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

Consolidated Financial Statements for the Years Ended December 31, 2020, 2019 and 2018, and Independent Auditors' Report Dated August 26, 2021

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

Independent Auditors' Report and Consolidated Financial Statements for 2020, 2019 and 2018

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

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, 2020, 2019 and 2018, 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, 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, 2020, 2019 and 2018, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (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

As mentioned in Note 1a to the consolidated financial statements, the declaration of the COVID-19 pandemic that emerged in 2020 had a major impact on the textile industry, adversely affecting the financial results of the Entity and, consequently, primarily on operating results and cash flows.

For the year ended December 31, 2020, operating income decreased 23.7% compared to the year ended December 31, 2019, mainly driven by the COVID-19 effects in the markets where the Entity operates.

The Entity has undertaken a series of internal actions to ensure the viability and the results of its operations will depend upon the continuity of the pandemic and the measures taken by different governments with respect to the operation of the Entity, as well as the ability of management to generate positive income and liquidity. Our opinion has not been modified in relation to this matter.

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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.

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- 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 26, 2021

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

Consolidated Statements of Financial Position

As of December 31, 2020, 2019 and 2018
(In thousands of Mexican pesos)

Assets

	Note	2020	2019	2018
Current assets:				
Cash and cash equivalents	5	$ 180,392	$ 398,730	$ 417,291
Accounts receivables, net	6	2,229,922	2,368,255	2,702,461
Due from related parties	22	228,528	127,745	88,360
Inventories, net	7	2,189,662	3,624,040	3,967,173
Prepaid expenses		252,187	191,895	291,053
Assets available for sale	23	6,565,571	-	-
Total current assets		11,646,262	6,710,665	7,466,338
Non-current assets:				
Property, plant and equipment, net	8	9,448,742	10,329,507	11,036,901
Right-of-use assets	10	702,336	3,542,349	-
Investment properties	9	1,567,057	1,806,191	1,736,974
Deferred income tax	25	384,572	756,074	276,582
Derivate financial instruments	11	-	67	5,130
Other assets, net	12	24,499	1,461,576	1,467,585
Total non-current assets		12,127,206	17,895,764	14,523,172
Total assets		$ 23,773,468	$ 24,606,429	$ 21,989,510

Liabilities and stockholders' equity

	Note	2020	2019	2018
Current liabilities:				
Bank loans	13	$ -	$ 106,425	$ 100,220
Current portion of long-term debt	14	81,344	152,233	259,688
Accounts payable to suppliers		1,932,882	3,097,864	3,387,163
Short-term lease liability	15	78,232	169,615	-
Due to related parties	22	401,238	369,679	296,362
Other accounts payable and accrued liabilities	16	1,943,257	1,424,571	1,415,678
Direct employee benefits		62,815	79,343	79,870
Advance payments from customers		18,853	7,111	110,705
Liabilities available for sale	23	4,165,941	-	-
Total current liabilities		8,684,562	5,406,841	5,649,686
Non- current liabilities:				
Long-term debt	14	6,372,752	5,994,134	6,299,784
Accounts payable to related parties	22	3,275,993	3,215,381	2,258,873
Lease liability	15	597,816	3,464,071	-
Employee retirement benefits	17	577,539	545,617	442,591
Labor provision	26	6,106	13,303	9,106
Deferred income tax	25	1,820,521	1,934,253	1,527,565
Total non - current liabilities		12,650,727	15,166,759	10,537,919
Total liabilities		21,335,289	20,573,600	16,187,605
Stockholders' equity:				
Capital stock	20	4,017,990	4,017,990	4,017,990
Accumulated deficit		(2,926,080)	(1,775,366)	(1,105,715)
Other comprehensive income		14,693	(143,412)	130,566
Controlling interest		1,106,603	2,099,212	3,042,841
Non-controlling interest	21	1,331,576	1,933,617	2,759,064
Total stockholders' equity		2,438,179	4,032,829	5,801,905
Total liabilities and stockholders' equity		$ 23,773,468	$ 24,606,429	$ 21,989,510

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Loss and Other Comprehensive Loss

For the years ended December 31, 2020, 2019 and 2018
(In thousands of Mexican pesos)

	Note	2020	2019	2018
Net sales	27	$ 11,461,907	$ 14,078,291	$ 14,538,997
Cost of sales	23	9,511,174	12,102,757	12,761,233
Gross profit		1,950,733	1,975,534	1,777,764
Sales expenses	23	601,999	706,387	704,436
Administrative expenses	23	735,293	735,604	805,394
Other expenses (income), net	24	346,117	(34,009)	(205,680)
Operating profit		267,324	567,552	473,614
Interest expense		1,023,497	1,073,654	926,074
Interest income		(15,755)	(12,996)	(5,691)
(Income) loss on valuation of derivative financial instruments	11	(11,175)	21,526	96,503
Exchange loss (gain), net		524,132	(347,459)	(6,306)
Loss before tax		(1,253,375)	(167,173)	(536,966)
Income tax	25	300,432	177,235	94,422
Net consolidated loss from continuing operations		(1,553,807)	(344,408)	(631,388)
Discontinued operations	23	(146,588)	69,017	101,628
Net consolidated loss		(1,700,395)	(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 (loss) on employee benefits, net of income tax	17	2,641	(41,372)	28,974
Items that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustment		103,104	(320,958)	(265,087)
Other comprehensive gain (loss) for the year		105,745	(362,330)	(236,113)
Consolidated comprehensive loss		$ (1,594,650)	$ (637,721)	$ (765,873)
Consolidated net loss attributable to:				
Controlling interest		$ (1,150,714)	$ (180,828)	$ (404,031)
Non-controlling interest	21	(549,681)	(94,563)	(125,729)
		$ (1,700,395)	$ (275,391)	$ (529,760)
Consolidated comprehensive net loss attributable to:				
Controlling interest		$ (992,609)	$ (454,806)	$ (530,966)
Non-controlling interest		(602,041)	(182,915)	(234,907)
		$ (1,594,650)	$ (637,721)	$ (765,873)

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, 2020, 2019 and 2018
(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	$ 4,017,990	$ (693,400)	$ 182,909	$ 74,592	$ 3,582,0919	$ 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	4,017,990	(1,775,366)	(205,606)	62,194	2,099,212	1,933,617	4,032,829
Comprehensive loss for the year	-	(1,150,714)	155,464	2,641	(992,609)	(602,041)	(1,594,650)
Balances as of December 31, 2020	$ 4,017,990	$ (2,926,080)	$ (50,142)	$ 64,835	$ 1,106,603	$ 1,331,576	$ 2,438,179

