

**Grupo Kaltex, S. A. de  
C. V. and Subsidiaries**

Consolidated Financial Statements  
for the Years Ended December 31,  
2019, 2018 (as restated) and as  
of January 1, 2018 (as restated),  
and Independent Auditors' Report  
Dated August 17, 2020



## **Grupo Kaltex, S. A. de C. V. and Subsidiaries**

# **Independent Auditors' Report and Consolidated Financial Statements for 2019, 2018 (as restated) and as of January 1, 2018 (as restated)**

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

### **Qualified Opinion**

We have audited the accompanying consolidated financial statements of Grupo Kaltex, S. A. de C. V. and Subsidiaries (the "Entity"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018 (as restated) and as of January 1, 2018 (as restated), and the consolidated statements of loss and other comprehensive loss, 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 significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects the financial position of Grupo Kaltex, S.A. de C.V. and subsidiaries as of December 31, 2019 and 2018 (as restated) and as of January 1, 2018 (as restated), and their financial performance and their cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board.

### **Basis for Qualified Opinion**

As explained in Note 3a) and 13 of the consolidated financial statements, as of December 31, 2019 and 2018 (as restated) and as of January 1, 2018 (as restated), the Entity did not comply with certain obligations established in its credit agreements; As of December 31, 2019 the Entity did not obtain the exemptions, the long-term debt was reclassified as a current liability.

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of 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)* and 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 IMCP Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter**

We draw attention to Note 28 subsequent events in the accompanying financial statements, where the Management describes the effects known to date caused by the COVID-19 pandemic and the impact on its operation during the first months of the 2020 year. It also describes the difficulty of reliably assessing all potential future effects on its financial situation, due to the short time elapsed and the great uncertainty arising from this extraordinary health emergency. Our opinion has not been amended on this issue.

### **Other matters**

As mentioned in Note 3b, the consolidated statements attached as of December 31, 2018 (as restated) and as of January 1, 2018 (as restated) and for the years ended on those dates were adjusted retrospectively in accordance with IAS 8 "*Accounting Policies, Changes in Accounting Parameters and Errors*", the subsidiary of the Entity identified an error in deferred income tax in the accounting values of property, plant and equipment.



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

## ***Management's Responsibility and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of 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 Entity's ability 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.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

## ***Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 ISAs 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's, 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 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 Entity's internal control.
- 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 concerns 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 the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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 appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the 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 those charged with governance 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 our audit.

Galaz, Yamazaki, Ruiz Urquiza, S. C.  
Member of Deloitte Touche Tohmatsu Limited



C. P. C. Adalberto Chaparro Zúñiga  
August 17, 2020



Grupo Kaltex, S. A. de C. V. and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2019, 2018 (as restated) and as of January 1, 2018 (as restated)  
(In thousands of Mexican pesos)

	Note	2019	2018 (as restated)	January 1, 2018 (as restated)
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	5	\$ 398,730	\$ 417,291	\$ 431,734
Accounts receivables, net	6	2,368,255	2,702,461	2,440,949
Due from related parties	22	127,745	88,360	42,249
Inventories, net	7	3,624,040	3,967,173	3,533,342
Prepaid expenses		<u>191,895</u>	<u>291,053</u>	<u>260,430</u>
Total current assets		6,710,665	7,466,338	6,708,704
Non-current assets:				
Property, plant and equipment, net	8	10,329,507	11,036,901	11,546,903
Right-of-use asset	10	3,542,349	-	-
Investment properties	9	1,806,191	1,736,974	1,771,103
Deferred income tax	25	756,074	276,582	309,320
Derivate financial instruments	11	67	5,130	53,467
Other assets, net	12	<u>1,461,576</u>	<u>1,467,585</u>	<u>1,474,094</u>
Total non-current assets		<u>17,895,764</u>	<u>14,523,172</u>	<u>15,154,887</u>
Total assets		<u>\$ 24,606,429</u>	<u>\$ 21,989,510</u>	<u>\$ 21,863,591</u>

See accompanying notes to consolidated financial statements.

	Note	2019	2018 (as restated)	January 1, 2018 (as restated)
<b>Liabilities and stockholders' equity</b>				
Current liabilities:				
Bank loans	13	\$ 106,425	\$ 100,220	\$ 141,338
Current portion of long-term debt	14	152,233	102,855	278,713
Accounts payable to suppliers		3,097,864	3,387,163	2,879,940
Short-term lease liability	15	169,615	-	-
Due to related parties	22	369,679	296,362	156,586
Other accounts payable and accrued liabilities	16	1,424,571	1,415,678	1,347,018
Direct employee benefits		79,343	79,870	23,198
Advance payments from customers		<u>7,111</u>	<u>110,705</u>	<u>50,520</u>
Total current liabilities		5,406,841	5,492,853	4,877,313
Non- current liabilities:				
Long-term debt	14	5,994,134	6,456,617	6,545,840
Accounts payable to related parties	22	3,215,381	2,258,873	1,685,023
Lease liability	15	3,464,071	-	-
Retirement employee benefits	17	545,617	442,591	487,542
Labor provision	26	13,303	9,106	30,771
Deferred income tax	25	<u>1,934,253</u>	<u>1,527,565</u>	<u>1,661,040</u>
Total non - current liabilities		<u>15,166,759</u>	<u>10,694,752</u>	<u>10,410,216</u>
Total liabilities		20,573,600	16,187,605	15,287,529
Stockholders' equity:				
Capital stock	20	4,017,990	4,017,990	4,017,990
Accumulated deficit		(1,775,366)	(1,105,715)	(693,400)
Other comprehensive income		<u>(143,412)</u>	<u>130,566</u>	<u>257,501</u>
Controlling interest		2,099,212	3,042,841	3,582,091
Non-controlling interest	21	<u>1,933,617</u>	<u>2,759,064</u>	<u>2,993,971</u>
Total stockholders' equity		<u>4,032,829</u>	<u>5,801,905</u>	<u>6,576,062</u>
Total liabilities and stockholders' equity		<u>\$ 24,606,429</u>	<u>\$ 21,989,510</u>	<u>\$ 21,863,591</u>



## Grupo Kaltex, S. A. de C. V. and Subsidiaries

# Consolidated Statements of Loss and Other Comprehensive Loss

For the years ended December 31, 2019 and 2018 (as restated)

(In thousands of Mexican pesos)

	Note	2019	2018 (as restated)
Net sales	27	\$ 17,750,852	\$ 18,493,278
Cost of sales	23	<u>14,515,575</u>	<u>15,357,748</u>
Gross profit		3,235,277	3,135,530
Sales expenses	23	1,474,658	1,735,506
Administrative expenses	23	849,291	976,935
Other income, net	24	(27,848)	(166,739)
Interest expense		1,355,568	926,074
Interest income		(21,892)	(14,995)
Loss on valuation of derivative financial instruments	11	21,526	96,503
Exchange gain, net		<u>(350,882)</u>	<u>(6,763)</u>
Loss before tax		(65,144)	(410,991)
Income tax	25	<u>210,247</u>	<u>118,769</u>
Consolidated net loss		(275,391)	(529,760)
Other comprehensive income (loss), net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on employee benefits	17	(41,372)	28,974
Items that may be reclassified subsequently to profit or loss:			
Cumulative translation adjustment		<u>(320,958)</u>	<u>(265,087)</u>
Other comprehensive loss for the year, net of income tax		<u>(362,330)</u>	<u>(236,113)</u>
Consolidated comprehensive loss		<u><u>\$ (637,721)</u></u>	<u><u>\$ (765,873)</u></u>
Consolidated net loss attributable to:			
Controlling interest		\$ (180,828)	\$ (404,031)
Non-controlling interest	21	<u>(94,563)</u>	<u>(125,729)</u>
		<u><u>\$ (275,391)</u></u>	<u><u>\$ (529,760)</u></u>
Consolidated comprehensive loss attributable to:			
Controlling interest		\$ (454,806)	\$ (530,966)
Non-controlling interest		<u>(182,915)</u>	<u>(234,907)</u>
		<u><u>\$ (637,721)</u></u>	<u><u>\$ (765,873)</u></u>

See accompanying notes to consolidated financial statements.



**Grupo Kaltex, S. A. de C. V. and Subsidiaries**

## **Consolidated Statements of Changes in Stockholders' Equity**

For the years ended December 31, 2019, 2018 (as restated) and as of January 1, 2018 (as restated)

(In thousands of Mexican pesos)

	Capital stock	Accumulated deficit	Other comprehensive income (loss)		Controlling interest	Non-controlling interest	Total stockholders' equity
			Cumulative translation adjustment	Actuarial gain on employee benefits			
Balances as of January 1, 2018 (as restated)	\$ 4,017,990	\$ (847,993)	\$ 182,909	\$ 74,592	\$ 3,427,498	\$ 2,993,971	\$ 6,421,469
Deferred income tax adjustment	-	154,593	-	-	154,593	-	154,593
Balances as of January 1, 2018 (as restated)	4,017,990	(693,400)	182,909	74,592	3,582,091	2,993,971	6,576,062
Initial application of IFRS 9	-	(8,284)	-	-	(8,284)	-	(8,284)
Comprehensive loss for the year	-	(404,031)	(155,909)	28,974	(530,966)	(234,907)	(765,873)
Balances as of December 31, 2018	4,017,990	(1,105,715)	27,000	103,566	3,042,841	2,759,064	5,801,905
Dividends declared	-	(141,200)	-	-	(141,200)	-	(141,200)
Purchase of non-controlling interest	-	(347,623)	-	-	(347,623)	(642,532)	(990,155)
Comprehensive loss for the year	-	(180,828)	(232,606)	(41,372)	(454,806)	(182,915)	(637,721)
Balances as of December 31, 2019	<u>\$ 4,017,990</u>	<u>\$ (1,775,366)</u>	<u>\$ (205,606)</u>	<u>\$ 62,194</u>	<u>\$ 2,099,212</u>	<u>\$ 1,933,617</u>	<u>\$ 4,032,829</u>

See accompanying notes to consolidated financial statements.





## Grupo Kaltex, S. A. de C. V. and Subsidiaries

# Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018 (as restated)

(In thousands of Mexican pesos)

	2019	2018 (as restated)
<b>Cash flows from operating activities:</b>		
Consolidated net loss	\$ (275,391)	\$ (529,760)
Adjustments for:		
Income tax expense recognized in net loss	210,247	118,769
Loss on disposal of property, plant and equipment	33,351	1,249
Depreciation and amortization	626,920	671,884
Depreciation of right-of-use asset	299,138	-
Fair value adjustment of investment properties	(157,942)	(110,702)
Interest income	(21,892)	(14,995)
Interest expense	1,355,568	926,074
Unrealized foreign exchange, net	(519,255)	105,249
	<u>1,550,744</u>	<u>1,167,768</u>
Changes in working capital:		
(Increase) decrease in:		
Accounts receivables, net	334,206	(219,591)
Inventories, net	343,133	(433,599)
Prepaid expenses	99,158	(79,057)
Other assets, net	6,009	(14,478)
Increase (decrease) in:		
Accounts payable to suppliers	(289,299)	481,706
Accounts payable to related parties	33,932	-
Other accounts payable and accrued liabilities	(236,725)	515,822
Direct employee benefits	(527)	(528)
Advance payments from customers	(103,594)	(24,757)
Income taxes paid	(265,319)	(119,582)
Retirement employee benefits	43,922	9,983
Contingencies	4,197	(21,665)
Net cash flows generated by operating activities	<u>1,519,837</u>	<u>1,262,022</u>
Cash flows from investing activities:		
Interest received	21,892	14,995
Acquisition of property, plant and equipment	(396,019)	(514,046)
Sale of property, plant and equipment	127,424	3,026
Net cash flows used in investing activities	<u>(246,703)</u>	<u>(496,025)</u>
Cash flows from financing activities:		
Proceeds from debt	277,002	655,135
Payments of debt	(145,684)	(1,278,831)
Proceeds from related parties	-	562,114
Purchase of non - controlling interest	(25,210)	(15,203)
Lease payments and interest	(551,346)	-
Interest paid	(705,091)	(710,187)
Dividends paid	(141,200)	-
Net cash flow used in financing activities	<u>(1,291,529)</u>	<u>(786,972)</u>
Net decrease in cash and cash equivalents	(18,395)	(20,975)
Effects of exchange rate changes on the balance of cash held in foreign currencies	(166)	6,532
Cash and cash equivalents at the beginning of the year	<u>417,291</u>	<u>431,734</u>
Cash and cash equivalents at the end of the year	<u>\$ 398,730</u>	<u>\$ 417,291</u>

See accompanying notes to consolidated financial statements.



