Standards 2021 and the approach of the Sustainability Accounting Standards Board (SASB). The report does not contain any re-statement of information and will not be subject to an independent third-party assessment.

This report reflects our commitment to transparency and accountability on material issues to our stakeholders. In order to identify what content is being referred to, at the beginning of each section you will find the codes for the different metrics we are using, starting with the acronym GRI or SASB. The specific index for both GRI and SASB Standards is also included at the end of the report.

1. For the period January 1 to December 31, 2021. The previous report, corresponding to calendar year 2020, was published in 2021.
2. The scope for ESG impact management results includes the companies Kekén, Dynasol, Resirene, Tremec and Aftermarket. The financial information considers all entities, including Branded Food and Megamex. For more information refer to Annex IV.
3. The materiality study was updated during 2020. The reference to the materiality process and the result is included in Annex I.



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# Shareholders, Partners, Customers and Employees

THE YEAR THAT JUST ENDED WAS A RECORD PERIOD IN TERMS OF GROWTH, WITH 25% INCREASE IN REVENUES AND A 42% IN EBITDA, DRIVEN BY THE HIGH DYNAMISM OF ALL THE BUSINESSES IN THE PORTFOLIO.

The year that just ended was a record period in terms of growth, with 25% increase in Revenues and a 42% in EBITDA, driven by the high dynamism of all the businesses in the portfolio, which experienced strong demand, resulting in the expansion of margins and volume, as well as the strengthening of the financial structure, thanks to the management team's focus on business continuity and effective communication.

All of this took place in an environment of high volatility and instability in global supply chains, which affected logistics and transportation times and costs, as well as the availability of containers and various inputs for our operations. In addition, there was a sharp increase in raw material prices such as steel, aluminum, corn, avocado, among others.

Being diversified in sectors, geographies, and currencies, as well as having a strong exposure to export markets, has been decisive in maximizing returns and mitigating risks. The success of the model has been evidenced by the rapid recovery observed during 2021, driven largely by economic growth in North America, with Europe in second place.

The strategy of continuing to increase sales outside the country resulted in a 23% growth in exports compared to the previous year, representing 57% of pro forma consolidated sales. This was driven mainly by the Chemical and Automotive businesses, given their ability to adapt

## The year that just ended was a record period in terms of growth

and overcome the challenges of supply chain disruptions, as well as the recognition by customers and suppliers of high-quality processes and products.

It is important to mention the strong dynamism of the Synthetic Rubber and Polymers businesses in the Chemical sector, which grew in volume and prices, thanks to their focus on higher value-added applications, together with important operating efficiencies, contributing significantly to the growth of both export revenues and the portfolio's EBITDA.

Regarding the Automotive sector, Transmissions business made an important contribution to export sales, given the high demand for the Dual Clutch Transmission (DCT) for GM's Chevrolet Corvette Stingray platform. The Automotive Aftermarket business had a higher demand for engine, brake, and powertrain parts, along with improvements in operating expenses.

One of the most important projects carried out during the year was the inauguration of the Pork Meat Business processing plant in November. With an investment of close to 2 billion Mexican pesos, it has a weekly processing capacity of more than 40,000 pigs and will contribute to position national industry as a world reference in the pork meat sector, at the forefront in terms of technological innovation and sustainability. In addition, this investment will create more than 1,500 direct jobs and 7,000 indirect jobs, for a total of more than 10,000 jobs in this business.

## The achievements reached during 2021 are the result of the talent of more than 24,000 employees

The resources used for the reconstruction came entirely from the insurance recovery, and it is worth mentioning that the agreement with the insurer concluded during the fourth quarter of the year.

Meanwhile, in the Herdez del Fuerte business, we noted a recovery in the Food Service segment in the United States, as well as a positive trend, mainly in the guacamole and salsas categories in that country.

We would like to thank the professionalism and commitment of all the working teams, medical and operations personnel, and the support areas that enabled us to maintain business continuity.

### SUSTAINABILITY STRATEGY

During the year, we have made special emphasis on strengthening the Sustainability strategy, seeking to standardize the language and indicators through more effective communication tools, so that the results of the initiatives implemented over the years in the “ESG” (Environmental, Social and Governance) area are clear and understandable for all stakeholders.

As part of this comprehensive strategy, this is the first year that in addition to reporting under GRI, we will begin to report under SASB, understanding the importance of disseminating ESG information under global and uniform standards. Going forward, we will continue to strengthen our model, communicating commitments and results in this regard to the market.

We are convinced that sustainability is an essential condition to guarantee KUO's value creation over time, which is why we maintain a solid commitment to all our stake-

holders, carrying out concrete initiatives for environmental care, efficiency in the use of natural resources and strengthening circular economies; improving the quality of life of our employees and their families, emphasizing the well-being, health and safety of each person who works in the Group's facilities, and promoting the development of the communities with which we coexist, focusing on the optimization of processes and products with customers and suppliers. All within a framework of transparency, integrity, and best practices in Corporate Governance.

The achievements reached during 2021 are the result of the talent of more than 24,000 employees, who have been key to achieve the results so far and to guarantee KUO's continuance in the future. They are the example of the institutional values of Leadership, Teamwork, Innovation, Institutionalism, and Integrity that are lived in the Group.

### OPERATIONAL AND FINANCIAL HIGHLIGHTS

During 2021, we achieved pro forma consolidated revenues of \$57,324 billion pesos and EBITDA of \$7,016 billion pesos, representing growth of 25% and 42%, correspondingly, while the proportion of export sales was 57%. These figures are the result of the expansion in margins and volume of the portfolio's businesses.

The Consumer sector accounted for 43% of the Group's total revenues, followed by the Chemical sector with 31% and Automotive with 26%.

Revenue growth in the Consumer sector is mainly explained by the dynamism of the Pork Meat business, with higher prices and volume, increasing sales in its main distribution channels: export, Maxicarne retail network (which ended the period with 504 stores in operation), routes, consumption centers and live pork.



**+23%**  
EXPORT SALES  
VS. 2020

## In 2022, we will continue to focus and finding solutions to new challenges

In the Herdez Del Fuerte business, there was an increase in demand in the categories of tomato puree, ketchup, and salsas in the domestic market, as well as guacamole and salsas in the United States, combined with the recovery of the "Food Service" segment in this territory. This offset the sharp increase in raw materials such as corn and avocado experienced throughout the year.

The two businesses in the Chemical sector had outstanding results, with better prices and volume, highlighting increased demand in applications for the tire, industrial and footwear segments in Synthetic Rubber business, and in electronics in Polymers business, combined with operating efficiencies.

The Automotive sector recorded strong increase in Revenues and EBITDA derived mainly from sales of DCT's for GM's Corvette platform, as well as higher demand for manual transmissions and components for other vehicles, along with increased displacement of brake, engine, and powertrain lines in Aftermarket business. This offset the shortage of semiconductors and the increase in raw material prices, such as steel and aluminum.

The emphasis on operational continuity was reflected in a significant improvement in working capital and financial ratios, with net leverage at 1.5x and total leverage at 2.4x at the end of the year.

The balance of our business model, our exposure to export markets, as well as our investments in productive assets, have been decisive for the results achieved in this period.

### MOVING FORWARD

In 2022, we will continue to focus on maintaining a solid balance sheet, capitalizing on the competitive advantages we have developed over the years, adapting, and finding solutions to new challenges.

We cannot ignore the challenges and volatility that we are already beginning to see, the recent conflict in Europe will undoubtedly bring further disruptions in supply chains, as well as increases in raw material costs. High levels of inflation in the markets in which we operate and the lack of availability of some raw materials will continue to be a constant in the coming months. However, we will seek operating efficiencies to ensure the continuity and growth of the portfolio's businesses.

We will continue to invest in innovation and improvement in all operations, while our sustainability strategy will continue to focus on employee development, customer satisfaction, sustainable production processes and products, and the generation of operating efficiencies within a framework of transparency and integrity, with special care for the environment and natural resources, in order to continue creating value for our shareholders and stakeholders.

Finally, we would like to thank our partners, customers, suppliers, and shareholders for the trust they have placed in KUO, we are confident that our focus on creating value with profitability will continue to be the best strategy for the future.



**FERNANDO  
SENDEROS MESTRE**

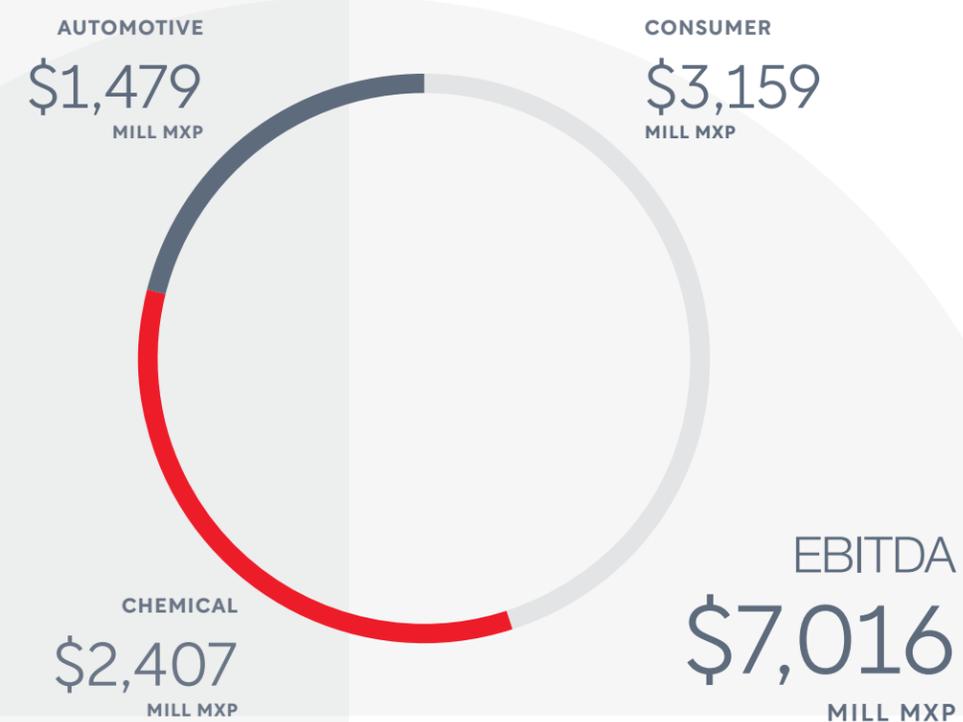
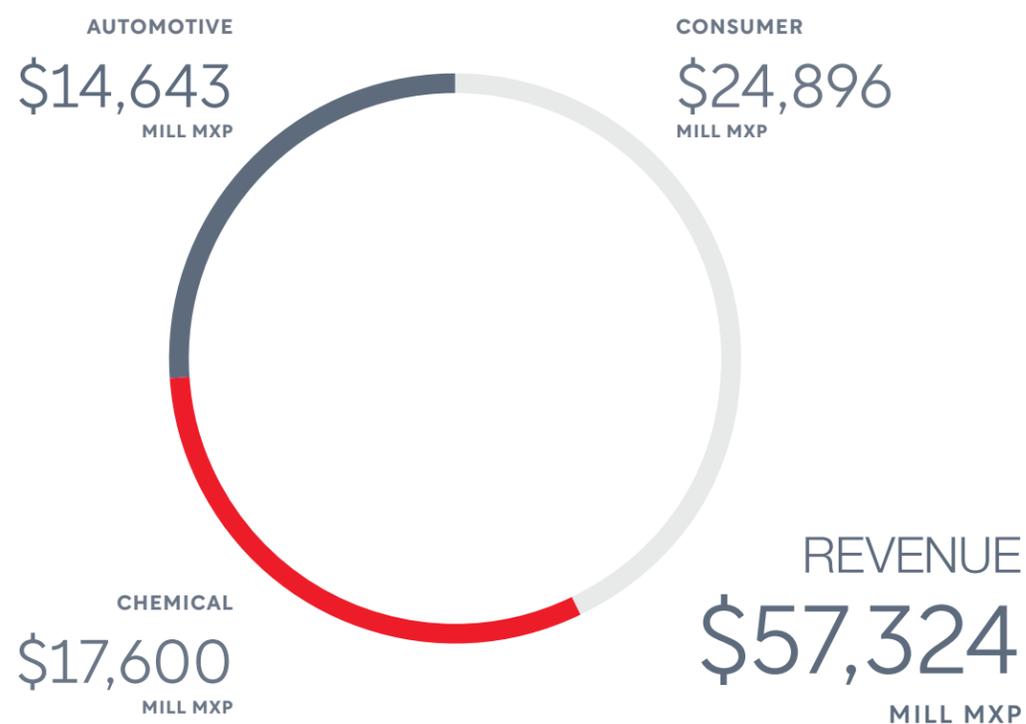
Executive President and  
Chairman of the Board



**ALEJANDRO DE  
LA BARREDA GÓMEZ**

CEO

# Financial Highlights<sup>1</sup>



## MILLIONS OF MEXICAN PESOS

	2021	2020	21 Vs. 20
Revenue	57,324	45,785	25.2%
Operating Profit	5,086	1,688	201.3%
Operating Margin	8.9%	3.7%	5.2 pp
EBITDA <sup>2</sup>	7,016	4,934	42.2%
EBITDA Margin	12.2%	10.8%	1.4 pp
Net Majority Income (Controlling Interest)	2,710	-570	N/A

## MILLIONS OF MEXICAN PESOS

	2021	2020
Leverage Ratio <sup>3</sup>	1.52x	2.65x
Coverage Ratio <sup>4</sup>	7.71x	4.46x
Capitalization Ratio <sup>5</sup>	0.50x	0.56x

- Figures are presented based on Proforma Combined Information, which are the result of the consolidation of financial information of all subsidiaries, including the proportional consolidation in joint ventures. Figures audited by Galaz, Yamazaki, Ruiz Urquiza, S.C.
- EBITDA calculation is determined as follows: Proforma Operating Profit plus Proforma Depreciation and Amortization (including the period cost for Proforma labor obligations).
- Debt-Cash / EBITDA\* for the last 12 months
- EBITDA\* for the last 12 months / Net Interest Paid for the last 12 months.
- Total Debt / Total Debt + Total Equity\*.

# Environmental

# Social

WATER CONSUMPTION  
(THOUSANDS OF CUBIC METERS)

12,749  
2021

13,027  
2020

CLEAN ENERGY  
CONSUMPTION (MWh)

190,798  
2021

161,022  
2020

CLEAN ENERGY GENERATION  
(MWh)

3,308  
2021

3,734  
2020

SOCIAL INVESTMENT  
(MILLIONS OF MEXICAN PESOS)

21.6  
2021

20.5  
2020

COVID 19 PREVENTION INVESTMENT  
(MILLIONS OF MEXICAN PESOS)

68.1  
2021

140.0  
2020

COMPETENCY TRAINING  
(HOURS)

277,166  
2021

179,510  
2020

EMPLOYEES

24,162  
2021

23,362  
2020

COMMUNITY

KUO PEOPLE

# Sustainability Strategy

(GRI 2-22, 2-23, 2-24, 2-28)

Sustainability is a central axis for operations management, thereto, during 2021, we emphasized on strengthening the ESG model, which contains priorities at Group level, as well as including specific strategies for each business.

This model is based on five axes: Corporate Governance, Employee Development, Customer Satisfaction, Sustainable Processes and Products, and Operational Efficiency and Continuity, each with their corresponding lines of action<sup>1</sup> and related to the SDGs.

In addition, during the year we created a specialized committee on the subject, which has worked constantly to prioritize initiatives and coordinate efforts to comply with the proposed strategy. This committee will also be in charge of monitoring the progress of the Scorecard indicators, which will be published in 2022.

Experts have been appointed in each of the businesses to monitor main milestones and results, and then consolidate them at the Group level. The consolidated information will be reported on a quarterly basis to the Board of Directors, for which a Director will be appointed to be responsible for communicating these issues.

1. The lines of action are aligned to the materiality analysis, the detail is in Annex I.



## LINES OF ACTION

- 1.1 Corporate governance structure and operation
- 1.2 Ethics and compliance culture
- 2.1 Occupational health and safety
- 2.2 Talent attraction and development
- 2.3 Inclusion and diversity
- 3.1 Product quality and safety (including Transparency)
- 3.2 Innovation
- 4.1 Circularity of resources (water, materials, waste, and other supplies)
- 4.2 Supply chain sustainability
- 4.3 Consumer (customer) practices
- 4.4 Environmental development
- 5.1 Energy and emissions management (GHG, particles)
- 5.2 Climate risk management
- 5.3 Technological transformation



FOCUS ON  
INNOVATION AND  
EXCELLENCE

# About KUO

presence in  
**+70**  
countries

# Business Portfolio

(GRI 2-6)

THE GROUP'S BUSINESS MODEL HAS PROVEN TO BE HIGHLY COMPETITIVE, ACHIEVING RECORD RESULTS, EVEN IN AN ENVIRONMENT OF GLOBAL ECONOMIC CHALLENGES.

The constant focus on innovation and excellence has allowed us to maintain a leadership position in all the businesses in which we participate. Our businesses are concentrated in the sectors: Consumer, Chemical and Automotive.

A large part of the success of our strategy is having a group of more than 24,000 employees who share the values and vision of the Group, coupled with a solid Corporate Governance with high ethical and transparency standards and a sustainability strategy that guarantees the permanence of KUO.

## CONSUMER SECTOR

### PORK MEAT

We produce, market, and distribute pork in different presentations: cuts, seasoned meat, frozen food, and live pork. We are vertically integrated; therefore, we have control from genetics, farms, feed plants, processing plants and our own distribution channels, which has allowed us to offer superior quality products sold in Mexico under the Kekén brand and abroad under the Kiniton brand, reaching countries such as China, Japan, South Korea, and the United States.

Our distribution channels are comprised by exports and domestic sales. Domestic sales include a network of Maxicarne outlets, which closed the year with 504 stores. We also have strategically located distribution centers, routes for direct delivery to businesses, sales to self-service stores, wholesalers, food service, consumer centers, packing plants and, recently, a digital sales application.

KEKEN.COM.MX



**Kekén.**

**504**  
MAXICARNE  
STORES



(GRI 2-6)

**BRANDED FOOD <sup>1</sup>**

We produce and market food through a portfolio of brands successfully positioned in the market.

**Herdez Del Fuerte**

We have a joint venture with Grupo Herdez. Through this alliance, we produce and market food in categories such as tomato puree, ketchup, homemade salsas, mole, canned vegetables, among others, with nationally and internationally recognized brands.

**MegaMex Foods**

Joint Venture between Herdez Del Fuerte and Hormel Foods, through which we produce and distribute a wide variety of food products for the American market in the categories of guacamole, salsas, and frozen food. With more than 10 years of experience, we have become the largest guacamole seller and have achieved an important position in the salsas category.

HERDEZ.COM.MX

**+1.5k**  
PRODUCTS IN  
OUR PORTFOLIO

Solid dynamism  
in sauces and  
guacamole  
categories

1. The report does not include information on the ESG impacts of this Business.



  
Resirene

## Leading producer of spare parts in Mexico

(GRI 2-6)

### CHEMICAL SECTOR

#### SYNTHETIC RUBBER

Through our joint venture with Repsol, Dynasol is the largest synthetic rubber producer in Mexico and one of the largest worldwide. We have presence in more than 70 countries and production plants in Mexico, China, and Spain, representing an important competitive advantage for the business. Our products have diverse applications such as tires, adhesives, sealants, asphalt modifiers, waterproofing membranes, thermoplastic compounds, among others.

The use of some of our applications helps reduce energy consumption, increase the useful life, and improve the properties and performance of the final products in which they are incorporated.

[DYNASOLGROUP.COM](http://DYNASOLGROUP.COM)

#### POLYMERS

At Resirene, we are the leading polystyrene producer in Mexico, with exports to nearly 20 countries around the world. This material has specific characteristics to meet the needs of diverse industrial applications. Our customers transform the product into packaging and disposable products, lighting, school supplies, office equipment and home accessories, among others. We also commercialize industrial chemicals and have a distribution center where we offer comprehensive services.

[RESIRENE.COM.MX](http://RESIRENE.COM.MX)

PRESENCE IN  
**+70**  
COUNTRIES

FOCUS ON  
CIRCULARITY



**Dacomsa**

(GRI 2-6)

## AUTOMOTIVE SECTOR

### AFTERMARKET

Through Dacomsa, we are the leading producer of automotive spare parts for engine, brake, and powertrain systems in Mexico. We distribute pistons, brakes, bearings, gaskets, and seals, among others.

In addition, we offer added value to our customers by maintaining direct contact and training in the use of our products. We also have a digital sales channel, which allows us to reach the markets we serve more efficiently.

[DACOMSA.COM](http://DACOMSA.COM)

We are the leading producer of automotive spare parts



**TREMEC**

### TRANSMISSIONS

Tremec manufactures and assembles high performance transmissions and components, being the only independent producer with exports to 17 countries. This business is known by the constant innovation and quality of its products, which are aimed at different platforms, from sports cars to military, recreational and agricultural vehicles.

Our production offers technology that responds to key market needs for automation, emission control, fuel efficiency, torque capacity and refinement.

[TREMEC.COM](http://TREMEC.COM)

Technology that responds to key market needs for automation and torque capacity

# Production Plants and Geographical Presence

## PORK MEAT

(SASB FB-MP-000.A) (SASB FB-FR-000.A)  
(SASB FB-FR-000.B)

All processing plants have TIF (Federal Inspection Type) certification, certifying that they comply with the highest health and hygiene standards, which are evaluated by specialists who guarantee the quality and safety of the products through various physical, chemical, and micro-biological tests.

In addition, we have HACCP certification, which addresses food safety through the identification, analysis, and control of physical, chemical, biological, and radiological hazards.

Finally, we have FSSC 22000 certification, which guarantees the implementation of a food safety management system, and ISO 9001-2015, which ensures the highest quality in our processes.



53

**OWN FARMS**  
Distributed throughout the state of Yucatán

108

**SHARECROPPERS' FARMS**

3

**PROCESSING PLANTS**

- Umán, Yucatán
- Sahé, Yucatán
- Irapuato, Guanajuato

3

**BALANCED FEED PLANTS**

- Umán, Yucatán
- Komchén, Yucatán
- Hunucmá, Yucatán

504

**MAXICARNE STORES**

+115,000m<sup>2</sup>

- 163 Yucatán
- 106 Quintana Roo
- 50 Tabasco
- 43 Guanajuato
- 39 Chiapas
- 38 Veracruz
- 31 Campeche
- 16 Puebla
- 4 CDMX
- 7 Querétaro
- 2 Oaxaca
- 2 Tlaxcala
- 2 Michoacán
- 1 Jalisco





**BRANDED FOOD**

**INDUSTRIAS SLP**

San Luis Potosí  
Mole, nopales, homemade sauces, hot sauces, and ground tomatoes

**SANTA ROSA VEGETALES**

Los Mochis, Sinaloa  
Salsas, peppers, and vegetables

**SANTA ROSA**

Los Mochis, Sinaloa  
Packaged tomato products

**INTERCAFÉ**

Oaxaca, Oaxaca  
Coffee

**PLANTA DE ALIMENTOS DESHIDRATADOS DEL BAJÍO**

Villagrán, Guanajuato  
Peppers dehydration, blending and milling

**AVOMEX (PLANTA SABINAS 1)**

Sabinas, Coahuila  
Guacamole and Salsas for export

**AVOMEX LTDA. (PLANTA SABINAS 2)**

Sabinas, Coahuila  
Avocado pulps and Guacamole for export

**DON MIGUEL FOODS**

Dallas, Texas  
Ready-to-serve frozen Mexican food



**SYNTHETIC RUBBER**

(RT-CH-000.A)

**INDUSTRIAS NEGROMEX (2)**

Altamira, Tamaulipas  
Emulsion rubber and nitrile rubber  
Installed capacity:  
130,000 tons/year

**DYNASOL ELASTÓMEROS**

Altamira, Tamaulipas  
Solution rubber  
Installed capacity:  
110,000 tons/year

**DYNASOL ELASTÓMEROS**

Santander, España  
Solution rubber  
Installed capacity:  
120,000 tons/year

**INSA GPRO SYNTHETIC RUBBER**

Nanjing, China  
Nitrile rubber  
Installed capacity:  
30,000 tons/year

**LIAONING NORTH DYNASOL**

**SYNTHETIC RUBBER**  
Panjin, China  
Solution rubber  
Installed capacity:  
100,000 tons/year

**GENERAL QUÍMICA**

Álava, España  
Chemical Specialties  
Installed capacity:  
30,000 tons/year





**POLYMERS**

(RT-CH-000.A)

**RESIRENE**

Tlaxcala, México  
Polymers  
Installed capacity:  
200,000 tons/year

**AFTERMARKET**

(TR-AP-000.C)

**KUO MOTOR**

Celaya, Guanajuato  
Pistons  
13,242 square meters

**KUO MOTOR**

Celaya, Guanajuato  
Gaskets  
7,770 square meters

**FRICCIÓN Y TECNOLOGÍA**

Iztapalapa, CDMX  
Brake shoes  
23,768 square meters



**TRANSMISIONES**

(TR-AP-000.C)

**TRANSMISIONES**

**Y EQUIPOS MECÁNICOS**  
Pedro Escobedo, Querétaro  
Components  
77,760 square meters

**TRANSMISIONES**

**Y EQUIPOS MECÁNICOS**  
Santiago de Querétaro, Querétaro  
Lightweight Transmissions, Transfer  
Cases, Gear Fan Drive, DCTs  
and Components  
417,191.15 square meters

**TRANSMISIONES**

**Y EQUIPOS MECÁNICOS**  
Belgium  
Mechatronic systems for sports car  
applications and solenoids for DCT  
subsystem applications  
35,031 square meters

**TREMEC CORPORATION**

**USA**  
Design, manufacture and assembly of  
transmissions and powertrain products  
76,687 square meters



# Value Chain

(GRI 2-6)

## PORK MEAT

### STRATEGY

Maintain leadership in the production and marketing of pork in Mexico, strengthening export markets and leveraging the competitive advantages of the business, vertical integration, and strategic location.

### GENETICS

- High genetic value breeding
- Genetic improvement with advanced technology and ISO-9000 certified

### FARMS

- Reproduction, breeding and fattening processes
- High sanitary standards, automated technology, free access to water and feed, preventive medicine and specialized ventilation systems

### BALANCED FEED PLANTS

- Main supplies: yellow corn, soybean paste and sorghum
- Domestic and international suppliers

### PROCESSING PLANTS

- Production of different cuts of fresh, frozen and value-added pork
- Guarantee of safety, freshness and quality

### SALES

- Exports: Mainly to China, Japan, United States and Korea
- Maxicarne Stores: Marketing of pork products under the "Kekén" brand, as well as poultry, beef and eggs
- Distribution routes in the center of the country
- Others: Live pork, distribution centers, self-service, packing houses, etc





**BRANDED FOOD**

**STRATEGY**

Consolidate the leadership position of our brands and products in Mexico and the United States.

Increase brand presence, mainly in the guacamole and salsa categories.

**PROCUREMENT**

Of raw materials, mainly in Mexico

**PRODUCTION**

Of foods such as tomato puree, homemade sauces, guacamole, mole and frozen foods

**MARKETING**

Of more than 1,500 brands in the portfolio

**DISTRIBUTION**

Contracts for the distribution of “McCormick®”, “Barilla®”, “Kikkoman®” products, among others

**SYNTHETIC RUBBER**

**STRATEGY**

Maintain our position among the top ten participants worldwide, taking advantage of the geographic distribution of our plants.

Achieve a higher percentage of value-added applications within our portfolio.

Increase market share in asphalt modifiers and adhesives in the United States and Europe.

**PROCUREMENT**

Butadiene: Main raw material

**PRODUCTION**

Emulsion Synthetic Rubber: for the tire industry, industrial rubber products and specialty rubbers

Synthetic Rubber in Solution: grades targeted to the industry of road asphalt modification, adhesive membrane, footwear, automotive compounds and viscosity modifiers

Rubber Chemicals: for the tire industry, industrial compounds, pesticides, etc.

**MARKETING**

To industries of asphalt modifiers (highways and membranes), adhesives, sealants, lubricants, various rubber products, footwear, tires and chewing gum base, in more than 70 countries

**POLYMERS**

**STRATEGY**

Maintain our leadership position in Mexico and increase the level of exports.

Achieve a higher percentage of value-added applications within the portfolio.

Increased focus on sustainability through innovation and focus on Circular Economy.

**PROCUREMENT**

Styrene: Principal raw material

**PRODUCTION**

- Crystal Polystyrene (GPPS)
- High Impact Polystyrene (HIPS)
- Clear Styrenic Copolymers (SMMA) and Plastic Compounds

**MARKETING**

To the packaging and disposable products, lighting, school supplies, office equipment and home furnishings industries, including audio and video equipment and refrigerators

## AFTERMARKET

### STRATEGY

Continue to be the leading manufacturer and distributor of automotive parts in Mexico.

Growth in the export market.

Creation of new product lines.

Consolidation of the digital market.

### PROCUREMENT

Of raw materials, mainly steel and aluminum

### PRODUCTION AND PURCHASE

Of pistons, bearings, engine gaskets, seals, brakes and other product lines through well known brands

### MARKETING

Through well-known brands in its segment: Moresa, Fritec and TF Victor

## TRANSMISSIONS

### STRATEGY

Constant focus on innovation and development of proprietary technology for the development of transmissions and components for high-performance vehicles.

### PROCUREMENT

Of raw materials, mainly steel and aluminum

### PRODUCTION

Of high-performance transmissions and components

### MARKETING

Through contracts with highly recognized brands



WE ESTABLISH  
STABLE RELATIONSHIPS  
WITH OUR SUPPLIERS

# Strategy and Value Creation

certification  
**ISO**  
**9001:2015**

# Supply Chain Sustainability

(GRI 204-1, 308-1, 414-1)

Supply of goods and services is very important to guarantee the proper operation of the production and support processes. We intend that the relationship with all our suppliers provides benefits for both parties, allowing us to establish stable and documented relationships, so that the processes are carried out without disruptions and thus maintain operational continuity.

The relationship we maintain with suppliers impacts the organization in different ways, it can affect the development of processes, the performance and safety of employees and the suppliers themselves. In order to carry out proper management we have: Purchasing Policy, Procurement Policy, Raw Material Supply Policy, transparent and auditable processes, and a central supplier platform. Likewise, all our suppliers must commit to ethical behavior by signing our Code of Conduct.

In addition, national suppliers must sign an ESG charter, in which they commit to:

- Operate in accordance with laws and regulations
- Take care of the health of its employees
- Ensure the protection of human rights (prohibition of child or forced labor, no tolerance of discrimination).
- Comply with environmental regulations
- Operate without corruption, extortion, or bribery

We also have ISO 9000 certification, which allows us to maintain optimal management in the organization, guaranteeing the standardization of our processes and the quality of our products.

Finally, we have internal and external audits to evaluate the correct management of our suppliers. We use the results to improve our processes, which allows us to have a continuous improvement.

## CONSUMER SECTOR

(SASB FB-MP-430a.2)

The main supplies of the Pork Meat Business are yellow corn, soybean paste and sorghum, used to feed the pigs. These are purchased from various domestic and international suppliers at prevailing market prices. However, we also have commercial agreements with domestic suppliers under which terms are established to guarantee the supply of grain and soybean paste mainly, with variable terms and maturities.

We also have contracts for the transportation of raw materials and live pigs, as well as storage services (freezing and preservation) with various counterparties. Other relevant contracts correspond to the lease of land where some of our stores, offices and other facilities are located. In addition, we maintain contracts with third parties, referring to the figure of rural sharecropping, a model that is part of the farm area of the production scheme.

During 2021, spending on local suppliers accounted for 22% of the total procurement budget, 7.3% lower than in 2020.

Regarding the environmental evaluation of suppliers, although, they must sign their adherence to the Code of Ethics and the ESG Charter, currently, none are evaluated and selected according to environmental or social criteria.



The supply of goods and services guarantees the proper functioning of production and support processes

(GRI 204-1, 308-1, 414-1)

# 100%

SHARECROPPERS  
COMPLY WITH ANIMAL  
WELFARE STANDARDS  
AND POLICIES

We are currently carrying out pre-assessment work with a view to obtaining ISO 14001 certification in the future.

We have verified, through regular audits, that 100% of our sharecroppers comply with animal welfare standards and policies, and we have begun the process of obtaining certification on this issue.