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, 2020, 2019 and 2018
(In thousands of Mexican pesos)

	2020	2019	2018
Cash flows from operating activities:			
Consolidated net loss	$ (1,553,807)	$ (344,408)	$ (631,388)
Adjustments for:			
Income tax expense recognized in net loss	300,432	177,235	94,422
Loss on disposal of property, plant and equipment	1,507	33,454	1,516
Depreciation and amortization	479,512	517,167	552,922
Depreciation of right-of-use asset	110,769	98,333	-
Fair value adjustment of investment properties	(259,155)	(157,942)	(110,702)
Interest income	(15,755)	(12,996)	(5,691)
Interest expense	1,023,497	1,073,654	926,074
Unrealized foreign exchange, net	(576,072)	(519,255)	105,249
	(489,072)	865,242	932,402
Changes in working capital:			
(Increase) decrease in:			
Accounts receivables, net	(105,390)	254,553	(193,166)
Inventories, net	361,042	555,061	(416,106)
Prepaid expenses	(44,817)	58,444	(73,848)
Other assets, net	21,541	5,760	(11,006)
Increase (decrease) in:			
Accounts payable to suppliers	(27,121)	(308,495)	429,111
Accounts payable to related parties	49,319	168,966	(23,154)
Other accounts payable and accrued liabilities	1,717,124	(147,951)	409,865
Direct employee benefits	(16,528)	(527)	(528)
Advance payments from customers	11,772	(103,594)	(24,757)
Income taxes paid	(324,984)	(230,943)	(99,002)
Retirement employee benefits	45,949	49,028	9,907
Contingencies	(1,784)	7,890	-
Cash flows from discontinued operations	336,469	403,348	322,304
Net cash flows generated by operating activities	1,533,520	1,576,782	1,262,022
Cash flows from investing activities:			
Interest received	15,755	12,996	5,691
Acquisition of property, plant and equipment	(312,866)	(253,627)	(231,739)
Sale of property, plant and equipment	2,319	99,277	253
Cash flows from discontinued activities	(40,555)	(105,349)	(270,230)
Net cash flows used in investing activities	(335,347)	(246,703)	(496,025)

	2020	2019	2018
Cash flows from financing activities:			
Proceeds from debt	101,876	277,002	655,135
Payments of debt	(68,164)	(145,684)	(1,278,831)
Proceeds from related parties	13,000	-	562,114
Payments of related parties	(127,433)	-	-
Purchase of non - controlling interest	-	(82,155)	(15,203)
Lease payments and interest	(11,055)	(175,885)	-
Interest paid	(746,179)	(703,333)	(710,187)
Dividends paid	(110,400)	(141,200)	-
Cash flows from discontinued operations	(472,903)	(377,219)	-
Net cash flow used in financing activities	(1,421,258)	(1,348,474)	(786,972)
Net decrease in cash and cash equivalents	(223,085)	(18,395)	(20,975)
Effects of exchange rate changes on the balance of cash held in foreign currencies	4,747	(166)	6,532
Cash and cash equivalents at the beginning of the year	398,730	417,291	431,734
Cash and cash equivalents at the end of the year	$ 180,392	$ 398,730	$ 417,291

See accompanying notes to consolidated financial statements.

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 Corporate 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. ***Implications resulted from COVID-19 –*** Net sales in 2020 decreased by 23.7% to $13,547, compared to $17,750 the previous year. This decrease is mainly due to the impact of the contingency related to the COVID-19 pandemic, which adversely affected the Entiy's operations.

   Earnings before taxes plus / minus interest, exchange rate fluctuations, the effect of derivatives on financial costs, depreciation and amortization (EBITDA) in 2020 decreased 14.02% to reach $807,542, compared to $939,176 the previous year. The decrease in EBITDA of $131,634 was mainly due to the decrease in the generation of EBITDA in all business segment of the Entity, affected by the implementation of contingency measures by the COVID-19 pandemic.

b. ***Sale of Milano*** - On January 4, 2021, Kaltex sold its investment in its subsidiary Grupo Milano, S.A. de C.V. to a related party MCM, S.A. de C.V., whose principal shareholders are also shareholders of Kaltex. The sale price of the shares was US $80 million, which will be paid in 2021. The sale of Milano qualifies as a discontinued operation as it represented a major segment of the Entity's business and therefore its assets and liabilities are presented as held for sale of December 31, 2020 (board approval for the sale was obtained prior to this date) and the income statements and statements of cash flows for the years ended December 31, 2020, 2019 and 2018 present the results associated with Milano as discontinued operations. With the resources obtained from said sale, the Entity reduced the debt balance from USD $320 to USD $260 million as of June 30, 2021.

c. ***Sale of Revman -*** On June 30, 2021, the holding company Kaltex Northamerica, Inc., a subsidiary of Kaltex sold the its investment in its subsidiary Revman International, Inc. to a third party for US $66 million, which will be paid in June US $40 million and in September US $26. Given that Revman does not represent a major segement of the Entity, it has not been presented as a discontinued operation and the decision to sell the investment was made subsequent to December 31, 2020 and therefore the assets and liabilities have not been presented as held for sale of such date.

d. ***Acquisition of non-controlling interest*** - On June 3, 2019, Kaltex Comercial, S.A. de C.V. (subsidiary entity of 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 for US $52 million. The amount of the transaction was $990 million; which $908 million was recorded as an account payable to related parties (see Note 21) and $82 million in cash.

2. Adoption of new and revised International Financial Reporting Standards

a. ***Application of new and revised International Financing Reporting Standards ("IFRSs" or "IAS") and interpretations that are mandatorily effective for the current year***

In the current year, the Entity has applied a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2020.

Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39 and IFRS 7.

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

Management continues to work with its lenders as it relates to changes in the interest rate benchmarks to ensure compliance with the applicable requirements; however, it does not expect a material impacts as of a result of these changes to its consolidated financial statements. These modifications have not implied changes for the Entity since it has no exposure to IBOR reference interest rates.

Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

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

a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

c) There is no substantive change to other terms and conditions of the lease.