## Grupo Kaltex, S. A. de C. V. and Subsidiaries

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2019, 2018 (as restated) and as of January 1, 2018 (as restated)  
(In thousands of Mexican pesos, except as indicated)

### 1. Activities and significant events:

#### *Activities*

Grupo Kaltex, S. A. de C. V. and Subsidiaries (Kaltex or the “Entity”) is the majority shareholder of a group of entities principally engaged in the manufacturing and distribution of yarns and fabrics of all kinds of natural and synthetic fibers, the maquila and marketing of clothing and bedding for home, logistics services, as well as the operation of clothing stores.

The address of the Entity is Av. Ingenieros Militares No. 2, Colonia Empleado, C.P. 53380, Naucalpan de Juarez, Estado de México, México.

#### *Significant events*

- a. Acquisition of non-controlling interest - On June 3, 2019, Kaltex Comercial, S.A. de C.V. (subsidiary entity of Grupo Kaltex) signed an agreement to purchase shares that represent 28% of the non-controlling interest of Grupo Milano, S.A. de C.V., thereby increasing its participation in that entity to 100%. The amount of the transaction was 52.08 million U.S. dollars; the amount was recorded as an account payable to related parties (see Note 21).
- b. In April 2018, an internal restructuring of the group was carried out, through the sale of shares of Kaltex Servicios, S.A. of C.V. The transfer of 99.98% of the shares was carried out by the shareholding of Kaltex Textiles, S.A. of C.V. (intermediate holding company) in favor of Grupo Kaltex, S.A. of C.V. The price paid for the transaction was \$6,000, which was paid in cash on April 3, 2019, the transaction prices were at book values; therefore, it did not generate profits. This operation had no effect on the consolidated financial statements, since it was a transaction between related parties.

### 2. 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, amortized 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), Kaltex 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 \$3,841,487, and a lease liability for the same amount. It also resulted in a decrease in operating expenses of \$375,461, an increase in depreciation of right-of-use assets of \$299,138 and an increase in interest expenses of \$343,545.

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 (The Entity 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 \$551,346 (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 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 authorization 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.

### **3. Significant accounting policies**

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

As described in Note 13, the Entity did not comply with certain of its debt covenants, for which reason such debt should be presented within current liabilities; such debt was presented based on its original maturity. Except for the lack of presentation of certain debt as a current liability, the consolidated financial statements have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board.



b. **Restated and reclassifications**

The consolidated statements attached as of December 31, 2018 (as restated) and January 1, 2018 (as restated) and for the years ended on those dates were reclassification retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Parameters and Errors", the Entity identified an error in deferred income tax in the accounting values of property, plant and equipment. As well as classification errors in accounts receivable and bank loans due to financial factoring without resources, accounts receivable from related parties in the short and long term due to the maturity of the loan. The been restated effects are:

Consolidated Statements of financial position	December 31, 2018 previously reported	Adjustment	December 31, 2018 (as restated)
<b>Assets</b>			
Non-current assets:			
Deferred income tax:	\$ 268,849	\$ 7,733	\$ 276,582
<b>Liabilities</b>			
Deferred income tax:	\$ 1,642,368	\$ (114,803)	\$ 1,527,565
<b>Stockholder' equity</b>			
Accumulated deficit	\$ (1,228,251)	\$ 122,536	\$ (1,105,715)
Consolidated statements of loss and other comprehensive loss	December 31, 2018 previously reported	Adjustment	December 31, 2018 (as restated)
Loss before tax	\$ (410,991)	\$ -	\$ (410,991)
Income tax	86,712	32,057	118,769
Consolidated net loss	(497,703)	(32,057)	(529,760)
Other comprehensive loss for the year, net of income tax	(236,113)	-	(236,113)
Consolidated comprehensive loss	\$ (733,816)	\$ (32,057)	\$ (765,873)
Consolidated net loss attributable to:			
Controlling interest	\$ (371,974)	\$ (32,057)	\$ (404,031)
Non-controlling interest	(125,729)	-	(125,729)
	(497,703)	(32,057)	(529,760)
Consolidated comprehensive loss attributable to:			
Controlling interest	(498,909)	(32,057)	(530,966)
Non-controlling interest	(234,907)	-	(234,907)
	\$ (733,816)	\$ (32,057)	\$ (765,873)





Consolidated Statements of financial position	December 31, 2018 previously reported	Reclassifications	December 31, 2018 (as restated)
<b>Assets</b>			
Accounts receivables, net:	\$ 3,098,760	\$ (396,299)	\$ 2,702,461
<b>Liabilities</b>			
Current liabilities:			
Bank loans	\$ 496,519	\$ (396,299)	\$ 100,220
Due to related parties	1,612,126	(1,315,764)	296,362
	2,108,645	(1,712,063)	396,582
Non- current liabilities:			
Accounts payable to related parties	943,109	1,315,764	2,258,873
	\$ 3,051,754	\$ (396,299)	\$ 2,655,455
<b>Consolidated Statements of financial position</b>	<b>January 1, 2018 previously reported</b>	<b>Reclassifications</b>	<b>January 1, 2018 (as restated)</b>
<b>Assets</b>			
Accounts receivables, net:	\$ 2,928,582	\$ (487,633)	\$ 2,440,949
<b>Liabilities</b>			
Current liabilities:			
Bank loans	\$ 628,971	\$ (487,633)	\$ 141,338
Due to related parties	1,187,985	(1,031,399)	156,586
	1,816,956	(1,519,032)	297,924
Non- current liabilities:			
Accounts payable to related parties	653,624	1,031,399	1,685,023
	\$ 2,470,580	\$ (487,633)	\$ 1,982,947

c. ***Basis of measurement***

The Entity's consolidated financial statements have been prepared on the historical cost basis, except for (certain financial instruments, real estate, machinery and equipment, investment properties, intangible assets, financial assets, financial liabilities, cash and cash equivalents) that they are valued at revalued amounts or at their reasonable 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***

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 IAS 17, 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.

d. ***Basis of consolidation of the financial statements***

The consolidated financial statements incorporate the financial statements of the Entity and entities controlled by the Entity and its subsidiaries. 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 size of the Entity holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Entity, other vote 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 a subsidiary begins when the Entity obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Entity and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

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

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



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 acquirer'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.

*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 recognized in profit or loss and 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 IFRSs). 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 IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

The Entity's main subsidiaries are:

Entity	Participation 2019	Participation 2018	Activity
Kaltex Textiles, S.A. de C. V. and subsidiaries	73.7%	73.7%	Majority stockholder of a group of entities principally engaged in the manufacture and distribution of yarns and fabrics all kinds of natural and synthetic fibers, as well as the maquila and marketing of clothing and bedding for home.
Kaltex Comercial, S. A. de C. V. and subsidiaries	100%	100%	Majority stockholder of a group of entities principally engaged in buy and selling of bedding for home and clothing and operation of clothing stores.
Kaltex Internacional, S. A. de C. V. and subsidiaries	100%	100%	Majority stockholder of a group of foreign subsidiaries principally engaged in manufacturing of all kinds of fabrics, threads and marketing of apparel and bedding for home.
Kaltex Energía, S. A. de C. V. and subsidiaries	100%	100%	Majority stockholder of a group of entities principally engaged in the supply of energy to the manufacturing facilities of Manufacturas Kaltex, S. A de C.V and Kaltex Fibers, S. A de C.V., related parties



e. ***Translation of financial statements of foreign subsidiaries***

To consolidate the financial statements of foreign subsidiaries, the accounting policies of the foreign entity are converted to IFRS based on the transaction recording currency. The financial statements are translated into Mexican pesos (presentation currency), considering the following methodology:

Foreign operations with a functional currency different from the local currency and the reporting currency translate their financial statements from the recording currency to the functional currency, using the following exchange rates: 1) the closing exchange rate in effect at the statement of financial position date 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 exchange (loss) gain, net, within results. Subsequently, to translate the financial statements from the functional currency to Mexican pesos, the following exchange rates are used: 1) the closing exchange rate in effect at the statement of financial position date 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 recording and functional currencies of foreign operations as well as the exchange rates used in the different translation processes are as follows:

Entity	Recording currency	Functional currency
Kaltex North America, Inc.	U.S. Dollar	U.S. Dollar
Kaltex America, Inc.	U.S. Dollar	U.S. Dollar
Revman International, Inc.	U.S. Dollar	U.S. Dollar
Kaltex Latino América, S.A.S.	Colombian Peso	Colombian Peso
Kaltex Colombia, S. A. S.	Colombian Peso	Colombian Peso
Coltejer, S. A.	Colombian Peso	Colombian Peso
Kaltex-Argus, S. A.	Nicaraguan Cordoba	U.S. Dollar

f. ***Financial instruments***

Financial assets and financial liabilities are recognized when a group 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 profit or loss.

g. ***Financial assets***

All regular way 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 (ii) 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 (iii) 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 (see below). 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 the "finance income - interest income."



(ii) ***Equity instruments designated as at FVTOCI***

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

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).

(iii) ***Financial assets at FVTPL***

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL. Specifically:

Investments in equity instruments are classified as at FVTPL, unless the Entity designates an equity investment that is held neither for trading nor for a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

***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.

***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 60 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 expected credit losses***

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Entity's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss 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 IAS 17 *Leases*. 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 statement of financial position.

(vi) ***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.

h. ***Financial liabilities***

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

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

***Financial liabilities at FVTPL***

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



A financial liability is classified as held for trading if:

- 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' line item in profit or loss.

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

Gains or losses on financial guarantee contracts issued by the 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.

#### ***i. Derivative financial instruments***

The Entity has derivative financial instruments to manage its exposure to foreign exchange rate risks, mainly through a foreign exchange forward and option contracts. Further details of derivative financial instruments are disclosed in Note 11.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. 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.

#### ***j. Hedge accounting***

The Entity designates certain derivatives as hedging instruments with respect to foreign currency risk and interest rate risk in fair value hedges, cash flow hedges or hedges of net investments in foreign operations. The hedges of foreign currency risk in firm commitments are accounted for as cash flow hedges.



At the beginning of the hedge relationship, the Entity documents the relationship between the hedging instrument and the hedged item, together with its risk management objectives and its strategy to carry out various hedging transactions. In addition, at the beginning of the hedge and on an ongoing basis, the Entity documents whether the hedging instrument is effective to offset changes in the fair values or cash flows of the hedged item attributable to the hedged risk, which is when the coverage meet all of the following coverage effectiveness requirements:

- There is an economic relationship between the hedging instrument and the hedged item;
- The effect of credit risk does not dominate the value of the changes resulting from the economic relationship; and
- The coverage ratio of the coverage ratio is the same as that resulting from the amount of the hedged item that the Entity actually covers and the amount of the hedging instrument that the Entity actually uses to cover that amount of the hedged item.

If a hedging relationship fails to meet the hedge effectiveness requirement related to the hedging relationship, but the risk management objective for that designated hedging relationship remains the same, the Entity adjusts the hedging relationship of the hedging relationship. coverage (that is, rebalances the coverage) so that it meets the qualification criteria again.

The Entity designates the complete change in the fair value of a forward contract (that is, it includes the forward elements) as the hedging instrument for all its hedging relationships that involve forward contracts.

The Entity designates only the intrinsic value of the option contracts as a hedged item, that is, excluding the time value of the option. Changes in the fair value of the time value of the option are recognized in other comprehensive income and are accumulated in the cost of the hedge reserve. If the hedged item is related to the transaction, the time value is reclassified to profit or loss when the hedged item affects the profit or loss. If the hedged item is related to the period of time, then the accumulated amount in the cost of the hedge reserve is reclassified to profit or loss in a rational manner: The Entity applies amortization in a straight line. These reclassified amounts are recognized in profit or loss in the same item as the hedged item. If the hedged item is a non-financial item, the accumulated amount in the cost of the hedge reserve is eliminated directly from the equity and is included in the initial carrying amount of the recognized non-financial item. In addition, if the Entity expects that part or all of the accumulated loss in the cost of the hedge reserve will not be recovered in the future, that amount will be reclassified immediately to results.

#### *Fair value hedges*

The change in the fair value of qualified hedging instruments is recognized in profit or loss, except when the hedging instrument covers an equity instrument designated at fair value through other comprehensive income, in which case it is recognized in other comprehensive income.

The carrying amount of a hedged item that has not yet been measured at fair value is adjusted for the change in fair value attributable to the hedged risk with a corresponding entry in results. For debt instruments measured at fair value through other comprehensive income, the book value is not adjusted since it is at fair value, but the gain or loss of coverage is recognized in profit or loss instead of another result integral. When the hedged item is an equity instrument designated at fair value through other comprehensive income, the gain or loss of coverage remains in other comprehensive income to coincide with that of the hedging instrument.

