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TURNING
challenges into strengths

financial statements

INDEPENDENT AUDITORS' REPORT
AND CONSOLIDATED FINANCIAL
STATEMENTS FOR 2019, 2018 Y 2017

GRUPO KUO, S.A.B. DE C.V. AND
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**AUDIT COMMITTEE ANNUAL REPORT
TO THE BOARD OF DIRECTORS OF
GRUPO KUO, S.A.B. DE C.V.:**

In compliance with Articles 42 and 43 of the Securities Market Law and the Audit Committee Regulations, I hereby inform you about the activities we carried out during the year ended on December 31st, 2019. During the course of our work, we have kept in mind the recommendations set forth in the Corporate Governance Code of Principles and Best Practices. We meet at least quarterly and based on a work program, we carry out the activities described below.

RISK ASSESSMENT

Periodically, we evaluate the effectiveness of the Risk Management System established for detection, measurement, recording, evaluation and control of KUO risks, as well as the implementation of follow-up measures to ensure its efficient operation, concluding that it is adequate.

We review in conjunction with Management and the External and Internal Auditors, the critical risk factors that may affect KUO's operations and its assets, determining that they have been appropriately identified, evaluated and managed.

CYBER SECURITY

Considering the high risks represented by unauthorized access to the Group's information systems and the continuity of operations in the IT area, we pay specific attention to them. We rely on external support to provide reasonable security, to implement adequate access controls and procedures and to ensure business continuity in the information processing areas.

INTERNAL CONTROL

We make sure that the Management, in compliance with its responsibilities and bearing in mind the Company's risk assessment, has established the necessary processes for its application and compliance and designed an adequate internal control system. Additionally, we followed up on the comments and observations made by the External and Internal Auditors in the course of their work.

EXTERNAL AUDIT

We recommend the Board of Directors to hire the external auditors of GRUPO KUO S.A.B. de C.V. during fiscal year 2019. For this purpose, we ensure their independence and compliance with the requirements established in the Law and in the general provisions applicable to entities and issuers supervised by the National Banking and Securities Commission that hire external audit services for basic financial statements, which came into effect on August 1st, 2018. We analyzed its approach and reviewed the work program, as well as its coordination with the Internal Audit area.

We complied our regulations, which were reviewed and approved by the Board of Directors during the fiscal year 2018. In relation to the General Provisions applicable to entities and issuers supervised by the National Banking and Securities Commission that contract external audit services for basic financial statements, we verified compliance by the auditors, as well as the responsibilities assigned to the Committee.

We kept a constant and direct communication with the external auditors to know the progress of their work, the observations they may have, and to take note of the comments on their review of the annual financial

statements. We were aware of their conclusions and reports on the annual financial statements in a timely manner and followed up on the implementation of the observations and recommendations they developed in the course of their work.

We authorized the fees paid to the external auditors for audit and other permitted services, ensuring that they did not interfere with their independence from the Company.

Taking into account the views of Management, we initiated the process of evaluating the performance of the external auditors for the fiscal year 2019.

INTERNAL AUDIT

In order to maintain independence and objectiveness, the Internal Audit area reports functionally to the Audit Committee. Below is a description of the activities we carry out:

1. We review and approve its annual program and budget of activities in due time. To prepare it, Internal Audit participated in the process of identifying risks, establishing controls and testing them. As a consequence, we also approved the annual budget and the structure of the function.
2. We received periodic reports on the progress of the approved work program, any variations that may have occurred, as well as the causes that led to them.
3. We followed up on the observations and suggestions they developed and their timely implementation.
4. We made sure that an annual training program was implemented.

FINANCIAL INFORMATION, ACCOUNTING POLICIES AND REPORTS TO THIRD PARTIES

We examined with the responsible persons, the process of preparation of the quarterly and annual financial statements of the Company and proposed our recommendation to the Board of Directors for their approval and authorization to be published. As part of this process, we took into account the opinion and observations of the external auditors and made sure that the criteria, accounting and information policies used by Management to prepare the financial information were adequate, sufficient and applied consistently with the previous year. Consequently, the information presented by Management reasonably reflects KUO's financial position, results of operations and cash flows for the year ended December 31st, 2019.

We also checked the quarterly and annual reports prepared by Management to be presented to shareholders, authorities and the audience in general, verifying that they were prepared in accordance with international financial reporting standards, using the same accounting criteria used to prepare the annual information. Our review included satisfying ourselves that there is a comprehensive process in place to provide reasonable assurance about their content. In conclusion, we recommended that the Board authorize their publication.

We examined and proposed to the Board of Directors the approval for the implementation of accounting policies derived from the implementation of recent changes to certain accounting standards, applicable to the company.

Our review also included the reports and other financial information required by the Mexican regulatory authorities.

We reviewed and recommended to the Board of Directors for their approval.

REGULATORY COMPLIANCE, LEGAL ASPECTS AND CONTINGENCIES

We confirmed the existence and reliability of the controls established by KUO to ensure compliance with the various legal provisions to which it is subject, making sure that they are adequately disclosed in the financial information.

We periodically review the several tax, legal and labor lawsuits and contingencies existing in KUO, and we monitor the effectiveness of the procedure established for their identification and follow-up, as well as their adequate disclosure and recording.

CODE OF CONDUCT

With the support of Internal Audit, we make sure that the personnel comply with the Code of Conduct in force in KUO, verifying the existence of adequate processes for its updating and dissemination to the personnel, as well as the application of the corresponding penalties in the cases of detected violations.

We review the complaints received in the system established for this purpose, following up on their correct and timely attention.

MANAGEMENT ASPECTS

We hold Committee meetings together with Management to keep them informed of the progress of the Company, activities, relevant and unusual events. We also meet with the external and internal auditors to discuss the development of their work, any limitations they may have had and to facilitate any private communication they may wish to have with the Committee.

The Committee monitored the compliance with the resolutions adopted at the Shareholders' Meetings held by the Company, in accordance with the instructions given at the Meeting itself.

In the cases we deem convenient, we request the support and opinion of independent experts. Likewise, we were not aware of any possible significant non-compliance with the operation's policies, internal control system and accounting recording policies.

We held executive meetings with the exclusive participation of the Committee members, and during these meetings we established agreements and recommendations for the Management.

Our review also included the reports and any other financial information required by the regulatory bodies in Mexico.

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

The Internal Regulations of the Committee were reviewed for their eventual submission to the Board of Directors for approval.

The work we carried out was duly documented in minutes prepared for each of the meetings we held, which were reviewed and approved in due course by the Committee members.

February 18th, 2020

SINCERELY



JOSÉ MANUEL
CANAL HERNANDO
Chairman of the Audit Committee

TO THE BOARD OF DIRECTORS OF
GRUPO KUO, S.A.B. DE C.V.

In accordance with the provisions of Article 43, Section I of the Securities Market Law and the bylaws of GRUPO KUO, S.A.B. de C.V. ("KUO" or the "Company"), on behalf of the Corporate Practices Committee, I hereby inform you of the main activities that we carried out to provide our opinion on the aspects of our competence in the year ending on December 31st, 2019.

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

- a. The 2019 Compensation Policies, as well as the CEO's full compensation and the Chairman of the Board of Directors' compensation, under the terms presented by the Deputy CEO (in charge of the Human Capital area).
- b. The update report on the application of the Compensation Policies, which is consistent with that previously authorized by the Board of Directors and, additionally, recommended the approval of such policies for 2020.
- c. The project for refinancing the Company's debt in the amount of US\$375 million, the resources of which would be used for flow requirements in 2019 and the refinancing of current loans at a better rate and with a longer term.
- d. The proposal of services to be provided by Desc Corporativo to DINE during 2019, under the terms presented by the Finance and Planning Department.
- e. Relevant investment projects in certain companies of the Synthetic Rubber UEN, as well as in the Polymers UEN, from 2020 to 2022.

2. The Corporate Practices Committee periodically reviewed the hedging transactions carried out by the Company, which are intended to provide certainty to the transaction and not for speculative purposes.

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

- a. New organizational structure of KUO.
- b. Progress and conclusion of the investments made in projects in the automotive sector for the development of a new generation of high-tech transmissions, which is in the production and commercialization stage.
- c. Operational and financial status of the businesses in the Synthetic Rubber sector, located in China.
- d. Report on the status of the steps taken before the port authority, regarding the current situation of the Maritime Terminal operated by one of the companies of the Synthetic Rubber business, located in Altamira.
- e. The Committee was updated on the international situation of African Swine Fever that is affecting the swine sector, as well as the mitigation measures that the company is implementing.
- f. The Committee was informed of the regulatory situation in Mexico with regard to plastic products in the main markets of UEN Polimeros, as well as the development of products with lasting application as a value proposition.

- g. The Committee was presented with a report on the actions implemented by the Company as a result of the entry into force of NOM035, regarding psychosocial risk factors in the workplace.
- h. A report was presented on the initiative to reform the General Health Law regarding labelling and its impact on the products of JV Herdez del Fuerte and UEN Porcícola.
- i. As a result of the tax reform initiatives for 2020, a report was presented to the Committee with the relevant aspects of these initiatives and the actions implemented by the company for their corresponding compliance.
- j. The resolutions adopted at KUO's Annual General Shareholders' Meeting held on April 29th, 2019.
- k. The submission to the National Banking and Securities Commission, the Mexican Stock Exchange and the markets in general, of the Annual Report and tax rulings for 2018, including transfer pricing studies, which concluded that the operations carried out in fiscal year 2019 with related parties were concluded at market prices.
- l. Report on the status of the Company's credit lines.
- m. Report on the operations carried out by the repurchase fund, which were made in accordance with the amount authorized by the Annual Shareholders' Meeting held on April 29th, 2019 and in accordance with applicable legal provisions.

- 4. The Committee had no observations on the performance of the relevant executives.
- 5. The Committee did not receive requests for waivers from directors, senior managers or persons with command power to take advantage of business opportunities that correspond to KUO or the legal entities it controls or in which it has significant influence.
- 6. The Committee reviewed that the transactions with related parties entered into by the Company are carried out under market conditions.

It is noted that the above was documented in the minutes of each meeting and in the reports prepared during the year for the meetings of the Board of Directors.

In preparing this report, the opinions of the relevant KUO executives were heard and coincide with this report.

February 18th, 2020

SINCERELY



SR. VALENTÍN DIEZ MORODO
Chairman of the Corporate Practices Committee

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

OPINION

We have audited the accompanying consolidated financial statements of Grupo KUO, S.A.B. de C.V. and Subsidiaries (the Entity or Grupo KUO), which comprise the consolidated statements of financial position as of December 31, 2019, 2018 and 2017 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, 2019, 2018 and 2017, 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.

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) Investment in projects

(See Notes 11 and 15 to the consolidated financial statements)

The Entity made significant investments in strategic projects for the Consumer and Automotive Segments. These investments consisted mainly of the construction of new production facilities to expand installed capacity, the development of new products and the capitalization of costs for compliance with contracts. In relation to investments in production facilities, we identified a risk regarding their adequate capitalization in accordance with the guidelines of the International Accounting Standards (IAS) 16 "Property, Plant and Equipment" and IAS 23 "Borrowing Costs"; in relation to the development of new products, we identified a risk regarding its correct capitalization and recovery in the future, in accordance with the provisions of IAS 38 "Intangible Assets"; and in the capitalization of costs for compliance with contracts, we identified a risk regarding its adequate capitalization in accordance with the guidelines of IFRS 15 "Revenue from contracts with clients".

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

b) Revenue recognition (applicable to all Segments)

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

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

**c) Estimate on contingent liabilities and non-recurring events
(applicable to Grupo KUO, S.A.B. de C.V.)**

(See Notes 20 and 27 to the consolidated financial statements)

Grupo KUO accrues reserves to face contingent liabilities and non-recurring events derived from its normal operation, and there is a risk that the estimates recorded may be excessive or insufficient.

Our tests consisted on analyzing the conclusions reached by Management on the probability of occurrence, the technical and legal merits of the Entity's obligation to face them, the changes in circumstances in the year, and compliance with the standards established in IAS 37 "Provisions, Assets and Contingent Liabilities". The results of the audit procedures we performed were satisfactory.

**d) Chemical Segment - Dynasol joint venture recognized through the equity method
Impairment of long-lived assets**

(See Note 14 to the consolidated financial statements)

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

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

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

e) Adoption of IFRS 16 "Leases" (applicable to all Segments)

(See Note 12 to the consolidated financial statements)

Management adopted IFRS 16 "Leases" recognizing as of January 1, 2019 the accumulated effects without restructuring comparative periods, consequently, Management recognized as of that date the right-of-use asset and the lease liability.

Our tests consisted of involving our specialists in the application of procedures to evaluate the model for determining the right-of-use asset based on the present value of future payments of the lease contracts portfolio, the lease terms and the discount rates used by Management. Additionally, we complemented our audit procedures by validating the supporting documentation of the lease agreements. 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, 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.