In the current financial year, the Entity has not applied the amendment to IFRS 16 (as issued by the IASB in May 2020), for this reason did not have any material effects.

Amendments to References to the Conceptual Framework in IFRS Standards	The Entity has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. 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 IASC 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 Standards, which are amended, are 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.
Amendments to IFRS 3 Definition of a business	The Entity has adopted the amendments to IFRS 3 for the first time in the current year. 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. The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance 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 January 1, 2020.
Amendments to IAS 1 and IAS 8 Definition of material	The Group has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments 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.

New and revised IFRS Standards in issue but not yet effective

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

Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*
Amendments to IFRS 3	Reference to the Conceptual Framework
Annual Improvements to IFRS Standards 2018-2020 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

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

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

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

Amendments to IFRS 3 – Reference to the Conceptual Framework

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

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

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

Annual Improvements to IFRS Standards 2018–2020

The *Annual Improvements* include amendments to four Standards.

IFRS 9 Financial Instruments

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

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

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

IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

3. Significant accounting policies

a. ***Statement of compliance***

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards released by IASB.

The entity's management has, at the time of approving the financial statements, a reasonable expectation that the Entity has the necessary resources to continue operating in the foreseeable future. Therefore, they continue to adopt the Going Concern accounting basis when preparing the financial statements.

b. ***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, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

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

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

c. ***Basis of consolidation of 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 IFRS 9 – Financial Instruments, 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 2020	Participation 2019	Participation 2018	Activity
Kaltex Textiles, S.A. de C. V. and subsidiaries	73.7%	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%	72%	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	60.26%	60.26%	60.26%	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.

Entity	Participation 2020	Participation 2019	Participation 2018	Activity
Kaltex Energía, S. A. de C. V. and subsidiaries	100%	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

d. ***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

e. ***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.

f. ***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.

g. ***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.

h. ***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.

i. ***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.

j. ***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.

k. ***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.

l. ***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.

m. ***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.

n. ***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.

o. ***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.

p. ***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.

q. ***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.

r. ***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).

The Entity as lessor

As of January 1, 2019, the Entity, in those cases where it acts as a lessor, maintains its accounting policy consistent with that in effect during the year ended December 31, 2018, considering the new definition of lease established by IFRS 16.

Classification and valuation of leases under IAS 17, in effect through December 31, 2018

The Entity as lessee

As of December 31, 2018, the classification of leases as finance or operating depended on the substance of the transaction rather than the form of the contract.

Leases in which a significant portion of the risks and rewards relating to the leased property are retained by the lessor were classified as operating leases. Payments made under operating leases (net of incentives received by the lessor) were recognized in the consolidated statement of income based on the straight-line method over the lease period.

Leases where the Entity assumes substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalized at the beginning of the lease, at the lower of the fair value of the leased property and the present value of the future minimum lease payments. If its determination is practical, in order to discount the future minimum lease payments to present value, the interest rate implicit in the lease was used; otherwise, the incremental borrowing rate of the lessee should be used. Any initial direct costs of the leases were added to the original amount recognized as an asset. Each lease payment was allocated between the liability and finance charges to achieve a constant rate on the outstanding balance. The corresponding rental obligations were included in the current portion of the non-current debt and in the non-current debt, net of finance charges. The interest element of the finance cost was charged to the income for the year during the period of the lease, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases were depreciated over the shorter of the asset's useful life and the lease term.

The Entity as lessor

Leases for which the Entity is considered a lessor are classified as financial or operating. As long as the lease terms transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. The other leases are classified as operating leases.
Revenues arising from operating leases are recognized in straight-line over the term of the corresponding lease. The initial direct costs incurred in the negotiation and the organization of an operating lease are added to the book value of the leased asset and are recognized in a straight line over the term of the lease. Revenues arising from financial leases are recognized as accounts receivable for the amount of the net investment of the Entity in the leases.

s. ***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.

t. ***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.

u. ***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.

v. ***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 Entity 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.

w. ***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.

x. ***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

y. ***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 revenues 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 occurs when the goods are delivered to the customers in the points of sale, which coincides with the payment of the price of the transaction and is received 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, management recognizes the adjustment to income corresponding to returns at 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 adjustment in the previously recognized revenue.

- *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.

  When control of the goods is not transferred to the customer mainly through export sales, the revenue is not recognized until delivery is made to the customer.

  The Entity has different commercial conditions agreed with each client, depending on the sector of the corresponding product. To reduce the risk when granting credit, the Entity asks its clients for a credit insurance. Additionally, Mexican 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 Entity's credit committee. The payment terms granted by the Entity range from 60 to 90 days.

- *Sale of goods - International Segment*

  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 the payment for the transaction price is received.

  Additionally, 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 payment to be made.

- *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 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.

- ***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.

- ***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 Entity), 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 factors that the Entity considers in inventory reserves are the sales volumes and movements in the age of the inventories.

- ***Calculation of allowance for credit loss***

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

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

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

- ***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 fair value of the investment properties is estimated in the technical knowledge of independent experts specialized in real estate, including factors such as cap and discount rates for the investment properties.

- ***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 retirement benefits***

  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. A change in these assumptions could affect the value of assets liabilities associated with employee benefits and the income statement and other comprehensive income in the period in which such changes occur.

5. Cash and cash equivalents

	2020	2019	2018
Cash	$ 180,085	$ 398,431	$ 416,920
Cash equivalents -			
Investment funds	45	45	132
Money-market funds	262	254	239
Total	$ 180,392	$ 398,730	$ 417,291

6. Accounts receivables

	2020	2019	2018
Trade receivables	$ 1,747,580	$ 2,037,016	$ 2,360,529
Allowance for doubtful accounts	(129,884)	(172,582)	(180,068)
	1,617,696	1,864,434	2,180,461
Sundry debtors	5,717	26,524	79,051
Recoverable income tax	7,886	5,163	1,953
Recoverable value-added tax	108,416	361,148	324,998
Other recoverable tax	490,207	110,986	115,998
	$ 2,229,922	$ 2,368,255	$ 2,702,461

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 prior 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. 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:

	2020	2019	2018
1 to 30 days	$ 316,968	$ 315,638	$ 257,394
31 to 60 days	19,529	42,957	43,783
61to 90 days	14,689	8,827	15,510
Over the 90 days	71,081	129,202	71,697
Total	$ 422,267	$ 496,624	$ 388,384