When the gains or losses of coverage are recognized in results, they are recognized in the same item as the hedged item.

The Entity interrupts hedge accounting only when the hedge relationship (or a part of it) fails to meet the rating criteria (after rebalancing, if applicable). This includes the cases in which the hedging instrument expires or is sold, canceled or exercised. The suspension is accounted for prospectively.



### *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.

#### k. ***Cash and cash equivalents***

Consist mainly of bank deposits in checking accounts and investments in short-term securities, highly liquid, easily convertible into cash and have maturities of three months from the date of purchase and not subject to material risk of changes in value. Cash is stated at nominal value and cash equivalents are measured at fair value; fluctuations in value are recognized in earnings. The cash equivalents are represented by investments in money market funds, investment funds, bank and governmental bonds, as well as investments on demand in Mexican pesos and US dollars.

#### l. ***Inventories***

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

#### m. ***Property, plant and equipment***

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Entity's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation of property, plant and equipment is recognized in profit or loss.

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 depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

	Useful live (years)	Remaining useful live (years)
Buildings		
Infrastructure	80	48
Electric, hydraulic and related installations	40	8
Building finishes	20	-
Industrial machinery and equipment	Between 20 to 30	Between 6 to 12
Transportation equipment	4 and 5	Between 1 to 5
Office furniture and equipment	10	Between 4 to 10
Computer equipment	3	1

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

n. ***Investment property***

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. All of the Entity's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

o. ***Intangible assets***

1. ***Intangible assets acquired separately***

Intangible assets with finite useful lives that are acquired separately are carried 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 carried at cost less accumulated impairment losses.

2. ***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. (which is regarded as their cost).

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.



3. *Derecognition of intangible assets*

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

p. ***Brands***

Brands are not amortized, but they are reviewed for impairment at least annually. For the purposes of the impairment tests, they are assigned to each of the Entity's cash generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the combination. The cash-generating units to which the brands have been assigned are analyzed 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 first allocated to reduce the carrying value of any goodwill allocated to the unit and then to the other assets of the unit. the unit pro rata on the basis of the book value of each asset in the unit. An impairment loss recognized for brands is not reversed in a subsequent period. When having a cash-generating unit, the attributable amount of the impairment is included in the determination of the gain or loss in the provision.

q. ***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.

r. ***Goodwill***

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.



For the purposes of impairment testing, goodwill is allocated to each of the Entity's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is 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 its carrying amount, 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 based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

s. ***Other permanent investment***

Permanent investments made by the Entity in entities in which it has no control, joint control, significant influence are stated at acquisition cost and dividends received are recognized in profit or loss for the year except those dividends from earnings from periods before of acquisition, in which case the dividend decreases the permanent investment.

t. ***Leases***

*The Entity as lessee*

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

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

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

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

The lease liability is presented as a separate concept in current and long-term liabilities in the consolidated statement of financial position. The contractual maturities of the obligations for this concept are shown in Note 18f.

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





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

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

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

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

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

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

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

Variable income leases that do not depend on an index or rate are not included in the measurement of the lease liability and the asset for use rights. Related payments are recognized as an expense in the period in which the event or condition that triggers the payments occurs and are included in operating expenses in the consolidated statement of comprehensive income (see Note 23).

u. ***Foreign currencies***

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are generally recognized in profit or loss in the period in which they arise except for:

- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.



For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Entity's foreign operations are translated into Currency Units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Entity's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Entity are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Entity losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Entity losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

v. ***Borrowing cost***

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***

*Retirement benefits costs from termination benefits*

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement 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 and the return on plan assets (excluding interest), is reflected immediately in the 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 in profit or loss in the line item cost of sales, sales expenses or administrative expenses, according to the level of the personnel to which the cost is related. 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.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

*Short-term and other long-term employee benefits and statutory employee profit sharing ("PTU")*

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave 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 in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related 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.

*Statutory employee profit sharing ("PTU")*

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

As result of the 2014 Income Tax Law, as of December 31, 2019 and 2018, PTU is determined based on taxable income, according to Section I of Article 9 of the that Law.

x. ***Income taxes***

Income tax expense represents the sum of the tax currently payable and deferred tax.

- *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 Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

- *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 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. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

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.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The management of the Entity reviewed the Entity's investment property portfolios and concluded that none of the Entity's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, management has determined that the 'sale' presumption set out in the amendments to IAS 12 is not rebutted. As a result, the Entity has not recognized any deferred taxes on changes in fair value of the investment properties as the Entity is not subject to any income taxes on the fair value changes of the investment properties on disposal.

- *Current and deferred tax for the year*

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.



y. ***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.

z. ***Provisions***

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

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

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

aa. ***Revenue recognition***

Revenue comprises the fair value of the consideration received or receivable for the sale of goods or services in the normal course of operations, which occurs when control has been transferred to customers in exchange for the consideration to which the Entity considers, have the right to change said goods or services.

The Entity recognizes income according to the following:

- ***Sale of goods - Commercial segment***

The income from the sale of goods refers to the sale of all kinds of items of clothing for women, men and children, through commercial chains called "Milano" and "Melody". Revenues are recognized when the control of the goods it has been transferred, which happens now in which, the goods are delivered to the customers in the points of sale, where generally the payment of the price of the transaction is given immediately.

Under the standard contractual terms of the Entity, the buyer has the right to return the goods within 15 days after the sale. Due to the low percentage of returns, the Administration. Recognizes the adjustment to the income corresponding to returns until the moment in which these occur in the different points of sale. Likewise, it is considered highly probable that there will not be a significant reversion in the previously recognized accumulated income.

- ***Sale of goods - Textile Segment***

Revenue from the sale of goods refers to the variety of yarns and fabrics of all kinds of natural and artificial fibers, including yarn, denim and non-denim, as well as clothing for the home and clothing. Revenues are recognized when the control of the assets has been transferred to the clients in exchange for the consideration to which the Entity considers to be entitled in exchange for said goods or services.

When control of the goods is not transferred to the customer mainly through export sales, the revenue is not recognized, an analysis of shipping dates and delivery by order is carried out.



The Entity has different commercial conditions agreed with each client, depending on the sector of the corresponding product. To reduce the risk when granting a loan, the Entity asks its clients for a credit insurance. Additionally, national clients are subjected to a risk analysis where they are requested information on guarantees, payment experience, commercial references verification and credit bureaus. Once the required information is received by the client, the credit is authorized by the credit committee. The payment terms granted by the Entity are from 60 to 90 days.

- *Sale of goods - International Segment*

The revenues include the distribution of cloth, garments, and high-quality home decoration products, mainly in the United States, which are given directly to the client at the different points of sale, where generally the payment of the transaction price is made. It is given immediately.

Likewise, the production and distribution of fabrics for the fashion industry of products that are delivered to the Entity's warehouses or to the Entity's wholesale clients, located in South America, essentially in countries such as Colombia and Nicaragua, for which an account receivable is recognized by the Entity when the goods are delivered to wholesale customers because it represents the point in time in which the right of consideration becomes unconditional, since only the passage of time is required for the expiration of the payment.

- *Interest income*

Interest income is recognized when it is probable that the economic benefits will flow to the Entity and the amount of income can be reliably valued. Interest income is recorded on a periodic basis, with reference to the unpaid balance and the applicable effective interest rate, which is the rate that exactly discounts the estimated cash flows to be received over the expected life of the financial asset and it equals it with the net book value of the financial asset upon initial recognition.

- *Rendering of services*

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

The types of revenues described 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.

#### **4. 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 the management of the Entity 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, the directors 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. The Administration is satisfied that the control has been transferred and that the recognition of income in the current year is appropriate.

- ***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 3g). 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 6, the Expected Credit Loss "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.

- ***Contingencies***

The Entity is subject to contingent events or transactions for which it uses professional judgment in estimating the likelihood of occurrence. Judgment utilized considers the current legal status of each case as well as the opinion of legal advisers.

- ***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***

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- ***Inventory reserves - The Entity uses estimates to determine inventory reserves.*** The factors that the Entity considers in inventory reserves are the sales volumes and movements in the age of the inventories.
- ***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.

- ***Property, plant and equipment -*** The Entity reviews useful lives of property, plant and equipment at least once a year, which are defined based on technical studies prepared by internal specialized personnel which also involve external experts. The degree of uncertainty about the estimated useful lives is affected by changes in the market, production volumes and technological developments.
- ***Investment properties -*** The determination of the economic useful life and the values of the investment properties are based on the management of the administration.

The fair value of the investment properties is estimated in the technical knowledge of independent experts specialized in real estate.

- ***Impairment of non-current assets -*** The carrying value of non-current assets is reviewed for impairment if any situations or changes in circumstances indicate that the carrying value is not recoverable. If there is evidence of impairment, the asset is reviewed to determine if the carrying value exceeds its recoverable amount, in which case the asset is determined to be impaired. When evidence of impairment is identified, the Entity estimates the value in use assigned to its property, plant and equipment, and cash-generating units in the case of certain assets. The calculations of value in use require an entity to determine the future cash flows that should arise from the cash-generating units and appropriate discount rate to calculate the present value. The Entity uses cash flow projections of revenue using estimates of market conditions, pricing, and production and sales volumes.





- **Derivate financial instruments** - The fair value of financial instruments has been determined by the entity, the information available, in the market, other techniques, valuation, judgment, development, interpretation, fair values, use, assumptions, based on existing market conditions.
- **Employee benefits from retirement** - Assumptions are used to determine the best estimate of these benefits annually. Such estimates, as well as assumptions, are established jointly with independent actuaries annually. These assumptions include demographic assumptions, the discount rates and expected increases in salaries and future permanence, among others. Although it is estimated that the assumptions used are appropriate, a change in them could affect the value of assets (liabilities) for employee benefits and the income statement and other comprehensive income in the period in which it occurs.

## 5. Cash and cash equivalents

	2019	2018 (as restated)	January 1, 2018 (as restated)
Cash	\$ 398,431	\$ 416,920	\$ 429,973
Cash equivalents -			
Investment funds	45	132	1,537
Money-market funds	<u>254</u>	<u>239</u>	<u>224</u>
Total	<u>\$ 398,730</u>	<u>\$ 417,291</u>	<u>\$ 431,734</u>

## 6. Accounts receivables

	2019	2018 (as restated)	January 1, 2018 (as restated)
Trade receivables	\$ 2,037,016	\$ 2,360,529	\$ 2,006,465
Allowance for doubtful accounts	<u>(172,582)</u>	<u>(180,068)</u>	<u>(156,608)</u>
	1,864,434	2,180,461	1,849,857
Sundry debtors	26,524	79,051	75,121
Recoverable income tax	5,163	1,953	31,407
Recoverable value-added tax	361,148	324,998	392,716
Other recoverable tax	<u>110,986</u>	<u>115,998</u>	<u>91,848</u>
	<u>\$ 2,368,255</u>	<u>\$ 2,702,461</u>	<u>\$ 2,440,949</u>

### *Accounts receivable from customers and wholesalers*

The average credit term on the sale of goods is 60 days. The Entity has recognized an allowance for doubtful accounts for 4.88% of all accounts receivable with an aging of 91 days or more, due to the fact that due to experience, accounts receivable due more than 91 days are not recovered. For accounts receivable that are between 31 and 90 days old, an allowance is recognized for doubtful accounts based on expected loss determined by experiences of default of the counterparty and an analysis of its 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. The 81% 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.



***Age of receivables that are past due but not impaired***

A summary of accounts receivable shows customers due, but not yet as impaired:

	2019	2018 (as restated)	January 1, 2018 (as restated)
1 to 30 days	\$ 315,638	\$ 257,394	\$ 386,292
31 to 60 days	42,957	43,783	37,730
61 to 90 days	8,827	15,510	5,472
Over the 90 days	<u>129,202</u>	<u>71,697</u>	<u>124,973</u>
Total	<u>\$ 496,624</u>	<u>\$ 388,384</u>	<u>\$ 554,467</u>

December 31, 2019	Trade receivables - days past due				Total
	<30	31 - 60	61 - 90	>91	
Expected credit loss rate	11.93%	1.62%	0.33%	4.88%	-
Estimated total gross carrying amount at default	1,856,030	42,957	8,827	129,202	2,037,016
Lifetime ECL	(160,775)	(2,802)	(576)	(8,429)	(172,582)

December 31, 2018 (as restated)	Trade receivables - days past due				Total
	<30	31 - 60	61 - 90	>91	
Expected credit loss rate	5.17%	2.60%	5.76%	58.95%	-
Estimated total gross carrying amount at default	2,229,539	43,783	15,510	71,697	2,360,529
Lifetime ECL	(135,771)	(1,140)	(894)	(42,263)	(180,068)

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

	Total
<b>Balances at December 31, 2017 under IAS 39</b>	\$ (156,608)
Adjustment upon application of IFRS 9	<u>(11,835)</u>
<b>Balances at January 1, 2018</b>	(168,443)
Amounts written off	2,353
Impairment provision	<u>(13,978)</u>
<b>Balances at December 31, 2018</b>	<u>\$ (180,068)</u>

As mentioned in Note 6, 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.