AUDITORES 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 23, 2020

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102 GENERAL DISCLOSURES 2019

CONTENT	PAGE / DISCLOSURE	OMISSION																		
ORGANIZATIONAL PROFILE																				
102-1 Name of the organization	Group KUO S.A.B. de C.V.																			
102-2 Activities, brands, products, and services	PERFIL CORPORATIVO																			
102-3 Location of headquarters	Paseo de los Tamarindos 400-B, Piso 31, Bosques de las Lomas, Ciudad de México, México																			
102-4 Location of operations	Plantas en 5 países (México, Estados Unidos, Bélgica, China y España)																			
102-5 Ownership and legal form	Grupo KUO, S.A.B. de C.V.																			
102-6 Markets served	Porcícola, Alimentos de Marca, Hule Sintético, Polímeros, Transmisiones y Refacciones. Exportaciones a más de 70 países.																			
102-7 Scale of the organization																				
102-8 Information of employees and other workers	Empleados por contrato laboral y sexo en 2019:																			
	<table border="1"> <thead> <tr> <th>Sexo</th> <th>Contrato por tiempo indeterminado</th> <th>Contrato temporal</th> </tr> </thead> <tbody> <tr> <td>Hombres</td> <td>14,896</td> <td>928</td> </tr> <tr> <td>Mujeres</td> <td>7,757</td> <td>435</td> </tr> <tr> <td>Total</td> <td>22,653</td> <td>1,363</td> </tr> </tbody> </table>	Sexo	Contrato por tiempo indeterminado	Contrato temporal	Hombres	14,896	928	Mujeres	7,757	435	Total	22,653	1,363							
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	Empleados por contrato laboral y región en 2019:																			
	<table border="1"> <thead> <tr> <th>Región</th> <th>Contrato por tiempo indeterminado</th> <th>Contratos temporales</th> </tr> </thead> <tbody> <tr> <td>México</td> <td>21,178</td> <td>1,325</td> </tr> <tr> <td>Estados Unidos</td> <td>881</td> <td>-</td> </tr> <tr> <td>España</td> <td>443</td> <td>38</td> </tr> <tr> <td>China</td> <td>-</td> <td>-</td> </tr> <tr> <td>Bélgica</td> <td>151</td> <td>-</td> </tr> </tbody> </table>	Región	Contrato por tiempo indeterminado	Contratos temporales	México	21,178	1,325	Estados Unidos	881	-	España	443	38	China	-	-	Bélgica	151	-	
Región	Contrato por tiempo indeterminado	Contratos temporales																		
México	21,178	1,325																		
Estados Unidos	881	-																		
España	443	38																		
China	-	-																		
Bélgica	151	-																		
102-9 Supply chain	La cadena de suministro de KUO se divide, a grandes rasgos, en proveedores de servicio, empaque y logística. Algunos proveedores se gestionan desde el corporativo y otros son responsabilidad de cada negocio: proveedores indirectos (servicios) y directos (materia prima).																			
102-10 Significant changes on the organization and its supply chain	Cambios significativos en la organización y su cadena de suministro: ENFOQUE EN CALIDAD																			

CONTENT	PAGE / DISCLOSURE	OMISSION
ORGANIZATIONAL PROFILE		
102-11 Precautionary principle/ approach	De conformidad con la regulación aplicable, con el enfoque de gestión de riesgos de la compañía y con el objetivo de evitar impactos negativos al medioambiente, KUO aplica el principio de precaución en sus operaciones, incluido el desarrollo y lanzamiento de nuevos productos.	
102-12 External initiatives	Implementamos acciones que contribuyen a la consecución de los Objetivos de Desarrollo Sostenible.	
102-13 Memberships of associations	Centro de Competitividad de México, CCMX - KUO Industria Nacional de Autopartes, INA - Refacciones Asociación Nacional de la Industria Química, ANIQ - Polímeros y Hule sintético Asociación Nacional de Establecimientos TIF, ANETIF - Porcícola	
STRATEGY		
102-14 Statement from the most senior decision-maker		
102-15 Main impacts, risks, and opportunities		
ETHICS AND INTEGRITY		
102-16 Values, principles, standards and norms of behavior.	PERFIL CORPORATIVO. Mayor Información disponible en nuestro Código de Conducta: http://www.kuo.com.mx/anexos/Image/kuo_c_conducta_ok.pdf	
102-17 Tamaño de la organización	Mayor Información disponible en nuestro CÓDIGO DE CONDUCTA	
GOVERNANCE		
102-18 Governance structure		
STAKEHOLDER ENGAGEMENT		
102-40 Stakeholder list	Durante 2018 realizamos un estudio de materialidad en el que, con la asesoría de un externo especializado identificamos a nuestros grupos de interés, los cuales son: <ul style="list-style-type: none"> Comunidad financiera (Inversionistas, accionistas, bancos y calificadoras). Negocios conjuntos Colaboradores (Sindicalizados y no sindicalizados) Familias de los colaboradores Proveedores Autoridades Comunidades Clientes (consumidores y usuarios) 	

CONTENT	PAGE / DISCLOSURE	OMISSION
PARTICIPACIÓN DE LOS GRUPOS DE INTERÉS		
102-41 Collective bargaining agreements	El 65% de nuestros colaboradores están cubiertos por acuerdos de negociación colectiva.	
102-42 Identification and selection of stakeholders	Reconocemos a nuestros grupos de interés como aquellos a quienes impactamos con nuestras acciones y que a su vez nos impactan con sus decisiones.	
102-43 Approach to stakeholder engagement	Establecemos mecanismos de comunicación con nuestros grupos de interés y fomentamos su participación en los procesos de definición de estrategias que impactan en el desempeño financiero y sustentable del Grupo y sus negocios. La frecuencia de la comunicación depende del tipo de información o la necesidad de la interacción con cada grupo de interés. Los canales de diálogo y participación de los grupos de interés pueden incluir, medios de comunicación editorial y las plataformas internas y externas de la empresa; eventos y programas presenciales; sesiones de consejos y comités; e instrumentos de evaluación como encuestas.	
102-44 Key topics and concerns that have been raised through stakeholder engagement	Comunidad financiera: Negocios conjuntos, resultados económicos, eficiencia operacional, innovación, cumplimiento regulatorio, desempeño en las dimensiones económica, social, ambiental y de gobierno corporativo. Negocios conjuntos: Desempeño económico, innovación e inversiones. Colaboradores: Capacitación y desarrollo, entornos laborales seguros y reconocimientos. Familias de los colaboradores: Entornos laborales seguros, medioambiente, promoción de la salud y bienestar. Proveedores: Capacitación y desarrollo, competitividad, eficiencia operacional. Autoridad: Cambio en regulación. Comunidades: Desarrollo de las comunidades, generación de empleo, preservación del medio ambiente. Clientes: Calidad e inocuidad del producto, disponibilidad, variedad, accesibilidad y competitividad del producto.	
REPORTING PRACTICE		
102-45 Entities included in the organization's consolidated financial statements	GRUPO KUO S.A.B. de C.V. y Subsidiarias	

CONTENT	PAGE / DISCLOSURE	OMISSION
REPORTING PRACTICE		
102-46 Definition of the report content and topic coverage	Informe elaborado de conformidad con los estándares GRI: opción Esencial. Los contenidos del informe fueron seleccionados de acuerdo a la estrategia interna de la compañía y al listado vigente de temas materiales actualizado durante el 2018. El informe incluye el desempeño financiero y sustentable del Grupo y sus negocios: Porcicola, Alimentos de Marca, Hule Sintético, Poliestireno, Transmisiones y Refacciones. La información de los indicadores de gestión ambiental y social () y solo considera a las instalaciones en México exceptuando el negocio de Alimentos de Marca.	
102-47 Material aspects	<ul style="list-style-type: none"> Control y calidad del producto Desarrollo de colaboradores Desempeño económico y crecimiento Eficiencia operacional Ética empresarial y transparencia Gestión de residuos Gestión y monitoreo de riesgos Relación con los clientes Seguridad y salud ocupacional Vinculación con la comunidad 	
102-48 Restatement of information	Las notas de reexpresión de información se incluyen en cada caso, si aplica.	
102-49 Changes in reporting	No hubo cambios en el proceso de elaboración del informe.	
102-50 Reporting period	1º de enero al 31 de diciembre del 2019.	
102-51 Date of most recent previous report	Informe Integrado 2018, publicado en abril del 2019.	
102-52 Reporting cycle	Anual.	
102-53 Contact point		
102-54 Claims of reporting in accordance with the GRI Standards.	Informe elaborado de conformidad con los estándares GRI: opción Esencial.	
102-55 GRI content index		
102-56 External assurance	La información correspondiente al desempeño sustentable de la compañía no se sometió a verificación externa.	

103 MANAGEMENT APPROACH

GRI STANDARD	CONTENT	PAGE /DISCLOSURE						
PRODUCT CONTROL AND QUALITY								
GRI 103: Management approach	103-1	Cobertura interna: Porcicola, Hule Sintético, Polímeros, Transmisiones y Refacciones. Cobertura externa: Clientes.						
	103-2	En KUO contamos con políticas y procedimientos que buscan mitigar los riesgos vinculados a la inocuidad y calidad de los productos que ofrecemos. Estos lineamientos se implementan en los procesos de producción, comercialización y distribución de los productos.						
	103-3	KUO cuenta con diversos sistemas, certificados, autorizaciones y reconocimientos relacionadas con la calidad e inocuidad de los productos, entre los que destacan: Negocio Porcícola: Certificación TIF (Tipo Inspección Federal), Certificación México Calidad Suprema, y Certificación FSSC 22000 (Food Safety System Certification); Sistema HACCP (Hazard Analysis Critical Control Point), Procedimientos Operativos Estandarizados de Saneamiento (POES), Laboratorio de Control de Calidad bajo ISO 17025, y Buenas Prácticas de Manufactura (BPM); autorización de los gobiernos de Japón y Corea del Sur para exportar a sus mercados y la USDA para exportar carne de cerdo a los Estados Unidos de Norteamérica. Negocio Refacciones: Sistema de Gestión de la Calidad de conformidad con la norma ISO 9001 Negocios Hule Sintético y Polímeros: Certificación de Gestión Ambiental de conformidad con la norma ISO 14000 e Industria Limpia Nivel 2; Sistema de Gestión de la Calidad de conformidad con la norma ISO 9001 y Buenas Prácticas de Manufactura (BPM)						
GRI 416: Customer health and safety	416-1	En todos los negocios realizamos evaluaciones sobre los impactos de nuestros productos en la salud y seguridad de los usuarios y consumidores.						
EMPLOYEE DEVELOPMENT								
GRI 103: Management approach	103-1	Cobertura interna: Corporativo KUO, Porcicola, Hule Sintético, Polímeros, Transmisiones y Refacciones. Cobertura externa: NA.						
	103-2							
	103-3							
GRI 404: Training and education	404-1	Media de horas de capacitación por categoría profesional en 2019:						
		<table border="1"> <thead> <tr> <th>Categoría profesional</th> <th>Media</th> </tr> </thead> <tbody> <tr> <td>Ejecutivos</td> <td>27.52</td> </tr> <tr> <td>Contribuidores Individuales (empleados)</td> <td>16.58</td> </tr> <tr> <td>Operativos (sindicalizados)</td> <td>9.73</td> </tr> </tbody> </table>	Categoría profesional	Media	Ejecutivos	27.52	Contribuidores Individuales (empleados)	16.58
Categoría profesional	Media							
Ejecutivos	27.52							
Contribuidores Individuales (empleados)	16.58							
Operativos (sindicalizados)	9.73							
		No incluye JV Herdez del Fuerte						

GRI STANDARD	CONTENT	PAGE /DISCLOSURE																									
EMPLOYEE DEVELOPMENT																											
GRI 404: Training and education	404-1	Media de horas de capacitación por sexo en 2019:																									
		<table border="1"> <thead> <tr> <th>Sexo</th> <th>Media</th> </tr> </thead> <tbody> <tr> <td>Hombres</td> <td>12.06</td> </tr> <tr> <td>Mujeres</td> <td>10.82</td> </tr> </tbody> </table> <p>No incluye JV Herdez del Fuerte</p>	Sexo	Media	Hombres	12.06	Mujeres	10.82																			
Sexo	Media																										
Hombres	12.06																										
Mujeres	10.82																										
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	404-2	<table border="1"> <thead> <tr> <th>Presencial (Mujer)</th> <th>Presencial (Hombre)</th> <th>e-learning (Mujer)</th> <th>e-learning (Hombre)</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>279</td> <td>4,549</td> <td>99</td> <td>1,109</td> <td>5,945</td> </tr> <tr> <td>14,698</td> <td>37,163</td> <td>1,301</td> <td>3,862</td> <td>57,023</td> </tr> <tr> <td>28,018</td> <td>70,814</td> <td>146</td> <td>886</td> <td>99,863</td> </tr> <tr> <td>42,994</td> <td>112,525</td> <td>1,546</td> <td>5,767</td> <td>162,831</td> </tr> </tbody> </table>	Presencial (Mujer)	Presencial (Hombre)	e-learning (Mujer)	e-learning (Hombre)	Total	279	4,549	99	1,109	5,945	14,698	37,163	1,301	3,862	57,023	28,018	70,814	146	886	99,863	42,994	112,525	1,546	5,767	162,831
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	404-3	99% de empleados que reciben evaluaciones periódicas del desempeño y desarrollo por categoría profesional:																									
		<table border="1"> <thead> <tr> <th>Categoría profesional</th> <th>Hombres</th> <th>Mujer</th> </tr> </thead> <tbody> <tr> <td>Ejecutivos</td> <td>189</td> <td>29</td> </tr> <tr> <td>Contribuidores Individuales (Empleados)</td> <td>2,580</td> <td>857</td> </tr> <tr> <td>Operativos (Sindicalizados)</td> <td>7,052</td> <td>3,138</td> </tr> </tbody> </table>	Categoría profesional	Hombres	Mujer	Ejecutivos	189	29	Contribuidores Individuales (Empleados)	2,580	857	Operativos (Sindicalizados)	7,052	3,138													
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		No incluye JV Herdez del Fuerte																									
GROWTH AND ECONOMIC PERFORMANCE																											
GRI 103: Management approach	103-1	Cobertura interna: Corporativo KUO, Porcicola, Polímeros, Transmisiones y Refacciones. Cobertura externa: Accionistas y proveedores.																									
	103-2	2019 (MILLONES DE PESOS).																									
	103-3	Ingresos (Valor Económico Generado, VGE) 44,344																									
GRI 201: Economic development	201-1	<table border="1"> <thead> <tr> <th>Concepto</th> <th>2019 (MDP)</th> </tr> </thead> <tbody> <tr> <td>Ingresos (Valor Económico Generado, VEG)</td> <td>44,344</td> </tr> <tr> <td>Gastos (Valor Económico Distribuido, VED)</td> <td>44,366</td> </tr> <tr> <td>Gastos operativos (incluye el gasto en proveedores)</td> <td>35,0545</td> </tr> <tr> <td>Sueldos y prestaciones a empleados (i)</td> <td>4,874</td> </tr> <tr> <td>Pagos al gobierno impuestos y contribuciones (ii)</td> <td>487</td> </tr> <tr> <td>Pagos a los proveedores de capital</td> <td>1,766</td> </tr> <tr> <td>Inversión en infraestructura (expansión de plantas, equipamientos, maquinaria) (iii)</td> <td>2,132</td> </tr> <tr> <td>Donaciones a la comunidad</td> <td>53</td> </tr> <tr> <td>Retenido (VEG-VED)comunidad</td> <td>21</td> </tr> </tbody> </table>	Concepto	2019 (MDP)	Ingresos (Valor Económico Generado, VEG)	44,344	Gastos (Valor Económico Distribuido, VED)	44,366	Gastos operativos (incluye el gasto en proveedores)	35,0545	Sueldos y prestaciones a empleados (i)	4,874	Pagos al gobierno impuestos y contribuciones (ii)	487	Pagos a los proveedores de capital	1,766	Inversión en infraestructura (expansión de plantas, equipamientos, maquinaria) (iii)	2,132	Donaciones a la comunidad	53	Retenido (VEG-VED)comunidad	21					
		Concepto	2019 (MDP)																								
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		Donaciones a la comunidad	53																								
Retenido (VEG-VED)comunidad	21																										

(i) No incluye información de la JV Dynasol
(ii) Corresponde al Impuesto sobre la Renta pagado sin considerar JV's
(iii) No incluye venta de activo fijo a terceros

GRI STANDARD CONTENT PAGE /DISCLOSURE

OPERATIONAL EFFICIENCY

GRI 103: Management approach	103-1:	Cobertura interna: Corporativo KUO, Porcicola, Hule Sintético, Polímeros, Transmisiones y Refacciones
	103-2	
	103-3	

GRI 302: Energy	302-1	Consumo de combustibles por tipo (GJ):
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Fuente de energía		2019
Tipo de combustible	Diesel	35,182
	Gas Natural	823,576
	Combustóleo	68,888
	Gas LP	135,798
	Gasolina	15,267
Total		1,078,711

Para la conversión a GJ de los consumos de diésel, gas LP y gasolina se utilizó el poder calorífico publicado por la CONUEE en 2018. El consumo de gas natural se obtuvo principalmente mediante facturas.