Regarding the evaluation of social impacts, we identified that the transport trucks that pass-through communities in the region may generate some type of impact on noise, infrastructure, or the perception of risk due to heavy traffic. Therefore, we have held meetings to reinforce issues of good driving, and we have implemented a complaint attention number in all units. In addition, we carried out an adequate planning of routes and schedules.

1. It is designed to help organizations stay commercially successful without neglecting their environmental responsibilities.

## CHEMICAL SECTOR

The main raw materials in this business are butadiene and acrylonitrile, to produce synthetic rubber, and styrene for the production of polymers. Most of these raw materials are purchased through imports, and there is currently a sufficient supply of these substances.

During 2021, in the Synthetic Rubber business, spending on local suppliers represented 12% of the total procurement budget. Currently, we do not select new suppliers under environmental or social criteria, however, during the year we evaluated 95 suppliers where environmental and social performance was rated, no supplier with significant, potential, or actual impact was identified.

In the Polymers Business, spending on local suppliers represented 0.28% of the total procurement budget. In terms of environmental or social assessment, we did not select new suppliers under these criteria.

## AUTOMOTIVE SECTOR

For our Transmissions and Aftermarket businesses, the main raw materials used are steel and aluminum.

For Transmissions, spending on local suppliers accounted for 19% of the total procurement budget. We currently do not have any environmental or social criteria in the evaluation of suppliers; however, we apply for IATF or ISO 9001 certification which involves the identification and mitigation of risks including environmental issues. Additionally, in the case of our suppliers of direct materials, they must report the materials included in the product. In the case of hazardous materials, all of them must have safety data sheets; if they do not have them, they cannot enter the plant.

In the case of Aftermarket, spending on local suppliers accounted for 28% of the total procurement budget. In terms of environmental or social evaluation, we do not select new suppliers under these criteria.

# Risk Management

(GRI 3-3)

Comprehensive Enterprise Risk Management is a process carried out by the Board of Directors through the Audit Committee, General Management, Finance departments and other members. To manage risks, we have the ERM Risk Management Methodology, which aims to provide a guide that allows the identification, evaluation, and response to key risks that may impact the achievement of the Group's strategies and objectives.

We implement this methodology through "The three lines of defense", i.e., multiple teams, with different responsibilities that work together to create value and manage internal control.

- **First Line:** Comprised by the six businesses, the Shared Services Units and the Services and Control Units, they are responsible for compliance with the Group's general internal control guidelines.
- **Second Line:** Comprised by General Management, Deputy General Management, Finance and Planning department and the Comptrollership department, they are responsible for proposing business and risk management strategies; internal control; supporting management in identifying trends; conducting scales of critical and emerging issues; classifying, analyzing, and reporting on internal control; and providing regulatory frameworks.
- **Third Line:** Composed of the Board of Directors, Audit Committee, Internal Audit and External Audit; they are responsible for supervising, evaluating, and providing feedback to the Compliance area; reviewing Audit, and following up on the group's main risks.

THE ERM METHODOLOGY  
IS COMPOSED OF FOUR  
CATEGORIES OF OBJECTIVES  
(STRATEGIC, OPERATIONAL,  
REPORTING AND COMPLIANCE),  
AS WELL AS EIGHT  
COMPONENTS, INCLUDING:

**1 5****INTERNAL ENVIRONMENT**

Is comprised by our staff and establishes the basis of how personnel should perceive and deal with risks and opportunities, including philosophy, vision and mission, integrity and ethical values, responsibilities, and the environment in which we operate.

**RISK RESPONSE**

Management selects possible responses - avoid, accept, reduce, or share risks - developing a series of actions to align them with accepted risk and risk tolerances

**2 6****SETTING OBJECTIVES**

Corporate management ensures that management has established a process for setting objectives and that the selected objectives support and are aligned with the mission and are consistent with accepted risk.

**CONTROL ACTIVITIES:**

We carry out a control process to ensure the effectiveness and efficiency of the control. Controls can be manual or automatic and operate together to ensure the completeness, accuracy, and validity of information. Policies and procedures are part of the control activities.

**3 7****EVENT IDENTIFICATION**

Internal and external events affecting objectives should be identified and differentiated between risks and opportunities.

**INFORMATION AND COMMUNICATION**

Relevant information is identified, captured, and communicated in a timely manner to enable employees to meet their responsibilities.

**4 8****RISK ASSESSMENT**

We analyze risks considering their probability and impact as a basis for determining how they should be managed, and they are evaluated from a triple perspective, inherent, residual, and planned residual.

**MONITORING**

The totality of risk and opportunity management is supervised, making timely modifications when needed. This monitoring is carried out through ongoing management activities, independent evaluations, or both.

# Social Management

(GRI 203-1, 413-1, 413-2) (SASB RT-CH-210a.1)

## \$68.1

MILLION FOR THE  
IMPLEMENTATION OF  
PROTOCOLS AGAINST  
COVID-19

The business vision is oriented towards sustainable development and the generation of shared value. We believe that the Group's growth must go hand in hand with the communities in which we operate; therefore, for KUO is essential to establish a relationship of dialogue and actions that generate positive impacts on the well-being of the communities, such as support for education, health promotion and job creation.

We manage our social impact through our Corporate Social Responsibility Policy, which revolves around the analysis of material issues and the generation of actions to promote the Sustainable Development Goals. We also have volunteer programs, are affiliated with industry chambers, and participate in mutual aid committees.

In addition, we work together with independent groups such as universities and NGOs that evaluate the needs of the community, generate programs based on those needs, and then carry out an assessment to determine the objectives achieved and the impact generated by the actions carried out.

We currently have social participation in the communities neighboring our operations. To evaluate our performance, we measure the number of social conflicts, the number of social initiatives developed, and the number of employees who participate in volunteering.

## +25.7k

PEOPLE BENEFITED  
BY PROGRAMS  
FOCUSED ON HEALTH

## \$21.6

MILLION FOR SOCIAL  
INVESTMENT MAINLY  
DESTINED TO:

### HEALTH

- Installation of Medical Care Centers (CAM), routes and health fairs that provide free medical care.
- Workshops with the intervention of educational institutions, focused on health promotion, disease prevention and psychological counseling.
- Physical activation classes and strategic alliances to deliver health kits.
- Permanent campaign to collect bottle caps to be donated to an association for children with cancer.

### EDUCATION AND EMPLOYMENT

- Educational facilities construction.
- Volunteer program in elementary schools: actions focused on infrastructure improvement.
- Lectures at a higher education level.
- Job fairs: support for students in their insertion into the labor market.
- Young talent program: Training and development through professional internships in our operations.
- Promotion of hiring and purchase of materials from Special Employment Centers.

### GRANTS FOR BOOSTING ECONOMIC GROWTH

- Donation of staple meat products to civil associations and private assistance institutions. In 2021, we donated more than 12,600 kg through 25 associations, benefiting more than 22,400 people.
- Blanket collection campaign "Abrigando Corazones" (Warming Hearts) for low-income communities.
- Donation of food pantries to vulnerable groups.

### ENVIRONMENT

- Innovating to take care of the future: focus on the correct disposal, separation, and reuse of plastic waste, providing training and recycling stations.
- First environmental week: Program of activities dedicated to different areas with a positive impact on both internal awareness and support to society..

### SPORTS

- Sponsorship and development of sports activities.
- Workshop on Safe Mobility on Bicycles.



CONSTANT  
INVESTMENT  
WITH FOCUS  
IN QUALITY

# Products and Innovation



# Product Control, Quality and Safety

(GRI 416-1, 3-3) (SASB FB-MP-250a.3) (SASB FB-PF-250a.4)

During the year, 100% of the most significant product and service categories were evaluated for health and safety impacts, based on the systems explained below. Furthermore, no product had to be recalled from the market due to suspicion or certainty of violation of food laws or quality standards.

## CONSUMER SECTOR

For the Pork Meat business, it is a priority to ensure the quality and food safety and safety of the final products that go to market, therefore, we carry out the entire production process, from genetics, to processing and final distribution, in strict compliance with national and international regulations.

Food safety is directly related to consumer health, which is why it is governed by global standards and certifications. These certifications allow us to continuously improve our management systems to ensure the quality attributes of all our products, thus generating confidence and satisfying the needs of customers and consumers.

Due to greater access to information about health, food and various areas related to sustainability, consumers have become more selective, choosing food from recognized supply chains with certifications that guarantee safety and nutritional quality.

In reference to the impacts of the Consumer sector, being perishable products, very strict controls are required to achieve a longer shelf life, being one of the main factors the safeguarding of the cold chain in the production process, storage, distribution, and delivery to the final consumer. In this sense, our processes are governed by regulations and standards, which are subject to continuous verifications or audits.

Among the policies, programs and processes used to manage the control, quality, and safety of the products we have:

- **Safety management system** based on GFSI approved standards such as FSSC22000 in our Umán and Irapuato plants (currently in process in the new Sahé plant). In addition, three basic programs have been implemented in the three plants: HACCP (Hazard Analysis and Critical Control Points), Food Defense Plan and Food Fraud Plan.
- **Hygiene and safety prerequisite programs:** at all three plants we have implemented hygiene procedures based on the ISO TS 22002-1 standard and on the prerequisites established by the authorities through official Mexican standards such as NOM-008-ZOO, NOM-009-ZOO, NOM-194-SSA1, among others.

# 100%

OF PRODUCT AND SERVICE CATEGORIES MOST SIGNIFICANT WERE EVALUATED IN HEALTH AND SECURITY

- **Quality control plans:** Each process has established quality, safety, and regulatory control points that must be monitored and verified with an established frequency according to the level of risk and impact on the process or product.
- **Microbiology programs for products, surfaces, and the environment:** Each plant performs analyses of indicator and pathogenic microorganisms to verify that processes are kept under control. The analyses established in the standards applicable to the industry are performed, as well as additional analyses to ensure compliance with customer requirements and continuous improvement.
- **Quality and Safety Policy** supported by Kekén's Senior Management.
- **Processes of constant audits and verifications** by federal and state government authorities, annual FSSC22000 recertification audits, audits by domestic and foreign customers, as well as a robust internal audit plan.

It is important to highlight the areas in charge of evaluating the effectiveness of product control, quality, and safety management:

- **Quality Assurance Department:** Responsible for ensuring processes and products with high quality and safety standards, guaranteeing the permanent monitoring and verification of procedures and controls.
- **Regulatory Staff:** At each plant, they ensure, through monthly verifications, that the processes remain aligned with the established procedures and current regulations to maintain the official approval of the national authority "Federal Inspection Type" (TIF) in compliance with national regulations, as well as to comply with the guidelines of the FSSC 22000 certification and maintain ongoing communication with the Official Veterinarian Medical Officers (MVZO) of the plants.
- **HACCP Team:** On site at one of the plants, they are responsible for analyzing product safety risks in all processes and ensuring that the control measures derived from these analyses are implemented to prevent risks and verify compliance with them.



## In 100% of the fattening production units we have the certification of Good Livestock Practices

(GRI 416-1, 3-3)

- **Internal Audit Team:** Working in each of the plants, they are responsible for carrying out the internal audit of the management system in all processes.
- **Veterinarian Staff:** Responsible for ensuring legal and regulatory compliance established by the government on product safety, as well as authorizing and certifying the release of products for export at each of the plants.

Quality and safety management impacts our employees, suppliers, and government in different ways.

- **Employees:** We consider their safety when implementing changes, new standards, or processes.
- **Suppliers:** Communication with them is key to ensure the quality and safety of the product, any change generated in the processes must be evaluated to ensure the establishment of the necessary controls to guarantee the quality of the products.
- **Government:** We receive internal and external audits from government institutions. The management system also includes that we are prepared for a possible public or governmental crisis created by a supplier in relation to consumer health or animal rights.

### ANTIBIOTICS USAGE (SASB FB-MP-260a.1)

All antibiotics used on the farm are for animal use only and are approved by the government's animal health authority (SENASICA). Likewise, all pigs go to market without antibiotic residues because strict mandatory withdrawal procedures are applied with sufficient time for the animal to eliminate them completely. Additionally, the last 4 years we have been working on a program to gradually reduce the use of these drugs, achieving a 33% reduction by the end of 2021 compared to 2018, the start date of the plan.

### ANIMAL WELFARE (FB-MP-410a.3)

All of our fattening production units have Good Animal Husbandry Practices certification granted by government authorities (SENASICA), which includes evaluation of animal welfare in terms of infrastructure and housing conditions, feed quality, free access to water for consumption, strict biosecurity measures to prevent the entry of diseases, and timely treatment of any health ailments.

Furthermore, starting in August, we began planning for Animal Welfare Certification, which is being implemented during 2022. This program corresponds to an external certification supported by Cloverleaf, an international company specialized in Animal Welfare, which will cover a complete evaluation of animal welfare, from farms to processing plants, with the aim of continuing to strengthen the commitment and culture of animal welfare that has been implemented in Kekén since its inception.

Animal Type	percentage receiving antibiotics of medical importance	percentage receiving antibiotics of no medical importance	percentage not receiving antibiotics
Finished Pork	0%	100%	0%
Waste Pork	0%	100%	0%
Waste Pork	0%	100%	0%

# Our philosophy is based on ensuring environmental protection and human health

## INGREDIENTS, ADDITIVES AND PRESERVATIVES

(SASB FB-PF-260a.2) (SASB FB-FR-260a.2)  
(SASB FB-PF-270a.2)(SASB FB-PF-250a.2)

We have a solid approval process for the incorporation of ingredients, additives, and preservatives to our products, in which we check that the components are aligned with the regulations in force to add them to meat products and that they do not contain allergens.

In the case of marinated products, in which the use of allergens cannot be avoided, we guarantee that the consumer is informed of the content of the product through a list of ingredients on the packaging, in accordance with current regulations for the declaration of allergenic or sensitive ingredients. We have no products with genetically modified inputs.

In the development of value-added products, we include physicochemical and bromatological analysis with accredited laboratories, in accordance with Mexican regulation NOM-051-SCFI/SSA1/2010, including warning octagons.

Finally, in relation to the packaging material or ingredients that are in direct contact with the product, 53% of the suppliers are certified in some quality or food safety scheme based on international standards endorsed by the Global Food Safety Initiative (GFSI).

## CHEMICAL SECTOR

(GRI 416-1, 3-3)

The quality and safety of products is a highly relevant issue for the sector, not only to maintain strict compliance with legislation in the different markets in which we participate, but also because of the demand for compliance with high safety standards, especially in supplying the medical and pharmaceutical industry.

In reference to the impacts of the chemical sector on the control, quality, and safety of our products, it is important to highlight the investment in infrastructure to maintain updated processes that ensure safe and quality products. Likewise, we have internal policies that go hand in hand with environmental compliance to prevent impacts to water, air, or soil.

We have standardized procedures and methodologies that ensure regulatory compliance, validated by ISO 9001 certification accreditation. We have established pest control programs, ensuring compliance with regulatory studies on emissions, water and waste quality declared in the annual operating report to SEMARNAT and CONAGUA.

The evaluation of the effectiveness of product quality and safety management is carried out at three levels of auditing:

- **First Part Audits:** About quality, safety, hygiene, and environment, implementing actions for continuous improvement.
- **Second Part Audits:** We receive acknowledgements and recommendations from our customers.
- **Third Part Audits:** Maintaining ISO 9001 certification in force since 1994.

## HAZARDOUS MATERIALS MANAGEMENT

Transformation processes are provided with equipment that reduces the residual content of potentially hazardous chemicals to below the maximum permitted levels. We also carry out annual studies, applicable in the regulations, on environmental care and the surveillance and monitoring of the health of personnel in contact with chemical substances.

On the other hand, the handling and transportation of chemical substances is carried out using equipment designed for this purpose, and the personnel who handle them must use special protective equipment.

## AUTOMOTIVE SECTOR

(GRI 416-1, 3-3) (SASB TR-AP-250a.1)

Our priority is to satisfy the quality needs of all our stakeholders, aligning our processes with international management system standards, while complying with legal requirements in terms of quality and the environment.

This has a positive impact on our reputation, increasing our competitiveness and strengthening our relationship with our customers in a positive way. This is reflected in the fulfillment of sales budgets, helping to reduce storage and manufacturing costs, quality variations and material consumption.

The relevant elements, in terms of product quality and safety, focus on the limitation or elimination of components that may be harmful to the health of the user or the personnel involved in production.

Among the policies and standards that allow us to adequately manage the quality and safety of our products are the following:

### Transmissions:

- **Environmental Policy:** It includes environmental care and stakeholder satisfaction, international standards IATF 16949, ISO 14001.
- Legal and voluntary requirements

### Aftermarket:

- ISO 9001:2015 Quality Management System
- Compliance with specific market requirements of USA (SAE J2975 and SAE J661), Colombia (resolution 4983:11), Argentina (regulation 6-C2) and the European Union (ECE-R90).
- ISO 17025:2017 Quality Management System for 7 accredited tests of the Friction Materials Laboratory and the implementation of Lean Manufacturing methodologies, TPM, SMED, among others.

Finally, our customers must comply with regulations such as NHSA (National Highway Safety Administration) and CAFE (Corporate Average Fuel Economy) in the United States, in turn customers set their requirements for the Transmissions Business.

# Innovation

(GRI 3-3)

Innovation is a key element for the permanence and positioning of all the Group's businesses. We currently have research centers that allow us to innovate both in the process and in the product, and we motivate our employees to have this state of mind, so that they can be constantly involved and propose new projects.

With the aim of correctly transmitting the concept of innovation, generating mechanisms for the creation of ideas, and evaluating their feasibility, the executive team attended training in Silicon Valley, where they incorporated tools such as Design Thinking, focused on innovating with the customer and their needs and expectations as a priority. In addition, it allows us to find and apply differentiators in our products versus the competition, which opens the possibility of accessing new markets and consolidating current ones.

Our strategic positioning in terms of innovation and sustainable development seeks to integrate the three aspects: economic, to guarantee the profitability of new products and the continuity of the business; social, through constant and active interaction with the immediate environment, which allows us to complement our technological capabilities and attract talent; and environmental, by ensuring projects with a positive impact.

We include environmental and safety considerations from product conception to marketing. We seek to contribute to the reduction of resource consumption (raw materials, energy, and water), the reduction of waste and emissions, a longer product life, the use of bio-based or recycled materials, and the use of safer and more sustainable chemicals, among others.

Throughout the year, new and diverse technologies were implemented, derived from the multiple alternatives available in the market, or from experimental work developed internally, as well as from technical updates in the different areas. Likewise, to evaluate effectiveness, we have an indicator that measures the return on investment in innovation, through revenues derived from new products and product improvements.

We seek to maintain a synergy between the businesses in the sector, to share best practices

During 2021, the Group's investment in Product Research and Development was more than MXN\$1 billion, which was mainly allocated to the following projects:

## CONSUMER SECTOR

(GRI 203-1)

- Implementation of methodologies to measure minerals, which allows reducing the release of these components into the environment.
- Adjustment of nutritional requirements in pigs, which helps to reduce costs and decrease the excretion of nitrogen and phosphorus to the environment.

## CHEMICAL SECTOR

(GRI 203-1)

- Use of recyclable or compostable supplies for production, which favors value-added products that support the mitigation of environmental impacts.
- Start-up of a recycling plant.
- Development of durable resin to capture that market demand.
- Development of process technology to produce polymers with different concentrations.

## AUTOMOTIVE SECTOR

(GRI 203-1)

- Continued development and expansion of the mechatronic transmission market.
- Development of transmission design concepts for hybrid and electric vehicles in accordance with automotive market trends.
- Design and development of a transmission system for off-road vehicles, which includes traction mode change systems that are automatically activated but operate 100% mechanically.



**IN THE PACKAGING  
AND LABELS OF  
OUR PRODUCTS  
WE PROVIDE ALL  
THE NECESSARY  
INFORMATION**

# Responsible Marketing

(GRI 417-1) (SASB FB-PF-270a.1, SASB FB-PF-270a.2, SASB FB-PF-270a.3, SASB FB-PF-270a.4)

In order to provide confidence and peace of mind to customers and consumers and in compliance with the regulations of the countries where we operate and market, we provide all the necessary information for them on the packaging and labels of our products.

We ensure that communication with customers is effective and at the same time promotes trust in our products. Likewise, from the marketing department and in different spaces, we seek to communicate to employees, business partners and distributors, values focused on caring for people, the community, and the environment.

Communication and marketing are aligned with policies and standards, such as: Corporate Standard for Institutional Relations, Standard for Patronage and Advertising Sponsorship Projects, Operating Procedure for External Communication and Institutional Relations, Customer Satisfaction Procedure, Complaints Policy, and Procedure, among others.

Communication with our customers and consumers also allows us to obtain feedback to improve products and processes. For this reason, we have several means to notify complaints or suggestions, which are given priority attention by our personnel. We measure the number of complaints on a weekly and monthly basis, we segment them based on the origin of the complaint or suggestion, and we keep track of each one on its treatment and final solution.

Likewise, as we have various contact channels such as websites, social networks, telephone service for home delivery and applications, we ensure the confidentiality of personal information through the Customer Data Privacy Policy, which is disclosed through the same points of contact. Finally, we have confidentiality agreements with customers and suppliers, which have specific guidelines on the information that can be shared with third parties.

During the period, we did not have any cases of non-compliance with regulations or voluntary codes related to product information and labeling in the sectors where we operate. In terms of marketing, we do not generate advertisements aimed at children. We have not incurred in any cases of non-compliance with regulations or voluntary codes related to marketing communications in the sectors in which we operate.

## CONSUMER SECTOR

The labels and packaging of our products have a tracking code, product description, expiration date, preservation method, net weight, date, place of production, address, plant telephone number and assigned TIF number.

On the other hand, on the packaging of prepackaged products we show all the information aligned with NOM-051, including product description (ingredients, nutritional declaration, net content, preparation suggestions, expiration date), plant where the product was produced and the assigned TIF number, address, and telephone number of the production plant.

## CHEMICAL SECTOR

The labeling provides information on the origin of the components of all the products of the polymers and chemicals division, except for emulsion rubbers, solution rubbers and chemical rubbers. Information is also provided on the contents that could have an environmental or social impact, their safe use, and the disposal procedure. All products are evaluated for compliance with labeling processes.

WE OPERATE  
IN A SUSTAINABLE WAY

# Operational Efficiency

**+2.5K**  
m<sup>3</sup> of recycled or  
reused water

**OPERATIONAL EFFICIENCY IS  
A FUNDAMENTAL PART OF THE  
SUSTAINABILITY STRATEGY AND  
RELEVANT TO ALL STAKEHOLDERS**

(GRI 307-1)

Operational efficiency is a fundamental part of our sustainability strategy and is relevant for all our stakeholders. For its management, we have the Sustainability Model, the DESC Code of Conduct and the Environmental and Social Responsibility Policies, regulations under which all the Group's businesses operate.

In the same vein, the Environmental Policy is the basis for compliance in obtaining permits and authorizations to which each of the operations are subject, as well as the responsible management of water consumption, reuse and discharge, electrical and thermal energy consumption, and the generation of greenhouse gas (GHG) emissions, which we verify through an accredited and approved GHG Verification/Validation Certification Body. We also manage the reuse of waste generated in accordance with regulations and circular economy initiatives. Finally, with the support of the central negotiations area and the purchasing area of each business, the selection of suppliers and service providers is carried out in which compliance and operation under environmental legislation is considered.

With respect to the evaluation of operational efficiency, this is done through performance indicators generated in each business, which are based on measurements, parameters and consumption statistics that are concentrated to generate values and comparisons that allow us to evaluate improvements in processes and required investments.

**CONSUMER SECTOR**

Operational efficiency is managed through the integration of several programs and aligned with applicable legal requirements in the following areas: biosafety, responsible use of materials and resources, product quality, efficient processes, and employee safety.

In the first place, the company complies with legislation in line with its business operations, and there are several continuous improvement programs that guarantee efficient management. Through these programs oriented to business objectives, activity schedules are established linking all the necessary areas of the organization, as well as the resources required and efficient supervision to achieve the objectives.

There is a structured administration with a functional organization chart, which allows us to address the various aspects involved in operational efficiency, responding in a timely manner to the needs of various stakeholders.



**THERE ARE VARIOUS  
CONTINUOUS  
IMPROVEMENT  
PROGRAMS THAT  
GUARANTEE EFFICIENT  
MANAGEMENT**

We seek to maintain a synergy between the businesses in the sector, to share best practices

#### CHEMICAL SECTOR

We ensure operational efficiency through activities carried out for continuous improvement, included in the Operations Policy. This allows us to achieve high standards in productivity, maintaining competence and profitability, with sustainable actions.

This policy allows flexibility in operations, so that we can adapt to the needs of our customers, as well as changes in the social and regulatory environments, while maintaining our quality standards. Likewise, we promote actions to optimize resource consumption, quality and productivity improvements that add to the sustainability of the business.

In this sense, we seek to create and maintain a synergy among the businesses in the sector, to share best practices and innovation in processes, always aligned to continuous improvement.

#### AUTOMOTIVE SECTOR

Operational efficiency drives the sum of the efforts of collaborators, technology, and processes to achieve the objectives of value creation, productivity, and continuous improvement, as well as assertive decision making.

All operations are carried out under the applicable legal compliance standards, in addition to integrating the needs and expectations of customers, the use of high-quality supplies and the responsible use of resources.



# Water Efficiency

(GRI 303-1, 303-2, 303-3, 303-4) (SASB RT-CH-140a.1, SASB RT-CH-140a.2) (SASB FB-MP-140a.1, SASB FB-MP-140a.2, SASB FB-MP-140a.3) (SASB FB-PF-140a.1, SASB FB-PF-140a.2)

## CONSUMER SECTOR

As a result of saving measures and best practices in production plants and farms, in 2021 we achieved a reduction in consumption compared to the previous year. It is important to note that all water management, both in terms of use and discharge, is approved and monitored by CONAGUA<sup>1</sup>. The inspection by the competent environmental authority guarantees that we are not affecting access to water as a shared resource with our stakeholders.

The most intensive consumption process relates to pig farms, for which we have implemented savings and consumption reduction programs, as well as technological tests and projects to recycle and reuse water, which will be optimized through annual reduction projects, in the search for a minimum discharge and with the long-term goal of reaching zero discharge.

Regarding the management of effluents generated at farms, processing plants, and feed mills, water is discharged in compliance with current regulations<sup>2</sup> established by CONAGUA without affecting bodies of water (such as rivers or lagoons); water treatment systems and plants are designed according to the type of discharge authorized by CONAGUA and the respective process.

The main initiative is the zero-discharge program, which is constantly evolving, and the work policies governing water management are based on full compliance with current regulations.

In terms of regulatory compliance, all processes of the consumption sector's operations are working in accordance with current water regulations, and there are no risks in terms of permits, standards, or regulations.

Water Management - Consumer Sector (thousands of cubic meters)	2019	2020	2021
Municipal Water Consumption	-	-	-
Groundwater consumption (Wells)	5,757	5,192	4,427
Surface Water Consumption	-	-	-
<b>Total Water Consumption</b>	<b>5,757</b>	<b>5,192</b>	<b>4,427</b>
<b>Recycled or Reused Water</b>	<b>3,148</b>	<b>2,769</b>	<b>2,223</b>

1. Mexico's National Water Commission (CONAGUA) is a decentralized administrative agency of the Ministry of the Environment and Natural Resources, created in 1989, whose responsibility is to manage, regulate, control, and protect Mexico's national waters.  
 2. Mexican Official Standard - 001 SEMARNAT-1996 (agricultural irrigation), which establishes the Maximum Permissible Limits of pollutants in wastewater discharges into national waters and property.



**2,223k**  
 M<sup>3</sup> OF RECYCLED WATER  
 OR REUSED IN THE  
 CONSUMER SECTOR



# 295k

M<sup>3</sup> OF RECYCLED WATER  
OR REUSED IN THE  
CHEMICAL SECTOR

(GRI 303-1, 303-2, 303-3, 303-4, 303-5) (SASB RT-CH-140A.3)

## CHEMICAL SECTOR

The Synthetic Rubber Business incorporates in its strategic lines the reduction of water consumption as one of the main concepts in the Sustainability area, due to the fact that the risks associated with water management are related to the possible lack of this natural resource in the future at a global level and in the short and medium term during limited periods of time.

Among the initiatives executed is the implementation of water reuse facilities in the two Synthetic Rubber plants located in Mexico. Likewise, in all plants, studies are being carried out to search for alternatives to reduce consumption and increase reuse.

With respect to water discharge, the minimum management criterion follows the regulatory discharge limits applicable to each plant. In addition to this criteria, discharge-related objectives are defined annually to reduce the impact.

The efficient use of natural resources is part of the Group's Sustainability Policy, which includes the reduction of water consumption as a medium-term objective in the strategy. Consequently, all operating centers include actions for the annual Environmental Objectives and Actions Plans, through the reuse of water for steam generation in boilers.

In this regard, we have permits for water use and effluent discharge, previously analyzed as required by law.

We are reusing much of the treated wastewater for irrigation in green areas and working to increase the efficiency of the biological treatment plant in order to improve the quality of the water discharged and comply with new water regulations, as well as contribute to the water quality of the Atoyac River and the particular discharge parameters in accordance with its declaration.

As a result, we are addressing these regulations by making improvements to our wastewater treatment systems.

The increase in water consumption in this Sector is mainly due to equipment maintenance activities, plant start-ups, as well as variations in production due to the COVID-19 pandemic.

The Polymers Business has implemented equipment with higher efficiency, as well as the development of projects to reduce water consumption.

Water Management - Chemical Sector (thousands of cubic meters)	2019	2020	2021
Municipal Water Consumption	4	5	4
Groundwater consumption (Wells)	8,137	7,737	8,143
Surface Water Consumption	17	16	98
<b>Total Water Consumption</b>	<b>8,158</b>	<b>7,758</b>	<b>8,245</b>
<b>Water treated and released as effluent*</b>	<b>8,098</b>	<b>7,853</b>	<b>8,824</b>
<b>Recycled or Reused Water</b>	<b>159</b>	<b>260</b>	<b>295</b>

\* In the synthetic rubber business, the total water released as effluent includes untreated water from stormwater due to the configuration of discharge channels and meters that do not allow separate accounting.

(GRI 303-1, 303-2, 303-3, 303-4, 303-5)

**AUTOMOTIVE SECTOR**

Water consumption is managed through daily monitoring of consumption and reuse to determine the necessary actions to improve our performance. All wastewater is processed at the Wastewater Treatment Plant and, with authorization from CONAGUA, is reused to irrigate green areas. Prior to reuse, we conduct sampling and laboratory analysis to ensure quality in accordance with NOM-001-SEMARNAT<sup>1</sup>. Wastewater discharge management includes the pretreatment of effluents through an internal wastewater treatment plant, complying with the analysis of quality parameters in accordance with the applicable regulations for national and municipal assets.

Specifically, in the brakes plant, we noticed a reduction in consumption as a result of campaigns on the care and use of water and the change of products for cleaning employees in the processes. At the rest of the facilities, we implemented water savers and a corrective maintenance program for the hydraulic lines. It is also important to mention that there was an increase in water consumption in some facilities because of the implementation of protocols against COVID-19.

**40k****M<sup>3</sup> OF RECYCLED WATER  
OR REUSED IN THE  
AUTOMOTIVE SECTOR**

<b>Water Management - Automotive Sector (thousands of cubic meters)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Municipal Water Consumption	22	18	11
Groundwater consumption (Wells)	68	59	65
Surface Water Consumption	-	-	-
Others (Tank Trucks)	-	-	0.32
<b>Total Water Consumption</b>	<b>90</b>	<b>77</b>	<b>77</b>
<b>Water treated and released as effluent</b>	<b>54</b>	<b>42</b>	<b>53</b>
<b>Recycled or Reused Water</b>	<b>51</b>	<b>37</b>	<b>40</b>

1. Mexican Official Standard NOM-001-SEMARNAT-1996, which establishes the Maximum Permissible Limits of pollutants in wastewater discharges into national waters and property.



# Energy Efficiency and Carbon Management

(GRI 302-1, 302-3), (SASB FB-MP-130A.1), (SASB FB-PF-130A.1)

**3,168**  
MWh OF CLEAN  
ENERGY GENERATED  
ON FARMS

## ENERGY

### CORPORATE

Energy Consumption (MWh)	2019	2020	2021
Energy	660	277	179
Clean Energy	205	333	383
<b>Total Energy</b>	<b>865</b>	<b>610</b>	<b>562</b>

### CONSUMER SECTOR

The main initiatives to reduce energy consumption and greenhouse gas (GHG) emissions are the implementation of biodigesters for wastewater treatment on farms combined with the generation of clean electricity using biogas as fuel and the installation of photovoltaic panels in stores.