December 31, 2020	Trade receivables - days past due <30	31 - 60	61 - 90	>91	Total
Expected credit loss rate	8.55%	2.11%	3.05%	31.92%	-%
Estimated total gross carrying amount at default	1,099,577	36,874	53,301	557,828	1,747,580
Lifetime ECL	(81,723)	(2,741)	(3,961)	(41,459)	(129,884)

December 31, 2019	Trade receivables - days past due <30	31 - 60	61 - 90	>91	Total
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	Trade receivables - days past due <30	31 - 60	61 - 90	>91	Total
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
Balances at January 1, 2019	$ (180,068)
Impairment provision	7,486
Balances at December 31, 2019	(172,582)
Impairment provision	42,698
Balances at December 31, 2020	$ (129,884)

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

	2020	2019	2018
Raw materials and others	$ 470,544	$ 624,138	$ 557,427
Work in progress	465,943	453,915	420,775
Finished goods	1,146,492	1,260,614	1,732,438
Merchandise in stores	-	1,091,466	935,206
	2,082,979	3,430,133	3,645,846
Merchandise in transit	106,683	193,907	321,327
	$ 2,189,662	$ 3,624,040	$ 3,967,173

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:

	2020	2019	2018
Balance at the beginning of the year	$ (99,283)	$ (144,010)	$ (194,512)
Estimation for the period	(6,194)	(78,196)	(92,627)
Cancellations and applications	24,807	122,923	143,129
Sale of segment - Milano	18,130	-	-
Balance at the end of the year	$ (62,540)	$ (99,283)	$ (144,010)

The movements in the allowance for obsolescence are clasificated into finished goods.

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, 2020, 2019 and 2018, respectively.

8. Property, plant and equipment

Reconciliation of beginning and ending balances at December 31, 2020, 2019 and 2018, is as follows:

	Balance as of January 1, 2020	Additions	Disposals	Transferred assets	Translation effect	Balances as of December 31, 2020
Investment:						
Land	$ 2,657,533	$ 1,771	$ -	$ (3,550)	$ 18,932	$ 2,674,686
Building and installations	5,637,000	6,515	(6,890)	(2,286)	16,304	5,650,643
Industrial machinery and equipment	32,742,583	58,746	(27,858)	35,148	17,006	32,825,625
Office furniture and equipment	742,303	2,234	(2,150)	-	4,576	746,963
Transportation equipment	97,689	632	(4,224)	(667)	167	93,597
Computer equipment	465,332	10,573	(3,252)	(3,727)	7,263	476,189
Water treatment plants	17,885	-	-	-	-	17,885
Transfers available for sale [1]	-	-	-	(2,633,643)	-	(2,633,643)
Projects-in-progress	725,161	232,395	(34)	(24,918)	(25,021)	918,245
Total investments	43,085,486	312,866	(44,408)	(2,633,643)	39,227	40,770,190
Depreciation:						
Building and installations	(3,248,606)	$ (89,104)	$ -	$ (113,099)	$ (5,727)	$ (3,467,198)
Industrial machinery and equipment	(28,447,820)	(355,085)	8,588	269	(1,183)	(28,795,231)
Office furniture and equipment	(550,354)	(9,636)	-	67,949	(2,584)	(494,625)
Transportation equipment	(82,021)	(5,924)	4,141	8,762	(97)	(75,139)
Computer equipment	(412,206)	(19,109)	3,112	36,119	(4,895)	(396,979)
Water treatment plants	(14,972)	(654)	-	-	-	(15,626)
Transfers available for sale [1]	-	-	-	1,923,350	-	1,923,350
Total accumulated depreciation	(32,755,979)	(479,512)	15,841	1,923,350	(14,486)	(31,321,448)
Investment net	$ 10,329,507	$ (166,646)	$ (28,567)	$ (710,293)	$ 24,741	$ 9,448,742

	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	733,801	282,139	(37,434)	(230,468)	(22,877)	725,161
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	(14,542)	(578)	-	-	148	(14,972)
Total accumulated depreciation [1]	(32,382,385)	(626,920)	214,461	-	38,865	(32,755,979)
Investment net	$ 11,036,901	$ (230,901)	$ (160,775)	$ -	$ (315,718)	$ 10,329,507

	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

	Balance as of January 1, 2018 (as restated)	Additions	Disposals	Transferred assets	Translation effect	Balances as of December 31, 2018 (as restated)
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 (1)	(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

(1) The balances of Property, plant and equipment have been reclassified and presented as assets available for sale as of December 31, 2020 as they relate to the discontinued operations of Milano.

9. Investment properties

Fair value of investment properties is as follows:

	2020	2019	2018
Land	$ 1,344,814	$ 1,585,750	$ 1,504,019
Building and installations	222,243	220,441	232,955
Total	$ 1,567,057	$ 1,806,191	$ 1,736,974

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:

a. 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).

b. 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.

c. 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.

d. 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, 2020	Fair value adjustment	Translation effect	Balances as of December 31, 2020
Land	$ 1,585,750	$ (258,950)	$ 18,014	$ 1,344,814
Building and installations	220,441	(691)	2,493	222,243
Total	$ 1,806,191	$ (259,641)	$ 20,507	$ 1,567,057

	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	232,955	18,230	(30,744)	220,441
Total	$ 1,736,974	$ 157,942	$ (88,725)	$ 1,806,191

	Balances as of January 1, 2018	Fair value adjustment	Translation effect	Balances as of December 31, 2018
Land	$ 1,519,424	$ 108,846	$ (124,251)	$ 1,504,019
Building and installations	251,679	1,856	(20,580)	232,955
Total	$ 1,771,103	$ 110,702	$ (144,831)	$ 1,736,974

The lease income generated by investment properties in 2020, 2019 and 2018 were $27,834, $134,777 and $13,551, respectively. To keep the investment properties in working condition, improvements and maintenance were necessary, resulting in expenditures of $1,523, $1,830 and $1,215 in 2020, 2019 and 2018, 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
Cost:			
Balances as of January 1, 2020	$ 855,097	$ 2,986,390	$ 3,841,487
Updates	-	3,795	3,795
Acquisitions	-	52,546	52,546
Transfers to available for sale	-	(2,986,390)	(2,986,390)
Balances as of December 31, 2020	$ 855,097	$ 56,341	$ 911,438
Accumulated depreciation:			
Balances as of January 1, 2020	$ (98,333)	$ (200,805)	$ (299,138)
Depreciation	(106,257)	(4,512)	(110,769)
Disposals	-	-	-
Transfers to available for sale	-	200,805	200,805
Balances as of December 31, 2020	$ (204,590)	$ (4,512)	$ (209,102)
	$ 650,507	$ 51,829	$ 702,336