Consumo de electricidad (MWh):

Fuente	2019
CFE	144,625
Energía limpia	214,084
Total	358,709

GRI 305: Emissions	305-1	
	305-2	
	305-5	

Sector	2019		
	Alcance 1	Alcance 2	Total
Automotriz	20,980	30,817	51,797
Consumo	36,292	77,299	113,591
Químico	40,301	92,068	132,369

Emissiones de gases y compuestos de efecto invernadero 2019: 298,070 TCO2e

GRI 303: Water	303-1	
	303-3	

Consumo total agua 2019: 9'934,513 m3

BUSINESS ETHICS AND TRANSPARENCY

GRI 103: Management approach	103-1	Cobertura interna: Corporativo KUO Porcicola, Hule Sintético, Polímeros, Transmisiones y Refacciones. Cobertura externa: Socios estratégicos y proveedores.
	103-2	
	103-3	

GRI STANDARD CONTENT PAGE /DISCLOSURE

BUSINESS ETHICS AND TRANSPARENCY

GRI 205: Anti-corruption	205-2	Se imparten cursos de inducción que reciben los nuevos colaboradores, el cual incluye una capacitación sobre el código de ética que tiene un componente de anticorrupción. Actualmente no se cuenta con una capacitación específica de anticorrupción para el Consejo de Administración, no obstante, el 100% de los miembros de este órgano conocen y han firmado su Carta de Adhesión y Cumplimiento del Código de Conducta de Grupo KUO, el cual previene el mal uso de información privilegiada, aceptación de regalos o favores personales, malversación de activos o información, y prevención de lavado de dinero.
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WASTE MANAGEMENT

GRI 103: Management approach	103-1	Cobertura interna: Porcicola, Hule Sintético, Polímeros, Transmisiones y Refacciones. Cobertura externa: Socios estratégicos.
	103-2	
	103-3	

GRI 306: Effluents and wastes	306-2	Residuos por tipo y método de eliminación en 2019 (T):
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Tipo de residuo	Método de eliminación	Peso
Residuos no peligrosos	Reciclaje, reutilización	59,668
Residuos peligrosos	Confinamiento, reutilización	1,186
Total		60,854

PRODUCT CONTROL AND QUALITY

GRI 103: Management approach	103-1	Cobertura interna: Corporativo KUO, Porcicola, Hule Sintético, Polímeros, Transmisiones y Refacciones. Cobertura externa: Accionistas, socios estratégicos y proveedores.
	103-2	Contamos con un Sistema de Administración de Riesgos basado en el marco Enterprise Risk Management Framework (ERM). La Metodología de Administración Integral de Riesgos Empresariales del Grupo, permite tomar decisiones en torno a objetivos estratégicos, operacionales, reporte y cumplimiento.
	103-3	El Consejo de Administración realiza la evaluación de los procesos de gestión de riesgos, en temas económicos, ambientales y sociales.

GRI 201: Economic performance	201-2	Con base en análisis y evaluaciones de riesgos vigentes no se han identificado implicaciones financieras y otros riesgos y oportunidades derivadas del cambio climático.
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CUSTOMER RELATIONSHIP

GRI 103: Management approach	103-1	Cobertura interna: Corporativo KUO, Porcicola, Hule Sintético, Polímeros, Transmisiones y Refacciones. Cobertura externa: Socios estratégicos y clientes.
	103-2	En todos los negocios contamos con mecanismos para conocer la satisfacción de los clientes.
	103-3	En 2019 DACOMSA elaboró 92 encuestas con 89% de satisfacción; 22 conferencias remotas para el conocimiento de sus productos con la asistencia de 8,050 clientes.

GRI STANDARD	CONTENT	PAGE /DISCLOSURE	OMISSION
OCCUPATIONAL HEALTH AND SAFETY			
GRI 103: Management approach	103-1	Cobertura interna: Porcicola, Hule Sintético, Polímeros, Transmisiones y Refacciones. Cobertura externa: Contratistas.	
	103-2		
	103-3		

GRI 403: Occupational health and safety	403-2	Tipos de accidentes y tasas de frecuencia de accidentes, enfermedades profesionales, días perdidos y absentismo por accidente laboral o enfermedad profesional de colaboradores y contratistas, por Unidad Estratégica de Negocio:	Por la diversidad de negocios y tamaño del Grupo, no se desglosa la información por región, sino por negocio.
		Colaboradores:	

Porcicola		Hule Sintético		Poliestireno		Transmisiones		Refacciones	
Hombre	Mujer	Hombre	Mujer	Hombre	Mujer	Hombre	Mujer	Hombre	Mujer
Tasa de frecuencia de accidentes (TFA)									
3.77	3.03	0.95	0	0.32	0	1.54	0.29	3.5	4.9
Tasa de incidencia de enfermedades profesionales (TIEP)									
0.05	0.03	0	0	0	0	0	0	0.06	0.26
Tasa de días perdidos (TDP)									
27.88	20.47	27.67	0	40	0	14.37	0.29	64.24	145.1
Tasa de absentismo (TAL)									
223.06	163.8	221.22	0	320	0	11.96	2.29	514.03	1160.7

Contratistas:

Porcicola		Hule Sintético		Poliestireno		Transmisiones		Refacciones	
Hombre	Mujer	Hombre	Mujer	Hombre	Mujer	Hombre	Mujer	Hombre	Mujer
Tasa de frecuencia de accidentes (TFA)									
0.3	0	0.79	0	0	0	2.12	1.21	0	0
Tasa de incidencia de enfermedades profesionales (TIEP)									
0	0	0	0	0	0	0	0	0	0
Tasa de días perdidos (TDP)									
3.45	0	9.51	0	0	0	17.63	10.9	0	0
Tasa de absentismo (TAL)									
27.62	0	76.07	0	0	0	141.04	87.17	0	0

TFA= (No. de accidentes/Total de horas trabajadas) x 200,000
TIEP= (No. de enfermedades profesionales/ Total de horas trabajadas) x 200,000
TDP= (No. total de días perdidos/ Total de horas trabajadas) x 200,000
TAL= (No. total de días perdidos por ausencia/ Número total de días trabajados por el conjunto de la plantilla) x 200,000

GRI STANDARD	CONTENT	PAGE /DISCLOSURE
COMMUNITY ENGAGEMENT		
GRI 103: Management approach	103-1	Cobertura interna: Porcicola, Hule Sintético, Polímeros, Transmisiones y Refacciones. Cobertura externa: Comunidad
	103-2	
	103-3	
GRI 413: Local communities	413-1	

GRI 304: Biodiversity	304-3	Contamos con 903 hectáreas protegidas. Nuestro objetivo es mejorar los ecosistemas y detener la pérdida de biodiversidad, conservar los recursos naturales de flora y fauna silvestre, entre las que se encuentran especies endémicas; además se busca generar conciencia en las personas para impactar positivamente en la resistencia al cambio climático.
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financial information

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

Consolidated Financial Statements for the Years Ended
December 31, 2019, 2018 and 2017, and Independent
Auditors' Report Dated March 23, 2020

contents

100	INDEPENDENT AUDITORS' REPORT
106	CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
108	CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
110	CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
112	CONSOLIDATED STATEMENTS OF CASH FLOWS
114	NOTES TO THE CONSOLIDATED FI- NANCIAL 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, 2019, 2018 and 2017 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, 2019, 2018 and 2017, 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) Investment in projects

(See Notes 11 and 15 to the consolidated financial statements)

The Entity made significant investments in strategic projects for the Consumer and Automotive Segments. These investments consisted mainly of the construction of new production facilities to expand installed capacity, the development of new products and the capitalization of costs for compliance with contracts. In relation to investments in production facilities, we identified a risk regarding their adequate capitalization in accordance with the guidelines of the International Accounting Standards (IAS) 16 "Property, Plant and Equipment" and IAS 23 "Borrowing Costs"; in relation to the development of new products, we identified a risk regarding its correct capitalization and recovery in the future, in accordance with the provisions of IAS 38 "Intangible Assets"; and in the capitalization of costs for compliance with contracts, we identified a risk regarding its adequate capitalization in accordance with the guidelines of IFRS 15 "Revenue from contracts with clients".

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

b) Revenue recognition (applicable to all Segments)

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

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

c) Estimate on contingent liabilities and non-recurring events (applicable to Grupo KUO, S.A.B. de C.V.)

(See Notes 20 and 27 to the consolidated financial statements)

Grupo KUO accrues reserves to face contingent liabilities and non-recurring events derived from its normal operation, and there is a risk that the estimates recorded may be excessive or insufficient.

Our tests consisted on analyzing the conclusions reached by Management on the probability of occurrence, the technical and legal merits of the Entity's obligation to face them, the changes in circumstances in the year, and compliance with the standards established in IAS 37 "Provisions, Assets and Contingent Liabilities". The results of the audit procedures we performed were satisfactory.

**d) Chemical Segment - Dynasol joint venture recognized through the equity method
Impairment of long-lived assets**

(See Note 14 to the consolidated financial statements)

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

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

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

e) Adoption of IFRS 16 "Leases" (applicable to all Segments)

(See Note 12 to the consolidated financial statements)

Management adopted IFRS 16 "Leases" recognizing as of January 1, 2019 the accumulated effects without restructuring comparative periods, consequently, Management recognized as of that date the right-of-use asset and the lease liability.

Our tests consisted of involving our specialists in the application of procedures to evaluate the model for determining the right-of-use asset based on the present value of future payments of the lease contracts portfolio, the lease terms and the discount rates used by Management. Additionally, we complemented our audit procedures by validating the supporting documentation of the lease agreements. 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, 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 23, 2020

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2019, 2018 AND 2017

(THOUSANDS OF MEXICAN PESOS)

Assets	Notes	2019	2018	2017
Current assets:				
Cash and cash equivalents	7 Ps.	1,541,076 Ps.	1,102,977 Ps.	721,133
Accounts and notes receivable, net	8	2,725,846	2,905,621	3,028,796
Accounts receivable from related parties	23	169,567	149,814	140,431
Inventories, net	9	5,794,311	5,045,164	3,921,857
Biological assets	10	1,206,260	1,217,425	815,219
Prepaid expenses		336,691	140,596	80,089
Derivative financial instruments	18	-	4,527	5,467
Assets classified as held for sale		15,478	14,633	14,633
Total current assets		11,789,229	10,580,757	8,727,625
Non - current assets:				
Property, plant and equipment, net	11	12,097,792	12,727,538	10,052,328
Right-of-use asset	12	1,763,868	-	-
Biological assets	10	398,067	363,835	351,312
Intangible and other assets, net	15	5,968,257	4,074,533	1,520,415
Investments in joint ventures	14	11,336,080	11,226,077	10,382,836
Other accounts receivable		14,983	26,804	32,896
Accounts receivable from related parties	23	104,960	122,234	119,371
Deferred income tax	24	819,754	478,049	770,664
Total non - current assets		32,503,761	29,019,070	23,229,822
Total assets	Ps.	44,292,990 Ps.	39,599,827 Ps.	31,957,447

Liabilities and stockholders' equity	Notes	2019	2018	2017
Current liabilities:				
Bank loans and current portion of long-term debt	19 Ps.	276,968 Ps.	171,275 Ps.	-
Notes and accounts payable to suppliers		7,021,850	6,339,516	5,087,401
Short-term lease liability		315,200	-	-
Other accounts payable and accrued liabilities	20	3,731,107	3,711,190	3,777,814
Derivative financial instruments	18	-	605	-
Accounts payable to related parties	23	21,355	25,469	13,709
Total current liabilities		11,366,480	10,248,055	8,878,924
Non - current liabilities:				
Bank loans	19	15,313,216	14,364,698	9,788,937
Lease liability		1,486,274	-	-
Employee benefits	21	668,567	599,889	622,832
Deferred income taxes	24	1,033,771	838,027	714,610
Deferred income tax arising from tax deconsolidation	24	476,542	723,613	953,193
Total non - current liabilities		18,978,370	16,526,227	12,079,572
Total liabilities		30,344,850	26,774,282	20,958,496
Stockholders' equity:				
Contributed capital-				
Capital stock	22	2,727,534	2,727,534	2,727,534
Shares repurchase reserve		(530,237)	(510,570)	(591,083)
Earned capital-				
Retained earnings		10,503,529	8,667,904	6,768,905
Foreign operations translation effect		568,524	864,955	905,340
Derivative financial instruments	18	-	(423)	3,827
Actuarial loss from employee benefits		(130,685)	(82,282)	(93,108)
Equity in other comprehensive income of joint ventures		809,107	1,157,834	1,276,883
Controlling interest		13,947,772	12,824,952	10,998,298
Non - controlling interest	13	368	593	653
Total stockholders' equity		13,948,140	12,825,545	10,998,951
Total liabilities and stockholders' equity	Ps.	44,292,990 Ps.	39,599,827 Ps.	31,957,447

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

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

	Notes	2019	2018	2017
Continuing operations:				
Net sales		Ps. 27,796,811	Ps. 27,282,211	Ps. 24,473,273
Cost of sales	26	22,248,726	21,304,464	18,400,101
Gross profit		5,548,085	5,977,747	6,073,172
Administrative expenses	26	1,594,656	1,566,682	1,524,590
Selling and distribution expenses	26	2,394,688	2,056,059	1,874,700
General expenses		3,989,344	3,622,741	3,399,290
Equity in results of joint ventures	14	1,034,553	1,283,952	991,592
Other (income) expenses, net	27	(448,967)	-	(55,729)
Income from operations		3,042,261	3,638,958	3,721,203
Interest income		37,209	38,078	77,849
Interest expense		(814,988)	(466,305)	(697,917)
Other financial expenses		(245,042)	(224,529)	(471,743)
Exchange income (loss), net		444,380	(1,317)	(223,226)
Income before income taxes and discontinued operations		2,463,820	2,984,885	2,406,166
Income taxes expense	24	233,295	815,497	684,128
Income from continuing operations		2,230,525	2,169,388	1,722,038
Discontinued operations:				
Income (loss) from discontinued operations, net of income taxes	25	2,150	47,385	(3,946)
Consolidated net income		2,232,675	2,216,773	1,718,092
Other comprehensive (loss) income, net of income tax:				
Items that will not be reclassified subsequently to profit or loss, net of income taxes:				
Actuarial (loss) income from employee benefits	21	(51,077)	5,070	(6,525)

(Continued)

	Notes	2019	2018	2017
Items that will be reclassified to profit or loss, net of income taxes:				
Cumulative translation adjustment		(296,473)	(40,476)	(40,428)
Derivative financial instruments	18	423	(4,250)	3,827
Equity in other comprehensive income of joint ventures	14	(348,727)	(119,049)	132,651
Total other comprehensive (loss) income		(695,854)	(158,705)	89,525
Consolidated comprehensive income		Ps. 1,536,821	Ps. 2,058,068	Ps. 1,807,617
Distribution of consolidated net income:				
Controlling interest		Ps. 2,232,685	Ps. 2,216,767	Ps. 1,718,035
Non - controlling interest		(10)	6	57
		Ps. 2,232,675	Ps. 2,216,773	Ps. 1,718,092
Distribution of consolidated comprehensive income:				
Controlling interest		Ps. 1,536,847	Ps. 2,058,065	Ps. 1,807,554
Non - controlling interest		(26)	3	63
		Ps. 1,536,821	Ps. 2,058,068	Ps. 1,807,617
Basic earnings per common share:				
From continuing operations		Ps. 4.89	Ps. 4.75	Ps. 3.77
From discontinued operations		Ps. 0.00	Ps. 0.11	Ps. (0.01)
Basic earnings per share		Ps. 4.89	Ps. 4.86	Ps. 3.76
Net income from controlling interest without repurchased shares		Ps. 5.07	Ps. 4.92	Ps. 3.90
Weighted average common shares outstanding		456,366,148	456,366,148	456,366,148
Weighted average common shares outstanding without repurchased shares		440,586,096	441,042,604	442,050,116

See accompanying notes to consolidated financial statements.