Future strategies include increasing the use of photovoltaic panels to generate energy and reduce GHG emissions. The company also has 931 hectares of conservation area and 13,000 additional hectares of land in a natural state, which serve as natural carbon sinks.

Energy Consumption (MWh)	2019	2020	2021
Energy	125,737	123,104	109,196
Clean Energy	33,605	25,692	32,864
<b>Total Energy</b>	<b>159,342</b>	<b>148,796</b>	<b>142,060</b>

Thermal Energy Consumption (GJ)	2019	2020	2021
Natural Gas	172,583	212,801	215,931
Diesel	36,209	24,406	29,444
LP Gas	751,362	45,558	50,919
Gasoline	33,573	32,143	30,748
Fuel oil	51,793	22,049	18,335
<b>Total Thermal Energy</b>	<b>1,045,519</b>	<b>336,958</b>	<b>345,377</b>

It is important to mention that all the farms' biodigesters operated throughout the year, and to increase their efficiency, a constant maintenance plan for the mixers is being followed.

Clean Energy Generated on Farms (MWh)	2019	2020	2021
<b>Total</b>	<b>3,494</b>	<b>3,597</b>	<b>3,168</b>

# 98,084

MWh OF ELECTRICAL  
CLEAN ENERGY IN  
THE CHEMICAL INDUSTRY

# 59,250

MWh OF ELECTRICAL  
CLEAN ENERGY IN  
THE AUTOMOTIVE INDUSTRY

(GRI 302-1, 302-3) (SASB RT-CH-130A.1),  
(SASB TR-AP-130A.1)

## CHEMICAL SECTOR

Among the main actions implemented in this Sector to reduce energy consumption we can mention the improvements in energy and steam consumption associated with the operation, the replacement of substances with alternatives that generate fewer emissions contributing to global warming or atmospheric pollution, the energy leakage reduction program, and our agreement with Iberdrola for the supply of clean energy.

Energy Consumption (MWh)	2019	2020	2021
Energy	198,861	112,511	120,846
Clean Energy	16,264	86,798	98,084
<b>Total Energy</b>	<b>215,125</b>	<b>199,309</b>	<b>218,930</b>

Thermal Energy Consumption (GJ)	2019	2020	2021
Natural Gas	430,764	473,488	537,560
Diesel	11,202	8,988	8,847
LP Gas	12,774	11,281	13,645
Gasoline	1,161	872	837
Steam (Estimated GJ)	1,001,310	1,014,504	953,640
<b>Total Thermal Energy</b>	<b>1,457,211</b>	<b>1,509,133</b>	<b>1,514,529</b>

## AUTOMOTIVE SECTOR

Regarding the main initiatives carried out to manage energy consumption and emissions generation, we can mention the implementation of spaces with natural light that reduce the need for lighting, the campaigns to disseminate the use and care of electric energy, the change of light sources to LED and the reduction of CO2 levels due to the emission of gases in fluorescent piping.

Energy Consumption (MWh)	2019	2020	2021
Energy	15,810	14,932	11,391
Clean Energy	54,929	48,200	59,468
<b>Total Energy</b>	<b>70,740</b>	<b>63,131</b>	<b>70,859</b>

Thermal Energy Consumption (GJ)	2019	2020	2021
Natural Gas	307,426	276,746	331,053
Diesel	3,524	2,056	1,801
LP Gas	112,393	94,606	124,099
Gasoline	1,949	5,479	1,607
<b>Total Thermal Energy</b>	<b>425,292</b>	<b>378,887</b>	<b>458,560</b>

**+99k**  
TON CO<sub>2</sub>eq  
IN REDUCTION  
OF EMISSIONS

(GRI 305-1, 305-2, 305-5),  
(SASB RT-CH-110A.1, SASB RT-CH-110A.2),  
(SASB FB-MP-110A.1, SASB FB-MP-110A.2),  
(SASB TR-AP-410A.1)

## EMISSIONS

### CORPORATE

Carbon Emissions (Ton CO <sub>2</sub> eq)	2019	2020	2021
Scope 1	0	0	0
Scope 2	418	271	227
<b>Total</b>	<b>418</b>	<b>271</b>	<b>227</b>

### CONSUMER SECTOR

Carbon Emissions (Ton CO <sub>2</sub> eq)	2019	2020	2021
Scope 1	47,900	75,148	54,234
Scope 2	48,053	52,447	54,301
<b>Total</b>	<b>95,953</b>	<b>127,594</b>	<b>108,535</b>

### Major Emission Reduction Initiatives

### Emissions Reduction (Ton CO<sub>2</sub>eq) 2021

Biodigester biogas burners in a water treatment system avoiding methane emissions by converting it into CO<sub>2</sub>

97,225

Biogas-based electric power generator

2,245

Photovoltaic panels at five retail outlets

100

### CHEMICAL SECTOR

Carbon Emissions (Ton CO <sub>2</sub> eq)	2019	2020	2021
Scope 1	46,431	40,697	51,574
Scope 2	227,092	179,894	183,132*
<b>Total</b>	<b>273,523</b>	<b>220,591</b>	<b>234,706</b>

\* The 2021 Emission Factor is not available, for this calculation the 2020 factor was applied.

Since 2018, we have been working on initiatives to reduce energy consumption by varying process conditions, such as reducing the operating temperature of various equipment, increasing the concentration of solids in reactions, condensate recovery, etc.

### AUTOMOTIVE SECTOR

Carbon Emissions (Ton CO <sub>2</sub> eq)	2019	2020	2021
Scope 1	22,857	18,296	21,277
Scope 2	35,087	28,703	28,194
<b>Total</b>	<b>57,944</b>	<b>46,999</b>	<b>49,471</b>

### Major Emission Reduction Initiative

### Emissions Reduction (ton CO<sub>2</sub>eq)

Relocation of Brake production plants

354

# Responsible Waste Management and Circularity

(GRI 306-1, 306-2, 306-3, 306-4, 306-5)

## WASTES

### CORPORATE

Solid Waste Generated (ton)	Process Generating the Waste	Waste Type	2019	2020	2021
Cardboard / Paper for recycling	Office	Not Hazardous	4	1	0.5

### CONSUMER SECTOR

Regarding solid waste, we generate biosolids on farms, which are intended for agricultural producers with use permits approved by the respective authorities. In addition, we manage special handling waste under the circular economy program. Non-recyclable waste is disposed in accordance with the law, according to its classification.

Type	Origin	Hazardous Waste	Environmental Impact	2019	2020	2021
Special handling waste	Process and operations	No	Potential impact to soil and water (only if not properly disposed of)	6,127	3,217	7,876
Special handling waste for reuse	Process and operations	No		0	0	854
Municipal solid waste	Restrooms and offices	No		1,089	2,757	1,603
Revalued	Process and operations	No		39,996	41,017	42,594
Hazardous waste	Maintenance	Yes		289	62	59
Municipal solid waste	Process and Point of Sale	No		0	0	23
<b>Total waste (T)</b>				<b>47,500</b>	<b>47,053</b>	<b>53,864</b>



**+850T**  
OF ORGANIC FERTILIZER  
DONATED TO FARMERS  
AND NURSERIES

(GRI 306-1, 306-2, 306-3, 306-4, 306-5),  
(SASB RT-CH-150A.1)

### CHEMICAL SECTOR

Both the reduction of waste and the use of packaging are treated in a particular way in each operation, according to the possibilities of the process. We have optimized processes for the efficient packaging of final products and a laboratory that validates the raw material before it is used, ensuring the quality and integrity of the packaging.

### HULE SINTÉTICO

Waste	Origin	Hazardous Waste	Environmental Impact	2019	2020	2021
Hazardous waste disposed for reuse		Yes		33	15	21
Hazardous waste disposed for recycling		Yes		8	5	2
Hazardous waste for recovery		Yes		597	557	347
Hazardous waste for landfill disposal		Yes		1,633	1,375	1,775
Hazardous waste for another disposal		Yes		0	206	164
Non-hazardous waste managed externally for recycling		No		3,587	1,389	3,752
Non-hazardous waste managed externally for valuation or recovery		No		617	100	219
Non-hazardous waste managed externally for landfill disposal	Process residues (purification, reaction and drying)	No	Consumption of resources, generation of emissions and effluents (only if they are not properly disposed of).	1,149	6,751	2,698
Non-hazardous waste managed externally for another disposal		No		0	642	556
<b>Total</b>				<b>7,624</b>	<b>11,040</b>	<b>9,534</b>

It is important to highlight the importance of the sector in the reuse of "big bags"<sup>1</sup> as well as the maximum possible filling of the same, with actions for efficient use in addition to the use of the minimum possible material for the composition of the packaging.

1. Big bags, also known as FIBCs (Flexible Intermediate Bulk Containers), are waste containers that store, hold and transport both bulk products and waste for disposal.

**-15%**  
WASTE IN THE  
CHEMICAL SECTOR

### POLYMERS

Waste	Origin	Hazardous Waste	Environmental Impact	2019	2020	2021
Hazardous waste	Transformation process	Yes		285	225	216
Special handling waste	Human Capital (Employees)	No	Consumption of resources, generation of emissions and effluents (only if they are not properly disposed of).	22	25	0
Municipal solid waste	Human Capital (Employees)	No		53	62	28
Revalued waste	Waste on raw material (packaging, cardboard, paper, plastic, metal, etc.)	No		618	556	362
<b>Total</b>				<b>979</b>	<b>868</b>	<b>606</b>

The Environment and Sustainability Policies define the principles for the efficient use of supplies or materials, as well as the reduced generation of waste, which are disposed of in accordance with applicable legislation. In addition to the above, we have the RESI - RECICLA program, through which we raise awareness and provide information on the correct separation and management of waste for recycling within our operations and in nearby locations.

(GRI 306-1, 306-2, 306-3, 306-4, 306-5),  
(SASB TR-AP-150A.1)

#### AUTOMOTIVE SECTOR

We have areas for the temporary storage of waste generated in all areas of the unit for subsequent reuse or disposal. This allows us to safely segregate waste that can be used in other internal or external processes.

#### AFTERMARKET

Type	Origin	Hazardous Waste	Environmental Impact	2019	2020	2021
Hazardous waste for chemical treatment	Battery area, general area	Yes	Possible impact to soil	2	0	1
Hazardous waste for landfill	Maintenance	Yes		84	0.07	0.08
Hazardous waste for recycling	Shoe washing, services, and maintenance	Yes		0	24	28
Hazardous waste for coprocessing	Processes, equipment, and maintenance	Yes		174	224	1,042
Hazardous waste for incineration	Medical service	Yes		0.002	11	14
Special handling waste	Process, packaging	No		396	186	288
Special handling waste for recycling	Process, packaging	No		1,791	1,174	769
Municipal solid waste for landfill	Pressing and mixing	No		171	158	1,759
<b>Total</b>				<b>2,618</b>	<b>1,777</b>	<b>3,901</b>

#### TRANSMISSIONS

Type	Origin	Hazardous Waste	Environmental Impact	2019	2020	2021
Hazardous waste for recycling	Machining, heat treatment, maintenance, offices	Yes	Potential impact to soil (only if not properly disposed of)	287	220	205
Hazardous waste for coprocessing	Production, maintenance, paint booth (assembly)	Yes		308	262	361
Hazardous waste for incineration	Medical service	Yes		0.02	0.03	0.02
Special handling waste for recycling and reuse.	Machining, production control, receiving, packaging. Distribution Center, maintenance, assembly, forging, canteen, receiving, receiving	No		11,149	4,556	13,314
Municipal solid waste	Production, maintenance	No		382	476	561
<b>Total</b>				<b>12,127</b>	<b>5,514</b>	<b>14,442</b>



#### ECOSYSTEM CONSERVATION

(GRI 304-3)

During 2021, as part of the Sustainable Development Goals of the 2030 Agenda, Kekén Conservation Area Committee continued, which is made up of 800 hectares located on the periphery of one of the pig farms complexes in the municipality of Maxcanú, Yucatán. This area is part of what Grupo KUO constituted in 2016 as a permanent restriction to allocate this surface area solely for preservation and ecological research purposes and which are added to the hectares destined as a sanitary belt for the pig farms.

This Natural Conservation Area has been functioning for four years as a facilitator for the participation of local authorities and academics to conduct studies on biodiversity.

WE ARE AN  
EXTRAORDINARY TEAM

KUO  
people

GRI 3-3

**+24K**

Collaborators

## We focus on creating value through proper talent management

(GRI 3-3)

We aim to contribute to the well-being of our personnel through healthy labor relations that allow us to maintain labor stability with the best quality of life for our employees.

We have a work system in which we define, establish, regulate, and develop all the elements that make up management, such as the workday, roles and responsibilities of our employees, competitive compensation, recognition, productivity, technical and organizational competencies, among others.

We comply with the applicable legislation for the responsible functioning of operations, based on the Federal Labor Law, which also establishes the right to collective-union organization and regulated through:

- STPS (Secretaría de Trabajo y Previsión Social) [Ministry of Labor and Social Welfare]
- IMSS (Instituto Mexicano del Seguro Social) [Mexican Social Security Institute]
- Infonavit (Instituto del Fondo Nacional de la Vivienda para los Trabajadores) [National Employees' Housing Fund Institute]
- Fonacot (Instituto del Fondo Nacional para el Consumo de los Trabajadores) [National Employees' Welfare Fund Institute]

We generate a work environment that allows for maximum individual and organizational performance and provide professional and technical development programs for employees.





## We keep climate and environment positive labor

We also support management with the following tools:

- Labor Operating Plan
- Internal Labor Regulations
- Code of Conduct, which establishes coexistence guidelines and complaint mechanisms.
- Talent Identification and Recruitment Policy
- Talent Identification, Training and Coaching Procedures.
- Employees' Surveys to all employees
- Annual Development and Training Plans
- Annual Performance Management Program
- Succession Planning
- Procedures for Unionized personnel
- Surveys and programs for measuring and monitoring the work environment
- Labor Thermometer

The aforementioned allows us to impact the organization in different ways, achieving operational continuity free of labor conflicts, maintaining a positive work environment and climate, and ensuring quality customer service.

We measure management through various indicators such as: level of employee satisfaction, level of productivity, results of collective bargaining agreement revisions, number of operational stoppages, number of lawsuits, absenteeism, turnover, accident rate, training hours, among others. We also use the results to propose actions for continuous improvement in accordance with the objectives and goals of each business.

Finally, it is important to mention that management is the result of a continuous feedback process with various stakeholders, among the main agreements are:

- Employees: We encourage company-employee commitment by knowing their development needs, recognizing their achievements, and jointly establishing individual and team objectives.
- Customers: Determine the demand for technical and functional competencies of our personnel as we seek to ensure that our products and services meet their current and future requirements.
- Community: We engage our employees in social responsibility activities, which contribute to their personal, social, and professional development and have a positive impact on neighboring communities.
- Shareholders: They receive timely and accurate information in a timely manner to know and follow the Company's strategy.



# Employee Information

(GRI 2-7, 2-30) (GRI 405-1)

# 24,162

EMPLOYEES

51%  
UNIONIZED

49%  
NON-UNIONIZED

92.6%	3.4%	1.9%	1.4%	0.6%
MEXICO	USA	SPAIN	CHINA	BELGIUM

7,602 31% < 30 years old	13,806 57% 30 - 50 years old	2,754 11% > 50 years old
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8,261 34% FEMALE	15,901 66% MALE
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Permanent	7,742	15,150
Temporary	442	828
Full-time	8,239	15,880
Part-time	22	21

(GRI 2-7, 2-30)(GRI 405-1)

## EMPLOYEES BY SECTOR

	CONSUMER		CHEMICAL		AUTOMOTIVE		SERVICES	
	17,823		1,731		4,308		300	
<30 years old	6,366 36%		319 18%		886 21%		31 10%	
30-50 years old	9,894 56%		1,025 59%		2,673 62%		214 71%	
>50 years old	1,563 9%		387 22%		749 17%		55 18%	
	F	M	F	M	F	M	F	M
	6,825	10,998	333	1,398	977	3,331	126	174
	38%	62%	19%	81%	23%	77%	42%	58%
Permanent	6,501	10,622	212	1,242	909	3,122	120	164
Temporary	324	376	34	243	78	199	6	10
Full-time	6,824	10,998	313	1,378	977	3,331	125	173
Part-time	1	0	20	20	0	0	1	1

None of our businesses have employees with non-guaranteed hours.

## STAFF RECRUITMENT

(GRI 401-1)

## NEW HIRES

Location	Business Line	Male	Rate	Female	Rate	Total	Rate
Mexico	Pork Meat	2,562	23.00	1,586	14.24	4,148	37.23
Mexico	Synthetic Rubber	41	0.37	12	0.11	53	0.48
Mexico	Polymers	7	0.06	7	0.06	14	0.13
Mexico	Transmissions	284	2.55	35	0.31	319	2.86
Mexico	Aftermarket	332	2.98	214	1.92	546	4.90
USA	Synthetic Rubber	0	0.00	1	0.01	1	0.01
USA	Transmissions	29	0.26	8	0.07	37	0.33
Spain	Synthetic Rubber	69	0.62	52	0.47	121	1.09
Belgium	Transmissions	7	0.06	4	0.04	11	0.10

## BENEFITS

(GRI 401-2, 401-3)

We do not have part-time or temporary employees in the Consumer or Chemical sectors. All employees have the same benefits, including health insurance, parental leave, disability coverage and life insurance, as well as additional benefits such as food vouchers, savings fund, paid leave for extraordinary occasions, among others.

	Male	Female	Total
Eligible employees on parental permission	8,867	652	9,519
Employees who have taken parental permission	375	35	411
Employees who took parental permission and returned to work	373	35	409



**+77%**

**OF COLLABORATORS  
HAVE RECEIVED  
EVALUATIONS  
PERFORMANCE**

**BUSINESS RELATIONSHIP**

(GRI 402-1)

The minimum period of communication of operational changes is agreed within the collective bargaining agreements, with the following particularities per business:

- **Pork Meat:** Changes and/or new conditions of the collective bargaining agreement are reported on an annual basis, after which weekly meetings are held to discuss special or emerging situations. The notification period varies depending on the magnitude and is estimated according to the needs of the business.
- **Synthetic Rubber:** Communication of significant changes is done in a timely manner globally when it is a modification affecting the entire business and locally when it is an issue that affects only a specific location. In any case, as long as it is a communication whose subject does not have a legally established and regulated period of time, the deadline is variable and is estimated according to the needs of the business.
- **Polymers:** Significant operational changes are communicated two weeks in advance. The notification period varies depending on the magnitude and is estimated according to the needs of the business.
- **Transmissions:** A General Communication Meeting is held quarterly to report significant changes or special situations, the notification period varies depending on the magnitude and is estimated according to business needs.
- **Aftermarket:** The notification period varies depending on the magnitude and is estimated according to business needs.

**TRAINING AND EDUCATION**

(GRI 404-1)

**TRAINING**

During the induction process, training is provided to all employees, in which the main qualities of the Company are shown, the organizational culture is discussed, and specialized training is given on the different areas of the company.

We also offer technical and specialized programs focused on safety, quality assurance, product biosafety, process standardization, among others. Finally, we offer training programs in soft skills, focused on the development of leadership, communication, and performance competencies.

The average number of training hours was:

**2021**

Male	Female	Total
18.17	18.07	18.14

**PERFORMANCE ASSESSMENT**

(GRI 404-3)

Through the SIGO platform we periodically monitor and evaluate the performance of our employees, which allows us to manage our Human Capital needs more efficiently, as well as to align the objectives of the entire workforce with the Group's overall strategy. The total percentage of employees who have received performance evaluations by gender is as follows:

**2021**

Male	Female	Total
75%	83%	77%

**Staff assessed on their performance and professional development, according to labor category 2021**

	Executive	Non-Unionized	Unionized
Consumer	77	3,978	4,888
Chemical	14	485	573
Automotive	69	1,462	0
Corporate	35	202	0

**NON-DISCRIMINATION**

(GRI 406-1)

During the reporting period, there were no cases of discrimination in any of the sectors in which we operate or in their respective lines of business.

# Occupational Health and Safety

(GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 406-7, 403-9, 403-10, 3-3)

Safety is managed as a priority issue in the strategy. As a matter of high importance, it is led by the Chairman of the Board, and has an impact on stakeholders, from employees, contractors and anyone who enters any of the Group's facilities.

The Sustainability and Communication Department, which reports to the Deputy General Management, is responsible for designing, building, and disseminating the Occupational Health and Safety (OHS) Management System, which consists of guidelines containing KUO's best safety practices, both national and international. All employees and persons entering any of the facilities are responsible for observing and enforcing the policies and the Safety System.

Our goal is ZERO casualties, as well as the mitigation of any possible situation that puts any person at risk.

There is an Occupational Health and Safety Policy, which applies to all Group companies, this includes all Businesses, the Service and Control Units and the Shared Services Unit. The objective of this policy is to establish the guidelines and behaviors to be followed in the area of OHS, in order to protect the physical integrity of our employees, prevent injuries and damage to their health. It also seeks to avoid affecting the safety of the processes, through the implementation and execution of the guidelines of the Occupational Health and Safety Management System (SGSSO), which includes the identification of hazards, risk assessment and establishment of measures for prevention, correction, control and/or transfer.

The following documents are part of the Occupational Health and Safety Policy:

- Legal Framework for Occupational Safety and Health
- Guidelines for Filling Out Monthly Accident Reports
- Occupational Health and Safety System Guidelines
- KUO Medical Report
- Medical Model
- Medical Staff Training and Education
- Monthly Accident Report Form
- Work Accident Notice Form
- Complementary Data Form Work Accident Notice

It is important to note that, in addition to the Occupational Health and Safety Policy, we have protocols in response to the Covid-19 pandemic, as well as medical committees, which meet every week, in response to the health emergency and occupational health and disease issues.

We also have a Critical Risks Matrix, which is explained through a graphic scheme in which the level of risk (chemical, physical, biological, and psychosocial) of the processes or equipment is ranked according to their probability and impact on the health of workers, surrounding communities and business assets.

Another management element is the Central Occupational Health and Safety Committee, which leads and directs the development, implementation, execution, and improvement of the OHS. We also have Occupational Safety and Health subcommittees, which are responsible for developing and implementing best practices in OHS in all areas and each of the facilities operated by the Group's companies.



zero  
ACCIDENTS IS  
OUR OBJETIVE

## We promote healthy and safe work environments

The leaders of each area must implement the measures established to comply with the Occupational Health and Safety Policy and the respective guidelines and participate actively in the corresponding local committees and sub-committees. They must also ensure that their personnel are trained and promote safe behavior, as well as the correct management of risks in their area.

The main actions related to good health and safety management in the Group are as follows:

1. We create a culture of self-care, making it a working condition and a sense of belonging in employees and their families.
2. We promote healthy and safe work environments, which also prevents absenteeism, turnover, training of substitutes, among others.
3. We identify and control health risks, since, in addition to directly affecting employees, they represent high costs in incapacity due to illnesses or work accidents, as well as an increase in risk premiums for the IMSS.

4. We constantly monitor and control vulnerable personnel.
5. We strictly comply with the regulations and norms to which the organization is obliged, avoiding fines, closures, and summons.
6. We take care of the environment and the community near the company.

We get feedback on the OHSMS through stakeholder engagement and communication, which takes place through different means:

- Complaint mailbox
- Communication mechanisms, whether verbal, written or signaling
- Performance indicators in the different operations, we can know the objectives set and the day-to-day results obtained
- Accountability mechanisms before management and middle management

In addition, we have an Occupational Health function holder at each location, who must ensure, to the extent possible, that the workplace remains free of occupational diseases through compliance with the medical surveillance program for Occupationally Exposed Personnel (OPE) and the supply chain. In addition, we are responsible for identifying hazards in the work environment and informing workers of the risks to which they may be exposed and their impact on their health.

We also maintain active channels in internal (medical sessions) and external forums with Occupational Health and Safety areas, in which best practices, knowledge and experiences are shared to improve standards in the safe performance of activities.

In the event of a critical situation caused by repeated accidents, occupational illnesses or legal non-compliance that could result in sanctions or interruption of operations, a Contingency Plan will be implemented to halt this trend and correct deviations in the short term.

## We apply specialized protocols through which we seek to minimize Covid-19 cases

(GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 406-7, 403-9, 403-10, 3-3)

If a severe traumatic event occurs, it is reported to the Occupational Health Manager or the Safety and Hygiene Manager directly, through the occupational health and safety preventive services or the safety and hygiene commission.

The OHSMS is evaluated through Frank Bird's Pyramid, in which the areas of opportunity in each business are identified and then improved or corrected, always with the objective of minimizing risk in each of the operations. We also carry out audits of all the group's medical services. It should be noted that we have achieved 80% compliance with the regulations applicable to the Occupational Health area of our operations.

### COVID-19

According to the pandemic management, in addition to the constitution of the Covid-19 Committee, we apply specialized protocols through which we seek to minimize Covid-19 cases. All this work is also carried out to ensure good health care services and facilitate workers' access to them.

In addition to the implementation of protocols, we provide remote counseling, PCR tests, antigen and antibody tests and rapid tests to all personnel. We provided loans of biometric equipment such as thermometers, handheld infrared, pulse oximeters and even oxygen concentrators, for the time required by our employees or their families. We also provide loans of wheelchairs, crutches, and neck braces.

We also offer benefits for all employees and their immediate families with clinical laboratories, dental, optometric, and Gym-Pass services, as well as emotional support through the DESContigo psychology service (via telephone 24/7) and/or the in-house psychologist.

### CONSUMER SECTOR

Occupational health and safety at the facilities is managed through the Safety Management System, based on the Deming or PHVA cycle, which aims to identify, evaluate, and control the risks of operations, to ensure the integrity of our personnel, facilities, environment, and neighboring communities.

Although we use KUO's Occupational Health and Safety Policy as a frame of reference, each year we define objectives that allow us to improve the safety culture and its respective indicators. Along these lines, we have prepared a management manual dedicated exclusively to the Occupational Health and Safety Management System.

This system was designed in accordance with the occupational health and safety management requirements of the international standard ISO 45001:2018. The system operates with an approach based on the PHVA improvement cycle, taking as its main element the management of occupational safety and health hazards and risks. It also considers compliance with legal and other applicable requirements.

The OHSMS covers all activities and is applicable to all personnel, including suppliers, contractors, and visitors, to achieve a safe working environment free of occupational diseases.

We have procedures in place to preserve the health and safety of our employees, including Risk and Opportunity Management, together with the Risk and Opportunity Matrix, in which the needs and expectations of stakeholders are recorded.



(GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-9, 403-10, 3-3)

Documented operational controls to control OHS hazards and risks include the following documents:

- Job Task Safety Analysis
- Accident Reporting and Investigation
- Planned Inspections
- Safety Communications
- Safety Committees
- Protocols for hazardous work, work at heights, confined spaces, work with heat and ignition sources, blocking and intervention, lifting work, hazardous chemicals, storage and handling of materials, manual handling of loads.
- Personal Protective Equipment
- Safe Procedure for Electrical Work
- Occupational Health Standard Operating Procedure
- Safety Regulations for Contractors
- Emergency Drills

#### COLLABORATORS' COMMUNICATION AND ENGAGEMENT

Employee participation and consultation is the basis of the Safety Management System. The activities in which the personnel participate are defined in the Administrative Participation standard, which establishes the preventive safety activities to be carried out by the collaborators depending on their job position.

On the other hand, we have the Internal and External Communication Plan, which describes the guidelines to ensure the establishment of appropriate means of communication between the different levels and functions. This plan is designed to ensure the effectiveness of the OHSMS, as well as to receive, document and respond to communication from customers, suppliers, contractors and interested parties.

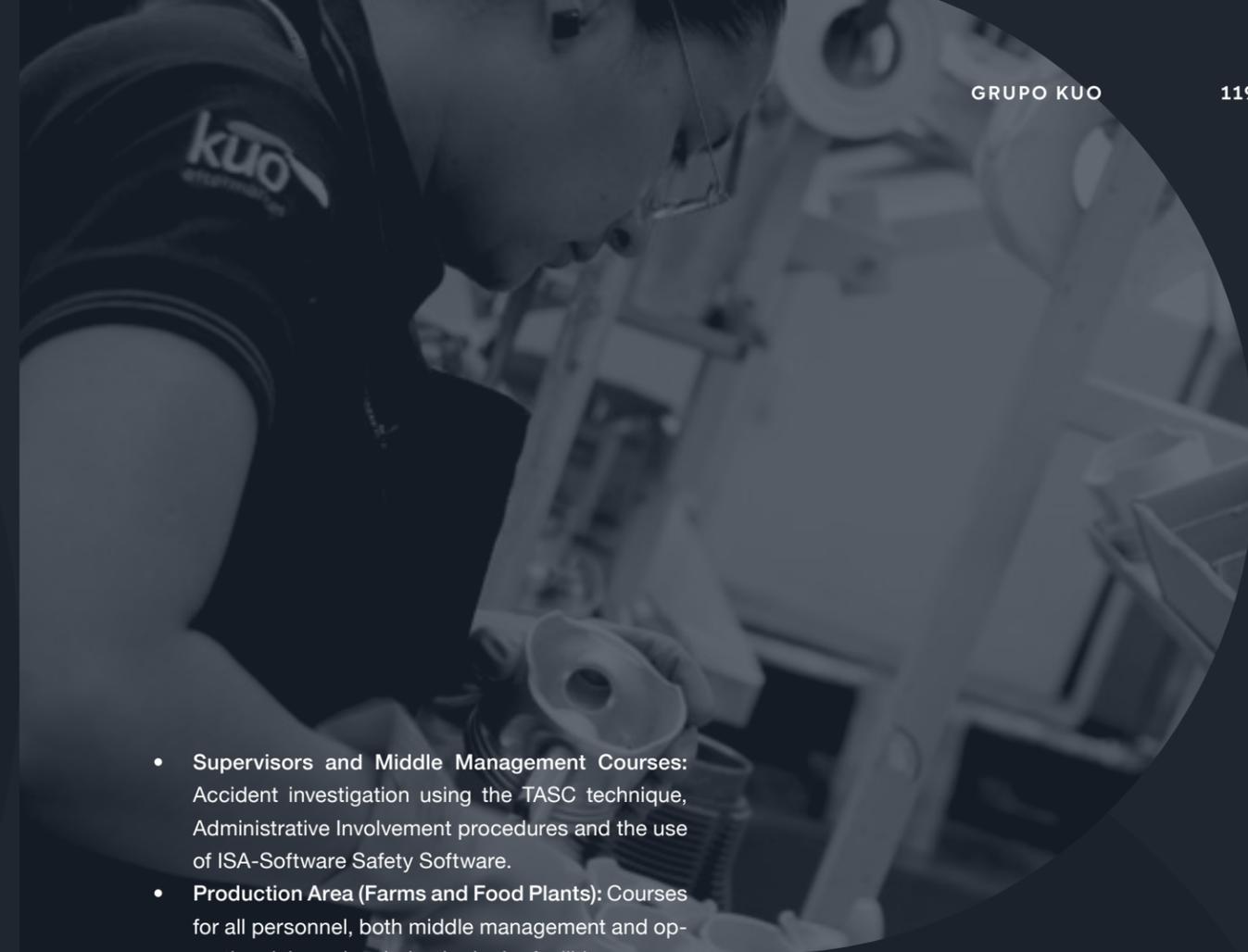
Additionally, there is a corporate procedure "Safety Communications" that establishes the requirements for effective safety communications, through personal contacts, safety meetings and safety rallies, which allow the implementation of a safety culture aimed at maintaining the integrity of the personnel working at Procesadoras Kekén.

Finally, through our monthly newsletter we communicate to our employees the operation and progress of the safety management system, which includes accident rate indicators, analysis by type of accident, results for the month, among other relevant information for the entire company.

#### TRAINING

In the case of processors and in accordance with the ISO45001 standard, we have a training needs detection and an Annual Training Program, which establishes the minimum courses that personnel must take depending on their job position and the annual program to comply with the defined competencies. Among the safety courses provided are the following:

- **Safety Induction:** Includes the Policy and an introduction to the Safety Management System, emergency response plans, use of fire extinguishers, major facility hazards, use of personal protective equipment, the Hazardous Work Permit System, what to do in case of an accident and major facility accidents, as well as basic safety concepts.
- **High-Risk Activities Courses:** Applicable regulations and how hazardous work procedures comply with the legislation. Hazardous work procedures include work at heights, cutting and welding, confined space entry, equipment and systems lockout/tagout and intervention, and hoisting work.