## 7. Inventories

	2019	2018 (as restated)	January 1, 2018 (as restated)
Raw materials and others	\$ 624,138	\$ 557,427	\$ 518,022
Work in progress	453,915	420,775	537,174
Finished goods	1,359,897	1,876,448	1,705,826
Merchandise in stores	1,091,466	935,206	834,643
Allowance for slow moving and obsolete inventory	<u>(99,283)</u>	<u>(144,010)</u>	<u>(194,512)</u>
	3,430,133	3,645,846	3,401,153
Merchandise in transit	<u>193,907</u>	<u>321,327</u>	<u>132,189</u>
	<u>\$ 3,624,040</u>	<u>\$ 3,967,173</u>	<u>\$ 3,533,342</u>

The Entity estimates possible impairment losses on inventories for obsolescence and for slow moving inventories, which are determined, based on the age of the inventory.

The movements in the allowance for obsolescence and slow moving inventory reduction are presented below:

	2019	2018 (as restated)	January 1, 2018 (as restated)
Balance at the beginning of the year	\$ (144,010)	\$ (194,512)	\$ (232,905)
Estimation for the period	(78,196)	(92,627)	(72,701)
Cancellations and applications	<u>122,923</u>	<u>143,129</u>	<u>111,094</u>
Balance at the end of the year	<u>\$ (99,283)</u>	<u>\$ (144,010)</u>	<u>\$ (194,512)</u>

The cost of inventories recognized as an expense during the year in respect of continuing operations was \$8,275,054, \$9,571,646 and \$8,565,021 for the years ended December 31, 2019, 2018 (as restated) and January 1, 2018 (restated), respectively.

## 8. Property, plant and equipment

Reconciliation of beginning and ending balances at December 31, 2019, 2018 (as restated) and January 1, 2018, is as follows:

	Balance as of January 1, 2019	Additions	Disposals	Transferred assets	Translation effect	Balances as of December 31, 2019
Investment:						
Land	\$ 2,837,769	\$ 11,239	\$ -	\$ 10,437	\$ (201,912)	\$ 2,657,533
Building and installations	5,581,067	15,306	(7,577)	126,520	(78,316)	5,637,000
Industrial machinery and equipment	32,743,901	18,748	(78,008)	89,226	(31,284)	32,742,583
Office furniture and equipment	738,421	7,492	(3,264)	3,075	(3,421)	742,303
Transportation equipment	273,216	7,090	(174,988)	363	(7,992)	97,689
Computer equipment	493,226	54,005	(73,965)	847	(8,781)	465,332
Water treatment plants	17,885	-	-	-	-	17,885
Projects-in-progress	<u>733,801</u>	<u>282,139</u>	<u>(37,434)</u>	<u>(230,468)</u>	<u>(22,877)</u>	<u>725,161</u>
Total investments	43,419,286	396,019	(375,236)	-	(354,583)	43,085,486
Depreciation:						
Building and installations	(3,121,416)	(137,946)	4,054	-	6,702	(3,248,606)
Industrial machinery and equipment	(28,151,051)	(382,564)	68,514	-	17,281	(28,447,820)
Office furniture and equipment	(528,546)	(28,180)	2,693	-	3,679	(550,354)
Transportation equipment	(148,316)	(26,786)	89,164	-	3,917	(82,021)
Computer equipment	(418,514)	(50,866)	50,036	-	7,138	(412,206)
Water treatment plants	<u>(14,542)</u>	<u>(578)</u>	<u>-</u>	<u>-</u>	<u>148</u>	<u>(14,972)</u>
Total accumulated depreciation	<u>(32,382,385)</u>	<u>(626,920)</u>	<u>214,461</u>	<u>-</u>	<u>38,865</u>	<u>(32,755,979)</u>
Investment net	<u>\$ 11,036,901</u>	<u>\$ (230,901)</u>	<u>\$ (160,775)</u>	<u>\$ -</u>	<u>\$ (315,718)</u>	<u>\$ 10,329,507</u>



	Balance as of January 1, 2018 (as restated)	Additions	Disposals	Transferred assets	Translation effect	Balances as of December 31, 2018 (as restated)
Investment:						
Land	\$ 3,030,693	\$ 50,738	\$ -	\$ -	\$ (243,662)	\$ 2,837,769
Building and installations	5,500,690	58,722	(7,421)	82,517	(53,441)	5,581,067
Industrial machinery and equipment	32,674,948	45,378	(2,659)	93,733	(67,499)	32,743,901
Office furniture and equipment	690,004	1,705	(2,682)	49,786	(392)	738,421
Transportation equipment	272,738	6,123	(6,294)	2,069	(1,420)	273,216
Computer equipment	446,944	7,312	(7,585)	54,833	(8,278)	493,226
Water treatment plants	17,885	-	-	-	-	17,885
Projects-in-progress	675,098	344,068	-	(282,938)	(2,427)	733,801
Total investments	43,309,000	514,046	(26,641)	-	(377,119)	43,419,286
Depreciation:						
Building and installations	(2,982,339)	(149,676)	5,658	-	4,941	(3,121,416)
Industrial machinery and equipment	(27,739,907)	(426,534)	1,395	-	13,995	(28,151,051)
Office furniture and equipment	(502,686)	(28,582)	2,048	-	674	(528,546)
Transportation equipment	(128,844)	(25,807)	5,868	-	467	(148,316)
Computer equipment	(394,170)	(38,826)	7,397	-	7,085	(418,514)
Water treatment plants	(14,151)	(625)	-	-	234	(14,542)
Total accumulated depreciation	(31,762,097)	(670,050)	22,366	-	27,396	(32,382,385)
Investment net	\$ 11,546,903	\$ (156,004)	\$ (4,275)	\$ -	\$ (349,723)	\$ 11,036,901
	Balance as of January 1, 2017 (as restated)	Additions	Disposals	Transferred assets	Translation effect	Balances as of December 31, 2017 (as restated)
Investment:						
Land	\$ 3,144,352	\$ 4,498	\$ -	\$ -	\$ (118,157)	\$ 3,030,693
Building and installations	5,582,001	2,960	(48,289)	-	(35,982)	5,500,690
Industrial machinery and equipment	32,415,576	76,415	(91,066)	323,180	(49,157)	32,674,948
Office furniture and equipment	669,701	7,946	(2,396)	18,576	(3,823)	690,004
Transportation equipment	288,061	9,368	(15,694)	-	(8,997)	272,738
Computer equipment	395,096	19,013	(11,452)	52,677	(8,390)	446,944
Water treatment plants	17,885	-	-	-	-	17,885
Projects-in-progress	758,335	346,327	(30,998)	(394,433)	(4,133)	675,098
Total investments	43,271,007	466,527	(199,895)	-	(228,639)	43,309,000
Depreciation:						
Building and installations	\$ (2,884,010)	\$ (141,010)	\$ 39,202	-	\$ 3,479	\$ (2,982,339)
Industrial machinery and equipment	(27,405,935)	(429,955)	80,287	-	15,696	(27,739,907)
Office furniture and equipment	(478,119)	(29,132)	2,170	-	2,395	(502,686)
Transportation equipment	(119,180)	(25,043)	14,306	-	1,073	(128,844)
Computer equipment	(370,084)	(40,869)	11,343	-	5,440	(394,170)
Water treatment plants	(17,885)	(626)	4,270	-	90	(14,151)
Total accumulated depreciation	(31,275,213)	(666,635)	151,578	-	28,173	(31,762,097)
Investment net	\$ 11,995,794	\$ (200,108)	\$ (48,317)	\$ -	\$ (200,466)	\$ 11,546,903



## 9. Investment properties

Fair value of investment properties is as follows:

	2019	2018 (as restated)	January 1, 2018 (as restated)
Land	\$ 1,585,750	\$ 1,504,019	\$ 1,519,424
Building and installations	<u>220,441</u>	<u>232,955</u>	<u>251,679</u>
Total	<u>\$ 1,806,191</u>	<u>\$ 1,736,974</u>	<u>\$ 1,771,103</u>

The fair value of investment properties is determined by independent appraisers who have applied the market approach and the residual method to determine the valuation of land and the replacement method for buildings and installations. The method used is as follows:

- The market approach was determined by examining the supply and demand of similar land, operations performed and valuations in the sector and similar areas, the study of land values with comparable properties considering, potential development and localization, and consulting the database of the Market Estate Association (Colombian rated entity).
- The residual method was applied by estimating the value that a builder who develops a project, in the light of existing regulations and taking into account market factors, would be willing to pay.
- The Herwet table is used to establish a market factor, setting the coefficients of supply and demand according to the criteria of the appraisal committee of the Market Estate Association, for this type of land.
- The replacement method is based on the cost of building an asset with similar characteristics, considering actual physical conditions of the asset.

The movements presented in investment properties are as follows:

	Balances as of January 1, 2019	Fair value adjustment	Translation effect	Balances as of December 31, 2019
Land	\$ 1,504,019	\$ 139,712	\$ (57,981)	\$ 1,585,750
Building and installations	<u>232,955</u>	<u>18,230</u>	<u>(30,744)</u>	<u>220,441</u>
Total	<u>\$ 1,736,974</u>	<u>\$ 157,942</u>	<u>\$ (88,725)</u>	<u>\$ 1,806,191</u>
	Balances as of January 1, 2018 (as restated)	Fair value adjustment	Translation effect	Balances as of December 31, 2018 (as restated)
Land	\$ 1,519,424	\$ 108,846	\$ (124,251)	\$ 1,504,019
Building and installations	<u>251,679</u>	<u>1,856</u>	<u>(20,580)</u>	<u>232,955</u>
Total	<u>\$ 1,771,103</u>	<u>\$ 110,702</u>	<u>\$ (144,831)</u>	<u>\$ 1,736,974</u>
	Balances as of January 1, 2017 (as restated)	Fair value adjustment	Translation effect	Balances as of December 31, 2017 (as restated)
Land	\$ 1,397,210	\$ 176,281	\$ (54,067)	\$ 1,519,424
Building and installations	<u>223,456</u>	<u>37,985</u>	<u>(9,762)</u>	<u>251,679</u>
Total	<u>\$ 1,620,666</u>	<u>\$ 214,266</u>	<u>\$ (63,829)</u>	<u>\$ 1,771,103</u>

The lease income generated by investment properties in 2019 and 2018 (as restated) were \$134,777 and \$13,551, respectively. To keep the investment properties in working condition, improvements and maintenance were necessary, resulting in expenditures of \$1,830 y \$1,215 in 2019 and 2018 (as restated), respectively.



## 10. 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 15 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.

	Building	Shops	Total
<b>Cost:</b>			
Balances as of December 31, 2018	\$ -	\$ -	\$ -
Initial application IFRS -16	855,097	2,986,390	3,841,487
Acquisitions	-	-	-
Balances as of December 31, 2019	<u>\$ 855,097</u>	<u>\$ 2,986,390</u>	<u>\$ 3,841,487</u>
<b>Accumulated depreciation:</b>			
Balances as of December 31, 2018	\$ -	\$ -	\$ -
Depreciation	(98,333)	(200,805)	(299,138)
Disposals	-	-	-
Balances as of December 31, 2019	<u>\$ (98,333)</u>	<u>\$ (200,805)</u>	<u>\$ (299,138)</u>
	<u>\$ 756,764</u>	<u>\$ 2,785,585</u>	<u>\$ 3,542,349</u>

Amounts recognized as expenses in results:

	2019
Depreciation right-of-use asset	\$ 299,138
Interest on lease liability	343,545
Short-term leases	57,566

Total cash outflows for leases amounted to \$551,346 in 2019.

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

Building	10.80% and 7.23%
Shops	10.00%

## 11. Derivative financial instruments

The objective of entering into contracts with derivative financial instruments is: (1) to partially hedge financial risks from exposures in the exchange rate; or (2) the expectation of a good financial performance, originated by the component of the underlying. The decision to take economic or financial coverage, obeys to the market conditions, in the expectation that it will be held at a certain date, and the national and international economic context of the economic indicators that influence the operations of the Entity.