	Building	Shops	Total
Cost:			
Balances as of January 1, 2019	$ -	$ -	$ -
Initial adoption of IFRS 16	$ 855,097	$ 2,986,390	$ 3,841,487
Acquisitions	-	-	-
Balances as of December 31, 2019	$ 855,097	$ 2,986,390	$ 3,841,487
Accumulated depreciation:			
Balances as of January, 2019	$ -	$ -	$ -
Depreciation	(98,333)	(200,805)	(299,138)
Disposals	-	-	-
Balances as of December 31, 2019	$ (98,333)	$ (200,805)	$ (299,138)
	$ 756,764	$ 2,785,585	$ 3,542,349

Amounts recognized as expenses in results:

	2020	2019
Depreciation right-of-use asset	$ 323,245	$ 299,138
Interest on lease liability	296,931	343,545
Short-term leases	173,297	57,566

Total cash outflows for leases amounted to$707,452 and $551,346 in 2020 and 2019, respectively.

The discount 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 Mexican 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, 2020, 2019 and 2018 are summarized below:

	2020	2019	2018
Financial assets carried at fair value through profit or loss			
Held for trading derivatives that are not designated in hedge accounting relationships	$ -	$ 67	$ 5,130

Instrument	Intentionality	Notional Amount	Notional Unit	Maturity	Valuation at fair value as of December 31 2020 Asset	Valuation at fair value as of December 31 2020 Loss in results
Cross Currency Swaps	Negotiation	120 million	Dollars	During 2020	$ -	$ (11,175)

Instrument	Intentionality	Notional Amount	Notional Unit	Maturity	Valuation at fair value as of December 31 2019 Asset	Valuation at fair value as of December 31 2019 Loss in results
Cross Currency Swaps	Negotiation	120 million	Dollars	During 2019	$ 67	$ 21,526

Instrument	Intentionality	Notional Amount	Notional Unit	Maturity	Valuation at fair value as of December 31 2018 Asset	Valuation at fair value as of December 31 2018 (Gain) in results
Cross Currency Swaps	Negotiation	120 million	Dollars	During 2018	$ 5,130	$ 96,503

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

	2020	2019	2018
Goodwill	$ -	$ 752,483	$ 752,483
Brands	-	623,876	623,876
	-	1,376,359	1,376,359
Development in stores	-	94,129	94,129
Accumulated amortization	-	(94,129)	(94,129)
	-	-	-
Guarantee deposits	7,468	47,461	45,134
Other	6,992	24,748	34,112
Other permanent investments	10,039	13,008	11,980
	24,499	85,217	91,226
Total	$ 24,499	$ 1,461,576	$ 1,467,585

The balances of goodwill, brands and development in stores have been reclassified and presented as assets available for sale as of December 31, 2020 as they relate to the discontinued operations of Milano.

13. Bank loans

As of December 31, 2020, 2019 and 2018, banks loans consist of the following:

Bank	Type	Currency	Rate	Period	2020	2019	2018
Fondo Escalonado por compartimientos BTG Pactual Crédito	Simple credit	Colombian Peso	12.9% Effective Annual rate (EA)	1 year	$ -	$ 55,549	$ 79,588
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
Bursátiles Ganaderos de Colombia S.A.	Simple Credit	Colombian Peso	16.27% EA	2019	-	-	6,441
					$ -	$ 106,425	$ 100,220

14. Long-term debt

As of December 31, 2020, 2019 and 2018, long-term debt consists of the following:

Bank	Type	Currency	Rate	Maturity	2020	2019	2018
Senior Notes (a)	Offering Notes	US dollars	8.875%	2022	$ 6,383,584	$ 6,030,464	$ 6,298,528
BNP Paribas Fortis Bank SA/ NV	Simple credit	US dollars	LIBOR plus 2.47%	2022	76,973	130,887	197,462
Banco Santander	Simple credit	US dollars	LIBOR, plus 4.05%	2021	35,179	49,439	85,488
Banco Colpatria Red Multibanca	Simple credit	Colombian pesos	11.91% EA	2020	-	5,310	39,504
Other	-	-	-	-	-	-	33,837
					6,495,736	6,216,100	6,654,819
			Less - Current portion of long-term debt		112,152	180,326	282,950
			Less - Current portion of debt issuance expenses		(30,808)	(28,093)	(23,262)
			Current portion of long term debt, net		81,344	152,233	259,688
			Long - term debt		6,383,584	6,035,774	6,369,514
			Less- debt issuance costs		(10,832)	(41,640)	(69,730)
			Long-term debt, net		$ 6,372,752	$ 5,994,134	$ 6,299,784

a. Notes for US $320 million, 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. 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 guaranteed by accounts receivables, inventories, property, plant and equipment owned by the Entity and its subsidiaries.

c. Long-term debt maturities as of December 31, 2020 are as follows:

Year	2020
2021	$ 112,152
2022	6,383,584
	$ 6,495,736

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:

A. Maintain stockholders' equity of no less than $4,674,000;
B. Maintain a debt to EBITDA no less than 4.5.
C. Maintain a consolidated interest coverage ratio of no greater than 3.0.
D. Maintain a debt to equity no less than 1.0.

e. The Entity as of December 31, 2020, 2019 and 2018 defaulted on these obligations; the long-term debt for $112,152, $180,326 and $282,950 was reclassified as a current liability.

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, 2020	Proceeds from borrowings	Repayments from borrowings	Other (i)	As of December 31, 2020
Bank loans (Note 13 and 14)	$ 6,252,792	$ 101,876	$ (68,164)	$ 167,592	$ 6,454,096
Loans from related parties (Note 22)	1,582,619	13,000	(127,433)	126,205	1,594,391
	$ 7,835,411	$ 114,876	$ (195,597)	$ 293,797	$ 8,048,487

	As of January 1, 2019	Proceeds from borrowings	Repayments from borrowings	Other (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)	1,530,591	-	-	52,028	1,582,619
	$ 8,190,283	$ 277,002	$ (145,684)	$ (486,190)	$ 7,835,411

	As of January 1, 2018	Proceeds from borrowings	Repayments from borrowings	Other (i)	As of December 31, 2018
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)	1,128,777	562,114	-	(160,300)	1,530,591
	$ 8,186,002	$ 1,217,249	$ (1,278,831)	$ 65,863	$ 8,190,283

(i) Other changes include exchange fluctuation and expenses associated with issuance costs recognized in accordance with the effective cost method.