- **Supervisors and Middle Management Courses:** Accident investigation using the TASC technique, Administrative Involvement procedures and the use of ISA-Software Safety Software.
- **Production Area (Farms and Food Plants):** Courses for all personnel, both middle management and operational, based on behavior in the facilities.

#### ACCIDENTS

We have a procedure for reporting and investigating incidents and accidents, which must be reported in their entirety, immediately, to the direct supervisor of the injured employee, no matter how slight the injury may be.

It also establishes the steps to follow for accident investigation and the need to define permanent actions to combat the basic causes of the events and thus avoid recurrence.

We also work with a software, called ISA-software, in which all accidents, investigations and action plans are registered, which allows us to follow up in real time the status and actions until their closure.

## We promote behaviors, habits, consumption and healthy lifestyles

(GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 406-7, 403-9, 403-10, 3-3)

### MEDICAL AND HEALTHCARE SERVICES

We promote employee participation by encouraging healthy behaviors, habits, consumption, and lifestyles, as well as a preventive culture. We follow the following pillars:

- **Prevention:** We evaluate the exposure to a risk, from the biological control proposing preventive measures. We plan the provision of first aid in the workplace. We inform and train on occupational health risks and the necessary preventive measures. We evaluate the effectiveness of the preventive measures implemented to eliminate and reduce exposure based on health indicators.
- **Surveillance:** We design health surveillance activities appropriate to each situation. We identify and diagnose work-related health problems. We carry out health examinations. We select and manage health indicators. We analyze and assess workers' health problems and their interaction with work (work capacity).
- **Assistance:** We provide the necessary medical attention in case of emergencies and urgencies. We elaborate and promote recommendations on rehabilitation and return to work. We carry out the diagnosis, treatment and follow-up of occupational diseases, work-related diseases, and common diseases, as appropriate.

In addition to the aforementioned, each year the person in charge of the Medical Service, in coordination with the person in charge of Safety, prepares and implements occupational safety programs in accordance with the Master Plan for Occupational Health, considering the following for its preparation:

- Industrial hygiene programs required by applicable regulations.
- Epidemiological surveillance activities for work-related illnesses and absenteeism.

- Medical examinations for personnel selection, job transfers, temporary and periodic jobs, and reinstatement in accordance with the risk factors present in the work environment.
- Campaigns for the timely detection of chronic degenerative diseases.
- Wellness program promoting healthy lifestyles and addiction prevention.
- Occupational health training for workers according to risk factors and production processes.
- Definition of objectives to improve the occupational health of workers.

It also performs the following activities:

- Monitors the trend over time of health problems and exposure to risk factors.
- Quickly detects and assesses situations of unexpected aggregations of cases, whether they are emerging processes or reoccurrences of diseases or exposures to known risk factors.
- It provides the necessary information for decision-making at the company and prevention service level on short-term control and prevention measures and on more far-reaching preventive strategies.
- Based on the results of the work environment studies programmed at the beginning of the year and carried out by the Safety Area, the Medical Service defines and, if necessary, updates the schedule of assessments to the POE, in accordance with the applicable regulations with the environmental studies of the risk factors identified.
- In conjunction with Human Capital, Operations and Safety Manager, schedules and organizes annually the various groups of workers to whom the health assessment will be offered and performed.



ACT IN ACCORDANCE WITH  
THE FOLLOWING PILLARS:

prevention

surveillance

attendance



we seek  
improve the  
quality of life  
and family  
well-being of  
employees



(GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 406-7, 403-9, 403-10, 3-3)

**+23k**  
MEDICAL  
ATTENTIONS

- Analyzes the results of worker health surveillance and risk assessment, using epidemiological criteria.
- Systematically and continuously carries out collective health surveillance of workers, according to the risks to which they are exposed, developing, and having indicators of this activity.
- Investigates and analyzes the possible relationships between exposure to occupational hazards, including those that are not occupational hazards, and health hazards, and proposes measures to improve working conditions and environment.
- It evaluates the validity and effectiveness of the preventive plans and actions undertaken.
- With respect to particularly sensitive workers (pregnant or breastfeeding women, disabled workers), it communicates such circumstances to the Human Capital Management, Operations Management and Safety Manager for their knowledge and corresponding legal considerations.

**FAMILY PROGRAMS**

We expand our projects to improve the quality of life and family well-being of our employees. We have the following programs:

- **At-home Doctor:** Program in which medical services are provided at home to the direct family of employees of certain farms. The implementation of this program generates impact by reducing turnover, through the commitment of workers to their health and that of their families, reducing absenteeism caused by first-level community illnesses through prevention, health education and the promotion of self-care.
- **Centro de Atención Médica Kekén (CAM-K),** which aims to provide general and emergency medical care, at a first level, to underprivileged populations. Today we have ten branches, which are provided with a

doctor and basic medical equipment to be able to carry out a general consultation. Likewise, the medical team has surgical equipment and fundamental healing material for minor procedures and cures. They have a basic list of medicines to treat the most common and seasonal pathologies.

In addition, the aforementioned health centers also offer preventive medicine, with the support of a health volunteer from each population, among other activities.

By the end of 2021, we reported more than 23,880 medical attentions, which helped us to know the needs of the communities in which our employees live and thus create an action plan together with the Secretary of Health of the State of Yucatan.



**-50%**  
**INCAPACITATING  
 ACCIDENTS  
 VS 2020 IN THE  
 CHEMICAL SECTOR**

(GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 406-7, 403-9, 403-10, 3-3)

## CHEMICAL SECTOR

### SYNTHETIC RUBBER

In addition to following the Group's OHSMS, we have Safety, Health and Environment and Sustainability Policies. We evaluate the effectiveness of management with indicators of accident rates and compliance with safety programs, such as ISO 45001 Management System audits, internal audits, audits of reinsurers and statutory audits.

In terms of employee participation and consultation processes, for the development, implementation, and evaluation of the OHSMS we have the Dynamizate program, which aims to modify factors that cause stress by generating a support platform and information tools that help in the workplace with the creation of a balance between work duties and personal activities that can help generate an improvement in the quality of life of the collaborator.

### Training

We have training courses for workers that include:

- First Aid Brigade education and training, training is provided to the personnel that make up the BPA, who are distributed among the four guards and the central shift with training courses twice a month, 8 hours each course for 10 months (theory in the classroom and practice in operational areas) and concludes with the International Certification by the American Heart Association (AHA) every two years, having today 100% of certified and recertified brigades.
- Training in the use of the defibrillator for administrative personnel, with theoretical and practical workshops in groups for the correct use of the defibrillator, with simulators or trainers (training defibrillators) for better use of the personnel.

### Accidents

We classify accidents as follows:

- **Fatality:** death of a person within 12 months of the occurrence of an incident and due to causes arising from the incident.
- **Loss of days:** injuries that render the person unfit for work, and therefore absent from the workplace, for at least one additional calendar day from the day of the incident.
- **No loss of days:** injuries that do not result in loss of days, which can be of the following two types:

- **First aid:** Minor or light injuries that do not result in restriction or relocation to other work and/or duties and which, at most, involve a single medical attention.
- Injuries that require treatment or medical supervision more than once and that determine the injured person's absence from the workplace for no more than the day (or shift) of the incident and allow him/her to return to his/her usual work under the same conditions.
- Injuries from which the person is discharged with an obligation to continue treatment the days after the incident occurred and is reintegrated to work in one of the following modalities:
  - Temporary assignment to another job, more appropriate for their evolution or recovery.
  - Performance of the usual work on a part-time basis.
  - Remaining in the usual job, but without performing all the usual tasks.
  - Training in the Company's facilities or in those approved by the Company, in substitution of your usual work.

On the other hand, we would like to point out that there were no deaths due to occupational accidents or occupational diseases for employees and external workers in the year of this report. We report daily, from each plant, the incidents and accidents that have occurred, in addition to indicating that there have not been any if this is the case.

We have a procedure for the management of incidents and accidents, which indicates the complete management, including risk assessment and investigation, if applicable. We also have a computer tool for the communication and management of incidents and accidents.

The health surveillance of contracted personnel is the responsibility of their corresponding companies. However, in all industrial centers we carry out coordination activities with contractors, including training and information on existing risks, and we also explain safety standards and respiratory protection, if necessary. In addition, we manage the corresponding work permits where preventive measures are indicated to reduce risks, including the breathing of possible contaminants if necessary.

## Workers have access to medical services whenever they request internal consultation care

(GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 406-7, 403-9, 403-10, 3-3)

### Medical Services and Healthcare

Our health services that contribute to the identification and elimination of hazards and the minimization of risks at work include the following:

- Occupational Epidemiological Surveillance Program, executed through the preparation of periodic medical examinations, specific laboratory tests, identification of Biological Exposure Indexes, spirometries and audiometries, as well as the final analysis of each and every one of the variables per worker, to integrate the information in the statistics, all on an annual basis.
- Program for Food Grade personnel, in which a specific medical evaluation is carried out through a periodic medical examination, clinical laboratory analysis, specific vaccination coverage, identification of cases that merit the separation and/or temporary relocation of a collaborator.
- Medical consultation care.

Employees have access to medical services whenever they request internal consultation care, whether for common pathologies or chronic degenerative or infectious diseases.

In addition, we have specific programs to address non-work-related problems, such as the Healthy Heart Program, which involves comprehensive care with virtual, nutritional, and medical counseling in order to have quick and timely diagnosis and treatment. We also provide continuous follow-up on overweight issues and flexible schedules. On the other hand, the Be-Healthy Program, based on health promotion and prevention, integrates healthy eating, physical well-being, and mental well-being.

In the face of endemic processes, promotion and prevention campaigns are launched, and the organization allocates resources so that the workforce can maintain the operation without any impact. We attend to health requirements, evaluate the need for specific studies, provide medical care for each plant with punctual follow-up by the medical service and, in the event that specialized consultations are required, we provide support until complete recovery and reincorporation to work. We guarantee that the workforce maintains a level of flexibility, so as not to affect the operation and have a prompt return to work in a timely manner, avoiding premature discharges and complications.

### POLYMERS

We use the Group's OHSMS to manage the health and safety of our employees, contractors, and visitors at all operations.

During the reporting period, there were no fatalities due to occupational accidents or occupational diseases among employees and external workers.





## We seek to promote the highest degree of physical, mental and social well-being regarding the health of each collaborator

(GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 406-7, 403-9, 403-10, 3-3)

### AUTOMOTIVE SECTOR

In the Automotive sector, regarding the Aftermarket and Transmissions businesses, we use the Group's policy; however, we have specific activities specific to the sector to protect and promote the highest degree of physical, mental, and social well-being for the health of each employee, among which are the following:

- Health and safety diagnosis
- Medical care procedure
- Entry and periodic medical examinations
- Mapping and communication of health risks
- Ergonomic risk identification, prevention, and management procedure
- Psychosocial risk assessment
- Preventive occupational health and safety program (vaccination campaigns, COVID-19, breast cancer, among others).
- Behavioral observation methodology
- Safety week

Additionally, in order to identify hazards and minimize risks, we conducted a risk mapping by work area, locating critical points, in accordance with the Mapping and Communication of Agents and Health Risk Factors policy, accompanied by a procedure for medical care and accident investigation.

In 2018, a risk mapping committee was created, which is made up of a multidisciplinary team, whose objective is to identify, evaluate and carry out a control plan for those agents and relevant risk factors, whether physical, chemical, biological, ergonomic, mechanical, and psychosocial. Committee meetings are scheduled on a weekly basis, giving priority to areas and operations considered critical.

We also have the following accident prevention activities:

- Safety and Hygiene Committee, with which we conduct tours and training sessions
- Entry and periodic medical examinations
- Medical health surveillance procedure
- Biological profile versus job profile
- Assessment of workers and contractors who are going to perform hazardous work within the company
- Compliance with NOM 035: Application of the traumatic events guide, confirm positive cases and channel them to the DESCONTIGO helpline
- NOM 036 Compliance: Ergonomic analysis by work area, implementation of improvement actions (active breaks, calisthenics, manual load handling training, monitoring, and restrictions, among others)
- Nutritional program
- Occupational risk management

Finally, we have non-work related medical and health care services. We do this through the following programs:

- Campaign against addictions
- Visual health
- Manual load handling training
- Family planning campaign

It should be noted that we have nursing and medical staff to provide general and emergency consultation for any condition, where we provide examination, consultation, initial medication and in case of real emergency, transfer by ambulance.

We give talks on promotion and prevention of general illnesses (obesity, eating habits, physical activity, addictions, etc.) on a monthly basis.

## We have specific training for different brigades

(GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 406-7, 403-9, 403-10, 3-3)

We also carry out campaigns where we promote talks with invited experts and encourage personnel to participate in multiple check-ups (optometric, dental, nutritional, venous and benefits with gyms) on an annual basis.

### TRAINING

In addition to keeping all our employees informed through different media of the programs and campaigns we offer, we have specific training for different brigades, such as the fire department, emergency brigade and evacuation brigade.

We carry out behavioral observations and Cash inductions, which consist of informing about safety issues. In addition, we provide specific training on working at heights, working in confined spaces, forklift operation, welding, general induction, and job induction.

Workers participate in reporting unsafe conditions and acts. In addition, safety-related events are disseminated physically and digitally (through safety inductions, personnel certifications, talks, brochures, posters, presentations, and signage).

**HEALTH:** In the induction, the functions, scope, and obligations/rights that they have as employees of the company are explained, which includes participating in health cam-

paings, performing examinations and studies requested, general and emergency medical care. Employees must also report changes in their health or clinical conditions that they consider important. Employees must report directly to the Medical Service through Safety and/or Human Capital, any unsafe conditions, or changes in their state of health that are related to their work activity, after which the case is investigated, and "Medical Service Alerts" are issued. These alerts are disseminated to the stakeholders involved, so that they are aware of the case and the corresponding "action plan" is developed.

Monthly theoretical-practical health talks are given on the floor (depending on the topic) on occupational health risks: noise, extreme temperatures, vibrations, ergonomics, psychosocial risks, skin, and respiratory tract damage due to exposure to chemicals, prevention of metabolic diseases, etc.

We participated in the training of First Aid brigade members and for all plant personnel on CPR and the use of AED (automatic external defibrillator).

During 2021, none of our employees or external workers have suffered occupational diseases, nor have we recorded any deaths, in any of the businesses in the Automotive sector.



## CIFRAS CONSOLIDADAS DE SALUD Y SEGURIDAD OCUPACIONAL

(GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 406-7, 403-9, 403-10, 3-3)

		Tasa de frecuencia de accidentes colaboradores					
		2019		2020		2021	
		Hombre	Mujer	Hombre	Mujer	Hombre	Mujer
Porcícola	Número total de accidentes (A)	200	101	150	48	141	59
	Total horas trabajadas (miles) (B)	11,569	6,527	12,167	6,977	12,874	6,735
	Tasa de frecuencia de accidentes	3.46	3.09	2.47	1.38	2.19	1.75
Hule Sintético	Número total de accidentes (A)	9	0	7	0	2	0
	Total horas trabajadas (miles) (B)		2,478		2,397		2,325
	Tasa de frecuencia de accidentes	0.73		0.58		0.17	
Polímeros	Número total de accidentes (A)	1	0	1	0	2	0
	Total horas trabajadas (miles) (B)		696		682		722
	Tasa de frecuencia de accidentes	0.29	0.00	0.29	0.00	0.55	0.00
Refacciones	Número total de accidentes (A)		144		81		79
	Total horas trabajadas (miles) (B)		30,496		24,237		26,842
	Tasa de frecuencia de accidentes		0.94		0.67		0.59
Transmisiones	Número total de accidentes (A)	29	1	24	3	22	2
	Total horas trabajadas (miles) (B)	3,599	726	3,615	738	3,749	758
	Tasa de frecuencia de accidentes	1.61	0.28	0.00		0.28	

		Tasa de frecuencia de accidentes trabajadores externos*					
		2019		2020		2021	
		Hombre	Mujer	Hombre	Mujer	Hombre	Mujer
Hule Sintético	Número total de accidentes (A)	5	0	2	0	2	0
	Total horas trabajadas (miles) (B)		1,460		1,563		1,670
	Tasa de frecuencia de accidentes	0.68	0.00	0.26	0.00	0.24	0.00
Polímeros	Número total de accidentes (A)	0	0	0	0	0	0
	Total horas trabajadas (miles) (B)		360		230		408
	Tasa de frecuencia de accidentes	0.00	0.00	0.00	0.00	0.00	0.00
Refacciones	Número total de accidentes (A)		4		5		4
	Total horas trabajadas (miles) (B)		4,594		4,198		2,899
	Tasa de frecuencia de accidentes		0.17		0.24		0.28
Transmisiones	Número total de accidentes (A)	1	1	3	3	6	3
	Total horas trabajadas (miles) (B)	270	179	248	170	265	232
	Tasa de frecuencia de accidentes	0.74	1.12	2.42	3.53	4.53	2.59

\* Para este periodo no contamos con información sobre trabajadores externos en el Negocio Porcícola.

		Tasa de incidencia de enfermedades profesionales*					
		2019		2020		2021	
		Hombre	Mujer	Hombre	Mujer	Hombre	Mujer
Porcícola	Número de enfermedades profesionales (A)	3	0	1	0	1	1
	Total horas trabajadas (miles) (B)	3,279	256	4,821	1,176	4,944	907
	Tasa de incidencia de enfermedades profesionales	0.18	0.00	0.04	0.00	0.04	0.22
Hule Sintético	Número de enfermedades profesionales (A)	0	0	0	0	0	0
	Total horas trabajadas (miles) (B)	2,478		2,397		2,325	
	Tasa de incidencia de enfermedades profesionales	0	0	0	0	0	0
Polímeros	Número de enfermedades profesionales (A)	0	0	0	0	0	0
	Total horas trabajadas (miles) (B)	696		682		722	
	Tasa de incidencia de enfermedades profesionales	0	0	0	0	0	0
Refacciones	Número de enfermedades profesionales (A)	0	1	1	0	0	0
	Total horas trabajadas (miles) (B)	30,496		24,237		26,842	
	Tasa de incidencia de enfermedades profesionales	0	0.006	0.008	0	0	0
Transmisiones	Número de enfermedades profesionales (A)	0	0	0	0	0	0
	Total horas trabajadas (miles) (B)	0	0	0	0	0	0
	Tasa de incidencia de enfermedades profesionales	0	0	0	0	0	0

\* Para este periodo no se tiene registro de información sobre trabajadores externos en ninguno de los negocios, se está trabajando en el proceso de recopilación para incluirla en informes posteriores.

(GRI 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 406-7, 403-9, 403-10, 3-3)

		Tasa de días perdidos colaboradores					
		2019		2020		2021	
		Hombre	Mujer	Hombre	Mujer	Hombre	Mujer
Porcícola	Número total de días perdidos (A)	13,048	17,958	17,244	22,259	20,291	21,607
	Total horas trabajadas (miles) (B)	3,279	256	4,821	1,176	4,945	907
	Tasa de días perdidos (TDP) = (A/B) X 200,000	<b>795.80</b>	<b>14,018.74</b>	<b>715.34</b>	<b>3,785.54</b>	<b>820.70</b>	<b>4,765.55</b>
Hule Sintético	Número total de días perdidos (A)	566	0	127	0	75	0
	Total horas trabajadas (miles) (B)		2,478		2,397		2,325
	Tasa de días perdidos (TDP) = (A/B) X 200,000		<b>45.69</b>		<b>10.60</b>		<b>6.45</b>
Polímeros	Número total de días perdidos (A)	11	92	33	169	175	0
	Total horas trabajadas (miles) (B)		696		682		722
	Tasa de días perdidos (TDP) = (A/B) X 200,000	<b>3.16</b>	<b>26.44</b>	<b>9.68</b>	<b>49.59</b>	<b>48.45</b>	<b>0.00</b>
Refacciones	Número total de días perdidos (A)	343	334	419	37	465	187
	Total horas trabajadas (miles) (B)		30,496		24,237		26,842
	Tasa de días perdidos (TDP) = (A/B) X 200,000	<b>2.25</b>	<b>2.19</b>	<b>3.46</b>	<b>0.31</b>	<b>3.46</b>	<b>1.39</b>
Transmisiones	Número total de días perdidos (A)	782	88	843	83	501	285
	Total horas trabajadas (miles) (B)	3,599	726	3,615	739	3,749	758
	Tasa de días perdidos (TDP) = (A/B) X 200,000	<b>43.46</b>	<b>24.25</b>	<b>46.64</b>	<b>22.47</b>	<b>26.73</b>	<b>75.20</b>

		Tasa de días perdidos trabajadores externos*					
		2019		2020		2021	
		Hombre	Mujer	Hombre	Mujer	Hombre	Mujer
Hule Sintético	Número total de días perdidos (A)	62	0	63	0	60	0
	Total horas trabajadas (B)		1,460		1,563		1,670
	Tasa de días perdidos (TDP) = (A/B) X 200,000	<b>8.49</b>	<b>0.00</b>	<b>8.06</b>	<b>0.00</b>	<b>7.19</b>	<b>0.00</b>
Polímeros	Número total de días perdidos (A)	0	0	0	0	0	0
	Total horas trabajadas (B)		360		230		408
	Tasa de días perdidos (TDP) = (A/B) X 200,000	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Transmisiones	Número total de días perdidos (A)	7	9	16	12	55	11
	Total horas trabajadas (B)	270	179	248	170	265	232
	Tasa de días perdidos (TDP) = (A/B) X 200,000	<b>5.18</b>	<b>10.08</b>	<b>12.92</b>	<b>14.12</b>	<b>41.52</b>	<b>9.49</b>

\* Para este período no contamos con información sobre contratistas en el Negocio Porcícola ni para Refacciones.



# Ethics and Compliance Culture

## ETHICS AND TRANSPARENCY

(GRI 2-23, 2-24, 2-25, 2-26, 2-29) (GRI 3-3)

Reflecting our values and principles, which govern the behavior of our employees and our interaction with stakeholders, at KUO we are committed to implementing the highest standards of ethics and transparency in all our activities. Therefore, we work constantly to keep ourselves aligned with the most demanding parameters, among which the following stand out:

### INTEGRITY POLICY AND CODE OF CONDUCT

The Integrity Policy, published on our website, establishes the general guidelines included in the Code of Conduct. This document guides our activities, defines our long-term strategy, and allows us to follow best practices in our relations with different stakeholders. Compliance with it is a commitment shared by executives, board members, employees, partners, shareholders, and the entire organization, including suppliers, customers, and communities.

### SOCIAL RESPONSIBILITY POLICY

This policy is under the responsibility of the Deputy General Management (in charge of the Legal Area) through the Sustainability and Social Responsibility Management.

The Social Responsibility approach is based on compliance with the following principles:

#### 1. KUO People

##### a) Employment Practices

- i. Equal opportunities: We support and encourage the development of our employees regardless of gender, marital status, age, religion, race, physical ability, preferences, or social class. Personnel are selected and hired through a process based on demonstrable ability, professional experience, proactive attitude, compliance with the competency profile and level of identification with our values.
- ii. Free Association: We respect the freedom of our employees to participate or support community, cultural, charitable, and political organizations of their choice; in a personal capacity, avoiding giving the impression that they are acting on behalf of or representing the organization.
- iii. Rejection of Child Labor: We reject all types of child labor in our operations and in those of our partners, customers, and suppliers.
- iv. Quality of life in the company: We provide an environment that promotes a high sense of responsibility, productivity, development, safety, and quality of life for our personnel.

##### b) Health, Safety and Hygiene

- i. We operate within the legal framework and applicable laws to which productive activities are subject, aiming to protect the integrity of employees, contractors, and visitors, as well as the neighboring community. We apply national and international safety standards and guidelines, promoting training and performance measurement.
- ii. We prohibit the consumption, distribution, transportation, sale and/or possession of any type of prohibited or enervating drug, as well as the use of alcohol and illegal drugs in our facilities and work schedules.
- iii. We monitor the health of our employees, taking care of their integral condition for the best performance of their duties, and we also comply with the current regulations regarding Social Security.
- iv. We keep our COVID-19 protocols up to date.

#### 2. Environment

We develop and operate processes that are respectful of the environment. We monitor sustainability performance and practices through indicators.

#### 3. Respect for Human Rights and the Global Compact

We respect and work for the principles of the Global Compact and the Sustainable Development Goals (SDGs) of the United Nations.

#### 4. Combating Corruption

We do not accept under any circumstances; offer, pay, solicit, or receive any kind of bribe, gratuity, gift, benefit, or similar covert payment of an illegal or unethical nature.

#### 5. Innovation

We encourage innovation with an ethical and social sense as a fundamental element in the creation of value for our stakeholders.

Policies are updated every two years to ensure that they include best practices.

## Our policies establish the guidelines to ensure equity and competitiveness

### COMPENSATION

(GRI 2-19, 2-20, 2-21) (GRI 405-2)

In addition to the policies mentioned above, we have other policies that allow us to manage all aspects, both guaranteed and variable, of compensation. These policies establish the guidelines to ensure fairness and competitiveness in accordance with the results of performance management and in line with the corporate strategy and the specific business.

The base salary is established with internal tabulators and depends on the valuation level determined for the position. As for bonuses, there is no established policy, in case of

any proposal, they are handled as exceptional cases and are authorized by the General Management. Termination payments are given in accordance with the law.

In addition, as part of our benefits, we offer a contributory retirement benefit plan, which provides benefits in addition to those required by law. In order to participate in this plan, employees must be non-unionized, employees of the plant must sign a letter of consent to join the plan, and they must have at least 10 years in the organization.

#### ANNUAL COMPENSATION RATIO

	Consumer Sector	Chemical Sector	Automotive Sector
Annual Compensation Ratio	22	8	21

#### ANNUAL COMPENSATION INCREASE RATIO

	Consumer Sector	Chemical Sector	Automotive Sector
Annual percentage increase in annual compensation for the highest compensated individual	8%	37%	17%
Percentage increase in average annual compensation for all employees	9%	13%	7%
Annual compensation increase ratio	1	3	2

#### BASE WAGE AND SALARY RATIO OF WOMEN VS. MEN

Operation	Ratio remuneration for women	Ratio remuneration for men
<b>Consumer Sector</b>		
Coordinator	81,4%	82,8%
Chief	90,6%	87,1%
Manager	78,1%	94,3%
Director	N/A	82,5%
Business Director	N/A	111,2%
<b>Chemical Sector</b>		
Coordinator	84,9%	87,8%
Chief	89,0%	86,2%
Manager	90,2%	84,2%
Director	N/A	95,0%
Business Director	N/A	91,2%
<b>Automotive Sector</b>		
Coordinator	87,1%	92,8%
Chief	90,1%	95,5%
Manager	103,5%	98,4%
Director	N/A	123,5%
Business Director	N/A	104,8%



**REGULATORY COMPLIANCE**

(GRI 2-27, 2-28 307-1, 419-1) (SASB RT-CH-530a.1)

Institutional values require that the development of our activities is aligned with the corresponding legal provisions for each sector, inside and outside the organization. Therefore, we comply 100% with the legal provisions related to stakeholders, in areas such as health, labor rights, tax regulation, safety, sustainability, etc. In addition, considering that our business serves needs that correspond to different markets and target audiences, it is essential to maintain a constant monitoring of updates in regulations that may be enacted, so that we can keep all documentation and certification current and updated.

Compliance with the regulations established for each sector determines impacts at different levels. Non-compliance could have a negative impact on the organization, as it may affect its operations, community, collaborators, shareholders and interested third parties. In addition, the organization could be subject to different sanctions, directly involving its Board of Directors and Officers. Respecting current regulations not only allows us to maintain business continuity, but also those certifications that our businesses have.

In addition, we are aware that regulatory compliance is one of the key tools in the sale of products, since the reliability of customers is based on the fact that the brand from which they expect to purchase a product or service, can offer guarantees that the process of its elaboration is correctly compliant with all legal provisions. In this sense, since our customers are part of the backbone of the organization, we seek to satisfy each and every one of their requirements.

At the corporate governance level, the Financial Information Management, which reports to the Finance Department, is in charge of the Internal Control and Regulations area, which is responsible for the preparation, dissemination and updating of all the company's internal policies. As for the evaluation mechanisms that allow us to verify compliance with regulatory provisions, we have different methods, according to each business sector:

**Evaluation mechanisms that allow us to verify the effectiveness of the management of regulatory compliance**

Sector	Evaluation
Consumer	Accountability and periodic internal audits are used.
Chemical	Management is evaluated based on the response time for the different requests.
Automotive	Compliance with the Internal and External Audits Program and Regulations, follow-up on the declared KPIs, Management reviews and verification of compliance with the matrix of legal requirements.

It is important to mention that our efforts to achieve regulatory compliance have been strengthened as the international regulations to which we adhere have become stricter.

During the year, none of our businesses experienced any events or generated any fines or non-monetary sanctions for non-compliance with the environmental, social, economic, communications and marketing, or unfair competition rules and regulations in the jurisdictions in which we operate.

# Corporate Governance

(GRI 2-9, 2-10, 2-11, 2-12, 2-13, 2-14, 2-15, 2-16, 2-17, 2-18, 2-19, 2-20) (GRI 405-1)

Our Corporate Governance is comprised by a Board of Directors, which is responsible for the management of the Company, a Corporate Practices Committee, and an Audit Committee, responsible for overseeing the proper management of the business, and the General Management, which is in charge of conducting and executing the strategy approved by the Board of Directors.

The members of the Board and the Corporate Practices and Audit Committees are appointed by the Stockholders' Meeting for a term of one year, with the possibility of unlimited ratification, and have been proposed and elected for being honorable persons, with professional prestige and high experience in the sector, in addition to being free of conflicts of interest.

Annually, the Shareholders' Meeting approves the management of the Board of Directors and the Committees, who present a report on the activities carried out during each fiscal year, as well as the amount of their remuneration. As for performance evaluation systems, we currently do not have an external evaluation.

1. By legal provision, the executive president must refrain from participating and be present in the deliberation and voting of the matter in question.

## BOARD OF DIRECTORS

### FERNANDO SENDEROS MESTRE<sup>2</sup>

#### Related Counselor

Executive President and Chairman of the Board of Directors of Grupo KUO<sup>3</sup> and Dine

### JAVIER ARRIGUNAGA GÓMEZ DEL CAMPO

#### Independent Counselor

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

### JOSÉ MANUEL CANAL HERNANDO

#### Independent Counselor

Independent Counselor, Commissioner and Advisor on Corporate Governance

### ARTURO D'ACOSTA RUIZ

#### Related Counselor

Independent Business Advisor

### JOSÉ MANUEL DEL BARRIO MOLINA

#### Independent Counselor

Integra M&A Partner

### ALEJANDRO DE LA BARREDA GÓMEZ

#### Related Counselor

CEO of Grupo KUO and DINE

### VALENTÍN DÍEZ MORODO

#### Independent Counselor

President of Nevadi International Group

### ARTURO ELÍAS AYUB

#### Independent Counselor

Director of Strategic Alliances and Contents of América Móvil

### FEDERICO FERNÁNDEZ SENDEROS

#### Related Counselor

Chairman of Grupo Sim and Independent Counselor of Grupo Chedraui

### CARLOS GÓMEZ Y GÓMEZ

#### Related Counselor

Chairman of the Board of Directors of Estudia Más

### VÍCTOR RIVERO MARTÍN

#### Independent Counselor

Managing Director of Telehotel

### ERNESTO VEGA VELASCO

#### Independent Counselor

Business Independent Counselor

### RAMÓN F. ESTRADA RIVERO

#### Board Secretary

Deputy Managing Director of Grupo KUO y DINE/ General Counsel

2. The Executive President is the Chairman of the Management Committee, composed of the Chief Executive Officer, the Deputy Chief Executive Officers and the Chief Financial Officer, who is responsible for the management, conduct and execution of the Company's business, in accordance with the provisions of the applicable legal provisions, subject to the strategies, policies and guidelines approved by the Board of Directors.

3. The Chairman of the Board is the Executive President of the Company. However, he is a different person from the CEO.

## The Board of Directors is the highest body management of KUO

(GRI 2-9, 2-10, 2-11, 2-12, 2-13, 2-14, 2-15, 2-16, 2-17, 2-18, 2-19, 2-20, 405-1)

The Board of Directors is KUO's highest management body. It is composed of 12 members, 7 of whom are independent. On an annual basis, the Assembly analyzes the letter issued by the directors stating their independence.