The transactions carried out with the different financial instruments of interest rates and exchange rates as of December 31, 2019 and 2018 (as restated) and as of January 1, 2018 (as restated) are summarized below:

	2019	2018 (as restated)	January 1, 2018 (as restated)
<b>Financial assets carried at fair value through profit or loss</b>			
Held for trading derivatives that are not designated in hedge accounting relationships	<u>\$ 67</u>	<u>\$ 5,130</u>	<u>\$ 53,467</u>



Instrument	Intentionality				Valuation at fair value as of December 31 2019	
		Amount	Notional Unit	Maturity	Assets (liability)	Loss in results
Cross Currency Swaps	Negotiation	120 millions	Dollars	During 2019	\$ <u>67</u>	\$ <u>21,526</u>
Instrument	Intentionality				Valuation at fair value as of December 31 2018 (as restated)	
		Amount	Notional Unit	Maturity	Assets (liability)	Loss in results
Cross Currency Swaps	Negotiation	120 millions	Dollars	During 2018	\$ <u>5,130</u>	\$ <u>96,503</u>
Instrument	Intentionality				Valuation at fair value as of January 1, 2018 (as restated)	
		Amount	Notional Unit	Maturity	Assets (liability)	(Gain) in results
Cross Currency Swaps	Negotiation	120 millions	Dollars	During 2019	\$ <u>53,467</u>	\$ <u>(12,828)</u>

The Entity has derivative financial instruments to manage its exposure to foreign exchange rate risks for an amount of USD 120 million through a foreign exchange forward and option contract.

## 12. Other assets

	2019	2018 (as restated)	January 1, 2018 (as restated)
Goodwill	\$ 752,483	\$ 752,483	\$ 752,483
Trademark	<u>623,876</u>	<u>623,876</u>	<u>623,876</u>
	1,376,359	1,376,359	1,376,359
Development in stores	94,129	94,129	94,129
Accumulated amortization	<u>(94,129)</u>	<u>(94,129)</u>	<u>(92,295)</u>
	-	-	1,834
Guarantee deposits	47,461	45,134	41,254
Others	24,748	34,112	42,187
Other permanent investments	<u>13,008</u>	<u>11,980</u>	<u>12,460</u>
	<u>85,217</u>	<u>91,226</u>	<u>95,901</u>
Total	\$ <u>1,461,576</u>	\$ <u>1,467,585</u>	\$ <u>1,474,094</u>

As of December 31, 2018 (as restated), the amount of the amortization recognized in results was \$1,834.

## 13. Bank loans

As of December 31, 2019 and 2018, banks loans consist of the following:

Bank	Type	Currency	Rate	Period	2019	2018 (as restated)	January 1, 2018 (as restated)
Fondo Escalonado por compartimientos BTG Pactual Crédito	Simple credit	Colombian Peso	12.9% Effective Annual rate (EA)	1 year	\$ 55,549	\$ 79,588	\$ 48,211
Mercado y Bolsa, S.A.	Simple credit	Colombian Peso	14.44% Effective Annual rate (EA)		50,876	-	-
Banco Lafise Bancentro, S.A.	Revolving	US dollars	7.50%	60 days	-	14,191	59,287
Bursátiles Ganaderos de Colombia S.A.	Simple Credit	Colombian Peso	16.27% EA	2019	<u>-</u>	<u>6,441</u>	<u>33,840</u>
					\$ <u>106,425</u>	\$ <u>100,220</u>	\$ <u>141,338</u>



#### 14. Long-term debt

As of December 31, 2019 and 2018, long-term debt consists of the following:

Bank	Type	Currency	Rate	Maturity	2019	2018 (as restated)	January 1, 2018 (as restated)
Senior Notes (a)	Offering Notes	US dollars	8.875%	2022	\$ 6,030,464	\$ 6,298,528	\$ 6,315,328
BNP Paribas Fortis Bank SA/ NV	Simple credit	US dollars	LIBOR plus 2.47%	2022	130,887	197,462	258,909
			LIBOR, plus				
Banco Santander	Simple credit	US dollars	4.05%	2021	49,439	85,488	119,659
Banco Colpatría Red Multibanca	Simple credit	Colombian pesos	11.91% EA	2020	5,310	39,504	84,727
Grupo Bolívar	Simple credit	Colombian pesos	16.8% EA	2018	-	-	133,763
Others	-	-	-	-	-	33,837	31,045
					<u>6,216,100</u>	<u>6,654,819</u>	<u>6,943,431</u>
			Less - Current portion of long-term debt		180,326	126,117	301,975
			Less - Current portion of debt issuance expenses		<u>(28,093)</u>	<u>(23,262)</u>	<u>(23,262)</u>
			Current portion of long term debt, net		152,233	102,855	278,713
			Long - term debt		\$ 6,035,774	\$ 6,526,347	\$ 6,641,456
			Less- debt issuance expenses		<u>(41,640)</u>	<u>(69,730)</u>	<u>(95,616)</u>
			Long-term debt, net		<u>\$ 5,994,134</u>	<u>\$ 6,456,617</u>	<u>\$ 6,545,840</u>

- a. Bond for 320 million U.S. dollars, accruing interest at a fixed rate of 8.875%, issued in April 2017, and maturing in April 2022. Accrues interest every 180 days in the months of April and October. Offering Notes are guaranteed by the Subsidiaries: Manufacturas Kaltex, S.A. de C.V., Kaltex Fibers, S.A. de C.V., Milano Inmobiliaria, S.A. de C.V., Kaltex Energía, S.A. de C.V., Energía MK KF, S.A. de C.V., Kaltex Textiles, S.A. de C.V., Kaltex Comercial, S.A. de C.V., Grupo Milano, S.A. de C.V., Milano Operadora, S.A. de C.V., Milano Representaciones, S.A. de C.V., Milano Servicios Corporativos, S.A. de C.V., Kaltex Internacional, S.A. de C.V., Kaltex America, Inc. and Revman International, Inc.

- b. Most of these loans are mainly guaranteed by accounts receivables, inventories, property, plant and equipment owned by the Entity and Subsidiaries.

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

Year	2019
2021	\$ 5,310
2022	<u>6,030,464</u>
	<u>\$ 6,035,774</u>

- d. The Entity has certain obligations and restrictions in the credit agreements, some of which at December 31, 2019 were not met, including: leverage, financial debt, stockholders' equity and liquidity ratios. The most important are:

- Maintain stockholders' equity of no less than \$4,674,000;
- Maintain a debt to EBITDA no less than 4.5
- Maintain a consolidated interest coverage ratio of no greater than 3.0
- Maintain a debt to equity no less than 1.0





- e. The Entity as of December 31, 2019 defaulted on these obligations; the long-term debt for \$180,326 was reclassified as a current liability. As of December 31, 2018 (as restated) and as of January 1, 2018 (as restated) the Entity obtained waivers for the breach of these obligations after each year end, long-term debt for amount of \$282,950 and \$378,568, should have been reclassified as a current liability as of December 31, 2018 (as restated) and as of January 1, 2018, respectively. However, it has been presented according to its original maturity.

f. *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 statement of cash flows as cash flows from financing activities.

	As of January 1, 2019	Proceeds from borrowings	Repayments from borrowings	Other changes (i)	As of December 31, 2019
Bank loans (Note 13 and 14)	\$ 6,659,692	\$ 277,002	\$ (145,684)	\$ (538,218)	\$ 6,252,792
Loans from related parties (Note 22)	<u>1,530,591</u>	<u>-</u>	<u>-</u>	<u>52,028</u>	<u>1,582,619</u>
	<u>\$ 8,190,283</u>	<u>\$ 277,002</u>	<u>\$ (145,684)</u>	<u>\$ (486,190)</u>	<u>\$ 7,835,411</u>
	As of January 1, 2018 (as restated)(as restated)	Proceeds from borrowings	Repayments from borrowings	Other changes (i)	As of December 31, 2018 (as restated)
Bank loans (Note 13 and 14)	\$ 7,057,225	\$ 655,135	\$ (1,278,831)	\$ 226,163	\$ 6,659,692
Loans from related parties (Note 22)	<u>1,128,777</u>	<u>562,114</u>	<u>-</u>	<u>(160,300)</u>	<u>1,530,591</u>
	<u>\$ 8,186,002</u>	<u>\$ 1,217,249</u>	<u>\$ (1,278,831)</u>	<u>\$ 65,863</u>	<u>\$ 8,190,283</u>

- (i) Other changes include exchange fluctuation and expenses associated with the placement of the bond recognized under the amortized cost method.

**15. Lease liability**

	2019
Maturity analysis:	
Year 1	\$ 470,826
Year 2	459,537
Year 3	460,410
Year 4	461,335
Year 5	391,302
Onwards	<u>3,993,165</u>
	6,236,575
Less: unearned interest	<u>(2,602,889)</u>
	<u>\$ 3,633,686</u>
Analyzed as:	
Current	\$ 169,615
Non-current	<u>3,464,071</u>
	<u>\$ 3,633,686</u>

The Entity does not face a significant liquidity risk regarding its lease liabilities. Lease liabilities are monitored through the Entity's Treasury.



## 16. Other accounts payable and accrued liabilities

Balances as of December 31, are as follows:

	2019	2018 (as restated)	January 1, 2018 (as restated)
Creditors for services	\$ 401,316	\$ 440,868	\$ 495,453
Creditors for machinery	62,336	142,446	73,228
Provisions (i)	154,333	195,915	227,886
Other taxes payable	554,690	453,812	408,838
Interest payable	<u>251,896</u>	<u>182,637</u>	<u>141,613</u>
	<u>\$ 1,424,571</u>	<u>\$ 1,415,678</u>	<u>\$ 1,347,018</u>

- (i) Provisions represent amounts accrued during 2019 and 2018 (as restated) and as of January 1, 2018 (as restated), or contracted services of the following nature, attributable the financial year, which are expected to be liquidated within a period not exceeding one year. The final amounts to be paid and the timing of those outflows of economic resources involve uncertainties and could therefore vary.

2019				
	Opening Balance	Additions	Reductions	Closing Balance
For social security and other benefits	\$ 48,550	\$ 7,638	\$ (9,234)	\$ 46,954
For labor provision	39,763	7,217	(7,433)	39,547
Other Provisions	<u>107,602</u>	<u>72,534</u>	<u>(112,304)</u>	<u>67,832</u>
	<u>\$ 195,915</u>	<u>\$ 87,389</u>	<u>\$ (128,971)</u>	<u>\$ 154,333</u>
2018 (as restated)				
	Opening Balance	Additions	Reductions	Closing Balance
For social security and other benefits	\$ 50,023	\$ 7,984	\$ (9,457)	\$ 48,550
For labor provision	39,557	7,433	(7,227)	39,763
Other provisions	<u>138,306</u>	<u>72,136</u>	<u>(102,840)</u>	<u>107,602</u>
	<u>\$ 227,886</u>	<u>\$ 87,553</u>	<u>\$ (119,524)</u>	<u>\$ 195,915</u>
January 1, 2018 (as restated)				
	Opening Balance	Additions	Reductions	Closing Balance
For social security and other benefits	\$ 59,373	\$ 861	\$ (10,211)	\$ 50,023
For labor provision	40,138	5,022	(5,603)	39,557
Other provisions	<u>181,620</u>	<u>56,119</u>	<u>(99,433)</u>	<u>138,306</u>
	<u>\$ 281,131</u>	<u>\$ 62,002</u>	<u>\$ (115,247)</u>	<u>\$ 227,886</u>

## 17. Retirement employee benefits

### Defined benefit plans

The Entity handles a plan that covers seniority premiums, which consist of a single payment of 12 days per every year worked based on final salary, limited to twice the minimum wage established by law year. The related liability and annual benefits costs are calculated by an independent actuary on the bases defined in the plans using the projected unit credit method.



The plans typically expose the Entity to actuarial risks such as interest rate risk, longevity risk and salary risk.

Interest risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The risk relating to benefits to be paid to the dependents of plan members (widow and orphan benefits) is re-insured by an external insurance company.

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 independent actuaries. 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 (as restated) %	January 1, 2018 (as restated) %
Discount rate	7.25	9.25	7.8
Expected rate of salary increase	4.75	4.75	4.75
Inflation rate	3.75	3.75	3.75

Amounts recognized in comprehensive income in respect of these defined benefit plans are as follows.