(Continued)

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

(IN THOUSANDS OF MEXICAN PESOS, EXCEPT SHARES INFORMATION)

	Contributed capital			Retained earnings
	Number of Shares	Capital stock	Shares repurchase reserve	
Balances at beginning of 2017	456,366,148 Ps.	2,727,534 Ps.	(297,229)	Ps. 5,319,391
Dividends declared	-	-	-	(278,383)
Repurchase of common shares, net	-	-	(293,854)	9,862
Consolidated comprehensive income	-	-	-	1,718,035
Balances at December 31, 2017	456,366,148	2,727,534	(591,083)	6,768,905
Initial application of IFRS 9	-	-	-	(2,655)
Dividends declared	-	-	-	(342,275)
Sale of repurchased common shares, net	-	-	80,513	32,949
Dilution of non - controlling interest	-	-	-	(29)
Recycling of actuarial losses due to labor obligations from recovery of plan assets	-	-	-	(5,758)
Consolidated comprehensive income	-	-	-	2,216,767
Balances at December 31, 2018	456,366,148	2,727,534	(510,570)	8,667,904
Recycling of actuarial losses due to employee benefit from recovery of plan assets	-	-	-	(2,674)
Dividends declared	-	-	-	(401,602)
Dilution of non - controlling interest	-	-	-	173
Sale of repurchased common shares, net	-	-	(19,667)	7,043
Consolidated comprehensive income	-	-	-	2,232,685
Balances at December 31, 2019	456,366,148 Ps.	2,727,534 Ps.	(530,237)	Ps. 10,503,529

See accompanying notes to consolidated financial statements.

	Earned Capital						
	Foreign operations translation effect	Derivative financial instruments	Actuarial loss from employee benefits	Equity in other comprehensive income of joint ventures	Controlling interest	Non - controlling interest	Total stockholders' equity
	Ps. 945,773	Ps. -	Ps. (86,582)	Ps. 1,144,232	Ps. 9,753,119	Ps. 600	Ps. 9,753,719
	-	-	-	-	(278,383)	(10)	(278,393)
	-	-	-	-	(283,992)	-	(283,992)
	(40,433)	3,827	(6,526)	132,651	1,807,554	63	1,807,617
	905,340	3,827	(93,108)	1,276,883	10,998,298	653	10,998,951
	-	-	-	-	(2,655)	(1)	(2,656)
	-	-	-	-	(342,275)	-	(342,275)
	-	-	-	-	113,462	-	113,462
	88	-	(2)	-	57	(65)	(5)
	-	-	5,758	-	-	-	-
	(40,473)	(4,250)	5,070	(119,049)	2,058,065	3	2,058,068
	864,955	(423)	(82,282)	1,157,834	12,824,952	593	12,825,545
	-	-	2,674	-	-	-	-
	-	-	-	-	(401,602)	-	(401,602)
	27	-	(1)	-	199	(199)	-
	-	-	-	-	(12,624)	-	(12,624)
	(296,458)	423	(51,076)	(348,727)	1,536,847	(26)	1,536,821
	Ps. 568,524	Ps. -	Ps. (130,685)	Ps. 809,107	Ps. 13,947,772	Ps. 368	Ps. 13,948,140

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

(THOUSANDS OF MEXICAN PESOS)

	2019		2018		2017	
Cash flows from operating activities:						
Consolidated net income	Ps.	2,232,675	Ps.	2,216,773	Ps.	1,718,092
Adjustments for:						
Income tax expense from continuing operations		233,295		815,497		684,128
Depreciation and amortization of continuing operations		921,502		651,648		577,555
(Loss) profit on sale of property, plant and equipment of continuing operations		15,851		(2,280)		(52,327)
Income on sale of property, plant and equipment of discontinued operations		-		-		(2,866)
Net period cost for employee benefit plans of continuing operations		57,342		60,647		15,516
Impairment of property, plant and equipment of continued operations		92,715		-		-
Impairment of property, plant and equipment of discontinued operations		-		-		16,635
Cancellation of provision		(455,606)		-		-
Depreciation of right-of-use asset		251,566		-		-
Disposals of right-of-use asset		(101)		-		-
Gain on disposal of subsidiary		-		-		(18,352)
Other financial expenses		245,042		224,529		471,743
Derivative financial instruments		-		(4,527)		-
Equity in results of joint ventures		(1,034,553)		(1,283,952)		(991,592)
Interest expense from continuing operations		814,989		466,305		697,917
Interest income from continuing operations		(37,209)		(38,078)		(77,849)
		3,337,508		3,106,562		3,038,600
Changes in working capital:						
(Increase) decrease in:						
Accounts receivable		(45,590)		(227,962)		(68,470)
Inventories		(749,147)		(1,123,307)		(673,873)
Biological assets		(23,067)		(414,729)		78,429
Other accounts receivable and other assets		(52,420)		(196,845)		(256,177)
Increase (decrease) in:						
Notes and accounts payable to suppliers		126,782		1,252,115		734,604
Other payables and accrued liabilities		182,948		(264,235)		731,619
Accounts payable to related parties		(6,593)		2,377		(75,374)
Income taxes paid		(486,560)		(576,673)		(1,041,225)
Net cash flows generated by operating activities		2,283,861		1,557,303		2,468,133

(Continued)

	2019		2018		2017	
Cash flows from investing activities:						
Acquisition of property, plant and equipment		(1,493,732)		(3,122,161)		(2,996,165)
Proceeds from sale of property, plant and equipment		1,053,180		10,889		37,407
Proceeds from others assets		23,768		-		3,574
Investment in joint ventures		-		-		(1,238,151)
Dividends from joint ventures		575,823		321,662		162,373
Divestment in joint ventures		-		-		6,185
Accounts receivable from disposal of subsidiary		-		512,895		-
Investment on intangible assets		(1,449,240)		(2,381,295)		(938,226)
Interest received		37,209		38,078		77,849
Collection of loans from joint venture		-		-		1,370,064
Net cash flows used in investing activities		(1,252,992)		(4,619,932)		(3,515,090)
Cash flows from financing activities:						
Proceeds from debt		8,624,690		5,953,052		9,350,151
Payments of debt		(7,087,623)		(1,256,780)		(8,807,571)
Payment of loans from joint venture		-		-		(929,350)
Expenses associated with bond issuance		(22,995)		(13,148)		(110,109)
Other financial expenses		(245,042)		(224,529)		(471,743)
Lease payments		(321,265)		-		-
Interest paid		(1,036,967)		(780,336)		(440,586)
Dividends paid		(200,674)		(342,275)		(278,383)
(Repurchase) proceeds of common shares, net of dividends		(12,624)		113,462		(283,992)
Net cash flows generated by (used) in financing activities		(302,500)		3,449,446		(1,971,583)
Effects of exchange rate changes on cash and cash equivalents		(290,270)		(4,973)		286,643
Net increase (decrease) in cash and cash equivalents		438,099		381,844		(2,731,897)
Cash and cash equivalents at beginning of year		1,102,977		721,133		3,453,030
Cash and cash equivalents at end of year	Ps.	1,541,076	Ps.	1,102,977	Ps.	721,133

See accompanying notes to consolidated financial statements.

(Continued)

Grupo KUO, S.A.B. de C.V. and Subsidiaries**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017****(THOUSANDS OF MEXICAN PESOS (PS.) AND THOUSANDS OF US DOLLARS)****1. PRINCIPAL ACTIVITIES**

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

2. SIGNIFICANT EVENTS

- **Credit line disposal and credit payment** - During 2019 and 2018, KUO contracted and renewed committed credit lines with different financial institutions for Ps.8,625 million and Ps.4,865 million, respectively. The resources were mainly used to refinance debt and to continue investments in projects in the Consumer and Automotive Segments. More detail of these credits are included in Note 19 to these consolidated financial statements.
- **Investments in projects** - During 2019, 2018 and 2017, the Entity made significant investments in strategic projects for the Consumer and Automotive Segments for Ps.1,576 million, Ps.2,997 million and Ps.2,783 million in property, plant and equipment, respectively, and for Ps.1,404 million, Ps. 2,362 million and Ps.899 million in intangible assets, respectively, mainly in the construction of new production facilities to expand the installed capacity and the development of new products.
- **Credit disposal** - In June 2018, KUO disposed of a credit line with BBVA Bancomer for Ps.1,500 million with a maturity of 7 years. The credit line has an interest rate equivalent to the Interbank Interest Rate of Equilibrium (TIIE) at 28 days plus 1.60%. The resources of the credit line were used mainly for the projects' investments in the Consumer and Automotive Segments. More detail of this credit is included in Note 19 to these consolidated financial statements.
- **Bond issue and prepayment of Cebures** - In June 2017, KUO announced the offer to purchase each and every one of the Bonds known as "6.25% Senior Notes 2022", for a principal amount of US\$325 million. In July 2018, KUO made an advance payment of US\$229 million (70.35%) for the debt securities, and settled the remaining US\$96 million on December 4, 2017. The resources were obtained through the issuance of a new bond denominated "Senior Notes 2027" for US\$450 million that bear interest at an annual rate of 5.75%, payable on January 7 and July 7 of each year, beginning January 7, 2019, with maturity in July, 2027. Note 19 includes the disclosures of the Bonds issued.

With the new bond resources, in July 2017, KUO prepaid the Securitization Certificates "KUO 12" for Ps.700 million and the bilateral credit with Banco Nacional de Comercio Exterior, S.N.C. (Bancomext) for Ps.699 million. More detail of these credits is included in Note 19 to these consolidated financial statements.

- **Disposition of a credit line and credit settlement** - In July 2017, KUO contracted a line of credit with Bancomext for Ps.1,000 million with maturity in 2027. The line of credit has an interest rate equivalent to TIIE plus 1.80%, with a 2 years' grace period. The resources of the credit line were used for the prepayment of the credit with Bank of America, N.A. for Ps.1,000 million. More detail of these credits can be seen in Note 19 to these consolidated financial statements.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**a. Application of new and revised International Financing Reporting Standards ("IFRS" or "IAS") that are mandatorily effective for the current year**

In the current year, the Entity has applied a number of amendments to IFRS issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2019.

The Entity adopted IFRS 16 (issued by the IASB in January 2016), which establishes new or modified requirements regarding lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 3t. The impact of the adoption of IFRS 16 on the Entity's consolidated financial statements is described below.

The Entity decided to use the modified retrospective method with an early adoption option as of January 1, 2019. Under this method, the restructuring of the comparative periods is not required, so the accumulated effect of IFRS 16 adoption was recognized at that date.

(a) Impact of the new definition of a lease:

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Entity applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after January 1, 2019. In preparation for the first-time application of IFRS 16, the Entity carried out an implementation project, which showed that the new definition in IFRS 16 did not significantly change the scope of contracts that meet the definition of a lease for the Entity.

(b) Impact on lessee accounting:

(i) Former operating leases

IFRS 16 changes how the Entity accounts for leases previously classified as operating leases under IAS 17, which were not recorded in the consolidated statement of financial position.

Applying IFRS 16, for all leases (except as noted below), the Entity:

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

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

Under IFRS 16, right-of-use asset is tested for impairment in accordance with IAS 36.

For short-term leases (12 months or less) and leases of low-value assets (tablets and personal computers, small items of office furniture and telephones), KUO has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

(ii) Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Entity recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Entity's consolidated financial statements.

(c) Financial impact from IFRS 16 initial adoption:

The figures below show the adjustments for each item of the consolidated financial statements affected by the application of IFRS 16 for the current period and prior.

The initial impacts recognized in the consolidated statement of financial position are:

A right-of-use asset for Ps.1,929,850, and a lease liability for the same amount.

The Entity as a lessee:

- a) The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use asset and lease liability. It also resulted in a decrease in cost of sales and general expenses and an increase in depreciation and interest expense.
- b) The previously recognized lease incentive liability with respect to operating leases has been derecognized and has been considered in measuring the amount of right-of-use asset and lease liability.

The application of IFRS 16 has an impact on the consolidated statement of cash flows of the Entity. Under IFRS 16, lessees must present:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities.

- Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by IAS 7 (KUO has opted to include interest paid as part of operating activities); and
- Cash payments for the principal portion for a lease liability, as financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by Ps.321,265 (during 2019), and net generated by financing activities has decreased by the same amount.

The adoption of IFRS 16 did not have an impact on net cash flows.

Impact of applying other amendments to IFRS effective for periods beginning on or after January 1, 2019.

In 2019, the Entity has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after January 1, 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

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

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

The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Entity applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Entity does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

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

IAS 12 Income Taxes

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

IAS 23 Borrowing Costs

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

IFRS 3 Business Combinations

When control is obtained of a business that is a joint operation, the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value should be applied. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements

When a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the PHI should not be remeasured in the joint operation

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

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

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. It is now required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

IFRIC 23 Uncertainty over Income Tax Treatments

Sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires to:

- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the accounting tax position should be determined consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the effect of uncertainty should be reflected in determining the accounting tax position using either the most likely amount or the expected value method

New and revised IFRS issued but not yet effective

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

IFRS 10 and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IFRS 3	<i>Definition of a business</i>
Amendments to IAS 1 and IAS 8	<i>Definition of material</i>
Conceptual Framework	<i>Amendments to References to the Conceptual Framework in IFRS</i>

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

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

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

Amendments to IFRS 3 Definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2020, with early application permitted.

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted.