The members of the Board meet at least once every three months. In compliance with the Company's Bylaws, among its main responsibilities are:

- Establish the Company's strategic vision and follow up on its fulfillment.
- Evaluate the performance of Relevant Executives, as well as their compensation. In this regard, with the favorable opinion of the Corporate Practices Committee, the Board of Directors approves any changes that may be made, whether the appointment or dismissal of the same.
- Evaluate risk management processes, in economic, environmental, and social issues.
- Present an Annual Report on the Group's performance to the Shareholders' Meeting for its review and approval.
- To enable the mechanisms and channels for communication with stakeholders, who are informed about the general performance of the Group.
- Approve the financial and legal information to be published by the Company to the shareholders and the investing public.
- Review, together with the respective committees, the relevant issues of the quarter presented by each management. The most relevant points must be submitted to the Shareholders' Meeting for approval.

A director will be appointed to present relevant sustainability issues at each of the Board of Directors' meetings, which will promote the knowledge, skills, and experience of the highest governance body on these issues.

### DIVERSITY AND OTHER INDICATORS (GRI 405-1)

- 8% of members are between 30 and 50 years old
- 92% of members are over 50 years old
- 100% of the Directors are men
- 2 executive members
- 10 non-executive members
- 17 years average length of service on the Board
- 12 members with other commitments

## AUDIT COMMITTEE

**JOSÉ MANUEL CANAL HERNANDO**  
President

**ERNESTO VEGA VELASCO**  
Independent Member

**JOSÉ MANUEL DEL BARRIO MOLINA**  
Independent Member

**RAMÓN F. ESTRADA RIVERO**  
Secretary

The Committee regularly meets every quarter and holds an additional session in December of each year. Among its main functions are:

- To assist the Board of Directors in the determination, implementation and evaluation of the Company's internal control and internal audit system, as well as to monitor the main risks to which the Company is exposed.
- To review and propose for the approval of the Board of Directors the accounting policies and financial statements.
- Verify the administration and management of the company and implement the resolutions adopted by the General Shareholders' Meeting.
- Propose the hiring of the legal entity that provides external auditing services, discuss the observations and findings detected by the External Auditor in the financial statements, as well as propose the necessary actions for their remediation.

## CORPORATE PRACTICES COMMITTEE

**VALENTÍN DÍEZ MORODO**  
President

**ERNESTO VEGA VELASCO**  
Independent Member

**VÍCTOR RIVERO MARTÍN**  
Independent Member

**RAMÓN F. ESTRADA RIVERO**  
Secretary

This committee meets quarterly, and its main functions include:

- To appoint, elect, dismiss, and compensate the General Manager, as well as to approve the policies for the appointment and compensation of relevant executives.
- To give its opinion to the Board of Directors on relevant and related party transactions.
- To call shareholders' meetings and have the items they deem pertinent included in the agenda.
- Support the Council in preparing reports (annual and activities and operations).
- Approve the compensation policy for Senior Officers and the salary policy for employees<sup>4</sup>. At each meeting of the Corporate Practices Committee, the status of the implementation of the aforementioned policies is disclosed.

In addition, there are committees in charge of following up on complaints, personal data protection, cybersecurity, and sustainability.

4. The Remuneration Policy allows the Board of Directors, Committees and Secretary to receive remuneration for each session they attend. Said remuneration is ratified or approved by the Shareholders' Meeting, annually.

## MANAGEMENT TEAM

**FERNANDO SENDEROS MESTRE**  
Executive President and  
Chairman of the Board

**ALEJANDRO DE LA BARREDA GÓMEZ**  
Chief Executive Officer

**RAMÓN F. ESTRADA RIVERO**  
Deputy CEO/ General Counsel

**ROGER PATRÓN GONZÁLEZ**  
Deputy CEO and Director of Aftermarket

**JORGE F. PADILLA EZETA**  
Chief Financial Officer

**CLAUDIO ÁNGEL FREIXES CATALÁN**  
Director of Pork Meat

**HÉCTOR HERNÁNDEZ-PONS TORRES**  
Director of Branded Food

**ANTONIO HERRERA RIVERA**  
Director of Transmissions

**SERGIO PAREDES CASTAÑEDA**  
Director of Polymers

**FELIPE DE JESÚS VARELA HERNÁNDEZ**  
Director of Synthetic Rubber

# Annex I: ESG Performance Detail

## STAKEHOLDER RELATIONS

(GRI 2-29)

We keep an open and transparent dialogue with our stakeholders, interacting in a respectful manner with:

- Shareholders and partners: We keep them informed of the Group's financial, social, and environmental performance on a quarterly and annual basis.
- Employees and their families: We have several channels for communicating with and listening to our employees on issues of interest to them, as well as maintaining a Feedback and Transparency mailbox for due compliance with our Code of Conduct.
- Customers: We keep long-term relationships with our customers and consumers, providing products and services that meet their expectations, based on quality systems, innovation, and continuous improvement.
- Suppliers: We keep fair and honest relationships with them. We seek to establish long-term relationships that generate mutual value, and we require them to adhere to and comply with our Code of Conduct and best environmental, anti-corruption and social practices.
- Competitors: We participate vigorously in the market, complying with competition laws and regulations in the countries where we operate.
- Communities: We promote a culture of social responsibility among our employees through social participation programs and corporate volunteering, in which we work together with community organizations.

- Authorities: We keep a respectful interaction with the governments of the countries where we carry out our operations.
- Non-Governmental Organizations and Civil Society Organizations: We are open to listen and establish alliances that bring benefits to society within our sphere of influence.

### FEEDBACK BOX AND TRANSPARENCY

[denunciaskuo@kuo.com.mx](mailto:denunciaskuo@kuo.com.mx)

**MEX** 800 700 GKUO  
800 700 (4586)

**USA** 1 866 494 80 05

## MATERIALITY STUDY

(GRI 3-1, 3-2)

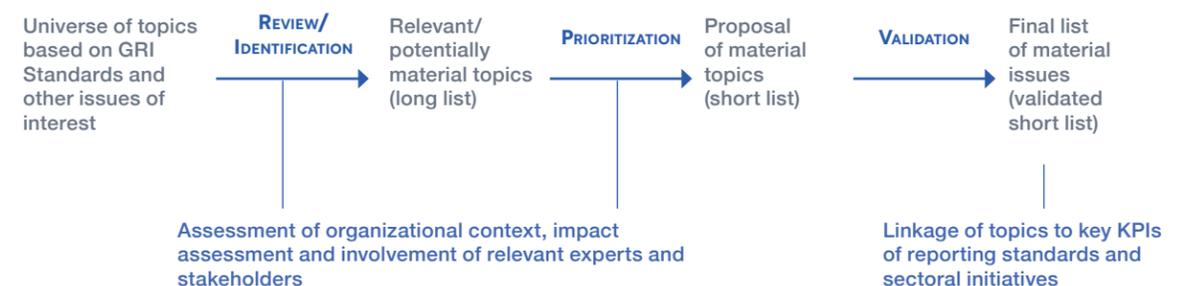
During 2020, we conducted a materiality analysis in order to identify the issues with the greatest economic, environmental, and social impact of our organization towards its stakeholders, by reviewing and updating the list of material issues, based on GRI guidelines.

The update of material topics considered documentary research activities; the following categories of information sources were analyzed:

- Sectorial documents: Study and evaluation of standards related to the organization's activities.
- Internal documents: Analysis of the organization's internal documentation, especially those related to mission, vision, values, strategy, among others.

- Press clipping: The company's appearances in the media were compiled to identify relevant terms related to the perception of external groups or impacts.
- Pre-existing consultations: The results of previous consultations or surveys applied to stakeholders, conducted internally with the support of specialized third parties, were reviewed.
- Direct consultations: Interviews were conducted with the group's main executives to gain an understanding of the company's management processes on strategic issues and to identify internal stakeholders and experts who participated in the prioritization of material issues.
- Indirect consultation: A sample of internal and external stakeholders relevant to the company was selected and surveyed to prioritize the long list of relevant issues.

### METHODOLOGY USED IN DETERMINING THE MATERIAL ISSUES OF THE KUO 2020 GROUP



THE RESULT OF THIS PROCESS WAS AS FOLLOWS:

During 2021, we integrated the financial materiality with the impact materiality, which covers both the perception of stakeholders on the Company's impacts, as well as that of the capital market due to ESG risks on the business.

The dual materiality integrates the financial materiality developed by Sustainability Accounting Standards Board (SASB), an entity that works at industry level, which groups in sectors, the applicable standards are Auto Parts, Chemicals, Meat / Poultry / Dairy and Processed Foods.

MAIN TOPICS

1. BUSINESS ETHICS AND TRANSPARENCY

2. REGULATORY COMPLIANCE

3. PRODUCT CONTROL, QUALITY, AND SAFETY

4. OCCUPATIONAL HEALTH AND SAFETY

5. CUSTOMER RELATIONS

6. OPERATIONAL EFFICIENCY

7. PRODUCT AND SERVICE INNOVATION

8. INTELLIGENT WATER CONSUMPTION

9. RISK MANAGEMENT AND MONITORING

10. WASTE MANAGEMENT

11. WORK RELATIONS



## MEMBERSHIPS AND CERTIFICATIONS

(GRI 2-28)

The following are the certifications in effect at the end of 2021:

Sector	Certification, acknowledgment, or label name	No. of installations / brands / products / services for which applicable
CONSUMER	Good Farming Practices Certification, granted by SENASICA, the designated authority: Evaluates a set of procedures, activities, conditions, and controls applied in swine production units.	All owned farms and farms under the sharecropping model, 122 in total.
	FSSC22000 Certification: Verifies the process safety management system.	Irapuato, Umán, Industrias, Santa Rosa, Santa Rosa Vegetales plants. Sahé plant starts the process in 2022.
	TIF certification: Granted to establishments that have adequate facilities and comply with hygiene and safety standards for meat products.	Umán and Irapuato plants. Sahé obtains certification for carcass and viscera processes in 2021; in 2022 it will seek to apply to all processes.
	Safety Quality Food: Rigorous and reliable food safety and quality program recognized by retailers, brand owners and food service providers worldwide.	Sabias 1 and 2, Intercafé and Dallas plants.
	BASC: Cooperation program between the private sector and domestic and foreign agencies, created to promote safe international trade.	Industrias Plant
	C-TPAT (Customs Trade Partnership Against Terrorism): Part of the U.S. Customs and Border Protection's cargo control strategy.	Industrias Plant
	Clean Industry: Voluntary governmental environmental auditing program aimed at companies that wish to improve the efficiency of their production processes, compliance with regulations and good operating and engineering practices.	Industrias and Santa Rosa plants. Santa Rosa Plant Vegetables in process.
	Safe Industry	Santa Rosa Plant
	Certification by Cofepris, on the compliance of products or processes with applicable health regulations for their production or marketing in Mexico.	Santa Rosa and Santa Rosa Vegetable Plants.
	Organic Certification	Sabinas 1 and 2, Dallas, Don Miguel, and Comercializadora Aires del Campo plants.
	GMO-Free - Transgenic Free	Comercializadora Aires del Campo
	SQF (Safe Quality Food): Food quality and safety program recognized by retailers, brand owners and food service providers worldwide.	Don Miguel Plant
	HACCP (Hazard Analysis and Critical Control Points): Specifically related to the production of safe food.	Don Miguel Plant
	Certifications for export to South Korea, Japan, Hong Kong, Singapore, USA, Chile, Cuba, China, and Canada.	Umán Plant
	Certifications for export to Japan, the United States, and Canada.	Irapuato and Sahé Plants

Sector	Certification, acknowledgment, or label name	No. of installations / brands / products / services for which applicable	
CHEMICAL	ISO 9001: Quality Management System (QMS) standard.	Crystal Polystyrene (GPPS), Impact Polystyrene (HIPS), Transparent Copolymers (SMMA), Technical Compounds, Biobased Polymer	
	Annual Operating Report	Tlaxcala Plant	
	Integral Responsibility	Tlaxcala Plant	
	USP, United States Pharmacopeia	HH 104 6110, 6420 CET 116, CET123, CET240, CET250, CET265	
	UL, Global Safety Certification Company	2210, 4220, 6110, 6420, 6420, 6470, 7600, 5470, HF555, HH103, HH104, HF777, HH108, READ 9400 RAF, RESI-PRENE 1085, CET 116, CET 240	
	RoHS (Restriction of Hazardous Substances): Confirms that the proportion of hazardous or difficult to dispose of substances is limited to the maximum allowed.	HH 102, HH104 SM 2210Y, 5470 Master Batch MB PS AD1 NT MB1348 BCO P MB851 NGO P	
	Food and Drug Administration (FDA)	All installations and brands. Paracryl rubbers	
	Regulation (EU) 10/2011	Emulprene rubbers	
	DIRECTIVE 2011/65/EU (RoHS)	Solprene rubbers	
	Prop. 65	Calprene Rubbers	
	Regulation (EC) No. 1907/2006 (REACH)	Rubatan	
	UK-REACH	Rubator	
	Turkish-REACH	Rubenamid	
	Halal Certification	Fosmet	
	Kosher Certification		
	AUTOMOTIVE	IATF16949 Certificate	TREMEC 5F and PE plants
		ISO14001 Certificate	TREMEC 5F and PE plants
C-TPAT Registration		TREMEC plant 5F export to USA	
Excellent Award from General Motors		TREMEC plants 5F General Motors	
FORD Q1		TREMEC plants 5F FORD	
Recognition "Honorable Mention" in the Foreign Trade category of the Business Merit Award 2021 by the Government of the State of Querétaro.		TREMEC plants 5F	
ISO 9001:2015 (Mexico)		9 sites	
SAE J2975 (USA)		Friction Materials (12 blends)	
SAE J661 (USA)		Friction Materials (8 blends)	
Resolution 4983:11 (Colombia)		Metal and Ceramic Brake Pads	
ECE-R90 (European Union)		Cargo Truck Brake (18 numbers)	
ISO 9001:2015		TF Victor Moresa Pistons	

The following are the memberships and associations we belong to:

#### CONSUMER

- Coparmex (Centro Empresarial de Mérida) [Mérida Business Center]
- Canacindra (Cámara Nacional de la Industria de Transformación) [National Chamber of the Transformation Industry]
- Canaco (Cámara Nacional de Comercio Servicios y Turismo) [National Chamber of Commerce, Services and Tourism]
- Canainma (Cámara Nacional de la Industria de la Madera) [National Chamber of the Wood Industry]
- Cay (Consejo Agroalimentario de Yucatán) [Yucatan Agri-Food Council]
- Comisión de Derechos Humanos del Cce (Cce Human Rights Commission)
- Ramo 14 Canacindra Sector Agroindustrial (Branch 14 Canacindra Agroindustrial Sector)
- Asociación Nacional de Establecimientos Tif, A.C. (National Association of Tif Establishments, A.C.)
- Organización de Porcicultores Mexicanos (Opormex) [Organization of Mexican Pig Farmers].

#### CHEMICAL

- ACC (American Chemistry Council) USA
- AMAAC (Asociación Mexicana de Asfaltos) [Mexican Asphalt Association]
- ANIPAC (Asociación Nacional de Industrias del Plástico) [National Association of Plastics Industries]
- ANIQ (Asociación Nacional de la Industria Química) [National Chemical Industry Association]
- Asphalt Institute (US)
- CNIH (Cámara Nacional de la Industria Hulera) [National Chamber of the Pulp and Paper Industry]
- IRSG (International Rubber Study Group)
- USTMA (United States Tire Manufacture Association)

#### AUTOMOTIVE

- ACC (American Chemistry Council) USA
- AMAAC (Asociación Mexicana de Asfaltos)
- ANIPAC (Asociación Nacional de Industrias del Plástico)
- ANIQ (Asociación Nacional de la Industria Química)
- Asphalt Institute (US)
- CNIH (Cámara Nacional de la Industria Hulera)
- IRSG (International Rubber Study Group)
- USTMA (United States Tire Manufacture Association)

#### HUMAN RIGHTS DUE DILIGENCE

According to our sustainability model, we are committed to the correct performance of corporate governance, employee development, sustainable processes and products, and operational efficiency and continuity. In each of these areas, we apply lines of action that respect and protect human rights.

Below, we present our progress based on the OECD Due Diligence Guidance for Responsible Business Conduct:

Process	Performance	Description
Incorporate responsible business conduct into management policies and systems.	Desc Code of Conduct Integrity Policy Sustainability Policy Corporate Social Responsibility Policy Environmental Policy Quality and Safety Policy Occupational Health and Safety Policy Remuneration Policy ESG Letter to Suppliers	Ethics and Transparency Suppliers Operational Efficiency KUO People
Identify and assess actual and potential negative impacts associated with the company's activities, products, or services.	To manage risks, we have the ERM Risk Management Methodology (a process that allows us to deal effectively with uncertainty, identifying risks and opportunities, and optimizing the capacity to generate value), which aims to provide a guide that allows the identification, evaluation, and response to key risks that may impact the achievement of the Group's strategies and objectives	Risk Management
Deter, prevent, and mitigate negative impacts.	<ul style="list-style-type: none"> <li>• We keep an ethical and transparent attitude</li> <li>• We comply with legislation wherever we operate</li> <li>• We ask suppliers to sign an ESG charter in which they commit to ensure the protection of human rights</li> <li>• We have an Occupational Health and Safety system</li> <li>• We follow up on complaints made through our whistleblower channel</li> <li>• We care for the environment</li> </ul>	Compliance Suppliers Occupational Health and Safety Operational Efficiency
Track implementation and results	We monitor the implementation of our sustainability and risk management initiatives through specific committees.	Sustainability Strategy Risk Management
Report on how impacts are addressed	The impact management approaches are developed throughout the report, and through this appendix we present our consolidated efforts to all our stakeholders.	Risk Management
Remedy or assist in remediation of impacts where appropriate.	We have a risk prevention approach that is reflected in our policies and codes. We have not incurred in cases of human rights violations.	Employees Suppliers

## SDGS CONTRIBUTION

SDG	Contribution	Key Indicators
3	<ul style="list-style-type: none"> <li>Adoption of initiatives to reduce energy consumption and greenhouse gas (GHG) emissions.</li> <li>Implementation of environmental and sustainability policies for the efficient use of inputs and materials, as well as the reduction of waste generation.</li> <li>Granting the same benefits to all employees, including health insurance, parental leave, disability coverage, and life insurance, as well as additional benefits.</li> <li>Application of the Occupational Health and Safety Management System in all operations, which includes hazard identification, risk assessment, and establishment of prevention, correction, control, and/or transfer measures.</li> <li>Promotion of healthy behaviors, habits, and lifestyles, as well as a preventive culture among workers.</li> </ul>	Zero occupational accidents goal.
4	<ul style="list-style-type: none"> <li>Training during the induction process.</li> <li>Technical and specialized programs and soft skills training, focused on the development of leadership, communication, and performance competencies.</li> </ul>	The average number of training hours was 18.14 per employee.
5	<ul style="list-style-type: none"> <li>Supporting and encouraging the development of employees regardless of gender, marital status, age, religion, race, physical ability, preferences, or social class.</li> </ul>	<p>34% female employees.</p> <p>The training rate of female employees is almost equal to that of male employees. 83% of female employees were evaluated based on their performance.</p> <p>The compensation ratio between women and men is uniform.</p>
6	<ul style="list-style-type: none"> <li>Incorporation of water saving measures and best practices in production processes to reduce water consumption.</li> <li>Implementation of technological tests and projects to recycle and reuse water.</li> </ul>	
7	<ul style="list-style-type: none"> <li>Implementation of various technologies to reduce energy consumption, such as photovoltaic panels, biodigesters, use of less polluting alternative fuels, installation of LED lighting, among others.</li> </ul>	
8	<ul style="list-style-type: none"> <li>We contribute to the well-being of our employees through job stability, legal and additional benefits, and professional and technical development programs.</li> <li>We promote a good working environment and implement continuous improvement actions.</li> <li>We have several policies and procedures to ensure the proper management of human resources and personnel protection.</li> <li>We ensure an environment of equality, free of any type of discrimination.</li> </ul>	<p>Average hours of training is 18.14 hours per employee.</p> <p>78% of our employees received performance evaluations.</p> <p>There were no cases of discrimination.</p>

SDG	Contribution	Key Indicators
9	<ul style="list-style-type: none"> <li>We implement methodologies to measure minerals and reduce the release of these components into the environment.</li> <li>Focus on the use of recyclable or compostable inputs for production.</li> <li>Focus on circular economies</li> </ul>	
10	<ul style="list-style-type: none"> <li>Supporting and encouraging the development of employees regardless of gender, marital status, age, religion, race, physical ability, preferences, or social class.</li> </ul>	<p>Average hours of training is 18.14 hours per employee.</p> <p>78% of our employees received performance evaluations.</p> <p>There were no cases of discrimination.</p>
12	<ul style="list-style-type: none"> <li>Incorporation of circular economy for waste management.</li> <li>Greater efficiency in packaging to reduce the use of inputs and waste.</li> <li>Awareness programs for the correct separation and management of waste.</li> <li>Generation of biosolids on farms for agricultural producers.</li> </ul>	
13	<ul style="list-style-type: none"> <li>Initiatives to reduce energy consumption and greenhouse gas (GHG) emissions.</li> <li>Responsible management of water consumption, reuse, and discharge.</li> <li>Incorporation of circular economy for waste management.</li> </ul>	
16	<ul style="list-style-type: none"> <li>The Board of Directors is the highest management body, its members are nominated and elected for their prestige and high experience in the sector.</li> <li>Implementation of a Code of Conduct that guides our activities and allows us to follow best practices.</li> <li>Compliance with legal provisions on health, labor rights, tax regulations, safety, sustainability, etc.</li> <li>Internal and external audits to verify compliance with guidelines and regulations</li> </ul>	We have no fines or non-monetary sanctions for non-compliance with environmental, social, economic, communications and marketing rules and regulations in the jurisdictions in which we operate, or for unfair competition.
17	<ul style="list-style-type: none"> <li>We have several certifications to ensure the quality and safety of our products.</li> <li>We are affiliated to several organizations with which we have common objectives.</li> </ul>	Certification: FSSC22000, TIF Certification, Clean Industry, ISO 9001, HACCP, among others.

# Annex II: Reporting Frameworks and Standards

## GRI TABLE OF CONTENTS

### GRI INDEX

Use Statement	KUO has prepared the report in accordance with the GRI Standards for the period from January 1 to December 31, 2021.
GRI 1	GRI 1: 2021 Fundamentals
GRI Sector Standard	Food Processing

GRI Standard	Content	Omission				
		SDG	Location	Omitted Requirement	Reason	Explanation
<b>GRI 2: 2021 General Contents</b>	2-1 Organization details					
	2-2 Entities included in the organization's sustainability reports.					
	2-3 Reporting period, frequency, and point of contact.					
	2-4 Reformulations of information					
	2-5 External assurance					
	2-6 Operations, value chain, and other business relationships					
	2-7 Employees	8, 10				
	2-8 Non-employees	8				
	2-9 Governance structure and composition	5				
	2-10 Appointment and selection of the highest governance body	5, 16				
	2-11 Chair of the highest governance body	16				
	2-12 Role of the highest governance body in overseeing the management of impacts.	16				
	2-13 Delegation of responsibility for impact management					
	2-14 Role of the highest governance body in overseeing the management of impacts					
	2-14 Role of the highest governance body in sustainability reporting.					
	2-15 Conflicts of interest	16				
	2-16 Communication of critical concerns					
2-17 Highest governance body's collective knowledge of sustainable development						

GRI Standard	Content	Omission				
		SDG	Location	Omitted Requirement	Reason	Explanation
<b>GRI 2: 2021 General Contents</b>	2-18 Evaluation of the highest governance body's performance.					
	2-19 Compensation policies					
	2-20 Process for determining compensation	16				
	2-21 Annual Total Compensation Ratio					
	2-22 Sustainable development strategy statement					
	2-23 Policy commitments related to responsible behavior, such as commitments to human rights, climate change impacts, among others.	16				
	2-24 How policy commitments related to responsible behavior are incorporated.	16				
	2-25 Processes for remediating negative impacts.					
	2-26 Mechanisms for seeking advice on the creation of policies and procedures toward commitment to responsible behavior aligned with business concerns.	16				
	2-27 Compliance with laws and regulations					
<b>GRI 3: 2021 Material Topics</b>	2-28 Membership associations					
	2-29 Approach to Stakeholder engagement					
	2-30 Collective Bargaining Agreements	8				
<b>Business Ethics and Transparency / Risk Management and Monitoring</b>	3-1 Process for determining material topics					
	3-2 List of material topics					
	3-3 Management of material issues					
<b>GRI 203: 2016 Indirect Economic Impacts</b>	203-1 Infrastructure investments and services supported	5, 9, 11				
	203-2 Significant indirect economic impacts	1,3,8				

GRI Standard	Content	Omission			
		SDG	Location	Omitted Requirement	Reason Explanation
<b>Business Ethics and Transparency</b>					
<b>GRI 204: 2016 Procurement Practices</b>	3-3 Management of material issues				
	204-1 Proportion of spending on local suppliers	8			
<b>Operational Efficiency</b>					
	3-3 Management of material issues				
<b>GRI 301: 2016 Materials</b>	301-1 Materials used by weight or volume	8, 12			
	301-2 Recycled materials used	8, 12			
<b>Operational Efficiency</b>					
	3-3 Management of material issues				
<b>GRI 302: 2016 Energy</b>	302-1 Energy consumption within the organization	7, 8, 12, 13			
	302-3 Energy intensity	7, 8, 12, 13			
<b>Smart Water Consumption</b>					
	3-3 Management of material issues				
<b>GRI 303: 2018 Water and Effluents</b>	303-1 Interaction with water as a shared resource	6, 12			
	303-2 Management of impacts related to water discharge	6			
	303-3 Water withdrawal	6			
	303-4 Water discharge	6			
<b>Operational Efficiency</b>					
<b>GRI 304: 2016 Biodiversity</b>	3-3 Management of material issues				
	304-1 Protected or restored habitats	6,14,15			
<b>Operational Efficiency</b>					
	3-3 Management of material issues				
<b>GRI 305: 2016 Emissions</b>	305-1 Direct GHG emissions (Scope 1)	3, 12, 13, 14, 15			
	305-2 Indirect GHG emissions from energy generation (Scope 2)	3, 12, 13, 14, 15			
	305-5 Reduction of GHG emissions	13,14,15			
	305-7 Nitrogen oxides (NOX), sulfur oxides (SOX) and other significant air emissions	3, 12, 14, 15			

GRI Standard	Content	Omission			
		SDG	Location	Omitted Requirement	Reason Explanation
<b>Waste Management</b>					
	3-3 Management of material issues				
<b>GRI 306: 2020 Waste</b>	306-1 Waste generation and significant waste-related impacts 306-2 Management of significant waste-related impacts	3, 6, 12, 14			
	306-2 Management of significant impacts related to waste 306-3 Waste generated	3,6, 12			
	306-3 Waste generated	3, 6, 12, 14, 15			
<b>Regulatory Compliance / Risk Management and Monitoring</b>					
<b>GRI 307: 2016 Environmental Compliance</b>	3-3 Management of material issues				
	307-1 Non-compliance with environmental laws and regulations	16			
<b>Business Ethics and Transparency</b>					
<b>GRI 308: 2016 Environmental Assessment of Suppliers</b>	3-3 Management of material issues				
	308-1 New suppliers passing evaluation and selection filters in accordance with environmental criteria				
<b>Work Relations</b>					
	3-3 Management of material issues				
<b>GRI 401: 2016 Employment</b>	401-1 New employee hires and employee turnover	5, 8, 10			
	401-2 Benefits for full-time employees that are not given to part-time or temporary employees	3, 5, 8			
	401-3 Parental permission	5, 8			
<b>Work Relations</b>					
<b>GRI 402: 2016 Labor/ Management Relations</b>	3-3 Management of material issues				
	402-1 Minimum notice periods for operational changes	8			
<b>Occupational Health and Safety</b>					
	3-3 Management of material issues				
<b>GRI 403: 2018 Occupational Safety and Health</b>	403-1 Occupational health and safety management system 403-2 Hazard identification, risk assessment and incident investigation	3, 8, 16			
	403-2 Hazard identification, risk assessment and incident investigation	8			
	403-3 Occupational health services	8			
	403-4 Worker participation, consultation and communication on occupational health and safety	8, 16			
	403-5 Occupational health and safety training for workers	8			

GRI Standard	Content	Omission				
		SDG	Location	Omitted Requirement	Reason	Explanation
<b>Occupational Health and Safety</b>						
<b>GRI 403: 2018 Occupational Safety and Health</b>	403-6 Worker health promotion	3				
	403-7 Prevention and mitigation of impacts on the health and safety of workers directly linked to business relationships	8				
	403-8 Coverage of occupational health and safety management system.	8				
	403-9 Occupational injuries	3, 8, 16				
	403-10 Occupational illnesses and diseases	3, 8, 16				
<b>Work Relations</b>						
<b>GRI 404: 2016 Training and Education</b>	3-3 Management of material issues					
	404-1 Average hours of training per year per employee.	4, 5, 8, 10				
	404-2 Programs to enhance employee skills and transition assistance programs.	8				
	404-3 Percentage of employees receiving regular performance evaluations and professional development.	5, 8, 10				
<b>Work Relations / Business Ethics and Transparency</b>						
<b>GRI 405: 2016 Diversity and Equal Opportunities</b>	3-3 Management of material issues					
	405-1 Diversity in governance bodies and employees.	5, 8				
	405-2 Ratio of basic salary and remuneration of women to men.	5, 8, 10				
<b>Work Relations / Business Ethics and Transparency</b>						
<b>GRI 406: 2016 Non-discrimination</b>	3-3 Management of material issues					
	406-1 Discrimination cases and corrective actions taken	5, 8				
<b>Business Ethics and Transparency</b>						
<b>GRI 413: 2016 Local Communities</b>	3-3 Management of material issues					
	413-1 Operations with local community involvement, impact assessments, and development programs.					
	413-2 Operations with significant actual or potential negative impacts on local communities.	1, 2				

GRI Standard	Content	Omission				
		SDG	Location	Omitted Requirement	Reason	Explanation
<b>Business Ethics and Transparency</b>						
<b>GRI 414: 2016 Social Assessment of Suppliers</b>	3-3 Management of material issues					
	414-1 New suppliers who have passed selection filters according to social criteria					
<b>Product and Service Innovation / Risk Management and Monitoring / Product Control, Quality and Safety</b>						
<b>GRI 416: 2016 Customer Health and Safety</b>	3-3 Management of material issues					
	416-1 Assessment of health and safety impacts of categories of products or services.					
<b>GRI 416: 2016 Customer Health and Safety</b>	416-2 Instances of non-compliance concerning health and safety impacts of categories of products and services.	16				
<b>Control, Quality and Product Safety / Customer Relationship</b>						
<b>GRI 417: 2016 Marketing and Labeling</b>	3-3 Management of material issues					
	417-1 Requirements for product and service information and labeling	2				
	417-2 Instances of non-compliance related to product and service information and labeling	16				
	417-3 Cases of non-compliance related to marketing communications	16				
<b>Regulatory Compliance / Risk Management and Monitoring</b>						
<b>GRI 419: 2019 Socio-Economic Compliance</b>	3-3 Management of material issues					
	419-1 Socio-economic compliance	16				

## SASB PARAMETER INDEX

SASB PARAMETER	DESCRIPTION	LOCATION
<b>Meat and Poultry</b>		
FB-MP-000.A	Number of processing and manufacturing facilities	
FB-MP-110a.1	Global gross Scope 1 emissions	
FB-MP-110a.2	Analysis of long-term and short-term strategy or plan to manage Scope 1 emissions, emission reduction targets, and analysis of performance against those targets.	
FB-MP-130a.1	(1) Total energy consumed, (2) percentage of electricity from the grid, (3) percentage of renewables	
FB-MP-140a.1	(1) Total water withdrawn, (2) total water consumed, percentage of each in regions with high or extremely high initial water stress.	
FB-MP-140a.2	Description of water management risks and analysis of strategies and practices to mitigate them.	
FB-MP-140a.3	Number of incidents of non-compliance with water quality permits, standards, and regulations.	
FB-MP-250a.3	(1) Number of recalls issued and (2) total weight of products recalled.	
FB-MP-250a.4	Analysis of markets that prohibit the importation of the entity's products.	
FB-MP-260a.1	Percentage of animal production that received (1) medically important antibiotics and (2) non-medically important antibiotics, by type of animal	
FB-MP-430a.1	Percentage of livestock from suppliers applying Natural Resources Conservation Service (NRCS) conservation plan criteria or equivalent	
FB-MP-430a.2	Percentage of supplier and contracted production facilities verified to meet animal welfare standards	
FB-MP-440a.1	Percentage of feed sourced from regions with high or extremely high initial water stress.	
FB-MP-440a.2	Percentage of contracts with producers located in regions with high or extremely high initial water stress.	
<b>Food Retail</b>		
FB-FR-000.A	Number of (1) retail outlets and (2) distribution centers	
FB-FR-000.B	Total area of (1) retail space and (2) distribution centers.	
FB-FR-260a.2	Process analysis of identification and management of products and ingredients related to consumer health and nutritional concerns.	
<b>Chemicals</b>		
RT-CH-000.A	Production by reportable segment	
RT-CH-110a.1	Global gross in-scope emissions, percentage covered by emission limitation regulations.	
RT-CH-110a.2	Analysis of the long- and short-term strategy or plan to manage in-scope emissions, emission reduction targets, and analysis of performance against those targets.	
RT-CH-120a.1	Air emissions of the following pollutants: (1) NOX (except N2O), (2) SOX, (3) volatile organic compounds (VOCs), and (4) hazardous air pollutants (HAPs).	
RT-CH-130a.1	(1) Total energy consumed, (2) percentage of grid electricity, (3) percentage of renewables, (4) total self-generated energy.	
RT-CH-140a.1	(1) Total water withdrawn, (2) total water consumed, percentage of each in regions with high or extremely high initial water stress.	
RT-CH-140a.2	Number of incidents of non-compliance related to water quality permits, standards, and regulations.	