15. Lease liability

	2020	2019
Maturity analysis:		
Year 1	$ 71,998	$ 470,826
Year 2	72,053	459,537
Year 3	72,005	460,410
Year 4	31,649	461,335
Year 5	-	391,302
Onwards	456,684	3,993,165
	704,389	6,236,575
Less: unearned interest	(28,341)	(2,602,889)
	$ 676,048	$ 3,633,686
Analyzed as:		
Current	$ 78,232	$ 169,615
Non-current	597,816	3,464,071
	$ 676,048	$ 3,633,686

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

16. Other accounts payable and accrued liabilities

Balances as of December 31, are as follows:

	2020	2019	2018
Payables for services	$ 707,758	$ 401,316	$ 440,868
Payables for machinery	152,435	62,336	142,446
Provisions (i)	117,859	154,333	195,915
Other taxes payable	710,277	554,690	453,812
Interest payable	254,928	251,896	182,637
	$ 1,943,257	$ 1,424,571	$ 1,415,678

(i) Provisions represent amounts accrued during 2020, 2019 and 2018, or contracted services of the following nature, attributable the financial year, which are expected to be paid 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.

	2020			
	Opening Balance	Additions	Reductions	Closing Balance
Social security and other benefits	$ 46,954	$ 8,100	$ (9,336)	$ 45,718
Labor provision	39,547	6,876	(7,452)	38,971
Other	67,832	101,534	(136,196)	33,170
	$ 154,333	$ 116,510	$ (152,984)	$ 117,859

	2019			
	Opening Balance	Additions	Reductions	Closing Balance
Social security and other benefits	$ 48,550	$ 7,638	$ (9,234)	$ 46,954
Labor provision	39,763	7,217	(7,433)	39,547
Other	107,602	72,534	(112,304)	67,832
	$ 195,915	$ 87,389	$ (128,971)	$ 154,333

	2018			
	Opening Balance	Additions	Reductions	Closing Balance
Social security and other benefits	$ 50,023	$ 7,984	$ (9,457)	$ 48,550
Labor provision	39,557	7,433	(7,227)	39,763
Other	138,306	72,136	(102,840)	107,602
	$ 227,886	$ 87,553	$ (119,524)	$ 195,915

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 Entity.

No other post-retirement benefits are provided to these employees.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of December 31, 2020 by 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:

	2020 %	2019 %	2018 %
Discount rate	7.17	7.25	9.25
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.

	2020	2019	2018
Service cost:			
Labor cost of current service	$ 23,707	$ 21,942	$ 2,525
Net interest expense	30,274	32,341	24,112
Components of defined benefit costs recognized in profit or loss	$ 53,981	$ 54,283	$ 26,637
Remeasurement on the net defined benefit liability:			
Actuarial losses arising from changes in demographic assumptions	$ -	$ 3,625	$ 156
Actuarial losses and (gains) arising from changes in financial assumptions	(3,590)	55,479	(41,548)
Components of defined benefit costs recognized in other comprehensive income	$ (3,590)	$ 59,104	$ (41,392)

Components of defined benefit costs recognized in other comprehensive income:

	2020	2019	2018
Remeasurement on the net defined benefit liability	$ (3,590)	$ 59,104	$ (41,392)
Deferred tax	1,076	(17,732)	12,418
Components of defined benefit costs recognized in other comprehensive income	$ (2,514)	$ 41,372	$ (28,974)

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:

	2020	2019	2018
Present value of funded defined benefit obligation	$ 577,539	$ 545,617	$ 442,591

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

	2020	2019	2018
Opening defined benefit obligation	$ (545,617)	$ (442,591)	$ (487,542)
Current service cost	(23,707)	(21,942)	(2,525)
Interest cost	(30,274)	(32,341)	(24,112)
Remeasurement gains (losses)	4,059	(59,104)	41,392
Reduction effect in the obligations	(105)	-	3,299
Benefits paid	4,078	10,361	26,897
Transfers available for sale	14,027	-	-
Closing defined benefit obligation	$ (577,539)	$ (545,617)	$ (442,591)

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, 2020, 2019 and 2018 are shown below:

	2020	2019	2018
Financial assets			
Cash and cash equivalents	$ 180,392	$ 398,730	$ 417,291
Accounts receivable, net	1,617,696	1,864,434	2,180,461
Accounts receivable from related parties	228,528	127,745	88,360
At fair value:			
Derivate financial instruments	-	67	5,130

	2020	2019	2018
Financial liabilities			
At amortized cost:			
Bank loans, current and long-term debt	$ 6,454,096	$ 6,252,792	$ 6,659,692
Accounts payable to suppliers	1,932,882	3,097,864	3,387,163
Accounts payable to related parties	3,677,231	3,585,060	2,555,235
Other accounts payable and accrued liabilities	1,943,257	1,424,571	1,415,678

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:

	2020	2019	2018
Debt with financial institutions	$ 6,454,096	$ 6,252,792	$ 6,659,692
Cash and cash equivalents	(180,392)	(398,730)	(417,291)
Net debt with financial institutions	$ 6,273,704	$ 5,854,062	$ 6,242,401
EBITDA	$ 933,913	$ 1,865,234	$ 1,261,712
Net debt to EBITDA	6.72	3.14	4.95
EBITDA	$ 933,913	$ 1,865,234	$ 1,261,712
Interest incurred on debt	$ 1,023,497	$ 1,073,654	$ 926,074
Interest coverage index	1.10	1.74	1.36

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.

ii) ***Foreign currency risk management***

The 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		
	2020	**2019**	**2018**	**2020**	**2019**	**2018**
U.S. Dollar	681,807	681,733	652,497	117,699	272,853	130,813
Euro	3,289	2,759	11,856	4,670	6,764	987
Colombian peso	72,229,229	83,856,264	60,787,986	10,068,146	31,915,214	42,283,230

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):

	2020	**2019**	**2018**
U.S. Dollar	1,125,322	770,543	1,026,825
Euro	33,640	8,481	24,497
Colombian peso	32,793	27,095	10,173