Amendments to References to the Conceptual Framework in IFRS

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASB Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after January 1, 2020, with early 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 take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

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

c. Basis of consolidation of financial statements

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

The main subsidiaries of the Entity as of December 31, 2019, 2018 and 2017 are:

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

Joint ventures of December 31, 2019, 2018 and 2017 are:

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

Control is achieved when the Entity:

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

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

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

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

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

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

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

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

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

Changes in the Entity's ownership interests in existing subsidiaries

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

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

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

d. Segment information

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

e. Financial instruments

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

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

f. Financial assets

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

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

Classification of financial assets

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

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

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

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

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL). Despite the foregoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:

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

(i) *Amortized cost and effective interest method*

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

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

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

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

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

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

A financial asset is held for trading if:

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

Foreign exchange gains and losses

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

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

(i) Significant increase in credit risk

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

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

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

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

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

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

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

For financial 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.

(ii) Definition of default

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

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

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

(iii) Credit-impaired financial assets

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

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

Derecognition of financial assets

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

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

g. Financial liabilities

Financial liabilities and equity

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

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

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

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

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

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

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

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

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

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

Financial liabilities measured subsequently at amortized cost

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

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

Foreign exchange gains and losses

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

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

Derecognition of financial liabilities

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

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

h. Derivative financial instruments

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

j. Cash and cash equivalents

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

k. Allowance for discounts of accounts receivable

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

l. Inventories

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

Biological assets

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

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

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

The Entity has two blocks of biological assets:

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

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

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

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

Assets convertible in "breeding stock and stallions" (long-term biological assets):

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

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

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

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

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. *Initial recognition of costs associated with contracts with clients*

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

5. *Derecognition of intangible assets*

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

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.

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 acquiree and the equity interests issued by the Entity in exchange for control of the acquiree. Acquisition-related costs are generally recognized in the consolidated statement of income and comprehensive income as incurred.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

v. Borrowing costs

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

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

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

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

w. Employee benefits

Employee benefits from termination and retirement and others

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

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

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

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

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

Short-term and other long-term employee benefits

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

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

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

Employee profit sharing (PTU)

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

As result of the 2014 Income Tax Law, as of December 31, 2019, 2018 and 2017, 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.

3. *Current and deferred tax*

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

4. *Uncertainty in the treatment of income taxes*

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

y. *Provisions*

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

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

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

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 4n. 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. Capitalization of the borrowing costs was capitalized at which time the technical and administrative work associated with the project recommenced.

- *Business model assessment*

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (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.

b. Key sources of estimation uncertainty

- *Calculation of loss allowance*

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

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

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

- *Impairment of long-lived assets*

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

- *Estimation of inventory obsolescence*

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

- *Discount rate of employee benefits*

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

- *Provisions*

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

- *Valuation techniques*

Some of the Entity's liabilities are measured at fair value in the consolidated financial statements (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, 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

For the year ended December 31, 2018	Consumer	Chemical	Automotive	KUO and others	Eliminations	Total	Elimination of joint ventures	Consolidated information
Net sales	Ps. 19,359,703	Ps. 15,879,250	Ps. 7,176,790	Ps. 944,562	Ps. (792,327)	Ps. 42,567,978	Ps. (15,285,767)	Ps. 27,282,211
General expenses	3,777,347	1,378,322	890,342	1,055,811	(702,179)	6,399,643	(2,776,402)	3,623,241
Other (income) expenses, net	(38,746)	(60,302)	(1,564)	-	-	(100,612)	100,612	-
Depreciation and amortization	506,483	341,970	298,058	10,350	-	1,156,861	(505,213)	651,648
Net employee benefit cost	12,703	4,088	33,235	19,247	-	69,273	(8,626)	60,647
Equity in results of joint ventures	-	-	-	-	-	-	1,283,952	1,283,952
Income from operations	2,235,837	1,724,035	353,865	(111,250)	-	4,202,487	(563,529)	3,638,958
Interest income	36,729	7,973	13,747	392,739	(395,934)	55,254	(17,176)	38,078
Interest expense	22,963	(84,153)	(62,976)	(828,690)	395,934	(556,922)	90,617	(466,305)
Other expenses financial	(84,113)	(30,868)	(46,605)	(28,104)	-	(189,690)	(34,839)	(224,529)
Exchange (loss) income, net	(16,160)	(52,910)	(51,193)	94,814	-	(25,449)	24,132	(1,317)
Equity in results of associates	456	(7,087)	-	2,852,654	(2,852,654)	(6,631)	6,631	-
Income taxes	626,007	462,749	35,189	202,781	-	1,326,726	(511,229)	815,497
Income (loss) from continuing operations	1,568,793	1,108,415	171,649	2,169,382	(2,852,654)	2,165,585	3,803	2,169,388
Income from discontinued operations	-	-	-	47,385	-	47,385	-	47,385
Net income	1,568,793	1,108,415	171,649	2,216,767	(2,852,654)	2,212,970	3,803	2,216,773
Cash and cash equivalents	503,945	1,314,304	81,869	920,950	-	2,821,068	(1,718,091)	1,102,977
Total assets	19,139,466	12,129,325	13,024,137	30,392,242	(29,723,113)	44,962,057	(5,362,230)	39,599,827
Total financial debt	-	1,069,111	383,817	14,152,156	-	15,605,084	(1,069,111)	14,535,973
Total liabilities	9,150,719	5,478,842	6,266,335	17,774,311	(6,543,093)	32,127,114	(5,352,832)	26,774,282
Additions to property, plant and equipment	2,001,378	386,164	1,126,459	23,483	-	3,537,484	(415,323)	3,122,161
Investment in intangibles	6,232	-	2,362,088	12,975	-	2,381,295	-	2,381,295

For the year ended December 31, 2017	Consumer	Chemical	Automotive	KUO and others	Eliminations	Total	Elimination of joint ventures	Consolidated information
Net sales	Ps. 17,950,206	Ps. 13,959,417	Ps. 7,217,355	Ps. 872,084	Ps. (737,702)	Ps. 39,261,360	Ps. (14,788,087)	Ps. 24,473,273
Other income	(14,503)	(46,399)	(1,383)	(54,345)	-	(116,630)	60,901	(55,729)
General expenses	3,358,390	1,259,880	920,735	1,006,037	(669,780)	5,875,262	(2,475,972)	3,399,290
Impairment of assets	16,450	90,063	-	-	-	106,513	(106,513)	-
Depreciation and amortization	469,663	306,585	264,451	10,046	-	1,050,745	(473,190)	577,555
Net employee benefit cost	13,716	3,926	(5,850)	14,619	-	26,411	(10,895)	15,516
Equity in results of joint ventures	-	-	-	-	-	-	991,592	991,592
Income from operations	2,034,761	1,491,725	695,054	(79,608)	-	4,141,932	(420,729)	3,721,203
Interest income	62,819	3,973	8,398	294,223	(299,136)	70,277	7,572	77,849
Interest expense	(150,184)	(68)	(104,674)	(741,790)	299,136	(697,580)	(337)	(697,917)
Other expenses financial	(78,309)	(97,546)	(35,747)	(336,255)	-	(547,857)	76,114	(471,743)
Exchange (loss) income, net	26,582	(77,621)	(58,660)	(176,469)	-	(286,168)	62,942	(223,226)
Equity in results of associates	230	(6,174)	-	2,790,301	(2,790,300)	(5,943)	5,943	-
Income taxes	535,978	314,074	82,685	37,413	-	970,150	(286,022)	684,128
Income (loss) from continuing operations	1,359,461	1,012,563	421,686	1,712,987	(2,790,300)	1,716,397	5,641	1,722,038
Loss from discontinued operations	-	-	(8,201)	4,255	-	(3,946)	-	(3,946)
Net income	1,359,461	1,012,563	413,485	1,717,242	(2,790,300)	1,712,451	5,641	1,718,092
Cash and cash equivalents	444,106	889,619	52,326	536,058	-	1,922,109	(1,200,976)	721,133
Total assets	16,091,877	11,147,777	9,005,757	24,332,726	(23,210,262)	37,367,875	(5,410,428)	31,957,447
Total financial debt	-	1,145,935	-	9,788,936	-	10,934,871	(1,145,934)	9,788,937
Total liabilities	7,283,934	5,533,887	4,769,842	13,541,445	(4,773,444)	26,355,664	(5,397,168)	20,958,496
Additions to property, plant and equipment	1,919,571	389,321	990,094	1,338	-	3,300,324	(304,159)	2,996,165
Investment in intangibles	39,147	17	899,062	-	-	938,226	-	938,226

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, 2019, 2018 and 2017.

	2019		2018		2017	
	Ps.	%	Ps.	%	Ps.	%
Pork meat	13,081,601	47.1	11,597,220	42.5	10,562,826	43.2
Polystyrene	6,468,755	23.3	8,307,129	30.4	6,503,417	26.6
Transmissions and components	4,920,231	17.7	4,131,674	15.1	4,248,859	17.4
Auto parts	3,121,383	11.2	3,083,183	11.3	3,008,426	12.3
Others	204,841	0.7	163,005	0.7	149,745	0.5
Total	27,796,811	100	27,282,211	100	24,473,273	100

b. The following tables present sales classified by geographic area for the years ended December 31, 2019, 2018 and 2017:

	2019		2018		2017	
	Ps.		Ps.		Ps.	
Mexico	15,650,299		16,040,992		13,982,287	
United States of America and Canada	6,299,291		5,928,600		5,489,456	
Asia	4,159,927		3,226,368		3,117,455	
Europe	1,053,002		1,293,453		1,142,055	
Rest of the world	634,292		792,798		742,020	
Total	27,796,811		27,282,211		24,473,273	

c. KUO has a diverse customer base in the three segments in which it mainly operates. Consequently, no customer represents more than 5% of the consolidated net sales for the years ended December 31, 2019, 2018 and 2017.

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:

	2019		2018		2017	
	Ps.		Ps.		Ps.	
Cash and cash equivalents	343,888		161,092		179,288	
Investments	1,197,188		941,885		541,845	
Total	1,541,076		1,102,977		721,133	
Investments:						
Banknote paper	1,159,808		701,881		-	
Short-term investments	37,380		240,004		268,477	
Government bonds	-		-		273,368	
Total	1,197,188		941,885		541,845	

8. ACCOUNTS AND NOTES RECEIVABLE

	2019		2018		2017	
	Ps.		Ps.		Ps.	
Trade	1,989,396		2,035,200		1,989,190	
Allowance for discounts	(153,744)		(247,123)		(399,931)	
Allowance for doubtful accounts	(38,178)		(36,193)		(61,545)	
Total	1,797,474		1,751,884		1,527,714	
Other debtors (i)	172,280		187,014		709,171	
Recoverable taxes	756,092		966,723		791,911	
Total	2,725,846		2,905,621		3,028,796	

Trade receivables

The average credit period on sales of goods is 60 days. The Entity has recognized a loss allowance of 94.33% of all receivables over 120 days past due because historical experience has indicated that these receivables are generally not recoverable. For accounts receivable that are between 60 and 120 days, an allowance is recognized for doubtful accounts based on expected loss determined for experiences of default of the counterparty and an analysis of their current financial position.

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

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

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	1,989,396
Lifetime ECL	(12,734)	(8,433)	(4,841)	(3,106)	(9,064)	(38,178)
						1,951,218

Trade receivables - days past due						
December 31, 2018	<30	31 - 60	61 - 90	91 - 120	>120	Total
Expected credit loss rate	3.69%	7.10%	10.87%	18.77%	42.86%	
Estimated total gross carrying amount at default	1,927,244	40,861	16,039	24,432	26,624	2,035,200
Lifetime ECL	(15,550)	(2,901)	(1,744)	(4,587)	(11,411)	(36,193)
						1,999,007

Trade receivables - days past due						
December 31, 2017	<30	31 - 60	61 - 90	91 - 120	>120	Total
Expected credit loss rate	3.54%	2.70%	4.28%	47.08%	44.70%	
Estimated total gross carrying amount at default	1,805,394	104,308	38,594	6,705	34,189	1,989,190
Lifetime ECL	(22,431)	(2,818)	(1,650)	(3,157)	(15,282)	(45,338)
						1,943,852

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.

	2019		2018		2017	
Balance at the beginning of the period	Ps.	(36,193)	Ps.	(45,338)	Ps.	(62,778)
Amounts written off		6,311		13,161		2,177
Accounts considered uncollectible during the year		-		-		12,235
Impairment		(8,296)		(4,016)		(13,179)
Initial application of IFRS 9		-		-		16,207
Balance at the end of the year	Ps.	(38,178)	Ps.	(36,193)	Ps.	(45,338)

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, 2019, 2018 and 2017, the Entity sold as non-recourse accounts receivables with an accumulated carrying value of US\$156,261, US\$154,140 and US\$123,437, to a bank for cash funds of US\$152,813, US\$147,909 and US\$117,538, 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 2019, 2018 and 2017, the carrying amount of short-term accounts receivable, which are current and derecognized, amounts to Ps.353,332, Ps.453,127 and Ps.468,727, respectively.

(i) On November 2013, KUO finalized the sale of its equity interest in the black carbon business to Cabot International Capital Corporation, its former partner in such business. The transaction included the sale of 59.95% of the equity interest owned by KUO. The transaction was carried out in two stages, the first of which included the sale of 45.67% of shares for US\$80 million and the conversion of the remaining capital to redeemable preference shares over a period of 5 years with an annual dividend of 6%. As part of the second stage, on November 15, 2018, KUO received the payment of US\$25 million for the exchange of the preferred shares, the collection also included the interest earned for the period.

9. INVENTORIES

	2019		2018		2017	
Finished goods and work in process	Ps.	2,638,930	Ps.	2,001,870	Ps.	1,861,184
Raw materials, supplies and other		3,322,542		3,130,613		2,275,157
		5,961,472		5,132,483		4,136,341
Allowance for obsolete and slow-moving inventories		(248,275)		(231,287)		(287,483)
Goods in transit		81,114		143,968		72,999
	Ps.	5,794,311	Ps.	5,045,164	Ps.	3,921,857

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

	2019		2018		2017	
Balances at the beginning of the year	Ps.	(231,287)	Ps.	(287,483)	Ps.	(347,325)
Increase in the allowance		(37,172)		(61,274)		(73,306)
Application		10,441		106,447		133,148
Decreases		9,743		11,023		-
Balances at the end of the year	Ps.	(248,275)	Ps.	(231,287)	Ps.	(287,483)

The cost of inventories recognized as an expense during the year in respect to continuing operations was Ps.17,240,067, Ps.17,096,974 and Ps.15,000,550 for the years ended December 31, 2019, 2018 and 2017, respectively.