SASB PARAMETER	DESCRIPTION	LOCATION
RT-CH-140a.3	Description of water management risks and analysis of strategies and practices to mitigate them.	
RT-CH-150a.1	Amount of hazardous waste generated; percentage recycled.	
RT-CH-210a.1	Analysis of participatory processes for managing risks and opportunities associated with community interests.	
RT-CH-410b.1	1) Percentage of products containing chemicals that are hazardous to health and the environment in categories 1 and 2 of the Globally Harmonized System of Classification and Labeling of Chemicals (GHS), 2) percentage of such products that have undergone risk assessment.	
RT-CH-530a.1	Analysis of corporate positioning related to governmental regulations or policy proposals that address environmental and social factors affecting the sector.	
<b>Auto Parts</b>		
TR-AP-000.C	Manufacturing plant area	
TR-AP-130a.1	(1) Total energy consumed, (2) percentage of grid electricity, (3) percentage of renewables.	
TR-AP-250a.1	Number of recalls issued; total number of units recalled.	
TR-AP-410a.1	Revenues from products designed to increase fuel efficiency or reduce emissions	
TR-AP-440b.1	Percentage of input materials with recycled or remanufactured content	
<b>Processed Food</b>		
FB-PF-130a.1	(1) Total energy consumed, (2) percentage of grid electricity, (3) percentage of renewables.	
FB-PF-140a.1	(1) Total water withdrawn, (2) total water consumed, percentage of each in regions with high or extremely high initial water stress.	
FB-PF-140a.2	Number of incidents of non-compliance related to water quantity or quality permits, standards, and regulations.	
FB-PF-250a.1	Global Food Safety Initiative (GFSI) audit: (1) rate of noncompliance and (2) rate of corrective actions for (a) major and (b) minor noncompliances.	
FB-PF-250a.4	(1) number of recalls issued and (2) total number of food products recalled.	
FB-PF-260a.2	Analysis of the process for identification and management of products and ingredients related to consumer health and nutritional concerns	
FB-PF-270a.2	Revenue from products labeled as (1) containing genetically modified organisms (GMOs) and (2) not containing GMOs	
FB-PF-270a.1	Percentage of advertisements (1) made for children and (2) made for children that promote products that comply with dietary recommendations	
FB-PF-270a.3	Number of incidents of non-compliance with regulatory/industry codes for labeling or marketing.	
FB-PF-270a.4	Total amount of monetary losses as a result of legal proceedings related to labeling or marketing.	
FB-PF-410a.1	(1) Total weight of packaging, (2) percentage made from recycled or renewable materials, and (3) percentage that is recyclable, reusable, or compostable.	
FB-PF-410a.2	Analysis of strategies to reduce the environmental impact of packaging throughout its life cycle.	

# Financial Information

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE  
YEARS ENDED DECEMBER 31, 2021, 2020 AND  
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NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS

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

### OPINION

We have audited the accompanying consolidated financial statements of Grupo KUO, S.A.B. de C.V. and Subsidiaries (the Entity or Grupo KUO), which comprise the consolidated statements of financial position as of December 31, 2021, 2020 and 2019 and the related consolidated statements of income and comprehensive income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows, for the years then ended, and notes to the consolidated financial statements, including a summary of the significant accounting policies applied.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Grupo KUO, S.A.B. de C.V. and Subsidiaries as of December 31, 2021, 2020 and 2019, and their consolidated financial performance and their consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board.

### BASIS FOR OPINION

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

### OTHER MATTERS

#### Composition of Grupo KUO

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

### TRANSLATION OF FINANCIAL STATEMENTS

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

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were selected from those communicated to Grupo KUO's Management and Audit Committee, but are not intended to represent all the matters discussed with them. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit matters, which should be communicated in our report.

#### a) Sinister in a Consumer Segment plant

As mentioned in Note 2 and 27, on May 3, 2020, a fire occurred at the processing plant of Sahé (main inventory processor of the pork segment), located in Mérida, Yucatán. The purpose of this property was to carry out the slaughter and maquila activities of pork meat. The total fire-affected property, plant and equipment, inventories and other costs for Ps.2,053.5 million and in December 2021 the Entity concluded the liquidation process with the insurance, recovering a total of Ps.2,955.8 million. In relation to the recording of the effects of the sinister, there is a risk that the determination of the valuation due to impairment of damaged assets is not reasonable, as well as the recognition of income for the recovery of insurance for fixed assets, inventories, expenses and consequential losses.

Our audit and specialist procedures included the review of the internal reports of the damaged assets, reports and agreements with the insurance company, expert opinions and accounting records carried out, including the evaluation of the procedures used by the Administration to record in an adequate and timely manner the effects derived from the sinister. The results of our audit procedures were reasonable.

#### b) Revenue recognition (applicable to all Segments)

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

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

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

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

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

In relation to our audit of the consolidated financial statements, our responsibility will be to read the Annual Report, when it is available, and when we do so, to consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or with our

understanding obtained during the audit, or appears to contain a material misstatement. When we read the Annual Report we will issue the legend on the reading of the annual report, as required by Article 33, section I, and subsection b) numeral 1.2 of the Provisions.

#### **RESPONSIBILITIES OF GRUPO KUO'S MANAGEMENT AND AUDIT COMMITTEE KUO FOR THE ACCOMPANYING CONSOLIDATED FINANCIAL STATEMENTS**

Management of Grupo KUO is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS, and for such internal control as Management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, Management is responsible for assessing the ability of Grupo KUO to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

#### **INDEPENDENT AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the accompanying consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of Grupo KUO.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Grupo KUO to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the accompanying consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence related to the financial information of the entities and business activities within Grupo KUO to express an opinion on the accompanying consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Grupo KUO's Management and Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

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

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

#### **GALAZ, YAMAZAKI, RUIZ URQUIZA, S.C.**

Member of Deloitte Touche Tohmatsu Limited

**C.P.C. Manuel Nieblas Rodríguez**

March 25th, 2022

## Consolidated Statements of Financial Position

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

AS OF DECEMBER 31, 2021, 2020 AND 2019

(THOUSANDS OF MEXICAN PESOS)

Assets	Notes	2021	2020	2019
<b>Assets:</b>				
<b>Current assets:</b>				
Cash and cash equivalents	7 Ps.	4,379,304 Ps.	4,812,690 Ps.	1,541,076
Accounts and notes receivable, net	8	4,491,219	3,322,628	2,725,846
Accounts receivable from related parties	24	158,434	115,355	169,567
Inventories, net	9	7,609,345	5,897,273	5,794,311
Biological assets	10	1,692,156	1,354,980	1,206,260
Prepaid expenses		280,793	157,502	336,691
Assets classified as held for sale		-	28,573	15,478
<b>Total current assets</b>		<b>18,611,251</b>	<b>\$15,689,001</b>	<b>11,789,229</b>
<b>Non - current assets:</b>				
Property, plant and equipment, net	11	11,973,361	10,613,585	12,097,792
Right-of-use asset	12	1,379,578	1,628,374	1,763,868
Biological assets	10	579,070	449,826	398,067
Intangible and other assets, net	15	5,028,745	5,527,801	5,968,257
Investments in joint ventures and other investments	14	11,454,994	10,613,490	11,336,080
Other accounts receivable		94,473	11,138	14,983
Accounts receivable from related parties	24	111,344	111,816	104,960
Deferred income tax	25	1,087,652	1,250,821	819,754
<b>Total non - current assets</b>		<b>31,709,217</b>	<b>30,206,851</b>	<b>32,503,761</b>
<b>Total assets</b>		<b>Ps. 50,320,468</b>	<b>Ps. 45,895,852</b>	<b>Ps. 44,292,990</b>

Liabilities and stockholders' equity	Notes	2021	2020	2019
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Bank loans and current portion of long-term debt	20 Ps.	551,995 Ps.	487,628 Ps.	276,968
Notes and accounts payable to suppliers		10,072,373	7,264,190	7,021,850
Short-term lease liability		324,678	329,667	315,200
Other accounts payable and accrued liabilities	21	5,693,574	4,226,678	3,731,107
Derivative financial instruments	18	808	-	-
Accounts payable to related parties	24	46,864	4,580	21,355
<b>Total current liabilities</b>		<b>16,690,292</b>	<b>12,312,743</b>	<b>11,366,480</b>
<b>Non - current liabilities:</b>				
Bank loans	20	14,511,388	16,269,859	15,313,216
Lease liability		1,159,238	1,387,095	1,486,274
Employee benefits	22	661,677	659,759	668,567
Deferred income taxes	25	923,467	1,051,066	1,033,771
Deferred income tax arising from tax deconsolidation	25	143,439	290,740	476,542
<b>Total non - current liabilities</b>		<b>17,399,209</b>	<b>19,658,519</b>	<b>18,978,370</b>
<b>Total liabilities</b>		<b>34,089,501</b>	<b>31,971,262</b>	<b>30,344,850</b>
<b>Stockholders' equity:</b>				
<b>Contributed capital-</b>				
Capital stock	23 Ps.	2,727,534 Ps.	2,727,534 Ps.	2,727,534
Shares repurchase reserve		(626,062)	(587,938)	(530,237)
<b>Earned capital-</b>				
Retained earnings		12,195,802	9,924,492	10,503,529
Foreign operations translation effect		568,528	568,492	568,524
Derivative financial instruments	18	(566)	-	-
Actuarial loss from employee benefits		(120,237)	(144,691)	(130,685)
Equity in other comprehensive income of joint ventures		1,485,696	1,436,157	809,107
Controlling interest		16,230,695	13,924,046	13,947,772
Non - controlling interest	13	272	544	368
<b>Total stockholders' equity</b>		<b>16,230,967</b>	<b>13,924,590</b>	<b>13,948,140</b>
<b>Total liabilities and stockholders' equity</b>		<b>Ps. 50,320,468</b>	<b>Ps. 45,895,852</b>	<b>Ps. 44,292,990</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Income and Comprehensive Income

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

FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

(THOUSANDS OF MEXICAN PESOS, EXCEPT SHARES AND EARNINGS PER COMMON SHARE)

	Notes	2021	2020	2019
<b>Continuing operations:</b>				
Net sales		Ps. 40,309,414	Ps. 30,935,869	Ps. 27,796,811
Cost of sales	26	33,987,847	25,749,667	22,248,726
Gross profit		6,321,567	5,186,202	5,548,085
Administrative expenses	26	1,842,908	1,591,172	1,594,656
Selling and distribution expenses	26	2,529,473	2,496,783	2,394,688
General expenses		4,372,381	4,087,955	3,989,344
Equity in results of joint ventures	14	1,441,336	1,085,187	1,034,553
Other (income) expenses, net	27	(1,121,642)	930,776	(448,967)
Income from operations		4,512,164	1,252,658	3,042,261
Interest income		73,316	29,223	37,209
Interest expense		(912,914)	(1,095,159)	(814,988)
Other financial expenses		(263,950)	(212,040)	(245,042)
Exchange (loss) gain, net		(215,867)	(516,514)	444,380
Income (loss) before income taxes and discontinued operations		3,192,749	(541,832)	2,463,820
Income taxes expense	25	482,716	30,159	233,295
Income (loss) from continuing operations		2,710,033	(571,991)	2,230,525
Discontinued operations:				
Income from discontinued operations, net of income taxes		-	2,015	2,150
Consolidated net income (loss)		2,710,033	(569,976)	2,232,675
Other comprehensive income (loss):				
Items that will not be reclassified subsequently to profit or loss, net of income taxes:				
Actuarial loss from employee benefits	22	(15,787)	(30,152)	(51,077)

	Notes	2021	2020	2019
Items that will be reclassified to profit or loss, net of income taxes:				
Cumulative translation adjustment		Ps. (250)	Ps. 236	Ps. (296,473)
Derivative financial instruments	18	(566)	-	423
Equity in other comprehensive income of joint ventures	14	45,712	627,050	(348,727)
Total other comprehensive income (loss)		29,109	597,134	(695,854)
Consolidated comprehensive income		Ps. 2,739,142	Ps. 27,158	Ps. 1,536,821
Distribution of consolidated income (loss):				
Controlling interest		Ps. 2,710,040	Ps. (569,884)	Ps. 2,232,685
Non - controlling interest		(7)	(92)	(10)
		Ps. 2,710,033	Ps. (569,976)	Ps. 2,232,675
Distribution of consolidated comprehensive income:				
Controlling interest		Ps. 2,739,404	Ps. 26,982	Ps. 1,536,847
Non - controlling interest		(262)	176	(26)
		Ps. 2,739,142	Ps. 27,158	Ps. 1,536,821
Basic earnings (loss) per common share:				
From continuing operations		Ps. 5.94	Ps. (1.25)	Ps. 4.89
From discontinued operations		Ps. 0.00	Ps. 0.00	Ps. 0.00
Basic earnings (loss) per share		Ps. 5.94	Ps. (1.25)	Ps. 4.89
Net income (loss) from controlling interest without repurchased shares		Ps. 6.17	Ps. (1.30)	Ps. 5.07
Weighted average common shares outstanding		456,366,148	456,366,148	456,366,148
<b>Weighted average common shares outstanding without repurchased shares</b>		<b>438,881,953</b>	<b>439,978,738</b>	<b>440,586,096</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Changes in Stockholders' Equity

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

FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

(IN THOUSANDS OF MEXICAN PESOS, EXCEPT SHARES INFORMATION)

	Contributed capital				Earned Capital							
	Number of Shares	Capital stock	Shares repurchase reserve	Retained earnings	Foreign operations translation effect	Derivative financial instruments	Actuarial loss from employee benefits	Equity in other comprehensive income of joint ventures	Controlling interest	Non - controlling interest	Total stockholders' equity	
Balances at January 1, 2019	456,366,148 Ps.	2,727,534 Ps.	(510,570) Ps.	8,667,904	Ps.	864,955 Ps.	(423) Ps.	(82,282) Ps.	1,157,834 Ps.	12,824,952 Ps.	593 Ps.	12,825,545
Recycling of actuarial losses due to employee benefit from recovery of plan assets	-	-	-	(2,674)	-	-	2,674	-	-	-	-	-
Dividends declared	-	-	-	(401,602)	-	-	-	-	(401,602)	-	-	(401,602)
Dilution of non - controlling interest	-	-	-	173	27	-	(1)	-	199	(199)	-	-
Sale of repurchased common shares, net	-	-	(19,667)	7,043	-	-	-	-	(12,624)	-	-	(12,624)
Consolidated comprehensive income	-	-	-	2,232,685	(296,458)	423	(51,076)	(348,727)	1,536,847	(26)	-	1,536,821
<b>Balances at December 31, 2019</b>	<b>456,366,148</b>	<b>2,727,534</b>	<b>(530,237)</b>	<b>10,503,529</b>	<b>568,524</b>	<b>-</b>	<b>(130,685)</b>	<b>809,107</b>	<b>13,947,772</b>	<b>368</b>	<b>-</b>	<b>13,948,140</b>
Recycling of actuarial losses due to employee benefit from recovery of plan assets	-	-	-	(16,146)	-	-	\$16,146	-	-	-	-	-
Sale of repurchased common shares, net	-	-	(57,701)	6,993	-	-	-	-	(50,708)	-	-	(50,708)
Consolidated comprehensive income	-	-	-	(569,884)	(32)	-	(30,152)	627,050	26,982	176	-	27,158
<b>Balances at December 31, 2020</b>	<b>456,366,148</b>	<b>2,727,534</b>	<b>(587,938)</b>	<b>9,924,492</b>	<b>568,492</b>	<b>-</b>	<b>(144,691)</b>	<b>1,436,157</b>	<b>13,924,046</b>	<b>544</b>	<b>-</b>	<b>13,924,590</b>
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
<b>Balances at December 31, 2021</b>	<b>456,366,148 Ps.</b>	<b>2,727,534 Ps.</b>	<b>(626,062) Ps.</b>	<b>12,195,802</b>	<b>Ps.</b>	<b>568,528 Ps.</b>	<b>(566) Ps.</b>	<b>(120,237) Ps.</b>	<b>1,485,696 Ps.</b>	<b>16,230,695 Ps.</b>	<b>272 Ps.</b>	<b>16,230,967</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

**GRUPO KUO, S.A.B. DE C.V. AND SUBSIDIARIES**  
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019  
(THOUSANDS OF MEXICAN PESOS)

	2021	2020	2019
Cash flows from operating activities:			
Consolidated net income (loss)	Ps. 2,710,033	Ps. (569,976)	Ps. 2,232,675
Adjustments for:			
Income tax expense from continuing operations	482,716	30,159	233,295
Depreciation and amortization of continuing operations	1,651,914	1,661,460	921,502
Loss on sale of property, plant and equipment of continuing operations	6,599	18,700	15,851
Income (loss) in sinister of property, plant and equipment	(669,656)	661,270	-
Profit on sale of other assets	(44,485)	-	-
Net period cost for employee benefit plans of continuing operations	42,126	13,895	57,342
Impairment of property, plant and equipment of continued operations	17,934	6,545	92,715
Cancellation of provision	-	-	(455,605)
Depreciation of right-of-use asset	266,626	271,921	251,566
Disposals of right-of-use asset	(16,727)	(10,741)	(101)
Other financial expenses	263,950	212,040	245,042
Equity in results of joint ventures	(1,441,336)	(1,085,187)	(1,034,553)
Interest expense from continuing operations	912,914	1,095,159	814,988
Profit on sale of shares	(18,265)	-	-
Interest income from continuing operations	(73,316)	(29,223)	(37,209)
	4,091,027	2,276,022	3,337,508
Changes in working capital:			
(Increase) decrease in:			
Accounts receivable	(917,657)	(460,471)	(45,590)
Inventories	(1,712,072)	(102,962)	(749,147)
Biological assets	(466,420)	(200,479)	(23,067)
Other accounts receivable and other assets	(405,376)	(26,622)	(52,420)
Increase (decrease) in:			
Notes and accounts payable to suppliers	3,281,796	324,280	126,782
Other payables and accrued liabilities	1,302,431	616,065	182,948
Accounts payable to related parties	(323)	30,581	(6,593)
Income taxes paid	(599,390)	(561,516)	(486,560)
Net cash flows generated by operating activities	4,574,016	1,894,898	2,283,861

	2021	2020	2019
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(2,246,947)	(871,571)	(1,493,732)
Proceeds from sale of property, plant and equipment	19,149	5,387	1,053,180
Proceeds from others assets	69,207	-	23,768
Dividends from joint ventures	645,984	2,434,847	575,823
Investment on intangible assets	(524,499)	(183,536)	(1,449,240)
Sale in shares	18,265	-	-
Interest received	73,316	29,223	37,209
Claim recovery from properties, plant and sinister equipment	669,656	921,505	-
Net cash flows (used in) generated by investing activities	(1,275,869)	2,335,855	(1,252,992)
Cash flows from financing activities:			
Proceeds from debt	-	2,355,173	8,624,690
Payments of debt	(2,147,462)	(1,573,343)	(7,087,623)
Expenses associated with bond issuance	-	-	(22,995)
Other financial expenses	(263,950)	(212,040)	(245,042)
Lease payments	(344,749)	(356,692)	(321,265)
Interest paid	(756,861)	(967,370)	(1,036,967)
Dividends paid	(394,641)	(200,674)	(200,674)
(Repurchase) proceeds of common shares, net of dividends	(38,124)	(50,708)	(12,624)
Net cash flows used in in financing activities	(3,945,787)	(1,005,654)	(302,500)
Effects of exchange rate changes on cash and cash equivalents	214,254	46,515	(290,270)
Net (decrease) increase in cash and cash equivalents	(433,386)	3,271,614	438,099
Cash and cash equivalents at beginning of year	4,812,690	1,541,076	1,102,977
Cash and cash equivalents at end of year	Ps. 4,379,304	Ps. 4,812,690	Ps. 1,541,076

See accompanying notes to consolidated financial statements.

## Notes to the Consolidated Financial Statements

### GRUPO KUO, S. A. B. DE C. V. Y SUBSIDIARIAS

FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

(THOUSANDS OF MEXICAN PESOS (PS.) AND THOUSANDS OF DOLLARS (US))

#### 1. PRINCIPAL ACTIVITIES

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

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

#### 2. SIGNIFICANT EVENTS

##### • Pandemic due to COVID 19

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

During 2021 and 2020, the Entity implemented strict security protocols in accordance with the guidelines issued by the different government entities focused on guaranteeing the continuity of operations and the safety of employees, plants and offices, including: (i) remote work of 90% of the administrative areas, (ii) rescheduling of work shifts in plants to avoid overcrowding of spaces, (iii) modification to the infrastructure to maintain a healthy distance and (iv) strengthening the information technology platforms, among others. The expenses related to the implementation of this security and operational continuity measures amounted to Ps. 68 and Ps.96 million pesos as of December 31, 2021 and 2020 respectively, which were recorded under other expenses.

During the 2021 financial year, the Entity continued with the hybrid-operating model without operational disruption, on the other hand, the world economy began its recovery as the vaccination programs against COVID-19 were implemented, helping to reduce restrictions on blockades, promoting the growth of commercial activity and the recovery of mobility. Consequently, the demand for petrochemical products in applications for the tire, industrial, adhesive and electronic segments of the Synthetic Rubber and Polymer businesses, as well as the increase in exports from the Transmissions segment and the consumption of the Automotive Parts market represented a significant improvement of over 100% compared to 2020 in the Entity's operating flow.

As of the date of issuance of the consolidated financial statements, despite the profound impact that COVID-19 is having on human health, the economy and society throughout the world, the Entity had no significant adverse effects on the situation and consolidated financial performance, except on the Automotive Transmissions segment, which generated an operating loss of Ps.217.5 and Ps.789.7 million and a net loss of Ps.286.9 and Ps.1,370 million for the year ended December 31, 2021 and 2020, respectively. With the information available to date, for the year 2022 the Entity does not expect significant impacts on its financial results and consolidated cash flows.

##### • Processing plant fire

On May 3, 2020, one of the processing plants of the Pork business, located in Sahé, Yucatán, suffered a severe fire, affecting machinery, building, equipment and inventories. In December 2021, the Entity concluded the liquidation process with the insurance, recovering a total of Ps.2,955.8 million. For further details, see Note 27 to the consolidated financial statements.

##### • Credit line disposal and credit payment

During 2020 and 2019, KUO contracted and renewed committed credit lines with different financial institutions for Ps.2,701 million and Ps.8,625 million, respectively. The resources were mainly used to refinance debt and to continue investments in projects in the Consumer and Automotive Segments. Further detail of these credits are included in Note 20 to the consolidated financial statements.

##### • Investments in projects

During 2021, 2020 and 2019, the Entity made significant investments in strategic projects for the Consumer and Automotive Segments for Ps.1,967 million, Ps.854 million and Ps.1,576 million in property, plant and equipment, respectively, and for Ps.524 million, Ps.184 million and Ps.1,404 million in intangible assets, respectively, mainly in the construction of new production facilities to expand the installed capacity and the development of new products.

##### • 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

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

In the current year, the Entity has applied a number of amendments to IFRS issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after January 1, 2021.

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

In the prior year, the Group adopted the Phase 1 amendments Interest Rate Benchmark Reform—Amendments to IFRS 9/IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform.

In the current year, the Group adopted the Phase 2 amendments *Interest Rate Benchmark Reform—Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as ‘risk free rates’ or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements.

The Phase 1 amendment is not relevant for the Group, since it does not apply hedge accounting to its reference interest rate exposure. On the other hand, the Phase 2 amendment will begin to be relevant for the Group since at the beginning of 2022, modifications have begun to be made to some debt financial instruments and it is expected that modifications will continue to be made going forward.

The amendments are relevant to the Group’s financial instruments, whose maturity extends beyond June 2023, the date on which said reform is expected to be implemented:

- Bank loans referenced to LIBOR whose maturity is beyond June 2023.
- Lease liabilities referenced to LIBOR.

As a result of the Phase 2 modifications:

- When the contractual terms of the Group’s loans are modified, as a direct consequence of the reference rate reform, and the new basis for determining the contractual cash flows is equivalent to the basis immediately preceding the change, the Group will change the basis for determining the contractual cash flows prospectively by reviewing the effective interest rate. If additional changes are made, which are not directly related to the reform, the requirements of IFRS 9 apply to other modifications. See note 16 for further details regarding LIBOR-linked bank loans. At the beginning of 2022, a new bank loan was made where the interest rate already refers to SOFR, the resources received were used to prepay a bank loan that referred to LIBOR.

- When a lease is modified as a result of the benchmark rate reform and the new basis for determining the lease payments is economically equivalent to the previous basis, the Group remeasures the lease liability to reflect the discounted lease payment, using a revised discount rate that reflects the change in the basis for determining the contractual cash flows.

#### Interest rate risk management

The Group is exposed to interest rate risk because the Group entities request loans at fixed and variable interest rates. The risk is managed by the Group evaluating the appropriate combination between fixed and variable rate loans.

The Group has closely monitored the market through the announcements made by the IBOR regulators. The FCA (Financial Conduct Authority) has confirmed that all LIBOR configurations will no longer be provided by any administrator or will no longer be representative:

- Immediately after December 31, 2021, for all sterling, euro, Swiss franc and Japanese yen configurations, and 1-week and 2-month US dollar configurations; and
- Immediately after June 30, 2023, for all remaining US dollar configurations.

In response to the announcements, the Group has set a transition related to IBOR reform comprising the following work streams: risk management, tax, treasury, legal, accounting and systems. The program is in charge of the CFO, mainly carried out by the treasury and financing area.

#### Risks derived from the reform of the reference interest rate:

The following are the key risks for the Group arising from the transition:

1. Interest rate basis risk: If bilateral negotiations with the Group’s counterparties are not successfully concluded before LIBOR ceases, there are significant uncertainties regarding the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into.
2. Liquidity risk: There are fundamental differences between LIBOR and the different alternative reference rates that the Group will adopt. LIBOR are forward rates published for a period (for example, 3 months) at the beginning of the period and include an interbank credit spread, while alternative benchmark rates are overnight risk-free rates published at the end of a one-day period. no built-in credit spread or forward rates (built from risk-free overnight rates). These differences will result in additional uncertainty regarding variable rate interest payments, requiring additional liquidity management.

3. Litigation risk: If no agreement is reached to implement benchmark interest rate reform in existing contracts (for example, as a result of a different interpretation of existing alternative terms), there is a risk of disputes lengthy negotiations with counterparties that could give rise to additional legal and other costs. The Group is working closely with all counterparties to prevent this from happening.

Note 18 provides the required disclosures related to these modifications.

**Impact of the initial application of COVID-19-Related Rent Concessions beyond 30 June 2021—Amendment to IFRS 16**

In the prior year, the Group early adopted Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provided practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16.

In March 2021, the IASB issued Income Concessions related to COVID-19 after June 30, 2021 (amendment to IFRS 16). When the IASB published the amendments to IFRS 16 in May 2020, the lessor was allowed to apply the rent allowance practical expedient for any reduction in lease payments affecting the original payments before or as of June 30, 2021. Due to the nature of the COVID-19 pandemic, the amendment extended a practical expedient to apply those original payments before or on June 30, 2022.

In the current financial year, the Group has applied the amendment to IFRS 16 (as issued by the Board in May 2021) in advance of its effective date.

The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession applying IFRS 16 as if the change were not a lease modification.

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

- a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- b) Any reduction in lease payments affects only payments originally due on or before June 30, 2022 (a rent concession meets this condition if it results in reduced lease payments on or before June 30, 2022 and increased lease payments that extend beyond June 30, 2022);
- c) There is no substantive change to other terms and conditions of the lease

During the year, the Entity has decided to apply the amendments to IFRS 16 (as issued by the IASB in April 2020) in advance, and the effect of this application on the financial information for 2021 and 2020 was immaterial.

• **New and revised IFRS Standards in issue but not yet effective**

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

IFRS 10 and IAS 28 (amendments)	<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 IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment—Proceeds before Intended Use</i>
Annual Improvements to IFRS Standards 2018-2020	<i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases</i>

The administration does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Entity in future periods.

**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 Board; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

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

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

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

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted.

#### **Amendments to IFRS 3 Business Combinations—Reference to the Conceptual Framework**

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

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

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

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

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

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

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after January 1, 2022, with early application permitted.

#### **Annual Improvements to IFRS Standards 2018-2020**

The Annual Improvements include amendments to four Standards:

##### **IFRS 9 Financial Instruments**

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date, the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

##### **IFRS 16 Leases**

The amendment removes the illustration of the reimbursement of leasehold improvements.

As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

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

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

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.

## **4. SIGNIFICANT ACCOUNTING POLICIES**

### **a. Statement of compliance**

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

### **b. Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each period, as explained in the accounting policies included below.

#### **i. Historical cost**

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

ii. **Fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would consider those characteristics when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

iii. **Going concern**

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

**c. Basis of consolidation of financial statements**

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

The main subsidiaries of the Entity as of December 31, 2021, 2020 and 2019 are:

	<b>Equity percentage</b>
<b>Consumer Segment:</b>	
Grupo Porcícola Mexicano, S.A. de C.V.	100%
Comercializadora Porcícola Mexicana, S.A. de C.V.	100%
<b>Chemical Segment:</b>	
Resirene, S.A. de C.V. and Subsidiaries	100%
<b>Automotive Segment:</b>	
Transmisiones y Equipos Mecánicos, S.A. de C.V.	99.99%
Dacomsa, S.A. de C.V.	100%

Joint ventures of December 31, 2021, 2020 and 2019 are:

	<b>Equity percentage</b>
<b>Consumer Segment:</b>	
Herdez del Fuerte, S.A. de C.V. and Subsidiaries	50%
<b>Chemical Segment:</b>	
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 power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

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

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

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

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

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

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

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

Non - controlling interests in subsidiaries are identified separately from the Entity's equity therein. Those interests of non - controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non - controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non - controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non - controlling interests is the

amount of those interests at initial recognition plus the non - controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non - controlling interests even if these results in the non - controlling interests having a deficit balance.

#### **Changes in the Entity's ownership interests in existing subsidiaries**

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

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

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

#### **d. Segment information**

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

#### **e. Financial instruments**

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

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

#### **f. Financial assets**

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

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

#### **Classification of financial assets**

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

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

- The Entity may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- The Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

### Amortized cost and effective interest method

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

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

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

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

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

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

A financial asset is held for trading if:

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

### Foreign exchange gains and losses

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

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

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

### Impairment of financial assets

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

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

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

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

#### Significant increase in credit risk

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

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

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

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

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

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

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

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

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

#### (i) Definition of default

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

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

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

**(ii) Credit-impaired financial assets**

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

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event (see (ii) above);
- 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;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

**(iii) Write-off policy**

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

**(iv) Measurement and recognition of expected credit losses**

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the

exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Entity's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit losses is estimated as the difference between all contractual cash flows that are due to the Entity in accordance with the contract and all the cash flows that the Entity expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16, "Leases".