Exchange rates	2020	2019	2018	August 26, 2021
U.S. Dollar	$ 19.9487	$ 18.8452	$ 19.6829	$ 20.3522
Euro	$ 24.3593	$ 21.1751	$ 22.5383	$ 23.9657
Colombian peso	$ 172.3250	$ 166.4850	$ 165.3715	$ 190.2250

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 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, 2020, 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, 2020 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, 2020	**Internal credit rating**	**12-month or lifetime ECL**	**Gross carrying amount (i)**	**Loss allowance**	**Net carrying value**
Accounts receivable	Performing	12-month	1,792,045	(135,384)	1,656,661
Sundry debtors	Performing	12-month	15,848	-	15,848
Accounts receivable from related parties	Performing	12-month	228,528	-	228,528

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

December 31, 2018	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

f. 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.

g. ***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, 2020	Weighted average effective interest Rate	1 year	1 - 3 year	More than 3 years	Total
Bank loans and long term - debt	8.43%	$ 198,634	$ 6,398,979	$ -	$ 6,597,613
Interest payable		568,811	290,556	-	859,367
Accounts payable to suppliers	-	1,932,882	-	-	1,932,882
Due to related parties	-	401,238	3,275,993	-	3,677,231
Lease liability	-	78,232	566,167	31,649	676,048
Other financial liabilities	-	860,193	-	-	860,193
Total		$ 4,039,990	$ 10,531,695	$ 31,649	$ 13,743,141

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 payable		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
Other financial liabilities	-	463,652	-	-	463,652
Total		$ 7,307,327	$ 11,030,663	$ 2,082,789	$ 20,420,779

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 payable		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
Other financial liabilities	-	583,314	-	-	583,314
Total		$ 7,269,803	$ 9,716,077	$ -	$ 16,985,880

19. Fair value measurements of financial instruments

Except as detailed in the following table, the Entity's management considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximates their fair value due to their short-term maturities.

a. The carrying and fair value of long-term debt is as follows as of December 31:

	2020		2019		2018	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Debt	$ 6,454,096	$ 5,040,916	$ 6,252,792	$ 5,129,618	$ 6,659,692	$ 6,653,236

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, 2020, 2019 and 2018, capital stock is represented by:

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

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:

	2020	2019	2018
Contributed capital account	$ 7,764,932	$ 7,527,569	$ 7,320,723
Net account tax profit at the end 2013 (CUFIN)	894,280	858,183	832,220
Total	$ 8,659,212	$ 8,385,752	$ 8,152,943

21. Equity and earnings 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, 2020, 2019 and 2018, are presented before eliminations:

		Proportion of the non-controlling interests with voting rights			Income of the period allocated to non-controlling interests			Equity of non-controlling interests		
Subsidiary	Location	2020	2019	2018	2020	2019	2018	2020	2019	2018
Coltejer, S.A.	Colombia	39.74%	39.74%	39.74%	$ (444,403)	$ (58,429)	$ (76,586)	$ 600,649	$ 1,057,515	$ 1,235,267
Kaltex Textiles, S.A. de C.V.	Mexico	26.30%	26.30%	26.30%	(105,278)	(36,134)	(75,566)	730,927	876,102	881,265
Grupo Milano, S.A. de C.V.	Mexico	- %	- %	28.00%	-	-	26,423	-	-	642,532
Total					$ (549,681)	$ (94,563)	$ (125,729)	$ 1,331,576	$ 1,933,617	$ 2,759,064

(i) On June 3, 2019, Kaltex Comercial, S.A. de C.V. (subsidiary of Kaltex) signed an agreement to purchase shares that represented 28% of the non-controlling interest of Grupo Milano, S.A. de C.V. for US $52.

(ii) Coltejer, S.A. is a subsidiary of Kaltex International

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

	2020	2019	January 1, 2018
Coltejer, S.A.:			
Total assets	$ 6,715,823	$ 5,988,627	$ 5,754,899
Total liabilities	$ 4,001,631	$ 3,327,543	$ 2,646,528
Net assets	$ 2,714,192	$ 2,661,084	$ 3,108,371
Total revenues	$ 432,400	$ 832,416	$ 940,054
Net loss of the year	$ (276,381)	$ (147,028)	$ (192,717)
Kaltex Textiles, S.A. de C.V.:			
Total assets	$ 13,200,577	$ 13,908,240	$ 13,427,388
Total liabilities	$ 10,407,719	$ 10,472,974	$ 10,076,569
Net assets	$ 2,792,858	$ 3,331,185	$ 3,350,819
Total revenues	$ 8,198,614	$ 11,140,628	$ 11,555,793
Net loss of the year	$ (400,297)	$ (137,392)	$ (287,325)
Grupo Milano, S.A. de C.V.:			
Total assets	$ -	$ -	$ 3,871,388
Total liabilities	$ -	$ -	$ 1,400,112
Net assets	$ -	$ -	$ 2,471,276
Total revenues	$ -	$ -	$ 3,954,281
Net income of the year	$ -	$ -	$ 101,628

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:

	2020	2019	2018
Accounts receivable -			
Grupo MCM, S.A. de C.V.	$ 224,318	$ 100,113	$ 75,778
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.	2,088	728	-
Inmobiliaria Circulo CCK, S.A. de C.V.	671	634	-
Tiendas Extra S.A. de C.V.		289	585
Grupo MCM, S.A.S.	-	-	1,210
Grupo Administración Corporativa, S. C.	-	-	9,066
Other	42	73	312
	$ 228,528	$ 127,745	$ 88,360