10. BIOLOGICAL ASSETS

	2019		2018		2017	
Balances at the beginning of the year	Ps.	1,581,260	Ps.	1,166,531	Ps.	1,244,960
Production costs		6,365,942		6,159,811		5,357,570
Transfer to inventories		(6,342,875)		(5,745,082)		(5,435,999)
Balances at the end of the year	Ps.	1,604,327	Ps.	1,581,260	Ps.	1,166,531
Biological assets - short-term	Ps.	1,206,260	Ps.	1,217,425	Ps.	815,219
Biological assets - long-term		398,067		363,835		351,312
	Ps.	1,604,327	Ps.	1,581,260	Ps.	1,166,531

Principal risks in the hogs' operation:

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

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

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

11. PROPERTY, PLANT AND EQUIPMENT

a. Reconciliation of beginning and ending balances at December 31, 2019, 2018 and 2017 is as follows:

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

	Balance as of December 31, 2017	Additions	Disposals	Transfer of assets classified as held for sale to property, plant and equipment	Impairment	Transferred assets	Translation effect	Balance as of December 31, 2018
Investment:								
Land	Ps. 1,083,794	Ps. 23,050	Ps. -	Ps. -	Ps. -	Ps. 83,635	Ps. (4,244)	Ps. 1,186,235
Building and installations	3,765,993	25,759	(240)	-	-	2,068,090	(20,257)	5,839,345
Industrial machinery and equipment	8,526,608	99,965	(87,703)	-	-	1,713,712	(20,845)	10,231,737
Office furniture and equipment	165,074	7,669	(294)	-	-	6,178	(2,578)	176,049
Vehicles	194,893	433	(12,692)	-	-	81,416	(8)	264,042
Other assets	4,234	-	-	-	-	-	-	4,234
Projects-in-progress	3,465,068	3,198,589	-	-	-	(3,953,031)	(31,216)	2,679,410
Total investment	17,205,664	3,355,465	(100,929)	-	-	-	(79,148)	20,381,052
Depreciation:								
Building and installations	(1,245,784)	(145,793)	26	-	-	-	5,040	(1,386,511)
Industrial machinery and equipment	(5,672,784)	(445,668)	84,784	-	-	-	40,819	(5,992,849)
Office furniture and equipment	(116,390)	(9,583)	246	-	-	-	2,611	(123,116)
Vehicles	(116,540)	(39,920)	7,264	-	-	-	(3)	(149,199)
Other assets	(1,838)	-	-	-	-	-	(1)	(1,839)
Total accumulated depreciation	(7,153,336)	(640,964)	92,320	-	-	-	48,466	(7,653,514)
Net investment	Ps. 10,052,328	Ps. 2,714,501	Ps. (8,609)	Ps. -	Ps. -	Ps. -	Ps. (30,682)	Ps. 12,727,538

	Balance at the beginning of 2017	Additions	Disposals	Transfer of assets classified as held for sale to property, plant and equipment	Impairment	Transferred assets	Translation effect	Balance as of December 31, 2017
Investment:								
Land	Ps. 1,151,700	Ps. 195	Ps. (45,738)	Ps. (10,377)	Ps. -	Ps. 26,639	Ps. (38,625)	Ps. 1,083,794
Building and installations	3,691,952	10,644	(6,955)	(41,233)	-	169,432	(57,847)	3,765,993
Industrial machinery and equipment	8,746,147	15,020	(234,532)	-	-	343,228	(343,255)	8,526,608
Office furniture and equipment	162,768	3,097	(526)	-	-	962	(1,227)	165,074
Vehicles	147,178	929	(4,223)	-	-	51,084	(75)	194,893
Other assets	4,234	-	-	-	-	-	-	4,234
Projects-in-progress	1,083,411	2,966,280	-	-	-	(591,345)	6,722	3,465,068
Total investment	14,987,390	2,996,165	(291,974)	(51,610)	-	-	(434,307)	17,205,664
Depreciation:								
Building and installations	(1,160,272)	(130,324)	2,502	31,396	-	-	10,914	(1,245,784)
Industrial machinery and equipment	(5,748,554)	(394,219)	197,229	5,581	(16,635)	-	283,814	(5,672,784)
Office furniture and equipment	(109,279)	(8,347)	526	-	-	-	710	(116,390)
Vehicles	(88,364)	(30,541)	2,347	-	-	-	18	(116,540)
Other assets	(1,838)	-	-	-	-	-	-	(1,838)
Total accumulated depreciation	(7,108,307)	(563,431)	202,604	36,977	(16,635)	-	295,456	(7,153,336)
Net investment	Ps. 7,879,083	Ps. 2,432,734	Ps. (89,370)	Ps. (14,633)	Ps. (16,635)	Ps. -	Ps. (138,851)	Ps. 10,052,328

As of December 31, 2019, 2018 and 2017, the Entity has no idle assets.

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

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

12. RIGHT-OF-USE ASSET

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

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

	2019
Cost	Ps. 2,014,167
Accumulated depreciation	(250,299)
	Ps. 1,763,868

	Building	Computer equipment	Machinery and equipment	Transportation equipment	Airplane	Total
Cost:						
Balances as of December 31, 2018	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -	Ps. -
Initial application IFRS-16	1,505,110	21,809	43,333	210,981	148,617	1,929,850
Acquisitions	74,024	3,792	2,336	16,786	-	96,938
Disposals	(5,906)	-	(936)	(569)	-	(7,411)
Translation effect	(5,195)	176	-	(191)	-	(5,210)
Balances as of December 31, 2019	Ps. 1,568,033	Ps. 25,777	Ps. 44,733	Ps. 227,007	Ps. 148,617	Ps. 2,014,167

	Building		Computer equipment		Machinery and equipment		Transportation equipment		Airplane		Total	
Accumulated depreciation:												
Balances as of December 31, 2018	Ps.	-	Ps.	-	Ps.	-	Ps.	-	Ps.	-	Ps.	-
Depreciation		(144,410)		(6,396)		(9,284)		(61,753)		(29,723)		(251,566)
Disposals		185		-		134		225		-		544
Translation effect		687		-		-		36		-		723
Balances as of December 31, 2019	Ps.	(143,538)	Ps.	(6,396)	Ps.	(9,150)	Ps.	(61,492)	Ps.	(29,723)	Ps.	(250,299)

Amounts recognized as expenses in results:

	2019
Depreciation right-of-use asset	Ps. 251,566
Interest on lease liability	125,045
Short-term leases	152,783

Total cash outflows for leases amounted to Ps.321,265 in 2019.

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

Building and installations	6.47%
Computer equipment	3.71%
Machinery and equipment	6.80%
Transportation equipment	7.21%
Airplane	4.12%

13. SUBSIDIARIES

a. *KUO's main subsidiaries - As of December 31, 2019, 2018 and 2017 are as follow:*

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

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

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

Segment	Location	Number of subsidiaries with a 100% equity interest		
		2019	2018	2017
Consumer	Mexico	3	3	3
Chemical	Mexico	3	2	2
Automotive	Mexico and United States of America	9	9	9
KUO and other (i)	Mexico	8	8	8

Segment	Location	Number of subsidiaries with stock participation of other shareholders		
		2019	2018	2017
Automotive	Mexico and Belgium	1	1	1

14. INVESTMENTS IN JOINT VENTURES

	2019		2018		2017	
Investments in joint ventures	Ps.	11,334,719	Ps.	11,224,716	Ps.	10,381,475
Other investments		1,361		1,361		1,361
	Ps.	11,336,080	Ps.	11,226,077	Ps.	10,382,836

Joint ventures

a. As of December 31, 2019, 2018 and 2017, the balance of investments in joint ventures is as follows:

	2019		2018		2017	
	Location	Activity	% 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. 5,964,699	50.00%	Ps. 5,764,277
Synthetic rubber (i)	Mexico and Spain	Production of synthetic rubber	50%	5,370,020	50.00%	5,460,439
				Ps. 11,334,719		Ps. 11,224,716
						Ps. 10,381,475

(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:

	2019		2018		2017	
Balance as of January 1	Ps.	11,224,716	Ps.	10,381,475	Ps.	8,181,454
Equity increase (i)		-		-		1,238,151
Participation in the results of the period		1,034,553		1,283,952		991,592
Dividend distribution		(575,823)		(321,662)		(162,373)
Participation in other comprehensive income items		(348,727)		(119,049)		132,651
Balance as of December 31	Ps.	11,334,719	Ps.	11,224,716	Ps.	10,381,475

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

	2019		2018		2017	
Equity in results						
Herdez del Fuerte, S.A. de C.V. and Subsidiaries	Ps.	595,665	Ps.	674,118	Ps.	575,638
Synthetic Rubber		438,888		609,834		415,954
Total	Ps.	1,034,553	Ps.	1,283,952	Ps.	991,592

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

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

	2019		2018		2017	
Herdez del Fuerte, S.A. de C.V. and Subsidiaries						
Current assets	Ps.	6,737,258	Ps.	6,130,996	Ps.	5,533,456
Non-current assets		10,514,343		10,154,352		9,948,076
Current liabilities		4,137,086		3,707,694		3,564,196
Non-current liabilities		387,056		238,653		242,523
Net assets		12,727,459		12,339,001		11,674,813
Non - controlling interest		(6,409)		(18,796)		(26,520)
Controlling interest net assets	Ps.	12,721,050	Ps.	12,320,205	Ps.	11,648,293
Cash and cash equivalents	Ps.	673,899	Ps.	374,004	Ps.	483,018
Revenue	Ps.	9,626,303	Ps.	9,229,296	Ps.	8,957,580
Income from operations		1,578,420		1,746,988		1,636,282
Net income		1,190,897		1,340,630		1,139,994
Net loss of non - controlling interest		(432)		(7,606)		(11,282)
Net income of controlling interest		1,191,329		1,348,236		1,151,276
The income of the period includes:						
Depreciation and amortization		307,222		231,698		227,280
Net period cost		17,219		15,871		21,257
Interest income		(49,979)		(32,716)		(20,028)
Interest expense		31,896		9,810		35,025
Income tax expense		392,816		431,460		452,758

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:

	2019		2018		2017	
Net assets of the joint venture	Ps.	12,721,050	Ps.	12,320,205	Ps.	11,648,293
Participation		50%		50%		50%
Equity of the Entity's interest in the joint venture		6,360,524		6,160,102		5,824,146
Goodwill		(395,825)		(395,825)		(395,825)
Carrying amount of the interest in the joint venture	Ps.	5,964,699	Ps.	5,764,277	Ps.	5,428,321
Net income of controlling interest	Ps.	1,191,329	Ps.	1,348,236	Ps.	1,151,276
Participation		50%		50%		50%
Profit for the period	Ps.	595,665	Ps.	674,118	Ps.	575,638

	2019		2018		2017	
Synthetic Rubber						
Current assets	Ps.	7,711,795	Ps.	8,738,716	Ps.	7,962,086
Non-current assets		6,195,175		5,879,684		6,027,366
Current liabilities		2,689,983		3,230,860		3,701,490
Non-current liabilities		476,947		466,658		381,654
Net assets controlling interest	Ps.	10,740,040	Ps.	10,920,882	Ps.	9,906,308
Cash and cash equivalents	Ps.	2,202,429	Ps.	2,365,876	Ps.	1,739,630

Revenue	Ps.	11,896,396	Ps.	14,452,708	Ps.	13,631,358
Income from operations		1,060,324		1,863,960		1,489,138
Net income		877,777		1,219,668		831,910
Net income of controlling interest		877,777		1,219,668		831,910
Income of the period includes:						
Depreciation and amortization		432,425		441,239		390,173
Interest expenses		(62,661)		(2,074)		(7,664)
Intereses income		35,219		-		-
Income tax expense		181,315		445,126		175,922

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:

	2019		2018		2017	
Net assets of the joint venture	Ps.	10,740,040	Ps.	10,920,882	Ps.	9,906,308
Participation		50%		50%		50%
Carrying amount of the interest in the joint venture	Ps.	5,370,020	Ps.	5,460,439	Ps.	4,953,154
Net income of controlling interest	Ps.	877,777	Ps.	1,219,668	Ps.	831,908
Participation		50%		50%		50%
Profit for the period	Ps.	438,888	Ps.	609,834	Ps.	415,954

15. INTANGIBLES AND OTHER ASSETS

	2019		2018		2017	
Intangible assets (a)	Ps.	5,727,764	Ps.	3,842,351	Ps.	1,303,378
Other assets (b)		240,493		232,182		217,037
	Ps.	5,968,257	Ps.	4,074,533	Ps.	1,520,415

a. Intangible assets

	Balances as of December 31, 2018	Additions	Translation effect	Disposals	Balances as of December 31, 2019
Investment:					
Projects and capitalized development costs	Ps. 3,710,279	Ps. 1,521,916	Ps. (122,552)	Ps. -	Ps. 5,109,643
Capitalized costs associated with contracts with clients	66,970	650,511	(44,079)	-	673,402
Patents and trademarks	222,362	-	-	-	222,362
Licenses	179,181	26,848	852	(23,768)	183,113
Total	4,178,792	2,199,275	(165,779)	(23,768)	6,188,520
Accumulated amortization:					
Projects and capitalized development costs	(205,747)	(106,730)	(783)	-	(313,260)
Patents and trademarks	(84,982)	-	-	-	(84,982)
Licenses	(45,712)	(16,833)	31	-	(62,514)
Total	(336,441)	(123,563)	(752)		(460,756)
	Ps. 3,842,351	Ps. 2,075,712	Ps. (166,531)	Ps. (23,768)	Ps. 5,727,764

	Balances as of December 31, 2017		Additions	Translation effect		Disposals	Balances as of December 31, 2018				
Investment:											
Projects and capitalized development costs	Ps.	1,251,495	Ps.	2,402,111	Ps.	56,673	Ps.	-	Ps.	3,710,279	
Capitalized costs associated with contracts with clients		-		65,217		1,753				66,970	
Patents and trademarks		222,362		-		-				222,362	
Licenses		155,278		23,903		-				179,181	
Total		1,629,135		2,491,231		58,426				-	4,178,792
Accumulated amortization:											
Projects and capitalized development costs		(199,787)		(5,960)		-				-	(205,747)
Patents and trademarks		(84,982)		-		-				-	(84,982)
Licenses		(40,988)		(4,724)		-				-	(45,712)
Total		(325,757)		(10,684)		-				-	(336,441)
	Ps.	1,303,378	Ps.	2,480,547	Ps.	58,426	Ps.	-	Ps.	3,842,351	

	Balance as of the beginning of 2017		Additions	Translation effect		Disposals	Balances as of December 31, 2017			
Investment:										
Projects and capitalized development costs	Ps.	264,274	Ps.	932,024	Ps.	55,197	Ps.	-	Ps.	1,251,495
Patents and trademarks		222,362		-		-				222,362
Licenses		152,650		6,202		-		(3,574)		155,278
Total		639,286		938,226		55,197		(3,574)		1,629,135
Accumulated amortization:										
Projects and capitalized development costs		(191,599)		(8,188)		-		-		(199,787)
Patents and trademarks		(82,122)		(2,860)		-		-		(84,982)
Licenses		(37,911)		(3,077)		-		-		(40,988)
Total		(311,632)		(14,125)		-		-		(325,757)
	Ps.	327,654	Ps.	924,101	Ps.	55,197	Ps.	(3,574)	Ps.	1,303,378

The useful lives of intangible assets are as follows:

Projects and capitalized development costs	5 - 20 years
Capitalized costs associated with contracts with clients	Based on the maturity of the contracts
Licencias	15 years
Patentes y marcas	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 2019, 2018 and 2017, investments were made for Ps.1,404 million, Ps.2,362 million and Ps.899 million, respectively.

b. Other assets

	2019		2018		2017	
Guarantee deposits	Ps.	155,062	Ps.	152,660	Ps.	136,950
Artworks		76,883		76,883		76,883
Goodwill		1,422		1,970		2,474
Others		7,126		669		730
	Ps.	240,493	Ps.	232,182	Ps.	217,037

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, 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		
	2019	2018	2017	2019	2018	2017
US dollars	69,836	28,031	45,790	683,194	590,492	489,856

(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.