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

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

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

**Derecognition of financial assets**

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

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

**g. Financial liabilities and equity**  
**Classification as debt or equity**

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

**Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Entity are recognized at the proceeds received, net of direct issue costs.

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

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

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

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

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

**Financial liabilities**

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

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

**Financial liabilities measured subsequently at amortized cost**

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

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

**Financial guarantee contract liabilities**

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

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

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

**Foreign exchange gains and losses**

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

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

#### **Derecognition of financial liabilities**

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

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

#### **h. Derivative financial instruments**

The Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, options and interest rate swaps. Further details of derivative financial instruments are disclosed in Note 18.

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

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

#### **Embedded derivatives**

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

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

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

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

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

#### **i. Hedge accounting**

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

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

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

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

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

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

#### **Fair value hedges**

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

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

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

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

#### **Cash flow hedges**

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

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

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

#### **Hedges of net investments in foreign operations**

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

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

**j. Cash and cash equivalents**

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

**k. Inventories**

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

**l. Biological assets**

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

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

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

The Entity has two blocks of biological assets:

**Assets directly convertible into inventories (short-term biological assets)**

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

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

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

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

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

**m. Property, plant and equipment**

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

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

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

Land is not depreciated.

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.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

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

#### **n. Intangible assets**

##### **1. Intangible assets acquired separately**

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

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

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

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

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

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

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

##### **3. Intangible assets acquired in a business combination**

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

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

##### **4. Derecognition of intangible assets**

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

#### **o. Impairment of tangible and intangible assets other than goodwill**

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

**p. Assets classified as held for sale**

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

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

**q. Goodwill**

Goodwill is initially recognized and measured as set out in the Note 4s. Business combinations.

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

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

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

**r. Investments in joint ventures**

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

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

The results and assets and liabilities of joint ventures or associates are incorporated in the financial statements using the equity method, except if the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in joint ventures or associates are initially recognized in the consolidated statement of financial position at cost and adjusted for subsequent changes to the acquisition by the Entity's participation in the profit or loss and 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.

#### s. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values of the assets transferred by the Entity, less liabilities incurred by the Entity to the former owners of the acquire and the equity interests issued by the Entity in exchange for control of the acquire. Acquisition-related costs are generally recognized in the consolidated statement of income and comprehensive income as incurred.

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

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12, "Income Taxes" and IAS 19, "Employee Benefits", respectively;

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

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

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

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

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

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

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

#### t. Leases

##### The Entity as lessee

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

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

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; y
- 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).

#### u. Translation of financial statements of foreign subsidiaries

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

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

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

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

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

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

Subsidiary	Local currency	Functional currency
Dynasol Elastómeros, S.A. de C.V.	Mexican peso	US dollar
Industrias Negromex, S.A. de C.V.	Mexican peso	US dollar
Dynasol Elastómeros, S.A.	Euro	Euro
Dynasol Gestión, S.L.	Euro	Euro
General Química, S.A.	Euro	Euro
Dynasol, L.L.C.	US dollar	US dollar
Insa GPRO (Nanjing) Synthetic Rubber Co., Ltd.	Yuan	Yuan
Liaoning North Dynasol Synthetic Rubber Co., Ltd.	Yuan	Yuan
North Dynasol (Shanghai) Business Consulting Co., Ltd.	Yuan	Yuan
MegaMex Foods, L.L.C. y Avomex, Inc. (negocio conjunto Herdez del Fuerte, S.A. de C.V.)	US dollar	US dollar

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

#### v. Borrowing costs

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

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

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

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

#### w. Employee benefits

##### Employee benefits from termination and retirement and others

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

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

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

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

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

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

#### **Short-term and other long-term employee benefits**

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

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

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

#### **Employee profit sharing (PTU)**

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

As result of the 2014 Income Tax Law, as of December 31, 2021, 2020 and 2019, PTU is determined based on taxable income, according to Section I of Article 9 of the that Law.

#### **Contributions from employees or third parties to defined benefit plans**

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

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

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

#### **x. Income taxes**

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

##### **1. Current tax**

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

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

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

## 2. Deferred income tax

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

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

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

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

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

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

## 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.

## 3. Uncertainty in the treatment of income taxes

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

## y. Provisions

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

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

The subsidiary Transmisiones y Equipos Mecánicos, S.A. de C.V. (Tremec) guarantees its products for periods of two to four years against manufacturing defects. A warranty provision is recognized at the time of the sale and it is determined based on the guarantee costs incurred in the prior three 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 recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## z. Consolidated statements of cash flows

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

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

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

**aa. Foreign currency transactions**

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

Exchange fluctuations are recorded within the consolidated statement of income and comprehensive income.

**bb. Earnings 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.

**cc. Revenue recognition**

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

The Entity recognizes income in its different sectors:

**Consumer sector:**

Export earnings comprise the fair value of the consideration received or to be received for the sale of goods, which occurs when control has been transferred at a point in time by delivering the products to customers in exchange for the consideration.

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

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

**Chemical sector:**

Revenue from sale of polystyrene glass (GPPS) and high impact polystyrene (HIPS), mainly, as well as transparent styrene copolymers (SMMA) and plastic compounds, which are used in the industries of packaging and disposable products, lighting, school supplies, office equipment and home accessories, including audio and video equipment and refrigerators, they are recognized when control of the goods has been transferred at a point in time to customers in exchange for the consideration to which the Entity considers to be entitled in exchange for said goods or services.

**Automotive sector:**

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

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

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

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

### a. Critical judgments in applying accounting policies

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

- **Judgements in determining the timing of satisfaction of performance obligation**

In making their judgement, Entity's Management considered the detailed criteria for the recognition of revenue set out in IFRS 15 and, in particular, whether the Entity had transferred control of the goods to the customer. Following the detailed quantification of the Entity's liability in respect of rectification work, and the agreed limitation on the customer's ability to require further work or to require replacement of the goods, Management is satisfied that control has been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with the recognition of an appropriate warranty provision for the rectification costs.
- **Capitalization of borrowing costs**

As described in Note 4v, the Entity capitalizes borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which require a substantial period until they are ready for use or sale, are added to the cost of those assets during that time until they are ready for use or sale.
- **Business model assessment**

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (see financial assets sections of Note 4f). The Entity determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Entity monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of

the business for which the asset was held. Monitoring is part of the Entity's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

- **Significant increase in credit risk**

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

- **Contingent events**

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

- **Discount rate and lease renewals**

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

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

- **Discount rate and impairment calculation**

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

**b. Key sources of estimation uncertainty**

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

• **Calculation of loss allowance**

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

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

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

• **Impairment of long-lived assets**

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

• **Estimation of inventory obsolescence**

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

• **Discount rate of employee benefits**

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

• **Provisions**

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

• **Valuation techniques**

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

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

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

**6. SEGMENT INFORMATION**

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

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

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

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

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

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

### Consolidated financial information

For the year ended December 31, 2021	Consumer	Chemical	Automotive	KUO and others	Eliminations	Total	Elimination of joint ventures	Consolidated information
Net sales	Ps. 24,896,258	Ps. 17,599,675	Ps. 14,643,154	Ps. 1,035,804	Ps. (850,912)	Ps. 57,323,979	Ps. (17,014,565)	Ps. 40,309,414
General expenses	4,569,981	1,216,489	917,799	1,199,567	(720,860)	7,182,976	(2,810,595)	4,372,381
Other (income) expenses, net	(1,023,223)	(44,876)	(3,014)	(62,553)	-	(1,133,666)	12,024	(1,121,642)
Depreciation and amortization	759,911	515,149	1,193,335	57,299	-	2,525,694	(607,153)	1,918,541
Net employee benefit cost	24,082	4,170	12,632	15,827	-	56,711	(14,585)	42,126
Impairment of fixed and intangible assets	1,500	-	16,434	-	-	17,934	-	17,934
Recovery on property, plant and equipment claim	(669,656)	-	-	-	-	(669,656)	-	(669,656)
Equity in results of joint ventures	-	-	-	-	-	-	(1,441,336)	(1,441,336)
Income from operations	3,043,358	1,887,299	256,166	(101,210)	-	5,085,613	(573,449)	4,512,164
Interest income	70,911	23,629	13,989	186,756	(171,992)	123,293	(49,977)	73,316
Interest expense	(77,486)	(65,965)	(150,438)	(859,410)	171,992	(981,307)	68,393	(912,914)
Other financial expenses	(137,360)	(49,047)	(52,862)	(31,029)	-	(270,298)	6,348	(263,950)
Exchange loss, net	(67,645)	(61,405)	(72,563)	(317)	-	(201,930)	(13,937)	(215,867)
Equity in results of subsidiaries and associates	-	56,611	-	3,539,604	(3,539,604)	56,611	(56,611)	-
Income taxes	593,894	488,101	(1,717)	24,353	-	1,104,631	(621,915)	482,716
Income (loss) from continuing operations	2,237,884	1,303,021	(3,991)	2,710,041	(3,539,604)	2,707,351	2,682	2,710,033
Net income (loss)	2,237,884	1,303,021	(3,991)	2,710,041	(3,539,604)	2,707,351	2,682	2,710,033
Cash and cash equivalents	1,055,767	630,883	89,428	4,205,846	-	5,981,924	(1,602,620)	4,379,304
Total assets	24,727,750	13,730,007	17,116,038	36,275,034	(34,208,479)	57,640,350	(7,319,882)	50,320,468
Total financial debt	-	1,021,475	281,044	14,782,340	-	16,084,859	(1,021,476)	15,063,383
Total liabilities	12,121,537	7,660,029	7,534,174	20,251,345	(6,159,353)	41,407,732	(7,318,231)	34,089,501
Additions to property, plant and equipment	1,827,770	374,157	297,770	259,528	-	2,759,225	(512,278)	2,246,947
Investment in intangibles	1,415	-	523,084	-	-	524,499	-	524,499

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

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

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, 2021, 2020 and 2019.

	2021	%	2020	%	2019	%
Pork meat	Ps. 16,210,839	40.2	Ps. 14,219,760	46.0	Ps. 13,081,601	47.1
Polystyrene	9,217,258	22.9	5,734,727	18.5	6,468,755	23.3
Transmissions and components	10,908,401	27.0	7,786,868	25.1	4,920,231	17.7
Auto parts	3,734,753	9.3	2,992,278	9.7	3,121,383	11.2
Others	238,163	0.6	202,236	0.7	204,841	0.7
<b>Total</b>	<b>Ps. 40,309,414</b>	<b>100</b>	<b>Ps. 30,935,869</b>	<b>100</b>	<b>Ps. 27,796,811</b>	<b>100</b>

b. The following tables present sales classified by geographic area for the years ended December 31, 2021, 2020 and 2019:

	2021	2020	2019
Mexico	Ps. 19,418,759	Ps. 14,093,213	Ps. 15,650,299
United States of America and Canada	13,354,791	9,558,987	6,299,291
Asia	5,451,693	5,817,538	4,159,927
Europe	1,321,782	903,353	1,053,002
Rest of the world	762,389	562,778	634,292
<b>Total</b>	<b>Ps. 40,309,414</b>	<b>Ps. 30,935,869</b>	<b>Ps. 27,796,811</b>

c. KUO has a diverse customer base in the three segments in which it mainly operates. For the years ended December 31, 2021, 2020 and 2019, no customer represents more than 5% of consolidated net sales; except in the automotive segment, only in the year ended December 31, 2021 and 2020, where it has a client whose sales represent more than 15% and 10% of the total consolidated sales.

## 7. CASH AND CASH EQUIVALENTS

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

	2021	2020	2019
Cash and cash equivalents	Ps. 171,542	Ps. 159,083	Ps. 343,888
Investments	4,207,762	4,653,607	1,197,188
<b>Total</b>	<b>Ps. 4,379,304</b>	<b>Ps. 4,812,690</b>	<b>Ps. 1,541,076</b>
Investments:			
Banknote paper	Ps. 4,204,436	Ps. 4,652,449	Ps. 1,159,808
Short-term investments	3,326	1,158	37,380
<b>Total</b>	<b>Ps. 4,207,762</b>	<b>Ps. 4,653,607</b>	<b>Ps. 1,197,188</b>

## 8. ACCOUNTS AND NOTES RECEIVABLE

	2021	2020	2019
Trade	Ps. 3,388,787	Ps. 2,393,858	Ps. 1,989,396
Allowance for discounts	(162,256)	(104,402)	(153,744)
Allowance for doubtful accounts	(50,928)	(31,511)	(38,178)
	3,175,603	2,257,945	1,797,474
Other debtors	142,089	120,558	172,280
Recoverable taxes	1,173,527	944,125	756,092
<b>Total</b>	<b>Ps. 4,491,219</b>	<b>Ps. 3,322,628</b>	<b>Ps. 2,725,846</b>

### Trade receivables

The average credit period on sales of goods is 60 days. The Entity has recognized a loss allowance of 58.45% of all receivables over 120 days past due because historical experience has indicated that these receivables are generally not recoverable. For accounts receivable that are between 60 and 120 days, an allowance is recognized for doubtful accounts based on expected loss determined for experiences of default of the counterparty and an analysis of their current financial position.

Before accepting any new client, the Entity uses an external credit rating system to evaluate the credit quality of the potential client and defines the limit of credit per client. The limits and ratings attributed to clients are reviewed twice a year. 99% of the accounts receivable from customers that are not due or impaired, have the best attributable credit rating according to the external credit rating system used by the Entity.

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

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

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

### Trade receivables - days past due

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

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.

	2021	2020	2019
Balance at the beginning of the period	Ps. (31,511)	Ps. (38,178)	Ps. (36,193)
Amounts written off	2,237	5,732	6,311
Accounts considered uncollectible during the year	5,386	12,160	-
Impairment	(27,040)	(11,225)	(8,296)
Balance at the end of the year	<b>Ps. (50,928)</b>	<b>Ps. (31,511)</b>	<b>Ps. (38,178)</b>

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, 2021, 2020 and 2019, the Entity sold as non-recourse accounts receivables with an accumulated carrying value of US229,192, US175,702 and , US156,261, to a bank for cash funds of US227,870, US173,503 and US152,813, 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 2021, 2020 and 2019, the carrying amount of short-term accounts receivable, which are current and derecognized, amounts to Ps.515,642, Ps.519,458 and Ps.353,332, respectively.

### 9. INVENTORIES

	2021	2020	2019
Finished goods and work in process	Ps. 2,572,008	Ps. 2,452,081	Ps. 2,638,930
Raw materials, supplies and others	4,880,160	3,399,988	3,322,542
	7,452,168	5,852,069	5,961,472
Allowance for obsolete and slow-moving inventories	(301,176)	(226,138)	(248,275)
Goods in transit	458,353	271,342	81,114
	<b>Ps. 7,609,345</b>	<b>Ps. 5,897,273</b>	<b>Ps. 5,794,311</b>

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

	2021		2020		2019	
<b>Balances at the beginning of the year</b>	Ps.	(226,138)	Ps.	(248,275)	Ps.	(231,287)
Increase in the allowance		(156,050)		(66,819)		(37,172)
Application		30,373		83,435		10,441
Decreases		50,639		5,521		9,743
<b>Balances at the end of the year</b>	<b>Ps.</b>	<b>(301,176)</b>	<b>Ps.</b>	<b>(226,138)</b>	<b>Ps.</b>	<b>(248,275)</b>

The cost of inventories recognized as an expense during the year in respect to continuing operations was Ps.26,902,866, Ps.19,186,617 and Ps.17,240,067 for the years ended December 31, 2021, 2020 and 2019, respectively.

#### 10. BIOLOGICAL ASSETS

	2021		2020		2019	
<b>Balances at the beginning of the year</b>	Ps.	1,804,806	Ps.	1,604,327	Ps.	1,581,260
Production costs		9,129,112		7,443,592		6,365,942
Transfer to inventories		(8,662,692)		(7,243,113)		(6,342,875)
<b>Balances at the end of the year</b>	<b>Ps.</b>	<b>2,271,226</b>	<b>Ps.</b>	<b>1,804,806</b>	<b>Ps.</b>	<b>1,604,327</b>
Biological assets - short-term	Ps.	1,692,156	Ps.	1,354,980	Ps.	1,206,260
Biological assets - long-term		579,070		449,826		398,067
	<b>Ps.</b>	<b>2,271,226</b>	<b>Ps.</b>	<b>1,804,806</b>	<b>Ps.</b>	<b>1,604,327</b>

#### Principal risks in the hogs' operation:

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

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

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

#### 11. PROPERTY, PLANT AND EQUIPMENT

Reconciliation of beginning and ending balances at December 31, 2021, 2020 and 2019 is as follows:

	Balance at the beginning of 2021		Additions		Disposals / Disposals from sinister <sup>(i)</sup>		Impairment		Transferred assets		Translation effect		Balance as of December 31, 2021	
<b>Investment:</b>														
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
<b>Total investment</b>		<b>19,786,033</b>		<b>2,246,947</b>		<b>(275,950)</b>		<b>-</b>		<b>-</b>		<b>254,824</b>		<b>22,011,854</b>
<b>Depreciation:</b>														
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)
<b>Total accumulated depreciation</b>		<b>(9,172,448)</b>		<b>(969,781)</b>		<b>250,202</b>		<b>(16,434)</b>		<b>-</b>		<b>(130,032)</b>		<b>(10,038,493)</b>
<b>Net investment</b>	<b>Ps.</b>	<b>10,613,585</b>	<b>Ps.</b>	<b>1,277,166</b>	<b>Ps.</b>	<b>(25,748)</b>	<b>Ps.</b>	<b>(16,434)</b>	<b>Ps.</b>	<b>-</b>	<b>Ps.</b>	<b>124,792</b>	<b>Ps.</b>	<b>11,973,361</b>

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

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

(i) Includes loss in sinister of Ps.1,500 and Ps.1,582,775 for the years 2021 and 2020, respectively (see Note 27).

As of December 31, 2021, 2020 and 2019, the Entity has no idle assets.

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

## 12. RIGHT-OF-USE ASSET

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

	2021	2020	2019
Building	12	12	12
Computer equipment	4	4	4
Machinery and equipment	6	7	7
Transportation equipment	7	5	5
Airplane	15	15	5

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

	Balances as of December 31, 2019		Acquisitions	Disposals	Net	Translation effect	Balance as of December 31, 2020	
<b>Costs:</b>								
Building	Ps.	1,568,033	Ps.	92,910	Ps.	(85,103)	Ps.	-
Computer equipment		25,777		15,018		-		-
Machinery and equipment		44,733		3,895		(9,732)		(262)
Transportation equipment		227,007		10,892		(3,142)		(6,546)
Airplane		148,617		-		-		-
<b>Total investment</b>		<b>2,014,167</b>		<b>122,715</b>		<b>(97,977)</b>		<b>(6,808)</b>
								<b>70,516</b>
								<b>2,102,613</b>
<b>Accumulated depreciation:</b>								
Building		(143,538)		(157,980)		45,288		-
Computer equipment		(6,396)		(8,343)		-		-
Machinery and equipment		(9,150)		(9,847)		1,537		262
Transportation equipment		(61,492)		(66,028)		2,485		6,546
Airplane		(29,723)		(29,723)		-		-
<b>Total accumulated depreciation</b>		<b>(250,299)</b>		<b>(271,921)</b>		<b>49,310</b>		<b>6,808</b>
								<b>(8,137)</b>
<b>Net cost</b>	<b>Ps.</b>	<b>1,763,868</b>	<b>Ps.</b>	<b>(149,206)</b>	<b>Ps.</b>	<b>(48,667)</b>	<b>Ps.</b>	<b>-</b>
								<b>62,379</b>
								<b>1,628,374</b>
	Balance at the beginning of 2019		Initial application IFRS-16	Acquisitions	Disposals	Translation effect	Balance as of December 31, 2019	
<b>Costs:</b>								
Building	Ps.	-	Ps.	1,505,110	Ps.	74,024	Ps.	(5,906)
Computer equipment		-		21,809		3,792		-
Machinery and equipment		-		43,333		2,336		(936)
Transportation equipment		-		210,981		16,786		(569)
Airplane		-		148,617		-		-
<b>Total investment</b>		<b>-</b>		<b>1,929,850</b>		<b>96,938</b>		<b>(7,411)</b>
								<b>(5,210)</b>
								<b>2,014,167</b>
<b>Accumulated depreciation:</b>								
Building		-		-		(144,410)		185
Computer equipment		-		-		(6,396)		-
Machinery and equipment		-		-		(9,284)		134
Transportation equipment		-		-		(61,753)		225
Airplane		-		-		(29,723)		-
<b>Total accumulated depreciation</b>		<b>-</b>		<b>-</b>		<b>(251,566)</b>		<b>544</b>
								<b>723</b>
<b>Net cost</b>	<b>Ps.</b>	<b>-</b>	<b>Ps.</b>	<b>1,929,850</b>	<b>Ps.</b>	<b>(154,628)</b>	<b>Ps.</b>	<b>(6,867)</b>
								<b>(4,487)</b>
								<b>1,763,868</b>

Amounts recognized as expenses in results:

		2021		2020		2019
Depreciation right-of-use asset	Ps.	266,626	Ps.	271,921	Ps.	251,566
Interest on lease liability		107,276		123,662		125,045
Short-term leases		202,233		152,999		152,783

Total cash outflows for leases amounted to Ps.344,749, Ps.356,692 and Ps.321,265 in 2021, 2020 and 2019, respectively.

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

	2021	2020	2019
Building and installations	4.36%	5.71%	6.47%
Computer equipment	1.28%	2.56%	3.71%
Machinery and equipment	3.97%	5.50%	6.80%
Transportation equipment	3.82%	5.29%	7.21%
Airplane	1.34%	3.49%	4.12%

### 13. SUBSIDIARIES

#### a. KUO's main subsidiaries

As of December 31, 2021, 2020 and 2019 are as follow:

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

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

#### b. Group composition

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

Segment	Location	Number of subsidiaries with a 100% equity interest		
		2021	2020	2019
Consumer	Mexico	2	3	3
Chemical	Mexico	2	3	3
Automotive	Mexico and United States of America	6	9	9
KUO and others <sup>(i)</sup>	Mexico	7	8	8
Automotive	Mexico and Belgium	1	1	1

### 14. INVESTMENTS IN JOINT VENTURES AND OTHER INVESTMENTS

	2021	2020	2019
Investments in joint ventures	Ps. 11,453,173	Ps. 10,612,109	Ps. 11,334,719
Other investments	1,821	1,381	1,361
	<b>Ps. 11,454,994</b>	<b>Ps. 10,613,490</b>	<b>Ps. 11,336,080</b>

#### Joint ventures

a. As of December 31, 2021, 2020 and 2019, the balance of investments in joint ventures is as follows:

	Location	Activity	2021		2020		2019	
			% 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. 5,990,762	50%	Ps. 5,634,756	50%	Ps. 5,964,699
Synthetic rubber <sup>(i)</sup>	Mexico, Spain and China	Production of synthetic rubber	50%	5,462,411	50%	4,977,353	50%	5,370,020
				<b>Ps. 11,453,173</b>		<b>Ps. 10,612,109</b>		<b>Ps. 11,334,719</b>

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

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

	2021		2020		2019	
Balance as of January 1	Ps.	10,612,109	Ps.	11,334,719	Ps.	11,224,716
Participation in the results of the period		1,441,336		1,085,187		1,034,553
Dividend distribution		(645,984)		(2,434,847)		(575,823)
Participation in other comprehensive income items		45,712		627,050		(348,727)
<b>Balance as of December 31</b>	<b>Ps.</b>	<b>11,453,173</b>	<b>Ps.</b>	<b>10,612,109</b>	<b>Ps.</b>	<b>11,334,719</b>

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

Equity in results	2021		2020		2019	
Herdez del Fuerte, S.A. de C.V. and Subsidiaries	Ps.	614,552	Ps.	782,272	Ps.	595,665
Synthetic Rubber		826,784		302,915		438,888
<b>Total</b>	<b>Ps.</b>	<b>1,441,336</b>	<b>Ps.</b>	<b>1,085,187</b>	<b>Ps.</b>	<b>1,034,553</b>

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

Herdez del Fuerte, S.A. de C.V. and Subsidiaries	2021		2020		2019	
Current assets	Ps.	8,818,938	Ps.	7,276,682	Ps.	6,737,258
Non-current assets		10,503,529		9,978,446		10,514,343
Current liabilities		5,822,230		4,832,686		4,137,086
Non-current liabilities		723,760		352,788		387,056
Net assets		12,776,477		12,069,654		12,727,459
Non - controlling interest		(3,303)		(8,492)		(6,409)
Controlling interest net assets	Ps.	12,773,174	Ps.	12,061,162	Ps.	12,721,050
<b>Cash and cash equivalents</b>	<b>Ps.</b>	<b>1,443,751</b>	<b>Ps.</b>	<b>1,364,906</b>	<b>Ps.</b>	<b>673,899</b>
<b>Revenue</b>	Ps.	10,414,273	Ps.	10,523,772	Ps.	9,626,303
Income from operations		984,724		1,979,838		1,578,420
Net income		1,223,740		1,564,354		1,190,897
Net loss of non - controlling interest		(5,364)		(190)		(432)
Net income of controlling interest		1,229,104		1,564,544		1,191,329
The income of the period includes:						
Depreciation and amortization		289,567		299,079		307,222
Net period cost		29,104		24,778		17,219
Interest income		(58,035)		(62,162)		(49,979)
Interest expense		20,470		22,561		31,896
Income tax expense		594,444		583,026		392,816

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:

	2021		2020		2019	
Net assets of the joint venture	Ps.	12,773,174	Ps.	12,061,162	Ps.	12,721,050
Participation		50%		50%		50%
Equity of the Entity's interest in the joint venture		6,386,587		6,030,581		6,360,524
Goodwill		(395,825)		(395,825)		(395,825)
Carrying amount of the interest in the joint venture	Ps.	5,990,762	Ps.	5,634,756	Ps.	5,964,699
Net income of controlling interest	Ps.	1,229,104	Ps.	1,564,544	Ps.	1,191,329
Participation		50%		50%		50%
Profit for the period	Ps.	614,552	Ps.	782,272	Ps.	595,665

**Synthetic Rubber**

Current assets	Ps.	8,387,356	Ps.	6,345,377	Ps.	7,711,795
Non-current assets		8,029,513		7,471,547		6,195,175
Current liabilities		4,409,448		2,936,129		2,689,983
Non-current liabilities		1,082,597		926,089		476,947
Net assets controlling interest	Ps.	10,924,824	Ps.	9,954,706	Ps.	10,740,040
<b>Cash and cash equivalents</b>	<b>Ps.</b>	<b>947,951</b>	<b>Ps.</b>	<b>1,426,212</b>	<b>Ps.</b>	<b>2,202,429</b>

**Revenue**

Income from operations	Ps.	15,740,586	Ps.	10,785,124	Ps.	11,896,396
Net income		2,045,586		925,258		1,060,324
Net income of controlling interest		1,653,569		605,829		877,777
Net income of controlling interest		1,653,569		605,829		877,777
Income of the period includes:						
Depreciation and amortization		541,466		603,971		432,425
Interest expenses		(38,526)		(45,084)		(62,661)
Interest income		30,136		36,648		35,219
Income tax expense		552,006		296,783		181,315

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:

	2021		2020		2019	
Net assets of the joint venture	Ps.	10,924,824	Ps.	9,954,706	Ps.	10,740,040
Participation		50%		50%		50%
<b>Carrying amount of the interest in the joint venture</b>	<b>Ps.</b>	<b>5,462,411</b>	<b>Ps.</b>	<b>4,977,353</b>	<b>Ps.</b>	<b>5,370,020</b>
Net income of controlling interest	Ps.	1,653,569	Ps.	605,829	Ps.	877,777
Participation		50%		50%		50%
<b>Profit for the period</b>	<b>Ps.</b>	<b>826,784</b>	<b>Ps.</b>	<b>302,915</b>	<b>Ps.</b>	<b>438,888</b>

## 15. INTANGIBLES AND OTHER ASSETS

	2021		2020		2019	
Intangible assets (a)	Ps.	4,798,178	Ps.	5,280,208	Ps.	5,727,764
Other assets (b)		230,567		247,593		240,493
	<b>Ps.</b>	<b>5,028,745</b>	<b>Ps.</b>	<b>5,527,801</b>	<b>Ps.</b>	<b>5,968,257</b>

## a. Intangible assets

	Balances as of December 31, 2020		Additions <sup>(i)</sup>	Translation effect	Disposals	Balances as of December 31, 2021				
<b>Investment:</b>										
Projects and capitalized development costs	Ps.	5,277,107	Ps.	49,470	Ps.	159,365	Ps.	-	Ps.	5,485,942
Capitalized costs associated with contracts with clients		708,755		-		22,546		-		731,301
Patents and trademarks		222,362		-		(107)		-		222,255
Licenses		200,919		1,416		401		(310)		202,426
<b>Total</b>		<b>6,409,143</b>		<b>50,886</b>		<b>182,205</b>		<b>(310)</b>		<b>6,641,924</b>
<b>Accumulated amortization:</b>										
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)
<b>Total</b>		<b>(1,128,935)</b>		<b>(682,134)</b>		<b>(32,677)</b>		<b>-</b>		<b>(1,843,746)</b>
	<b>Ps.</b>	<b>5,280,208</b>	<b>Ps.</b>	<b>(631,248)</b>	<b>Ps.</b>	<b>149,528</b>	<b>Ps.</b>	<b>(310)</b>	<b>Ps.</b>	<b>4,798,178</b>

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

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

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

The useful lives of intangible assets are as follows:

Projects and capitalized development costs	5 - 8 years
Capitalized costs associated with contracts with clients	Based on the maturity of the contracts
Licenses	15 years
Patents and trademarks	20 years

In the Automotive segment investments are being made for the development of new generation high-tech dual-clutch DCT transmissions ("DCT - Dual Clutch Transmission"). During 2021, 2020 and 2019, investments were made for Ps.61 million, Ps.170 million and Ps.1,404 million, respectively.

#### b. Other assets

		2021		2020		2019
Guarantee deposits	Ps.	149,614	Ps.	164,889	Ps.	155,062
Artworks		76,883		76,883		76,883
Goodwill		515		998		1,422
Others		3,555		4,823		7,126
	Ps.	<b>230,567</b>	Ps.	<b>247,593</b>	Ps.	<b>240,493</b>

## 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		
	2021	2020	2019	2021	2020	2019
US dollars	131,817	161,311	69,836	690,075	709,966	683,194

- (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.

	2021	2020	2019
Results	Ps. 1,149,090	Ps. 1,094,495	Ps. 1,161,976 <sup>(i)</sup>

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

#### (ii) Interest rate risk management

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

The Entity's exposures to interest-rate risk are mainly related to changes in the TIE 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 2021 Ps.10,981, in 2020 Ps.36,876 and Ps.32,411 in 2019. This is mainly attributable to the Entity's exposure to interest rates on its variable rate loans in Mexican pesos.

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

### c. Credit risk management

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

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

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

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

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

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Entity. As of December 31, 2021 KUO's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements, which will cause a financial loss to KUO due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Entity arises from:

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

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

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

KUO does not have significant credit risk exposures with any of the parties or any group of counterparties with similar characteristics. The concentration of credit risk with some other party did not exceed 5% of the gross monetary assets at any time during the years 2021, 2020 and 2019.