	2019	2018 (as restated)	January 1, 2018 (as restated)
Service cost:			
Labor cost of current service	\$ 21,942	\$ 2,525	\$ 26,192
Net interest expense	<u>32,341</u>	<u>24,112</u>	<u>42,402</u>
Components of defined benefit costs recognized in profit or loss	<u>\$ 54,283</u>	<u>\$ 26,637</u>	<u>\$ 68,594</u>
Remeasurement on the net defined benefit liability:			
Actuarial losses arising from changes in demographic assumptions	\$ 3,625	\$ 156	\$ (2,037)
Actuarial losses and (gains) arising from changes in financial assumptions	<u>55,479</u>	<u>(41,548)</u>	<u>(1,304)</u>
Components of defined benefit costs recognized in other comprehensive income	<u>\$ 59,104</u>	<u>\$ (41,392)</u>	<u>\$ (3,341)</u>



Components of defined benefit costs recognized in other comprehensive income:

	2019	2018 (as restated)	January 1, 2018 (as restated)
Remeasurement on the net defined benefit liability	\$ 59,104	\$ (41,392)	\$ (3,341)
Deferred tax	<u>(17,732)</u>	<u>12,418</u>	<u>1,002</u>
Components of defined benefit costs recognized in other comprehensive income	<u>\$ 41,372</u>	<u>\$ (28,974)</u>	<u>\$ (2,339)</u>

The current service cost and the net interest expense for the year are included in the employee benefits expense in profit or loss and other comprehensive loss within administrative expenses.

The remeasurement of the net defined benefit liability is included in other comprehensive loss.

The amount included in the consolidated statements of financial position arising from the Entity's obligation in respect of its defined benefit plans is as follows:

	2019	2018 (as restated)	January 1, 2018 (as restated)
Present value of funded defined benefit obligation	<u>\$ 545,617</u>	<u>\$ 442,591</u>	<u>\$ 487,542</u>

Movements in the present value of the defined benefit obligation in the current year were as follows.

	2019	2018 (as restated)	January 1, 2018 (as restated)
Opening defined benefit obligation	\$ (442,591)	\$ (487,542)	\$ (445,168)
Current service cost	(21,942)	(2,525)	(26,192)
Interest cost	(32,341)	(24,112)	(42,402)
Remeasurement gains (losses)	(59,104)	41,392	3,341
Reduction effect in the obligations	-	3,299	-
Benefits paid	<u>10,361</u>	<u>26,897</u>	<u>22,879</u>
Closing defined benefit obligation	<u>\$ (545,617)</u>	<u>\$ (442,591)</u>	<u>\$ (487,542)</u>

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

If the discount rate were 100 basis points higher (lower), the defined benefit obligation would have decreased by \$38,076 (increased by \$32,848).

If the expected salary growth increases (decreases) by 1%, the defined benefit obligation would not have significant changes.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.



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 statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

## 18. Financial instruments

The Entity is exposed to market risks such as interest rate risk and foreign currency risk, as well as credit risk and liquidity risk, all of which are managed centrally by the corporate treasury. Compliance with these policies and exposure limits are reviewed by internal audit on an ongoing basis.

### a. *Classes of financial instruments*

The different categories of financial instruments and their amounts as of December 31, 2019 and 2018 (as restated) are shown below:

	2019	2018 (as restated)	January 1, 2018 (as restated)
<b><i>Financial assets</i></b>			
Cash and cash equivalents	\$ 398,730	\$ 417,291	\$ 431,734
Accounts receivable, net	1,864,434	2,180,461	1,849,857
Accounts receivable from related parties	127,745	88,360	42,249
At fair value:			
Derivate financial instruments	67	5,130	53,467
<b><i>Financial liabilities</i></b>			
At amortized cost:			
Bank loans and long-term debt	\$ 6,252,792	\$ 6,659,692	\$ 6,965,891
Accounts payable to suppliers	3,097,864	3,387,163	2,879,940
Accounts payable to related parties	3,585,060	2,555,235	1,841,609
Other accounts payable and accrued liabilities	715,548	765,951	710,294

### b. *Management of capital risk*

The Entity manages its capital to ensure that it will continue as an ongoing business, while also maximizing the return to its shareholders through optimization of its capital balance through continuous monitoring of the debt/capital structure. The Entity's capital structure consists of net debt (bank loans as detailed in Note 13 and 14) and the Entity's equity (comprising issued contributed capital, reserves and deficit accumulated in Note 20). The Entity is not subject to any externally imposed capital requirements.

The Entity's management reviews its capital structure and borrowing costs and their relation to EBITDA (earnings before taxes plus / minus interest, exchange rate fluctuations, the effect of derivatives on financial costs, depreciation and amortization) on a monthly basis, at the time it presents financial projections as part of the business plan to the Board of Directors and shareholders of Entity.



The rate of net indebtedness of the Entity is as follows:

	2019	2018 (as restated)	January 1, 2018 (as restated)
Debt with financial institutions	\$ 6,252,792	\$ 6,659,692	\$ 6,965,891
Cash and cash equivalents	<u>(398,730)</u>	<u>(417,291)</u>	<u>(431,734)</u>
Net debt with financial institutions	<u>\$ 5,854,062</u>	<u>\$ 6,242,401</u>	<u>\$ 6,534,157</u>
EBITDA	<u>\$ 1,865,234</u>	<u>\$ 1,261,712</u>	<u>\$ 1,205,847</u>
Net debt to EBITDA	<u>3.14</u>	<u>4.95</u>	<u>5.42</u>
EBITDA	<u>\$ 1,865,234</u>	<u>\$ 1,261,712</u>	<u>\$ 1,205,847</u>
Interest incurred on debt	<u>\$ 1,347,784</u>	<u>\$ 926,074</u>	<u>\$ 990,579</u>
Interest coverage index	<u>1.38</u>	<u>1.36</u>	<u>1.22</u>

c. ***Financial risk management objectives***

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

The Entity 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. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

d. ***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

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

i) ***Foreign currency risk management***

Functional currency of the majority of the subsidiaries of the Entity is the Mexican peso. The Entity is exposed to foreign exchange risk related to the Mexican peso as a result of financing obtained in U.S. dollars.

The Entity also has monetary assets and liabilities denominated in foreign currencies, mainly the US dollar, Euro, Nicaraguan Cordoba, Colombian peso and Swiss Franc, which exposes it to currency risk. However, this risk is hedged by the operations of the Entity in those respective countries.



Carrying values of assets and liabilities denominated in foreign currencies to which the Entity is mainly exposed are as follows (in thousands):

	Liabilities			Assets		
	2019	2018 (as restated)	January 1, 2018 (as restated)	2019	2018 (as restated)	January 1, 2018 (as restated)
U.S. Dollar	681,733	652,497	647,733	272,853	130,813	129,311
Euro	2,759	11,856	1,665	6,764	987	11,230
Colombian peso	83,856,264	60,787,986	108,303,621	31,915,214	42,283,230	56,026,310

The following table details the Entity's sensitivity to an increase and decrease of 10% in 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. 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% of 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 (amounts in thousands):

	2019	2018 (as restated)	January 1, 2018 (as restated)
U.S. Dollar	770,543	1,026,825	1,023,127
Euro	8,481	24,497	739
Colombian peso	27,095	10,173	31,298

Exchange rates	2019	2018 (as restated)	January 1, 2018 (as restated)	May 28, 2020
<				
U.S. Dollar	\$ 18.8452	\$ 19.6829	\$ 19.7354	\$ 22.3633
Euro	\$ 21.1751	\$ 22.5383	\$ 23.5729	\$ 24.6399
Colombian peso	\$ 166.4850	\$ 165.3715	\$ 151.8483	\$ 163.8434

ii) **Interest rate risk management**

The Entity is exposed to interest rate risk because it has financial debt that accrues interest at variable rates. The Entity has short-term loans mainly for working capital as well as long-term loans for certain projects, the proceeds of which will be used to pay the related debt. Hedging activities are evaluated regularly to align with interest rates and defined risks, ensuring the most cost-effective hedging strategies are applied.

Exposure of the Entity to interest rate risk relates primarily to the London Interbank Offered Rate (LIBOR) on financial liabilities. Sensitivity analyses are prepared by the Entity based on the net exposure to floating interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, net income (loss) ended December 31, 2019 and 2018, would increase/decrease \$4,503 and \$4,503, respectively.



e. ***Credit risk management***

The note 6 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. The 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, the directors of the Entity consider 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 at December 31, 2019 the Entity maximum exposure to credit risk without taking into account any collateral held or other credit enhancements, which will cause a financial loss to the Entity 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 the Entity 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. The Entity 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 6).





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 value
Accounts receivable	Performing	12-month	2,037,016	(172,582)	1,864,434
Sundry debtors	Performing	12-month	26,524	-	26,524
Accounts receivable from related parties	Performing	12-month	127,745	-	127,745
2018 (as restated)	Internal credit rating	12-month or lifetime ECL	Gross carrying amount (i)	Loss allowance	Net carrying value
Accounts receivable	Performing	12-month	2,360,529	(180,068)	2,180,461
Sundry debtors	Performing	12-month	79,051	-	79,051
Accounts receivable from related parties	Performing	12-month	88,360	-	88,360
January 1, 2018 (as restated)	Internal credit rating	12-month or lifetime ECL	Gross carrying amount (i)	Loss allowance	Net carrying value
Accounts receivable	Performing	12-month	2,006,465	(156,608)	1,849,857
Sundry debtors	Performing	12-month	75,121	-	75,121
Accounts receivable from related parties	Performing	12-month	42,249	-	42,249

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.



f. **Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Entity's short-, medium- and long-term funding and liquidity management requirements. The Entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. This note sets out details of additional undrawn facilities that the Entity has of its disposal to further reduce liquidity risk.

The following tables detail the Entity's remaining expected maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Entity can be required to pay. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Entity may be required to pay.

As of December 31, 2019	Weighted average effective interest Rate	1 year	1 - 3 year	More than 3 years	Total
Bank loans and long term - debt	8.33%	\$ 1,390,866	\$ 6,927,349	\$ -	\$ 8,318,215
Interest pay		519,497	802,805	-	1,322,302
Accounts payable to suppliers	-	3,097,864	-	-	3,097,864
Due to related parties	-	1,665,833	1,919,227	-	3,585,060
Lease liability	-	169,615	1,381,282	2,082,789	3,633,686
Creditors	-	<u>452,317</u>	<u>-</u>	<u>-</u>	<u>452,317</u>
Total		<u>\$ 7,295,992</u>	<u>\$ 11,030,663</u>	<u>\$ 2,082,789</u>	<u>\$ 20,409,444</u>
As of December 31, 2018 (as restated)	Weighted average effective interest Rate	1 year	1 - 3 year	more than 3 years	Total
Bank loans and long term - debt	8.52%	\$ 1,225,066	\$ 7,934,476	\$ -	\$ 9,159,542
Interest pay		462,134	838,492	-	1,300,626
Accounts payable to suppliers	-	3,387,163	-	-	3,387,163
Due to related parties	-	1,612,126	943,109	-	2,555,235
Creditors	-	<u>583,314</u>	<u>-</u>	<u>-</u>	<u>583,314</u>
Total		<u>\$ 7,269,803</u>	<u>\$ 9,716,077</u>	<u>\$ -</u>	<u>\$ 16,985,880</u>
January 1, 2018 (as restated)	Weighted average effective interest Rate	1 year	1 - 3 year	more than 3 years	Total
Bank loans and long term - debt	8.52%	\$ 1,565,974	\$ 2,032,765	\$ 6,615,336	\$ 10,214,075
Accounts payable to suppliers	-	2,879,940	-	-	2,879,940
Due to related parties	-	1,187,985	653,624	-	1,841,609
Creditors	-	<u>568,681</u>	<u>-</u>	<u>-</u>	<u>568,681</u>
Total		<u>\$ 6,202,580</u>	<u>\$ 2,686,389</u>	<u>\$ 6,615,336</u>	<u>\$ 15,504,305</u>

**19. Fair value measurements of financial instruments**

Except as detailed in the following table, Management of the Entity considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximates their fair value:

a. The fair value of long-term debt is as follows:

	2019		2018 (as restated)		January 1, 2018 (as restated)	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Debt to financial institutions	<u>\$ 6,252,792</u>	<u>\$ 5,129,618</u>	<u>\$ 6,659,692</u>	<u>\$ 6,653,236</u>	<u>\$ 6,965,891</u>	<u>\$ 6,120,110</u>



b. Fair value hierarchy

There are no significant financial instruments that are measured at fair value subsequent to initial recognition. However, the fair value of financial instruments measured at amortized cost is presented in the table above. A description on the extent to which the fair value is observable below:

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

During the period, there were no transfers between Level 1, 2 and 3.