	2019		2018		2017	
Results	Ps.	1,161,976	Ps.	1,107,086	Ps.	878,660 (i)

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

(ii) Interest rate risk management

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

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

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

The result would decrease/increase in 2019 Ps.32,411, in 2018 Ps.26,984 and in 2017 Ps.4,979. 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, 2019 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 2019, 2018 and 2017.

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

December 31, 2018	Internal credit rating	12-month or lifetime ECL	Gross carrying amount (i)	Loss allowance	Net carrying amount (i)
Accounts receivable	Performing	12-month	2,035,200	(36,193)	1,999,007
Other debtors	Performing	12-month	187,014	-	187,014
Accounts receivable from related parties	Performing	12-month	149,814	-	149,814
Other accounts receivable non-current	Performing	12-month	26,804	-	26,804
Accounts receivable from related parties non-current	Performing	12-month	122,234	-	122,234

December 31, 2017	Internal credit rating	12-month or lifetime ECL	Gross carrying amount (i)	Loss allowance	Net carrying amount (i)
Accounts receivable	Performing	12-month	1,989,190	(61,545)	1,927,645
Other debtors	Performing	12-month	709,171	-	709,171
Accounts receivable from related parties	Performing	12-month	140,431	-	140,431
Other accounts receivable non-current	Performing	12-month	32,896	-	32,896
Accounts receivable from related parties non-current	Performing	12-month	119,371	-	119,371

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

d. Liquidity risk management

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

Liquidity and interest risk tables

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

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

As of December 31, 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	-	-	-	21,355
Total	Ps. 9,836,741	Ps. 752,140	Ps. 4,909,999	Ps. 18,229,344	Ps. 33,728,224

As of December 31, 2018	Six months	One year	1 and 3 years	More than 3 years	Total
Bank loans including the current portion of long-term debt	Ps. 221,881	Ps. 582,297	Ps. 5,795,584	Ps. 14,232,664	Ps. 20,832,426
Notes and accounts payable to suppliers	6,339,516	-	-	-	6,339,516
Other payables and accrued liabilities	1,940,574	-	-	-	1,940,574
Accounts payable to related parties	25,469	-	-	-	25,469
Total	Ps. 8,527,440	Ps. 582,297	Ps. 5,795,584	Ps. 14,232,664	Ps. 29,137,985

As of December 31, 2017	Six months	One year	1 and 3 years	More than 3 years	Total
Bank loans including the current portion of long-term debt	Ps. -	Ps. 604,130	Ps. 1,927,393	Ps. 13,390,763	Ps. 15,922,286
Notes and accounts payable to suppliers	5,087,401	-	-	-	5,087,401
Other payables and accrued liabilities	1,914,766	-	-	-	1,914,766
Accounts payable to related parties	13,709	-	-	-	13,709
Total	Ps. 7,015,876	Ps. 604,130	Ps. 1,927,393	Ps. 13,390,763	Ps. 22,938,162

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

	2019		2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities at amortized cost (level 2)						
Bank loans and current portion of long-term debt (1)	Ps. (15,590,184)	Ps. (16,513,194)	Ps. (14,535,973)	Ps. (14,255,618)	Ps. (9,788,937)	Ps. (10,475,624)
Derivatives designated as hedging instruments (level 2)						
Forwards (2)	-	-	3,922	3,922	5,467	5,467
Total	Ps. (15,590,184)	Ps. (16,513,194)	Ps. (14,532,051)	Ps. (14,251,696)	Ps. (9,783,470)	Ps. (10,470,157)

(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 which influence the Entity's operations.

Outstanding transactions at year end, performed with foreign currency forwards and corn options are below

Instrument 2018	Notional Amount	Unit	Maturity	Asset (liability)
Option	2,095,000	Maíz	Febrero 2019	Ps. 4,527
Forward	5,000,000	Dólar	Enero 2019	(605)
			Total	Ps. 3,922

Instrumento 2017	Monto notional	Unidad	Vencimiento	Activo
Forward	5,000,000	Dólar	Julio 2018	Ps. 5,467

As of December 31, 2019, 2018 and 2017, the effect in other comprehensive income (loss) is Ps.423, Ps.(4,250) and Ps.3,827 net of deferred tax, respectively.

19. BANK LOANS

	2019		2018		2017
I) Senior Notes 2027	Ps.	8,435,517	Ps.	8,755,445	Ps. 8,793,214
II) Bank of America committed line		3,296,913		-	-
III) HSBC simple credit		1,500,803		-	-
IV) Syndicated credit		861,502		-	-
V) BBVA Bancomer simple credit		822,920		1,489,230	-
VI) Bank of America committed line		672,529		383,817	-
VII) Bancomext simple credit		-		995,533	995,723
VIII) Club Deal committed line		-		1,771,461	-
IX) Scotiabank committed line		-		590,487	-
X) Sumitomo committed line		-		550,000	-
		15,590,184		14,535,973	9,788,937
Less - Bank loans and current portion of long-term debt		(276,968)		(171,275)	-
Long-term debt	Ps..	15,313,216	Ps.	14,364,698	Ps. 9,788,937

a. Summary of loan agreements:

- I) Senior Notes 2027 - Bonds for US450 million, accruing interest at a fixed rate of 5.75%, issued in international markets in July 2017, and maturing in July 2027. Accrues interest every 180 days in the months of January and July (certain subsidiaries are pledged as collateral).

- II) Bank of America committed line - Contracted in March 2019 with Bank of America, N.A., for US175 million. Pay interest at LIBOR rate + 1.40%, with a maturity of 5 years.

- III) Simple credit - With HSBC México, S.A. for Ps.1,500 million granted in July 2019 and pays interest quarterly to TIIE at 91 days + 1.45%, with increasing amortizations over 6 years beginning in 2021.

- IV) Syndicated loan - Signed on April 10, 2019, in which HSBC Bank USA, N.A., Bank of America, N.A., HSBC México, S.A., BBVA Bancomer, S.A., Mizuho Bank México, S.A., Mizuho Bank, LTD., Sumitomo Mitsui Banking Corporation, SMBC, S.A.P.I. de C.V. SOFOM, E.N.R., Banco Nacional de México, S.A. and Cooperative Rabobank, U.A. New York Branch, act as lending banks of a line of credit for up to US200 million and Ps.1,892 million. Pay interest according to its provisions at LIBOR rate + 1.50% for US dollars and TIIE at 91 days + 1.60% for Mexican pesos, with a maturity of 5 years.

- V) Simple credit - Credit with BBVA Bancomer for Ps.1,500 million granted in June 2018. This loan pays interest at a rate of 28-day TIIE + 1.60%, with 7 year increasing amortizations, beginning in 2019. The resources of this credit were used to cover investment in new projects.

- VI) Bank of America committed line - Credit obtained in March 2018 with Bank of America, N.A., for US40 million. This loan pays interest at LIBOR + 1.60%, maturing at 5 years, with 1 year of disposal and 4 years of linear amortization beginning in 2019. The subsidiary TREMEC Corporation is the accredited one and KUO and some subsidiaries serve as guarantors. The resources of this credit are used to cover the accredited's cash flows requirements.

- VII) Simple credit - Credit with Bancomext for Ps.1,000 million granted in July 2017. This credit paid interest quarterly at a rate of 91-day TIIE + 1.80%, with 10 year increasing amortizations, beginning in 2019. The resources of this loan were used to prepay in 2019 the loan with Bank of America without additional costs for the prepayment of the loan.

- VIII) Club Deal committed line - Credit signed on October 21, 2016 and restructured in February 2018, in which Bank of America, Cooperative Rabobank, U.A. New York Branch and HSBC México, S.A. act as lenders of the credit line for up to US180 million. Paid interest a rate LIBOR + 1.45, with a 3 years' maturity. The credit was prepaid in 2019 without additional costs for the prepayment of the committed line.

IX) Scotiabank committed line - Credit with The Bank of Nova Scotia in June 2018 for US\$30 million that generated interest at LIBOR rate + 1.45%, with maturity of 3 years. The resources of this credit were used to cover working capital requirements and investment in new projects. The credit was prepaid in 2019 without additional costs for the prepayment of the committed line.

X) Sumitomo committed Line - Credit signed in April 2018 with SMBC, S.A.P.I. de C.V., SOFOM, E.N.R., for Ps.700 million. This credit earned interest at 28 days TIIE + 2.20%, with a maturity of 5 years. The resources were used to cover working capital requirements and investment in new projects. The loan was prepaid in 2019 without additional costs for the prepayment of the committed line.

Long-term debt maturities as of December 31, 2019 are as follows:

2021	Ps.	477,080
2022		529,607
2023		475,696
2024		4,732,466
2025		662,850
2027		8,435,517
	Ps.	15,313,216

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

		2019	2018	2017
Current portion of long-term debt	Ps.	276,968	Ps. 171,275	Ps. -

Bank loans measured at amortized cost are net of unamortized issuance costs which as of December 31, 2019, 2018 and 2017, amount Ps.106,387, Ps.110,745, and Ps.119,022, respectively.

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

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

b. Reconciliation of liabilities arising from financing activities

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

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

	December 31, 2017	Financing cash flows, net (i)	Other changes (ii)	December 31, 2018
Bank loans	Ps. 9,788,937	Ps. 4,696,272	Ps. 50,764	Ps. 14,535,973

	Balance as of the beginning of 2017	Financing cash flows, net (i)	Other changes (ii)	December 31, 2017
Bank loans	Ps. 9,070,280	Ps. 542,580	Ps. 176,077	Ps. 9,788,937

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

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

20. OTHER ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018	2017
Provisions (i)	Ps. 174,058	Ps. 730,722	Ps. 770,955
Tax liabilities	471,714	394,108	598,665
Others creditors	1,934,034	1,641,315	1,626,520
Current portion of tax consolidation deferred taxes (Note 24)	268,581	274,534	107,859
Interest payable	318,497	288,306	277,817
Dividends payable	211,881	10,953	10,429
Direct employee benefits	352,342	371,252	385,569
	Ps. 3,731,107	Ps. 3,711,190	Ps. 3,777,814

		2019		2018		2017	
Provisions (i)							
Beginning balance as of January 1	Ps.	730,722	Ps.	770,955	Ps.	968,781	
Increase		49,864		88,561		148,989	
Applications		(112,759)		(108,370)		(241,479)	
Cancellation		(493,769)		(20,424)		(105,336)	
Final balance as of December 31	Ps.	174,058	Ps.	730,722	Ps.	770,955	

The provisions recorded as of December 31, 2019, 2018 and 2017 include the reserve for products' warranty.

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

21. EMPLOYEE BENEFITS

		2019		2018		2017	
a. Defined contribution plans for retirement benefits	Ps.	68,062	Ps.	54,300	Ps.	45,100	
b. Defined benefit plans		600,505		545,589		577,732	
Total	Ps.	668,567	Ps.	599,889	Ps.	622,832	

a. Defined contribution plans for retirement benefits

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

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

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

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

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

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

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

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

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

		2019		2018		2017	
Defined contribution plans for retirement benefits	Ps.	68,062	Ps.	54,300	Ps.	45,100	

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 7.75%, 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, 2019 by Mr. Fernando Rodriguez Zamora, member of Asociación Mexicana de Actuarios Consultores, A. C. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

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

	2019	2018	2017
	%	%	%
Discount rate	7.75	8.30	6.80
Expected rate of salary increase	5.00	4.00	5.00
Expected return on plan assets	7.75	8.30	6.80
Average longevity at retirement age for current pensioners (years)			
Males	22.03	21.28	20.55
Females	24.24	24.12	23.03

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

	2019	2018	2017
Service cost:			
Current service cost	Ps. 18,681	Ps. 17,489	Ps. 14,651
Cost (income) past services	-	7,050	662
Financial cost	41,522	37,560	36,096
Reductions and early settlement	(1,276)	-	(34,366)
Interest income	(1,585)	(1,452)	(1,527)
Components of defined benefits costs recognized in profit or loss (continuing and discontinued operations)	Ps. 57,342	Ps. 60,647	Ps. 15,516

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:

		2019		2018		2017	
Cost of sales	Ps.	20,872	Ps.	19,765	Ps.	10,547	
Operating expenses		36,470		40,882		4,969	
Total	Ps.	57,342	Ps.	60,647	Ps.	15,516	

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:

		2019		2018		2017	
Present value of defined benefit obligation	Ps.	646,384	Ps.	598,637	Ps.	635,808	
Fair value of plan assets		(45,879)		(53,048)		(58,076)	
Net liabilities generated by the defined benefit obligation	Ps.	600,505	Ps.	545,589	Ps.	577,732	

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

		2019		2018		2017	
Opening balance of defined benefit obligation	Ps.	598,637	Ps.	635,808	Ps.	664,982	
Current service cost		18,681		17,489		14,651	
Interest cost		41,522		37,560		36,096	
Actuarial (gains) and losses arising from changes in financial assumptions		73,669		(4,214)		11,979	
Cost of past service including losses (gains) on reductions		-		7,050		662	
Contributions from plan affiliates		650		680		489	
Early settlement		(1,276)		-		(34,366)	
Translation effect		(5,038)		(3,081)		5,631	
Benefits paid		(80,461)		(92,655)		(64,316)	
Ending balance of defined benefit obligation	Ps.	646,384	Ps.	598,637	Ps.	635,808	

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

		2019		2018		2017	
Opening balance of fair value of plan assets	Ps.	53,048	Ps.	58,076	Ps.	49,513	
Interest income		1,585		1,452		1,527	
Remeasurement gains (losses)		702		2,355		163	
Contributions from employer		9,163		9,544		6,471	
Recovery of Trust's funds		(9,516)		(14,606)		-	
Contributions from employees		650		680		489	
Benefits paid		(6,877)		(2,905)		(2,985)	
Translation effect		(2,876)		(1,548)		2,898	
Ending balance of the fair value of plan assets in financial institutions	Ps.	45,879	Ps.	53,048	Ps.	58,076	

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:

		2019		2018		2017	
Changes in demographic assumptions	Ps.	1,265	Ps.	7,523	Ps.	7,571	
Changes in financial assumptions		45,036		(34,242)		(9,763)	
Experience		26,666		20,150		14,008	
Actuarial loss (gain)	Ps.	72,967	Ps.	(6,569)	Ps.	11,816	

If the discount rate is 50 basis points higher (lower), the defined benefit obligation would decrease by Ps.25,674 (increase by Ps.27,993).