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

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

Category	Description	Basis for recognizing expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL - not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Entity has no realistic prospect of recovery	Amount is written off

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

December 31, 2021	Internal credit rating	12-month or lifetime ECL	Gross carrying amount <sup>(i)</sup>	Loss allowance	Net carrying amount <sup>(i)</sup>
Accounts receivable	Performing	ECL	3,388,787	(50,928)	3,337,859
Other debtors	Performing	12-month	142,089	-	142,089
Accounts receivable from related parties	Performing	12-month	158,434	-	158,434
Other accounts receivable non-current	Performing	12-month	94,473	-	94,473
Accounts receivable from related parties non-current	Performing	12-month	111,344	-	111,344

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

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

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

#### d. Liquidity risk management

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

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

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

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

#### 17. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

	2021		2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial liabilities at amortized cost (level 2)</b>						
Bank loans and current portion of long-term debt <sup>(1)</sup>	Ps. (15,063,383)	Ps. (15,545,662)	Ps. (16,757,487)	Ps. (17,646,955)	Ps. (15,590,184)	Ps. (16,513,194)
<b>Derivatives designated as hedging instruments (level 2)</b>						
Forwards <sup>(2)</sup>	(808)	(808)	-	-	-	-
<b>Total</b>	<b>Ps. (15,064,191)</b>	<b>Ps. (15,546,470)</b>	<b>Ps. (16,757,487)</b>	<b>Ps. (17,646,955)</b>	<b>Ps. (15,590,184)</b>	<b>Ps. (16,513,194)</b>

(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, 2021, 2020 and 2019, the effect in other comprehensive income (loss) is Ps. (566), Ps. 0 and Ps.423 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, 2021:

Holding	Functional currency	Hedging instruments	Notional value (US)	Covered item	Covered assets of the hedged item (US)
Grupo KUO, S.A.B. de C.V.	MXN	Bond	US450,000	Resirene, S.A. de C.V.	US 26,778
				Transmisiones y Equipos Mecánicos, S.A. de C.V.	384,179
				Resirene USA Inc	2,973
				Tremec Corporation	9,539

As of December 31, 2020:

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

As of January 2, 2020:

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

The Entity's average hedge ratio amounted to 100% from the date of designation until December 31, 2021 and 2020, respectively. Due to the above, and the Entity's hedging strategy of 100% as the maximum hedging percentage, the exchange rate fluctuation generated by the designated portion of the hedging instruments amounted to a loss of Ps.276,978 and Ps.478,636, respectively, which was recognized in other comprehensive income, offsetting the translation effect generated by foreign investments for the same amount and generating a zero effect in comprehensive income. The excess of the exchange fluctuation of the hedging instrument was recognized directly in the statement of income for the period.

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

## 20. BANK LOANS

		2021		2020		2019
I)	Senior Notes 2027	Ps. 9,185,562	Ps.	8,892,184	Ps.	8,435,517
II)	Bilateral credit Bank of America	3,588,596		3,474,412		3,296,913
III)	HSBC simple credit	1,298,018		1,489,891		1,500,803
IV)	Syndicated credit	-		1,646,665		861,502
V)	BBVA Bancomer simple credit	710,164		764,057		822,920
VI)	Bank of America committed line	281,043		490,278		672,529
		15,063,383		16,757,487		15,590,184
	Less - Bank loans and current portion of long-term debt	(551,995)		(487,628)		(276,968)
	Long-term debt	Ps. 14,511,388	Ps.	16,269,859	Ps.	15,313,216

### a. Summary of loan agreements:

- I) Senior Notes 2027 - Bonds for US450 million accruing interest at a fixed rate of 5.75%, issued in international markets in July 2017 and maturing in July 2027. Accrues interest every 180 days in the months of January and July (certain subsidiaries are pledged as collateral).
- II) Bilateral credit Bank of America - Contracted in March 2019 with Bank of America, N.A., for US175 million. Pays interest at LIBOR rate + 1.40%, with a maturity of 5 years.
- III) Simple credit - With HSBC México, S.A. for Ps.1,500 million granted in July 2019 and pays interest quarterly to TIIE at 91 days + 1.45%, with increasing amortizations over 6 years beginning in 2021.
- IV) Syndicated loan - Signed on April 10, 2019, in which HSBC Bank USA, N.A., Bank of America, N.A., HSBC México, S.A., BBVA Bancomer, S.A., Mizuho Bank México, S.A., Mizuho Bank, LTD., Sumitomo Mitsui Banking Corporation, SMBC, S.A.P.I. de C.V. SO-

FOM, E.N.R., Banco Nacional de México, S.A. and Cooperative Rabobank, U.A. New York Branch, act as lending banks of a line of credit for up to US200 million and Ps.1,892 million. Pays interest according to its provisions at LIBOR rate + 1.50% for US dollars and TIIE at 91 days + 1.60% for Mexican pesos, with a maturity of 5 years. During 2021, this loan was paid off.

- V) Simple credit - Credit with BBVA Bancomer for Ps.1,500 million granted in June 2018. This loan pays interest at a rate of 28-day TIIE + 1.60%, with 7-year increasing amortizations, beginning in 2019. The resources of this credit were used to cover investment in new projects.
- VI) Bank of America committed line - Credit obtained in March 2018 with Bank of America, N.A., for US40 million. This loan pays interest at LIBOR + 1.60%, maturing at 5 years, with 1.75 years of disposal and 3.25 years of linear amortization beginning in 2020. The subsidiary TREMEC Corporation is the accredited one and KUO and some subsidiaries serve as guarantors. The resources of this credit are used to cover the accredited's cash flows requirements.

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

2023	Ps.	485,569
2024		4,171,407
2025		668,850
2027		9,185,562
	<b>Ps.</b>	<b>14,511,388</b>

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

		2021		2020		2019
<b>Current portion of long-term debt</b>	<b>Ps.</b>	<b>551,995</b>	<b>Ps.</b>	<b>487,628</b>	<b>Ps.</b>	<b>276,968</b>

Bank loans measured at amortized cost are net of unamortized issuance costs which as of December 31, 2021, 2020 and 2019, amount Ps.73,725, Ps.90,056 and Ps.106,387, 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 2019, the Entity obtained approval for the waivers requested from banks with current loans, confirming the agreement that the lack of compliance by the Entity with its obligations under the credit agreements, on the last day of each of the fiscal quarters of the Entity that concluded on December 31, 2019, March 31, 2020 and June 30, 2020, would not constitute a default provided that the leverage ratio in force on the last day of each of said

dates was not greater than 4.00 at 1.00. Additionally, in April 2020, approval was obtained for the waivers requested from banks with current loans, confirming the agreement that the Entity's lack of compliance with its obligations under the credit agreements, on the last day of each of the quarters of the Entity that ended on June 30, 2020, September 30, 2020 and December 31, 2020, would not constitute a default provided that the leverage ratio in force on the last day of each of said dates was not greater than 5.00 to 1.00 and the Ratio of consolidated debt to total capitalization in force on the last day of each of said dates was not greater than 0.7 times 1.00. The indices were fully met as of December 31, 2020.

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

#### Reconciliation of liabilities arising from financing activities

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

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

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

	Balance at the beginning of 2019	Financing cash flows, net <sup>(i)</sup>	Other changes <sup>(ii)</sup>	December 31, 2019
Bank loans	Ps. 14,535,973	Ps. 1,537,067	Ps. (482,856)	Ps. 15,590,184

- 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

	2021	2020	2019
Provisions (i)	Ps. 694,254	Ps. 294,453	Ps. 174,058
Tax liabilities	636,986	561,296	471,714
Others creditors	2,268,987	1,769,964	1,322,469
Customer advances	540,734	646,623	611,565
Deferred Tax	639,729	-	-
Current portion of tax consolidation deferred taxes (Note 24)	168,736	201,680	268,581
Interest payable	299,077	296,635	318,497
Dividends payable	11,413	11,207	211,881
Direct employee benefits	433,658	444,820	352,342
	Ps. 5,693,574	Ps. 4,226,678	Ps. 3,731,107

	2021	2020	2019
Provisions (i):			
Beginning balance as of January 1	Ps. 294,453	Ps. 174,058	Ps. 730,722
Increase	555,197	266,070	49,864
Applications	(103,101)	(43,954)	(112,759)
Cancellation	(52,295)	(101,721)	(493,769)
<b>Final balance as of December 31</b>	<b>Ps. 694,254</b>	<b>Ps. 294,453</b>	<b>Ps. 174,058</b>

The provisions recorded as of December 31, 2021, 2020 and 2019 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

		2021		2020		2019	
a.	Defined contribution plans for retirement benefits	Ps.	78,789	Ps.	65,718	Ps.	68,062
b.	Defined benefit plans		582,888		594,041		600,505
	<b>Total</b>	<b>Ps.</b>	<b>661,677</b>	<b>Ps.</b>	<b>659,759</b>	<b>Ps.</b>	<b>668,567</b>

### a. Defined contribution plans for retirement benefits

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

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

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

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

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

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

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

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

### b. Defined benefit plans

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

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

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

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

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

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

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

**Post-retirement benefits** - This plan focuses on the permanent, nonunion full-time personnel who retired prior of January 1, 2005; permanent, nonunion full-time personnel retired between January 1, 2005 and January 1, 2008 who at the plan amendment date of April

1, 2008 were 55 years old or older and had at least 18.25 years of service completed. The normal retirement considers of 65 years, and for early retirement, 55 years of age with at least 10 years of seniority.

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

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

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

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

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

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

#### **Interest rate risk**

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

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

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

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

Currently, for KUO, the discount rate used was 7.80%, considering the yield curve of government bonds.

#### **Salary increase risk**

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

Valued benefits such as seniority premiums and pension plan at retirement, are linked to these assumptions, to rely entirely on this variable. If the salary increase from year to year, this will cause the present value of liabilities or obligations to increase. For this reason, there is a risk for this variable. For KUO, a salary increase of 4.0% is being used, which is consistent with the actual observed behavior of this variable in the target population. If increased, it must be considered in the calculation.

#### **Longevity risk**

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

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

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of December 31, 2020 by Mr. Fernando 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:

	2021 %	2020 %	2019 %
Discount rate	7.80	7.25	7.75
Expected rate of salary increase	5.00	5.00	5.00
Pension increase rate	4.80	4.80	4.80
Expected return on plan assets	7.80	7.25	7.75
Average longevity at retirement age for current pensioners (years)			
Males	22.32	22.29	22.03
Females	24.76	24.70	24.24

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

	2021	2020	2019
Service cost:			
Current service cost	Ps. 30,788	Ps. 28,338	Ps. 18,681
Cost (income) past services	-	(7,319)	-
Financial cost	37,626	42,048	41,522
Reductions and early settlement	(25,389)	(48,568)	(1,276)
Interest income	(899)	(604)	(1,585)
<b>Components of defined benefits costs recognized in profit or loss (continuing and discontinued operations)</b>	<b>Ps. 42,126</b>	<b>Ps. 13,895</b>	<b>Ps. 57,342</b>

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:

	2021	2020	2019
Cost of sales	Ps. 26,550	Ps. (12,873)	Ps. 20,872
Operating expenses	15,576	26,768	36,470
<b>Total</b>	<b>Ps. 42,126</b>	<b>Ps. 13,895</b>	<b>Ps. 57,342</b>

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:

	2021	2020	2019
Present value of defined benefit obligation	Ps. 655,506	Ps. 658,829	Ps. 646,384
Fair value of plan assets	(72,618)	(64,788)	(45,879)
<b>Net liabilities generated by the defined benefit obligation</b>	<b>Ps. 582,888</b>	<b>Ps. 594,041</b>	<b>Ps. 600,505</b>

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

	2021	2020	2019
Opening balance of defined benefit obligation	Ps. 658,829	Ps. 646,384	Ps. 598,637
Current service cost	30,788	28,338	18,681
Interest cost	37,626	42,048	41,522
Actuarial (gains) and losses arising from changes in financial assumptions	22,963	43,496	73,669
Cost of past service including (gains) losses on reductions	-	(7,319)	-
Contributions from plan affiliates	877	957	650
Early settlement	(25,389)	(48,568)	(1,276)
Liabilities transfer	282	-	-
Translation effect	(5,221)	15,506	(5,038)
Benefits paid	(65,249)	(62,013)	(80,461)
<b>Ending balance of defined benefit obligation</b>	<b>Ps. 655,506</b>	<b>Ps. 658,829</b>	<b>Ps. 646,384</b>

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

	2021	2020	2019
Opening balance of fair value of plan assets	Ps. 64,788	Ps. 45,879	Ps. 53,048
Interest income	899	604	1,585
Remeasurement gains	410	422	702
Contributions from employer	13,312	14,045	9,163
Recovery of Trust's funds	-	-	(9,516)
Contributions from employees	877	957	650
Benefits paid	(4,556)	(4,256)	(6,877)
Translation effect	(3,112)	7,137	(2,876)
<b>Ending balance of the fair value of plan assets in financial institutions</b>	<b>Ps. 72,618</b>	<b>Ps. 64,788</b>	<b>Ps. 45,879</b>

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:

		2021		2020		2019
Changes in demographic assumptions	Ps.	(979)	Ps.	3,250	Ps.	1,265
Changes in financial assumptions		(38,835)		29,688		45,036
Experience		62,367		10,136		26,666
<b>Actuarial loss</b>	<b>Ps.</b>	<b>22,553</b>	<b>Ps.</b>	<b>43,074</b>	<b>Ps.</b>	<b>72,967</b>

If the discount rate is 50 basis points higher (lower), the defined benefit obligation would decrease by Ps.29,951 (increase by Ps.32,752).

If the expected salary growth increases (decreases) by 0.5%, the defined benefit obligation would increase by Ps.3,990 (decrease by Ps.3,923).

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, 2021, 2020 and 2019, capital stock is represented by:

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

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

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

At the Ordinary General Stockholders' Meeting held on April 30, 2020, it was approved to allocate Ps.200,000 to the share repurchase fund for a period of twelve months.

At the Ordinary General Stockholders' Meeting held on April 29, 2019, a dividend payment of Ps.401,602 was approved, which was applied to retained earnings. Likewise, the repurchase of shares was approved for up to Ps.200,000 for a period of twelve months. The total payment of the aforementioned dividend will take place in two exhibitions. The first payment corresponding to 50% was made on December 23, 2019 and the remaining payment will be made from the date and in the terms determined by the Chairman of the Board and / or Secretary of the Board of Directors, in accordance with the power delegated by the Stockholders at the Meeting.

The net amount of repurchased shares is recorded in the share repurchase fund and represents the repurchase and sale transactions of treasury shares; those that originated an decrease of Ps.38,124, Ps. 57,701 and Ps.19,667 at December 31, 2021, 2020 and 2019, respectively.

As of December 31, 2021, 2020 and 2019 there are 17,896,062, 17,061,195 and 15,883,951 treasury shares, respectively.

As of December 31, 2021, 2020 and 2019 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, 2021 and 2020 the reserve fund amounts to Ps.219,718, and as of December 31, 2019 the reserve fund amounts to Ps.108,083, and is recorded in retained earnings.

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

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

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

	2021	2020	2019
Capital contribution account	Ps. 14,720,159	Ps. 13,712,305	Ps. 13,115,604
Net tax income account	14,107,364	11,702,917	9,799,076
<b>Total</b>	<b>Ps. 28,827,523</b>	<b>Ps. 25,415,222</b>	<b>Ps. 22,914,680</b>

## 24. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

	2021	2020	2019
Revenues -			
Sales	Ps. 1,186,645	Ps. 613,754	Ps. 697,921
Administrative services rendered	Ps. 143,617	Ps. 133,513	Ps. 154,110

	2021	2020	2019
Interest income	Ps. 1,288	Ps. 2,014	Ps. 3,397
Air transportation	Ps. 16,616	Ps. 14,148	Ps. 11,234
Recovery of expenses	Ps. 119,455	Ps. 67,345	Ps. 56,810

	2021	2020	2019
Expenses -			
Purchase of inventories	Ps. 116,479	Ps. 65,776	Ps. 107,632
Administrative services received	Ps. 2,737	Ps. 2,643	Ps. 1,693
Others	Ps. 408	Ps. 384	Ps. 176

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

	2021	2020	2019
<b>Accounts receivable -</b>			
Short-term:			
Dynasol Elastómeros, S.A. de C.V.	Ps. 74,310	Ps. 96,824	Ps. 83,337
Industrias Negromex, S.A. de C.V.	25,764	4,935	42,139
Herdez del Fuerte, S.A. de C.V.	5,149	2,618	6,059
Dine 28, S.A. de C.V.	3,000	6,799	17,186
Fernando Senderos Mestre	678	657	603
Dynasol Gestión México, S.A.P.I. de C.V.	3,231	1,294	2,023
Plaza Bosques, S.A. de C.V.	-	1,417	402
Promociones Bosques, S.A. de C.V.	252	-	17,818
Cantiles de Mita, S.A. de C.V.	105	263	-
Dine S.A.B. de C.V.	34,201	-	-
Inmobiliaria Dine, S.A. de C.V.	5,666	-	-
Corporativo Dine, S.A. de C.V.	5,120	-	-
Otros	406	-	-
Seradri, S.A. de C.V.	124	-	-
	428	548	-
	<b>Ps. 158,434</b>	<b>Ps. 115,355</b>	<b>Ps. 169,567</b>

	2021	2020	2019
Long-term:			
Fideicomiso de Administración con Actividad Empresarial F/3293	Ps. 111,344	Ps. 111,816	Ps. 104,960
	<b>Ps. 111,344</b>	<b>Ps. 111,816</b>	<b>Ps. 104,960</b>
Accounts payable-			
Short-term:			
Dynasol Elastómeros, S.A. de C.V.	Ps. 40,671	Ps. 838	Ps. 19,228
Industrias Negromex, S.A. de C.V.	6,193	3,489	1,704
Cantiles de Mita, S.A. de C.V.	-	99	423
Administración de Riesgo, Agente de Seguros y Fianzas, S.A. de C.V.	-	154	-
	Ps. 46,864	Ps. 4,580	Ps. 21,355

### 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*.

	2021	2020	2019
Short-term and long-term benefits	Ps. 159,670	Ps. 103,603	Ps. 122,568
Termination benefits	-	-	41,925
	<b>Ps. 159,670</b>	<b>Ps. 103,603</b>	<b>Ps. 164,493</b>

## 25. INCOME TAXES

The Entity is subject to ISR. Under the ISR Law the rate for 2021, 2020 and 2019 was 30% and will continue to be 30% thereafter.

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

	2021	2020	2019
<b>ISR:</b>			
Income tax for the year	Ps. 448,974	Ps. 394,131	Ps. 357,142
Restatement of deferred income tax due to tax deconsolidation	25,228	19,804	23,558
Insufficiency from previous years	1,298	851	1,272
	475,500	414,786	381,972
Deferred tax	7,216	(384,627)	(148,677)
<b>ISR Total</b>	<b>Ps. 482,716</b>	<b>Ps. 30,159</b>	<b>Ps. 233,295</b>

**b. Deferred tax recognized in other comprehensive income:**

	2021		2020		2019	
Financial instruments	Ps.	243	Ps.	-	Ps.	(114)
Employee benefits		6,766		12,922		21,957
Exchange rate difference		(35,363)		16,223		(24,559)
<b>Total deferred taxes</b>	<b>Ps.</b>	<b>(28,354)</b>	<b>Ps.</b>	<b>29,145</b>	<b>Ps.</b>	<b>(2,716)</b>

**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:

	2021		2020		2019	
Deferred income tax asset	Ps.	1,087,652	Ps.	1,250,821	Ps.	819,754
Deferred income tax liability		923,467		1,051,066		1,033,771
<b>Deferred income tax (liability) asset</b>	<b>Ps.</b>	<b>164,185</b>	<b>Ps.</b>	<b>199,755</b>	<b>Ps.</b>	<b>(214,017)</b>

**d. Tax assets and liabilities:**

	2021		2020		2019	
<b>Assets:</b>						
ISR	Ps.	133,936	Ps.	97,862	Ps.	112,820
<b>Liabilities:</b>						
ISR	Ps.	266,660	Ps.	174,082	Ps.	98,241
Deferred income tax arising from tax consolidation current liabilities		312,175		492,420		745,123
	<b>Ps.</b>	<b>578,835</b>	<b>Ps.</b>	<b>666,502</b>	<b>Ps.</b>	<b>843,364</b>

**e. Deferred tax balances:**

The tax effects of temporary differences that generated assets (liabilities) of deferred taxes as of December 31, 2021, 2020 and 2019, are as follows:

	Balance as of December 2021		Recognized in profit or loss for the year		Other comprehensive income items		December 31, 2021	
<b>Deferred ISR asset:</b>								
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 asset:		2,823,594		25,024		84,580		2,933,198
<b>Deferred ISR liability:</b>								
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)
<b>Deferred ISR liability</b>		<b>(2,623,839)</b>		<b>(32,240)</b>		<b>(112,934)</b>		<b>(2,769,013)</b>
<b>Net deferred ISR asset (liability)</b>	<b>Ps.</b>	<b>199,755</b>	<b>Ps.</b>	<b>(7,216)</b>	<b>Ps.</b>	<b>(28,354)</b>	<b>Ps.</b>	<b>164,185</b>

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

	Balance at the beginning of 2019		Recognized in profit or loss for the year		Other comprehensive income items		December 31, 2019	
<b>Deferred ISR asset:</b>								
Effect of tax loss carryforwards	Ps.	390,962	Ps.	69,024	Ps.	(5,872)	Ps.	454,114
Reserves and provisions		449,321		123,895		(13,754)		559,462
Advances from customers		21,834		(1,575)		(497)		19,762
Employee benefits		129,896		(6,563)		21,957		145,290
Simplified tax regime on purchases and sales		362,225		(38,030)		(405)		323,790
Lease liability		-		875,124		2,343		877,467
Others		18,753		(101)		-		18,652
<b>Deferred ISR asset</b>		<b>1,372,991</b>		<b>1,021,774</b>		<b>3,772</b>		<b>2,398,537</b>
<b>Deferred ISR liability:</b>								
Inventories		(742,732)		(100,415)		526		(842,621)
Property, plant and equipment		(993,544)		62,707		(13,871)		(944,708)
Asset for rights of use		-		(850,796)		(2,640)		(853,436)
Deferred income		91,761		124,157		2,573		218,491
Prepaid expenses		(38,758)		(709)		1,079		(38,388)
Financial instruments		(1,176)		1,358		(114)		68
Intangible assets		(48,520)		(109,399)		5,959		(151,960)
<b>Deferred ISR liability</b>		<b>(1,732,969)</b>		<b>(873,097)</b>		<b>(6,488)</b>		<b>(2,612,554)</b>
<b>Net deferred ISR asset (liability)</b>	Ps.	<b>(359,978)</b>	Ps.	<b>148,677</b>	Ps.	<b>(2,716)</b>	Ps.	<b>(214,017)</b>

**f. Tax loss carryforwards**

As of December 31, 2021, KUO has tax loss carryforwards, which will be indexed for inflation through the year applied or recovered, in the following restated amounts:

Maturity	Tax loss carryforwards
2024	Ps. 12,239
2025	16,406
2026	5,579
2027	264,700
2028	287,955
2029	467,206
2030	1,385,006
2031	96,819
	Ps. 2,535,910

In determining deferred income taxes as of December 31, 2021, 2020 and 2019 the effects of tax loss carryforwards were included for Ps.1,252,633, Ps.1,599,130 and Ps.1,513,713, respectively. In the determination of deferred income taxes as of December 31, 2021, 2020 and 2019 the effects of deferred tax assets related to the carryforward of tax losses not recognized amounted to Ps.1,283,277, Ps.1,957,285 and Ps.1,676,233, respectively, because Management believes it is unlikely that the benefits of such losses will be realized.

**g. Tax consolidation:**

The income tax liability as of December 31, 2021 related to the effects of benefits and tax deconsolidation shall be paid in the following years:

Year	Amount
2022 (Note 21)	Ps. 168,736
2023	143,439
	Ps. 312,175

**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:

	2021	2020	2019
Income tax at statutory rate	Ps. 957,825	Ps. (162,550)	Ps. 739,146
Add (deduct) the effect of permanent differences:			
Non-deductible expenses	113,374	126,595	68,810
Non-taxable income	(9,680)	(7,198)	(22,608)
Inflation effect of deconsolidation deferred tax	25,228	19,804	23,558
Annual adjustment for inflation	362,257	172,980	130,183
Tax for reexpression of tax items	(158,265)	(96,597)	(53,735)
Fixed asset restatement tax	(129,239)	(52,365)	(58,939)
Tax Loss Valuation Reserve	(275,558)	232,627	(137,425)
Equity in results of joint ventures	(432,402)	(325,556)	(310,364)
Tax effect on sale of shares	(5,479)	-	-
Translation effect of foreign operations	(5,059)	139,609	(153,613)
Others	39,714	(17,190)	8,282
<b>Effective rate</b>	<b>Ps. 482,716</b>	<b>Ps. 30,159</b>	<b>Ps. 233,295</b>

**26. COSTS AND EXPENSES BY NATURE**

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

	2021	2020	2019
Cost of sales:			
Direct cost of sales	Ps. 26,902,866	Ps. 19,186,617	Ps. 17,240,067
Salaries and employee benefits	3,406,467	2,963,349	2,555,084
Freight and transportation	420,275	286,250	302,281
Maintenance, fees and leasing	1,199,199	1,262,065	776,268
Electric power	378,535	355,544	332,439
Depreciation of right-of-use asset	123,351	131,763	113,636
Depreciation and amortization	1,557,154	1,564,079	928,951
<b>Total</b>	<b>Ps. 33,987,847</b>	<b>Ps. 25,749,667</b>	<b>Ps. 22,248,726</b>

	2021	2020	2019
Administrative, selling and distribution expenses:			
Freight and transportation	Ps. 929,212	Ps. 924,608	Ps. 746,825
Salaries and employee benefits	1,526,890	1,502,176	1,453,578
Advertisement and marketing	60,951	40,734	41,606
Depreciation, amortization and impairment	111,194	103,926	85,266
Depreciation of right-of-use asset	143,275	140,158	137,930
Export costs	296,454	321,638	313,266
Maintenance, fees and leasing	715,366	610,638	601,919
Electric power	64,981	96,812	139,234
General expenses	524,058	347,265	469,720
<b>Total</b>	<b>Ps. 4,372,381</b>	<b>Ps. 4,087,955</b>	<b>Ps. 3,989,344</b>

**27. OTHER (INCOME) EXPENSES**

The other income item is composed as follows:

	2021	2020	2019
Recovery of property, plant and equipment claim	Ps. (669,656)	Ps. (921,505)	Ps. -
Recovery of inventory and other expenses claim	-	(103,605)	-
Recovery of Consequential Losses	(621,256)	-	-
Costs for property, plant and equipment claims <sup>(i)</sup>	1,500	1,582,775	-
Costs for inventory claims and other expenses	189,488	279,705	-
(Profit) loss from sale of fixed assets	(45,377)	(1,992)	6,639
Profit on Sale of Shares	(18,265)	-	-
Cancellation of provision	-	-	(455,606)
Health event expenses (Covid-19)	48,179	95,597	-
Others income	(6,255)	(199)	-
<b>Total</b>	<b>Ps. (1,121,642)</b>	<b>Ps. 930,776</b>	<b>Ps. (448,967)</b>

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

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

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

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

During 2021, the final agreement was made with the insurer where the Entity received the final compensation payment of Ps.1,930,641, of which correspond: (i) Ps.669,656 to the recovery of property, plant and equipment; (ii) Ps.621,256 to the recovery of consequential losses for the years 2020 and 2021; and (iii) Ps.639,729 for consequential losses that will be earned in fiscal year 2022 (see Note 21), as mentioned in the previous paragraph, once normal business operations are resumed.

## 28. CONTINGENCIES

Some subsidiaries have lawsuits pending in favor or against as a result of the normal course of their operations. Such lawsuits involve uncertainties and in some cases, they may be resolved against you. Although it is not possible to determine the amounts involved in the pending lawsuits, Management considers, based on the known elements, that any resulting liability would not materially affect the financial situation or the operating results 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 process will be carried out under North Carolina legislation, with an estimated duration of eighteen to twenty-four months.

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

Tremec carried out a technical analysis where it concludes that the risk is low and has the necessary elements to respond to the client's legal claim, consequently, as there are no obligations assumed contractually or possible claims or assessments not specifically identified, Tremec's management and of the Entity consider that at 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 result, for which no accounting reserve was recorded.

## 29. SUBSEQUENT EVENTS

On January 10, 2022, the Entity entered into a bilateral credit agreement with Bank of America NA, for an amount of US\$175 million, at a SOFR rate + 125 base points, for a term of 5 years with payment at maturity in the 2027. The resources were used to prepay the bank loan that was due in 2024.

## 30. FINANCIAL STATEMENT ISSUANCE AUTHORIZATION

The accompanying consolidated financial statements for the year ended December 31, 2021, were approved by the Chief Financial Officer of KUO Mr. Jorge Padilla Ezeta, on March 25th, 2022; 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, 2020 and 2019 were approved at the Ordinary General Stockholders' Meeting on April 26, 2021 and April 30, 2020, respectively.

# Investors Information

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## INVESTOR RELATIONS AND SUSTAINABILITY

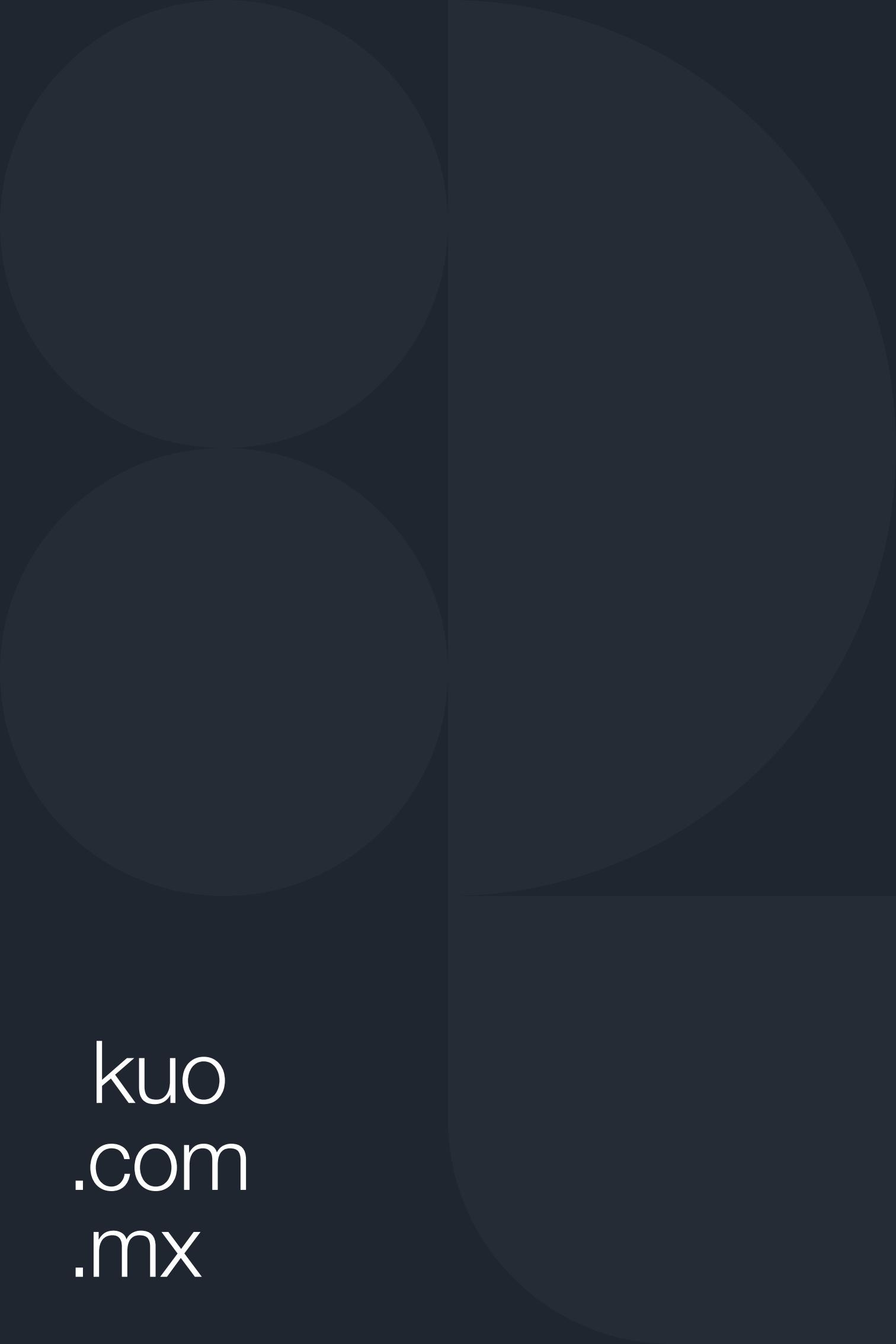
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## INFORMATION ABOUT SHARES

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



This annual report contains comments on future performance expectations that reflect current views of KUO group management on future events. The phrases "anticipate", "believe", "estimate", "expect", "intend", "may", "plan", "should" and similar expressions generally indicate comments on expectations. These statements are subject to risks, uncertainties and changes in circumstances. Final results may differ materially from current expectations due to various factors, including, but not limited to, global and local changes in politics, economics, business, competition, market and regulatory factors, the cyclical trend in the Automotive and Chemical sectors, as well as other factors that are highlighted under the heading "Risk Factors" in KUO's annual report filed with the Mexican National Banking and Securities Commission (CNBV). Any expectation commentary is valid only as of the date it is made.



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