The fair value of long-term debt is calculated using a discounted cash flow method with an approximated market rate of the current debt cost based on comparable information in the market for entities with a similar risk profile. The level of fair value calculation is level 2.

## 20. Stockholders' equity

- a. As of December 31, 2019, 2018 (as restated) and January 1, 2018 (as restated), capital stock is represented by:

	Number of shares		Amount	
Fixed portion:				
Series "A"	50,000	50,000	\$ 50	\$ 50
Variable portion:				
Series "B"	<u>4,017,940,410</u>	<u>4,017,940,410</u>	<u>4,017,940</u>	<u>4,017,940</u>
Total	<u>4,017,990,410</u>	<u>4,017,990,410</u>	<u>\$ 4,017,990</u>	<u>\$ 4,017,990</u>

Capital stock consists of common registered shares with a par value of one peso per share. Shares of Series "A" can be acquired only by Mexican citizens. Variable capital is unlimited.

At the Ordinary General Stockholders' Meeting held on March 29, 2019, a dividend payment of \$141,200 was approved, which was applied to retained earnings. The dividend was paid as of December 31, 2019.

- b. The legal reserve may not be distributed during the existence of the Entity unless the Entity is dissolved. As of December 31, 2019 and 2018, the Entity has not created this reserve.
- c. Stockholders' equity, except for restated paid-in capital and tax retained earnings will be subject to ISR payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years.
- d. The balances of the stockholders' equity tax accounts as of December 31, are as follows:

	2019	2018 (as restated)	January 1, 2018 (as restated)
Contributed capital account	\$ 7,527,569	\$ 7,320,723	\$ 6,983,247
Net account tax profit at the end 2013 (CUFIN)	<u>858,183</u>	<u>832,220</u>	<u>793,873</u>
Total	<u>\$ 8,385,752</u>	<u>\$ 8,152,943</u>	<u>\$ 7,777,120</u>



## 21. Equity and income of non-controlling interest

- a. The following table lists the subsidiaries in which a significant non-controlling interest exists. The amounts shown as of December 31, 2019 and 2018, are presented before eliminations:

Subsidiary	Location	Proportion of the non-controlling interests with voting rights			Income of the period allocated to non-controlling interests			Equity of non-controlling interests		
		2019	2018 (as restated)	January 1, 2018 (as restated)	2019	2018 (as restated)	January 1, 2018 (as restated)	2019	2018 (as restated)	January 1, 2018 (as restated)
Coltejer, S.A.	Colombia	39.74%	39.74%	39.74%	\$ (58,429)	\$ (76,586)	\$ (61,043)	\$ 1,057,515	\$ 1,235,267	\$ 1,470,692
Kaltex Textiles, S.A. de C.V.	Mexico	26.30%	26.30%	26.30%	(36,134)	(75,566)	(118,268)	876,102	881,265	894,573
Grupo Milano, S.A. de C.V.	Mexico	- %	28.00%	28.00%	-	26,423	16,946	-	642,532	615,594
Others	United States of America	-	-	6.03%	-	-	2,897	-	-	13,112
Total					<u>\$ (94,563)</u>	<u>\$ (125,729)</u>	<u>\$ (159,468)</u>	<u>\$ 1,933,617</u>	<u>\$ 2,759,064</u>	<u>\$ 2,993,971</u>

- (i) On June 3, 2019, Kaltex Comercial, S.A. de C.V. (subsidiary entity of Grupo Kaltex) signed an agreement to purchase shares that represent 28% of the non- controlling interest of Grupo Milano, S.A. de C.V. The amount of the transaction was \$908 millions; the amount was recorded as an account payable to related parties.

- b. Subsidiaries' condensed financial statements in which a material non-controlling interest exists:

	2019	2018 (as restated)	January 1, 2018 (as restated)
Coltejer, S.A.			
Total assets	\$ 5,988,627	\$ 5,754,899	\$ 6,417,030
Total liabilities	\$ 3,327,543	\$ 2,646,528	\$ 2,716,245
Net assets	\$ 2,661,084	\$ 3,108,371	\$ 3,700,785
Total revenues	\$ 832,416	\$ 940,054	\$ 1,079,931
Net loss of the year	\$ (147,028)	\$ (192,717)	\$ (153,606)
Kaltex Textiles, S.A. de C.V.			
Total assets	\$ 13,908,240	\$ 13,427,388	\$ 12,948,543
Total liabilities	\$ 10,472,974	\$ 10,076,569	\$ 9,547,123
Net assets	\$ 3,331,185	\$ 3,350,819	\$ 3,401,420
Total revenues	\$ 11,140,628	\$ 11,555,793	\$ 10,462,774
Net loss of the year	\$ (137,392)	\$ (287,325)	\$ (449,690)
Grupo Milano, S.A. de C.V.			
Total assets	\$ -	\$ 3,871,388	\$ 3,631,089
Total liabilities	\$ -	\$ 1,400,112	\$ 1,263,419
Net assets	\$ -	\$ 2,471,276	\$ 2,367,670
Total revenues	\$ -	\$ 3,954,281	\$ 3,830,917
Net income of the year	\$ -	\$ 101,628	\$ 65,178



## 22. Balances and transactions with related parties

Balances and transactions between the Entity and its subsidiaries, which are related parties of the Entity, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Entity and other related parties are disclosed below.

a. Balances to related parties are as follows:

	2019	2018 (as restated)	January 1, 2018 (as restated)
Accounts receivable -			
Grupo MCM, S.A. de C.V.	\$ 100,113	\$ 75,778	\$ 31,697
Inmobiliaria Emilio Castelar, S.A. de C.V.	24,499	-	-
Soluciones Financieras CCK, S.A. de C.V. SOFOM	1,409	1,409	1,409
Operadora Circulo CCK, S.A. de C.V.	728	-	-
Inmobiliaria Circulo CCK, S.A. de C.V.	634	-	-
Tiendas Extra S.A. de C.V.	289	585	46
Grupo MCM, S.A.S.	-	1,210	-
Grupo Administración Corporativa, S. C.	-	9,066	9,067
Others	<u>73</u>	<u>312</u>	<u>30</u>
	<u>\$ 127,745</u>	<u>\$ 88,360</u>	<u>\$ 42,249</u>
Accounts payables-			
Kaltex Inmobiliaria, S.A. de C.V.	\$ 201,944	\$ 161,549	\$ 156,586
Inmobiliaria Los Mejia, S.A. de C.V.	69,268	42,732	-
Inmobiliaria Emilio Castelar, S.A. de C.V.	37,016	34,050	-
Inmobiliaria Baz Rivera, S.A. de C.V.	18,452	16,852	-
Rancho Los Mejias, S.A. de C.V.	20,650	14,672	-
Inmobiliaria Barrientos, S.A. de C.V.	12,621	11,529	-
Inmobiliaria Mago, S.A. de C.V.	3,491	9,278	-
Inmobiliaria Tochtli Centeotl, S.A. de C.V.	<u>6,237</u>	<u>5,700</u>	<u>-</u>
	<u>\$ 369,679</u>	<u>\$ 296,362</u>	<u>\$ 156,586</u>



	2019	2018 (as restated)	January 1, 2018 (as restated)
Long-term accounts payable-			
Grupo MCM Colombia, S.A. (1)			
Long-term debt	\$ 1,222,298	\$ 1,154,253	\$ 1,016,906
Interest payable	73,856	161,511	14,493
Grupo MCM, S.A. de C.V. (2)			
Long-term debt	196,367	205,096	-
Acquisition of shares	981,458	-	-
Interest payable	43,326	9,927	-
Vigoris, S.A. de C.V. (3)			
Long-term debt	81,977	85,621	86,352
Acquisition of shares	239,760	263,119	272,124
Interest payable	27,366	15,388	5,808
Mosjak, S.A. de C.V. (4)			
Long-term debt	81,977	85,621	11,073
Acquisition of shares	240,654	264,052	272,460
Interest payable	<u>26,342</u>	<u>14,285</u>	<u>5,807</u>
	<u>\$ 3,215,381</u>	<u>\$ 2,258,873</u>	<u>\$ 1,685,023</u>

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior years for bad or doubtful debts in respect of the amounts owed by related parties.

- (1) As of December 31, 2019 and 2018, the balance payable in the long term to Grupo MCM Colombia, S.A., composed of loan for a principal 65 million U.S. dollars, accruing interests at a rate of 10%, with maturity in 2021.
- (2) As of December 31, 2019 and 2018, the balance payable in the long term to Grupo MCM, S.A. de C.V., is composed of: accounts payable for the acquisition of non-controlling of Grupo Milano for 52 million dollars, accruing interests at a rate of 3.60%, with maturity in 2022, and loan with principal for 10.4 million dollars, accruing interest at a rate of 3.10%, with indefinite maturity.
- (3) As of December 31, 2019 and 2018, the balance payable in the long term to Vigoris, S.A. de C.V., composed of loan for a principal 4.35 million U.S. dollars, and for the acquisition of non-controlling of Grupo Milano for 12.7 million dollars, accruing interests at a rate of 3.10%, with maturity in 2022.
- (4) As of December 31, 2019 and 2018, the balance payable in the long term to Mosjak, S.A. de CV, composed loan for a principal 4.35 million U.S. dollars, and for the acquisition of non-controlling of Grupo Milano for 12.7 million dollars, accruing interests at a rate of 3.10%, with maturity in 2022.

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

	2019	2018 (as restated)
Revenues -		
Other income	\$ 19,163	\$ 31,014
Expenses -		
Lease income	\$ 60,707	\$ 51,134
Interest expense	33,079	17,356



## 23. Costs and expenditure by nature

	2019	2018 (as restated)
<b>Cost of sales:</b>		
Wages and salaries	\$ 1,260,923	\$ 1,276,796
Employee benefits	838,765	750,975
Profit sharing	57,787	22,898
Raw material	7,005,081	6,999,874
Manufacturing expenses	168,224	466,280
Finished goods	1,818,644	2,571,772
Freight	275,621	277,008
Maintenance	530,609	487,971
Leasing	29,444	78,538
Electricity	976,228	1,018,411
Fuels and lubricants	469,083	306,965
Logistics services	140,206	150,272
Customs charges	75,734	76,664
Amortization	-	1,834
Others	272,263	264,906
Subtotal	<u>13,918,612</u>	<u>14,751,164</u>
Depreciation and amortization	567,133	606,584
Depreciation of right-of-use asset	<u>29,830</u>	<u>-</u>
Total	<u>\$ 14,515,575</u>	<u>\$ 15,357,748</u>
<b>Selling expenses:</b>		
Wages and salaries	\$ 584,765	\$ 579,230
Employee benefits	58,212	57,687
Profit sharing	1,381	731
Publicity	58,375	84,075
Travel expenses	28,025	29,045
Insurance	22,375	21,906
Freight	4,465	5,390
Fees	11,355	32,296
Maintenance	22,886	36,223
Leasing	3,187	435,048
Electricity	70,431	124,433
Water	20,769	30,969
Bank commissions	13,685	13,821
Royalties	183,021	178,748
Sales commissions	89,825	52,705
Others	29,806	26,351
Subtotal	<u>1,202,563</u>	<u>1,708,658</u>
Depreciation and amortization	3,011	26,848
Depreciation of right-of-use asset	<u>269,084</u>	<u>-</u>
Total	<u>\$ 1,474,658</u>	<u>\$ 1,735,506</u>



	2019	2018 (as restated)
<b>Administrative expenses:</b>		
Wages and salaries	\$ 378,361	\$ 497,364
Employee benefits	94,201	98,012
Profit sharing	3,246	2,800
Travel expenses	16,824	24,476
Insurance	21,622	21,908
Freight	36,641	30,374
Fees	87,758	110,639
Maintenance	51,160	76,118
Leasing	24,935	23,099
Phone	13,167	13,993
Electricity	8,176	8,135
Bank commissions	2,075	2,032
Others	<u>54,125</u>	<u>31,367</u>
Subtotal	792,291	940,317
Depreciation and amortization	56,776	36,618
Depreciation of right-of-use asset	<u>224</u>	<u>-</u>
Total	<u>\$ 849,291</u>	<u>\$ 976,935</u>

#### 24. Other income, net

	2019	2018 (as restated)
Loss on sale of machinery and equipment	\$ 33,351	\$ 1,249
Fair value adjustment of investment properties	(157,942)	(110,702)
Lease income	(19,626)	(13,551)
Revenues from sales of waste	(1,334)	(438)
Recovery of insurance	(4,213)	-
Amortization of debt issuance expenses	25,617	23,262
Debugging accounts	70,680	(46,332)
Others	<u>25,619</u>	<u>(20,227)</u>
	<u>\$ (27,848)</u>	<u>\$ (166,739)</u>

#### 25. Income taxes

The Entity and some of its subsidiaries are located in Mexico; certain other subsidiaries are located throughout the United States of America (USA), Colombia and Nicaragua. It is important to mention that although the tax laws and regulations applicable in the different countries may differ considerably, there are similar permanent elements, such as non-deductible and non-taxable items. As a result, the Entity has decided to use the Mexican income tax (ISR) rate of 30% to reconcile its effective tax rate, due to the fact that the majority of the earnings are taxed in Mexico through its direct subsidiary, Kaltex Textiles, S. A. de C. V. and Kaltex Comercial, S.A. de C.V.