If the expected salary growth increases (decreases) by 0.5%, the defined benefit obligation would increase by Ps.3,112 (decrease by Ps.3,054)..

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

22. STOCKHOLDERS' EQUITY

Contributed capital

As of December 31, 2019, 2018 and 2017, capital stock is represented by:

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

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

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

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

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

The net amount of repurchased shares is recorded in the share repurchase fund and represents the repurchase and sale transactions of treasury shares; those that originated a increase (decrease) of Ps.(19,667), Ps.80,513 and Ps.(293,854) at December 31, 2019, 2018 and 2017, respectively.

As of December 31, 2019, 2018 and 2017 there are 15,883,951, 15,429,115 and 17,464,281 treasury shares, respectively.

As of December 31, 2019, 2018 and 2017 there are no common shares with potential dilution effects.

Legal reserve:

The General Corporate Law, amounting to 20% of the nominal share capital, is not subject to distribution to the shareholders during the existence of the Entity, except in its dissolution. As of December 31, 2019, 2018 and 2017, KUO's reserve fund amounts to Ps.108,083.

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.

23. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

		2019		2018		2017
Revenues -						
Sales	Ps.	697,921	Ps.	916,687	Ps.	885,147
Administrative services rendered	Ps.	154,110	Ps.	158,484	Ps.	167,657
Sales of fixed assets	Ps.	-	Ps.	-	Ps.	103,396
Interest income	Ps.	3,397	Ps.	3,392	Ps.	37,519
Sales of shares	Ps.	-	Ps.	-	Ps.	18,422
Air transportation	Ps.	11,234	Ps.	10,972	Ps.	11,107
Recovery of expenses	Ps.	56,810	Ps.	1,791	Ps.	77
Expenses -						
Purchase of inventories	Ps.	107,632	Ps.	125,604	Ps.	69,005
Administrative services received	Ps.	1,693	Ps.	1,554	Ps.	7,855
Interest expense	Ps.	-	Ps.	-	Ps.	3,364
Others	Ps.	176	Ps.	409	Ps.	176

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

		2019		2018		2017
Accounts receivable -						
Short-term:						
Dynasol Elastómeros, S.A. de C.V.	Ps.	82,224	Ps.	87,549	Ps.	70,635
Industrias Negromex, S.A. de C.V.		42,139		55,836		60,428
Herdez del Fuerte, S.A. de C.V.		6,059		2,434		5,375
Dine 28, S.A. de C.V.		17,186		1,680		2,562
Fernando Senderos Mestre		603		626		629
Dynasol Gestión México, S.A.P.I. de C.V.		2,023		1,255		88
Plaza Bosques, S.A. de C.V.		402		388		-
Promociones Bosques, S.A. de C.V.		17,818		-		-
Dynasol Altamira, S.A. de C.V.		1,113		46		166
Dynasol, LLC		-		-		112
Others		-		-		436
	Ps.	169,567	Ps.	149,814	Ps.	140,431
Long-term:						
Fideicomiso de Administración con Actividad Empresarial F/3293	Ps.	104,960	Ps.	107,775	Ps.	107,062
Promociones Bosques, S.A. de C.V.		-		14,459		12,309
	Ps.	104,960	Ps.	122,234	Ps.	119,371

Accounts payable -						
Short-term:						
Dynasol Elastómeros, S.A. de C.V.	Ps.	19,228	Ps.	19,928	Ps.	12,666
Industrias Negromex, S.A. de C.V.		1,704		5,066		706
Dynasol Altamira, S.A. de C.V.		-		303		-
Cantiles de Mita, S.A. de C.V.		423		172		-
Dine 28, S.A. de C.V.		-		-		337
	Ps.	21,355	Ps.	25,469	Ps.	13,709

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

24. INCOME TAXES

The Entity is subject to ISR. Under the ISR Law the rate for 2019, 2018 and 2017 was 30% and will continue at 30% thereafter.

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

		2019		2018		2017
ISR:						
Current	Ps.	357,142	Ps.	350,211	Ps.	572,368
Difference from previous years		1,272		(435)		2,264
		358,414		349,776		574,632
Inflation effect of deconsolidation deferred tax		23,558		46,580		88,130
Deferred		(148,677)		419,141		21,366
		(125,119)		465,721		109,496
Total ISR	Ps.	233,295	Ps.	815,497	Ps.	684,128

b. Deferred tax recognized in other comprehensive income:

		2019		2018		2017
Financial instruments	Ps.	(114)	Ps.	(1,822)	Ps.	1,640
Employee benefits		21,957		1,499		(5,291)
Exchange rate difference		(24,559)		(1,649)		(38,090)
Total deferred taxes	Ps.	(2,716)	Ps.	(1,972)	Ps.	(41,741)

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:

	2019		2018		2017	
Deferred income tax asset	Ps.	819,754	Ps.	478,049	Ps.	770,664
Deferred income tax liability		1,033,771		838,027		714,610
Deferred income tax (liability) asset	Ps.	(214,017)	Ps.	(359,978)	Ps.	56,054

d. *Tax assets and liabilities:*

	2019		2018		2017	
Assets:						
ISR	Ps.	112,820	Ps.	215,505	Ps.	176,736
Liabilities:						
ISR	Ps.	98,241	Ps.	45,644	Ps.	130,156
Deferred income tax arising from tax consolidation current liabilities		745,123		998,147		1,061,052
	Ps.	843,364	Ps.	1,041,791	Ps.	1,191,208

e. *Deferred tax balances:*

The tax effects of temporary differences that generated assets (liabilities) of deferred taxes at December 31, 2019, 2018 and 2017, are as follows:

	December 31, 2018		Recognized in profit or loss for the year		Other comprehensive income items		December 31, 2019	
Deferred ISR asset:								
Effect of tax loss carryforwards	Ps.	390,962	Ps.	69,024	Ps.	(5,872)	Ps.	454,114
Reserves and provisions		449,321		123,895		(13,754)		559,462
Advances from customers		21,834		(1,575)		(497)		19,762
Employee benefits		129,896		(6,563)		21,957		145,290
Simplified tax regime on purchases and sales		362,225		(38,030)		(405)		323,790
Lease liability		-		875,124		2,343		877,467
Others		18,753		(101)		-		18,652
Deferred ISR asset		1,372,991		1,021,774		3,772		2,398,537

	December 31, 2018		Recognized in profit or loss for the year		Other comprehensive income items		December 31, 2019	
Deferred ISR liability:								
Inventories		(742,732)		(100,415)		526		(842,621)
Property, plant and equipment		(993,544)		62,707		(13,871)		(944,708)
Right-of-use asset		-		(850,796)		(2,640)		(853,436)
Deferred income		91,761		124,157		2,573		218,491
Prepaid expenses		(38,758)		(709)		1,079		(38,388)
Financial instruments		(1,176)		1,358		(114)		68
Intangible assets		(48,520)		(109,399)		5,959		(151,960)
Deferred ISR liability		(1,732,969)		(873,097)		(6,488)		(2,612,554)
Total deferred ISR asset (liability), net	Ps.	(359,978)	Ps.	148,677	Ps.	(2,716)	Ps.	(214,017)

	December 31, 2017		Initial application of IFRS 9 (Retained earnings)		Recognized in profit or loss for the year		Other comprehensive income items		December 31, 2018	
Deferred ISR asset:										
Effect of tax loss carryforwards	Ps.	399,881	Ps.	-	Ps.	(8,919)	Ps.	-	Ps.	390,962
Reserves and provisions		573,723		1,137		(126,641)		1,102		449,321
Advances from customers		41,642		-		(19,808)		-		21,834
Employee benefits		140,923		-		(9,528)		(1,499)		129,896
Simplified tax regime on purchases and sales		178,935		-		183,290		-		362,225
Others		18,476		-		277		-		18,753
Deferred ISR asset		1,353,580		1,137		18,671		(397)		1,372,991

	December 31, 2017	Initial application of IFRS 9 (Retained earnings)	Recognized in profit or loss for the year	Other comprehensive income items	December 31, 2018
Deferred ISR liability:					
Inventories	(544,060)	-	(198,672)	-	(742,732)
Property, plant and equipment	(776,365)	-	(217,726)	547	(993,544)
Deferred income	76,761	-	15,000	-	91,761
Prepaid expenses	(66,537)	-	27,779	-	(38,758)
Financial instruments	(1,640)	-	(1,358)	1,822	(1,176)
Intangible assets	14,315	-	(62,835)	-	(48,520)
Deferred ISR liability	(1,297,526)	-	(437,812)	2,369	(1,732,969)
Net deferred ISR asset (liability), net	Ps. 56,054	Ps. 1,137	Ps. (419,141)	Ps. 1,972	Ps. (359,978)

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

f. Tax loss carryforwards:

As of December 31, 2019, 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
2022	Ps. 46,107
2024	557,784
2025	411,406
2026	1,052,245
2027	356,309
2028	766,095
Total	Ps. 3,189,946

In determining deferred income taxes as of December 31, 2019, 2018 and 2017 the effects of tax loss carryforwards were included for Ps.3,189,946, Ps.2,833,808 and Ps.2,244,237, respectively. In the determination of deferred income taxes as of December 31, 2019, 2018 and 2017 the effects of deferred tax assets related to the carryforward of tax losses not recognized amounted to Ps.1,676,233, Ps.1,530,601 and Ps.911,300, respectively, because Management believes it is unlikely that the benefits of such losses will be realized.

g. Tax consolidation:

The income tax liability at December 31, 2019 related to the effects of benefits and tax deconsolidation shall be paid in the following years:

Year	Amount
2020 (Note 20)	Ps. 268,581
2021 and thereafter	476,542
	Ps. 745,123

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:

	2019		2018		2017	
Income tax at statutory rate	Ps.	739,146	Ps.	893,466	Ps.	721,850
Add (deduct) the effect of permanent differences:						
Non-deductible expenses		68,810		65,622		58,068
Non-taxable income		(167,365)		(20,401)		(10,031)
Annual adjustment for inflation		130,183		181,596		163,015
Tax losses, net		(105,342)		21,857		15,568
Equity in results of joint ventures		(310,364)		(385,185)		(297,478)
Tax effect on sale of shares		-		67,813		-
Translation effect of foreign operations		(153,613)		(47,086)		(22,285)
Others		8,282		(8,784)		(32,709)
		209,737		768,917		595,998
Inflation effect of deconsolidation deferred tax		23,558		46,580		88,130
Effective rate	Ps.	233,295	Ps.	815,497	Ps.	684,128

25. DISCONTINUED OPERATIONS

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

	2019		2018		2017	
Business disposition income	Ps.	-	Ps.	-	Ps.	18,422
Cost for disposal of business		-		-		(70)
	Ps.	-	Ps.	-	Ps.	18,352
Net sales	Ps.	-	Ps.	-	Ps.	673
Cost of sales		-		-		16,637
Selling, administration and distribution expenses		-		-		2,880
Other income (expense)		-		-		(5,335)
Financial income		2,150		47,385		1,881
Result before income taxes	Ps.	2,150	Ps.	47,385	Ps.	(3,946)

26. COSTS AND EXPENSES BY NATURE

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

	2019		2018		2017	
Cost of sales:						
Direct cost of sales	Ps.	17,240,067	Ps.	17,096,974	Ps.	15,000,550
Salaries and employee benefits		2,555,084		2,273,867		1,729,295
Freight and transportation		302,281		262,248		205,195
Maintenance fee and leasing		776,268		774,063		719,191
Electrical energy		332,439		306,654		216,794
Depreciation of right-of-use asset		113,636		-		-
Depreciation and amortization		928,951		590,658		529,076
Total	Ps.	22,248,726	Ps.	21,304,464	Ps.	18,400,101

	2019		2018		2017	
Administrative, selling and distribution expenses:						
Freight and transportation	Ps.	1,010,075	Ps.	661,567	Ps.	554,853
Salaries and employee benefits		1,453,578		1,437,321		1,361,926
Advertisement and marketing		41,606		49,361		70,417
Depreciation, amortization and impairment		85,266		60,989		48,479
Depreciation of right-of-use asset		137,930		-		-
Export costs		50,016		308,945		255,393
Maintenance fee and leasing		601,919		695,807		617,393
Electrical energy		139,234		64,439		45,186
General expenses		469,720		344,312		445,643
Total	Ps.	3,989,344	Ps.	3,622,741	Ps.	3,399,290

27. OTHER (INCOME) EXPENSES, NET

Other income item is composed as follows:

	2019		2018		2017	
Lost (income) from disposal of fixed assets	Ps.	6,639	Ps.	-	Ps.	(55,729)
Cancellation of provision		(455,606)		-		-
Income from disposal of fixed assets	Ps.	(448,967)	Ps.	-	Ps.	(55,729)

In 2015 KUO registered a provision to face contractual indemnities related to improvements and / or adaptations, mainly of the wastewater treatment plant and marine terminal of the rubber emulsion and nitrile business, which are part of the Dynasol Gestión México, S.A.P.I. de C.V. joint venture. During 2019, once the circumstances that led to such transaction have changed, such provision was canceled, generating a favorable effect on operating cash flows at a consolidated level of Ps.456 million. Such transaction did not generate cash flows.

28. COMMITMENTS AND CONTINGENCIES

Certain subsidiaries are engaged in lawsuits as plaintiffs and defendants in the regular course of operations. These lawsuits always involve uncertainty, and some of them may result in adverse judgments for the subsidiaries. While it is impossible to determine the amount involved in pending lawsuits, Management believes that based on the facts, any resulting liability would not materially affect the consolidated financial position or results of operations of the Entity or its subsidiaries.

29. SUBSEQUENT EVENT

During the first months of 2020, the Coronavirus COVID-19 appeared and its recent global expansion has motivated a series of containment measures in the different geographies where KUO operates. At the date of issuance of the consolidated financial statements, the consequences for KUO are not significant; however, the possible impacts on its consolidated financial position and on its consolidated cash flows will largely depend on the effects on local and globalized markets, as well as on the reaction and adaptation capacity of all the economic agents impacted.

30. FINANCIAL STATEMENT ISSUANCE AUTHORIZATION

The accompanying consolidated financial statements for the year ended December 31, 2019, were approved by the Chief Financial Officer of KUO Mr. Jorge Padilla Ezeta, on March 23, 2020; consequently, they do not reflect any events that occurred after such date, and are subject to approval by the Ordinary Stockholders' General Meeting of the Entity, where they may be modified in accordance with that established in the Mexican Securities Law and the General Corporate Law. The consolidated financial statements for the years ended December 31, 2018 and 2017, were approved at Ordinary Stockholders' Meeting on April 29, 2019 and April 23, 2018, respectively.

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INFORMATION ABOUT SHARES

Grupo KUO, S.A.B. de C.V. se encuentra listada en la Bolsa Mexicana de Valores, S.A.B. de C.V. en sus series "A" y "B" bajo el símbolo "KUO"

www.kuo.com.mx



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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