### ***Mexico***

The Entity is subject to ISR whose rate is 30%.

### ***Colombia***

The Entity calculates income tax based on its presumptive income as defined in the Colombian tax law. The current income tax rate (IRC) is 33%.

### ***Nicaragua***

According to Decree No. 46-91 "Ley de Zonas Francas" Art. 20, the Entity has the following tax benefits:

- a) 100% exemption from payment of tax on income generated by their activities in the "Zona Franca" (Free Zone) during the first ten years of operation and 60% from the eleventh year.
- b) Exemption from payment of tax on sale of property under any title, including the tax on capital gains, if any, provided that the company closed its operations in this area, and the property continues to affect the regime Zona Franca.
- c) Exemption from all taxes and customs duties and import-related consumption, applicable to the introduction into the country of raw materials, materials, equipment, machinery, matrix, or spare parts intended to enable the company for its operations in Zona Franca.
- d) Exemption from customs duties on transport equipment, other vehicles loading passengers or service intended for normal use of the company in the Zona Franca.
- e) Full exemption from excise taxes on sales or selective consumption.
- f) Full exemption from municipal taxes.
- g) Full exemption from export taxes on processed goods in the Zona Franca.

### ***United States of America***

In 2019 and 2018, the Entity is subject to a 21% and 34% rate on income generated.

#### **a. *Income tax recognized in profit or loss***

	2019	2018 (as restated)
ISR:		
Current	\$ 265,319	\$ 228,373
Deferred	<u>(55,072)</u>	<u>(109,604)</u>
Income tax recognized in profit or loss	<u>\$ 210,247</u>	<u>\$ 118,769</u>

Deferred tax recognized in other comprehensive income:

	2019	2018 (as restated)	January 1, 2018 (as restated)
Actuarial loss (gain) on employee benefits	<u>\$ (17,732)</u>	<u>\$ 12,418</u>	<u>\$ 1,002</u>



b. **Deferred tax balances:**

	2019	2018 (as restated)	January 1, 2018 (as restated)
Deferred ISR asset:			
Reserves and provisions	\$ 143,334	\$ 106,968	\$ 99,806
Employee benefits	77,640	57,941	58,347
PTU	13,642	3,171	667
Lease liability	27,401	-	-
Effect of tax loss carryforwards	91,464	179,920	250,776
Customer prepayments	21,827	33,212	26,206
Others	20,779	5,435	873
	<u>396,087</u>	<u>386,647</u>	<u>436,675</u>
Deferred ISR liability:			
Property, plant and equipment	(1,532,382)	(1,575,019)	(1,743,463)
Prepayments	(33,826)	(64,241)	(32,360)
Others	(8,058)	1,630	(12,572)
Deferred ISR liability	<u>(1,574,266)</u>	<u>(1,637,630)</u>	<u>(1,788,395)</u>
Net deferred ISR liability	<u>\$ (1,178,179)</u>	<u>\$ (1,250,983)</u>	<u>\$ (1,351,720)</u>

c. **Deferred tax in statement of financial position**

The following is the analysis of deferred tax assets (liabilities) presented in the consolidated statements of financial position:

	2019	2018 (as restated)	January 1, 2018 (as restated)
Deferred income tax asset	\$ 756,074	\$ 276,582	\$ 309,320
Deferred income tax liability	<u>(1,934,253)</u>	<u>(1,527,565)</u>	<u>(1,661,040)</u>
Deferred income tax liability	<u>\$ (1,178,179)</u>	<u>\$ (1,250,983)</u>	<u>\$ (1,351,720)</u>

The movements of deferred tax liabilities during the year are as follows:

	2019	2018 (as restated)
Opening balance	\$ 1,250,983	\$ 1,351,720
Initial application of IFRS 9 (Retained earnings)	-	(3,551)
Deferred ISR recognized in profit or loss	(55,072)	(109,604)
Deferred tax recognized in other comprehensive income	<u>(17,732)</u>	<u>12,418</u>
Closing balance	<u>\$ 1,178,179</u>	<u>\$ 1,250,983</u>

d. Following is a reconciliation of the statutory income tax rate and the effective rate on the income from continuing operations before income taxes and equity in the results of associated companies:

	2019 %	2018 (as restated) %
Income tax at statutory rate	30	30
Add (deduct) the effect of permanent differences:		
Non-deductible items	15	5
Adjustment for inflation	(26)	(18)
Tax losses, net	(321)	(43)
Effect of different tax rates and tax bases of operations in other jurisdictions	(13)	(20)
Others	<u>(8)</u>	<u>17</u>
Effective rate	<u>(323)</u>	<u>(29)</u>



- e. In determining deferred income taxes as of December 31, 2019 and 2018, the effects of tax loss carryforwards were included for \$304,882 and \$599,733, respectively. In the determination of deferred income taxes as of December 31, 2019, the effects of deferred tax assets related to the carryforward of tax losses not recognized amounted to \$1,136, because Management believes it is unlikely that the benefits of such losses will be realized.

Year of Expiration	Tax loss Expiration
2022	\$ 26,019
2023	25,189
2024	169,091
2025	35,692
2026	46,733
2027	1,022
2028	<u>1,136</u>
	<u>\$ 304,882</u>

## 26. Labor provision

At the date of these consolidated financial statements, the Entity has legal proceedings pending before the competent authorities, mainly related to foreign trade operations related to the recovery of accounts receivable and labor lawsuits.

The estimated amount of these judgments at December 31, 2019 and 2018 (as restated) is \$96,942 and \$95,137, respectively, of which there is a liability recorded of \$13,303 and \$9,106, respectively, which represents the Entity's best estimate of probable outflows should it receive an unfavorable decision in these legal proceedings. These amounts have been included under the labor provision heading in the consolidated statement of financial position. The Entity has made payments of it which amounted to \$15,905 and \$22,650 during 2019 and 2018, respectively. While the results of these legal proceedings cannot be predicted with certainty, management of the Entity does not believe there is any legal proceeding that will result in an unfavorable ruling for the Entity in amounts greater than the provisions it has recognized related to such proceedings.

## 27. Segment information

The information reported to the chief operating decision maker ("CODM") for the purposes of resource allocation and assessment is based on three segments as follows:

- Textile: manufacture and distribution of yarns and fabrics of all kinds of natural and synthetic fibers.
- Commercial: marketing of clothing, bedding for home and logistics services and also the operation of clothing stores and
- International: distribution for home products in USA, manufacture and distribution in Colombia for the fashion industry and our fabric and yarn distributor for South America.



- a. The following segment information is presented based on the management approach as follows.

	2019				
	International	Textile	Commercial	Eliminations	Total Consolidated
Net sales	\$ 7,223,169	\$ 14,040,283	\$ 3,672,561	\$ (7,185,161)	\$ 17,750,852
Gross profit	971,480	1,359,343	1,101,762	(197,308)	3,235,277
Sales expense	568,429	547,704	610,290	(251,765)	1,474,658
Administrative expenses	415,803	497,867	120,621	(185,000)	849,291
Other expenses (income), net	(127,111)	(146,355)	6,161	239,457	(27,848)
Income operating	114,359	460,127	364,690	-	939,176
Depreciation and amortization	73,444	453,261	100,215	-	626,920
Depreciation of right-of-use asset	42,377	55,956	200,805	-	299,138
EBITDA	230,180	969,344	665,710	-	1,865,234
Interest expenses, net	309,922	580,363	443,391	-	1,333,676
Exchange gain, net	(17,201)	(236,228)	(97,453)	-	(350,882)
Income tax	(6,988)	184,223	33,012	-	210,247
Consolidated net loss	(171,374)	(89,757)	(14,260)	-	(275,391)
Acquisition of property, plant and equipment	\$ 116,784	\$ 142,393	\$ 136,842	\$ -	\$ 396,019
Property, plant and equipment, net	\$ 3,317,332	\$ 6,338,985	\$ 673,190	\$ -	\$ 10,329,507
Total assets	\$ 7,747,797	\$ 13,860,933	\$ 6,952,313	\$ (3,954,614)	\$ 24,606,429
Total liabilities	\$ 4,527,938	\$ 11,877,084	\$ 8,123,192	\$ (3,954,614)	\$ 20,573,600
	2018 (as restated)				
	International	Textile	Commercial	Eliminations	Total Consolidated
Net sales	\$ 7,042,363	\$ 13,028,979	\$ 3,954,281	\$ (5,532,345)	\$ 18,493,278
Gross profit	1,010,762	1,299,793	1,357,766	(532,791)	3,135,530
Sales expense	565,511	212,488	1,031,070	(73,563)	1,735,506
Administrative expenses	412,232	815,285	171,564	(422,146)	976,935
Other expenses (income), net	(184,927)	16,302	38,968	(37,082)	(166,739)
Income operating	217,946	255,718	116,164	-	589,828
Depreciation and amortization	80,977	484,498	106,409	-	671,884
EBITDA	298,923	740,216	222,573	-	1,261,712
Interest expenses, net	279,063	501,949	130,067	-	911,079
Exchange loss (gain), net	9,095	(13,547)	(2,311)	-	(6,763)
Income tax	11,807	59,186	47,776	-	118,769
Consolidated net loss	(82,019)	(388,373)	(59,368)	-	(529,760)
Acquisition of property, plant and equipment	\$ 16,614	\$ 227,678	\$ 269,754	\$ -	\$ 514,046
Property, plant and equipment, net	\$ 3,667,158	\$ 6,700,942	\$ 668,801	\$ -	\$ 11,036,901
Total assets	\$ 7,172,276	\$ 13,773,431	\$ 4,171,583	\$ (3,127,780)	\$ 21,989,510
Total liabilities	\$ 3,681,749	\$ 11,299,617	\$ 4,334,019	\$ (3,127,780)	\$ 16,187,605



## **28. 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 the Entity operates. At the date of issuance of the consolidated financial statements, the entity has decreased the production capacity of its plants in the textile segment as of March, as well as the commercial segment closed its stores, 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.

At the date of issue of the financial statements, the impacts that the Entity had mainly on a decrease in the sale of products related to the textile and commercial segments, this due to the closure of these activities considered non-essential by the federal government, as of July 31, 2020, the impacts have been a decrease in sales between (32% approx.) real percentage of sales against the accumulated plan to that date, a significant reduction in the Entity operations, which resulted in an income from operations which amounted to \$157 million pesos as of July 31, 2020, an accumulated exchange loss of \$ (1,554) million pesos and a net loss for the period of \$ (2,154) million pesos as of July 31, 2020; however, the Management continues to continuously asses impact on its operations and the future impacts could be significant as its operations in the commercial and textile segments have been impacted by the pandemic and the results of the operation will be affected, however, there are impacts on the global economic and social environment resulting from the health contingency caused by COVID-19 and consequently the administration cannot reliably estimate the future effects of this contingency. In this sense, the impacts that the entity could face are a reduction in its income and in the income from operation and net results, the management has made an evaluation of the current situation according to the best information available, the entity has concluded that it will be able to continue operating and meet its financial obligations.

The supporting aspects that support the entity will be able to cope with cash flow and the continuity of operations include the following:

- The financial situation of the entity is stable and maintained an adequate working capital.
- Grupo Kaltex financial debt has been paid and is current on payments. The last interest payment was in April 2020.
- There are no indications that long-term assets will increase or decrease their life, we are facing a seasonal period of low production, considering in addition that fixed assets continue to be used on a recurring basis.
- There are no contingencies or demands to the Entity that require some estimation, recognition, or disclosure.

## **29. Authorization to issue the consolidated financial statements**

On August 17, 2020, the issuance of the accompanying consolidated financial statements was authorized by Lic. Jaime Morales Chief Financial Officer and C.P. Carlos Avelar Guerrero, the Entity's Legal Representative; consequently, they do not reflect events occurred after that date, and subject to the approval of the ordinary shareholders' of the Entity, who may be modified in accordance with the provisions of the General Law of Commercial Companies.