	2020	2019	2018
Accounts payable			
Kaltex Inmobiliaria, S.A. de C.V.	$ 225,723	$ 201,944	$ 161,549
Inmobiliaria Los Mejia, S.A. de C.V.	74,005	69,268	42,732
Inmobiliaria Emilio Castelar, S.A. de C.V.	39,028	37,016	34,050
Inmobiliaria Baz Rivera, S.A. de C.V.	19,537	18,452	16,852
Rancho Los Mejias, S.A. de C.V.	21,880	20,650	14,672
Inmobiliaria Barrientos, S.A. de C.V.	13,363	12,621	11,529
Inmobiliaria Mago, S.A. de C.V.	1,101	3,491	9,278
Inmobiliaria Tochtli Centeotl, S.A. de C.V.	6,601	6,237	5,700
	$ 401,238	$ 369,679	$ 296,362
Long-term accounts payable-			
Grupo MCM Colombia, S.A. (1)			
Long-term debt	$ 1,233,825	$ 1,222,298	$ 1,154,253
Interest payable	59,055	73,856	161,511
Grupo MCM, S.A. de C.V. (2)			
Long-term debt	207,865	196,367	205,096
Acquisition of shares	1,038,928	981,458	-
Interest payable	92,338	43,326	9,927
Vigoris, S.A. de C.V. (3)			
Long-term debt	86,777	81,977	85,621
Acquisition of shares	195,130	239,760	263,119
Interest payable	40,172	27,366	15,388
Mosjak, S.A. de C.V. (4)			
Long-term debt	86,777	81,977	85,621
Acquisition of shares	196,162	240,654	264,052
Interest payable	38,964	26,342	14,285
	3,275,993	$ 3,215,381	$ 2,258,873

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 receivables in respect of the amounts owed by related parties.

(1) As of December 31, 2020, 2019 and 2018, the balance payable in the long term to Grupo MCM Colombia, S.A., composed of loan for a principal US $65 million, accruing interests at a rate of 10%, with maturity in 2022.

(2) As of December 31, 2020, 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 interest at a rate of 3.60%, with maturity in 2022, and a loan with principal for US $10.4 million, accruing interest at a rate of 3.10%, with indefinite maturity.

(3) As of December 31, 2020, 2019 and 2018, the long-term balance payable to Vigoris, S.A. de C.V., is composed of a loan for a principal amount of US $4.35 million, and for the acquisition of the non-controlling of Grupo Milano for US $12.7 million , accruing interest at a rate of 3.10%, with maturity in 2022.

(4) As of December 31, 2020, 2019 and 2018, the long-term balance payable to Mosjak, S.A. de CV, is composed loan for a principal amount of US $4.35 million, and for the acquisition of the non-controlling of Grupo Milano for US $12.7 million, accruing interest at a rate of 3.10%, with a maturity in 2022.

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

	2020	2019	2018
Revenues -			
Other income	$ 13,527	$ 19,163	$ 31,014
Expenses -			
Lease income	$ 16,442	$ 60,707	$ 51,134
Interest expense	25,471	33,079	17,356

23. Discontinued operations

On January 4, 2021, Kaltex sold its investment in its subsidiary Grupo Milano, S.A. de C.V. to a related party (MCM, S.A. de C.V.), whose principal shareholders are also shareholders of Kaltex. The sale price of the shares was US $80 million, which will be paid in June US $40 million and in September US $26. The sale of Milano qualifies as a discontinued operation as it represented a major segment of the Entity's business and therefore its assets and liabilities are presented as held for sale of December 31, 2020 (board approval for the sale was obtained prior to this date) and the income statements and statements of cash flows for the years ended December 31, 2020, 2019 and 2018 present the results associated with Milano as discontinued operations.

Condensed information related to the consolidated income statement of discontinued operations for the years ended December 31, 2020, 2019 and 2018:

	2020	2019	2018
Revenues	$ 2,085,574	$ 3,672,561	$ 3,954,281
Cost of sales	1,331,778	2,312,603	2,491,940
Gross profit	753,796	1,359,958	1,462,341
Selling and administrative expenses	766,898	982,173	1,307,186
Other (income) expenses, net	(82,728)	6,161	38,941
Operating income	69,626	371,624	116,214
Financial expenses, net	286,216	273,018	(9,304)
Foreign exchange loss, net	(7,899)	(3,423)	(457)
(Loss) income before taxes	(208,691)	102,029	125,975
Income tax (benefit) expense	(62,103)	33,012	24,347
Net (loss) income	$ (146,588)	$ 69,017	$ 101,628

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

		2020
Total current assets	$	1,557,937
Total non-current assets		5,007,634
Total assets classified as held for sale	$	6,565,571
Total current liabilities	$	1,355,798
Total non - current liabilities		2,810,143
Total liabilities classified as held for sale	$	4,165,941

24. Costs and expenditure by nature

		2020		2019		2018
Cost of sales:						
Wages and salaries	$	1,148,902	$	1,260,923	$	1,276,796
Employee benefits		781,104		838,765		750,975
Profit sharing		30,014		57,787		22,898
Raw material		3,936,347		4,711,469		4,419,518
Manufacturing expenses		106,473		168,224		466,280
Finished goods		881,372		1,818,644		2,571,772
Freight		232,796		275,621		277,008
Maintenance		426,790		530,609		487,971
Leasing		25,534		29,444		78,538
Electricity		742,098		976,228		1,018,411
Fuels and lubricants		390,822		469,083		306,965
Logistics services		100,631		140,206		150,272
Customs charges		51,146		75,734		76,664
Amortization		-		-		1,834
Other		168,118		262,811		353,322
Subtotal		9,022,147		11,615,548		12,259,224
Depreciation and amortization		438,588		457,379		502,009
Depreciation of right-of-use asset		50,439		29,830		-
Total	$	9,511,174	$	12,102,757	$	12,761,233
Selling expenses:						
Wages and salaries	$	184,674	$	192,317	$	174,057
Employee benefits		51,015		58,212		57,687
Profit sharing		3,292		1,381		731
Publicity		-		92,070		60,146
Travel expenses		3,352		19,581		13,528
Insurance		8,326		9,169		7,889
Freight		6,158		4,465		5,390
Fees		6,105		11,355		32,296
Maintenance		4,739		11,324		8,292
Leasing		2,815		3,187		73,523

	2020	2019	2018
Electricity	1,293	70,431	1,459
Water	265	20,769	30,969
Bank commissions	23,758	8,115	4,206
Royalties	204,198	64,006	147,792
Sales commissions	35,242	38,909	52,705
Other	5,813	29,806	6,918
Subtotal	541,045	635,097	677,588
Depreciation and amortization	880	3,011	26,848
Depreciation of right-of-use asset	60,074	68,279	-
Total	$ 601,999	$ 706,387	$ 704,436
Administrative expenses:			
Wages and salaries	$ 303,677	$ 298,695	$ 395,299
Employee benefits	89,120	94,201	73,434
Profit sharing	5,486	3,246	2,800
Travel expenses	3,144	13,389	13,842
Insurance	16,538	14,998	16,027
Freight	-	36,641	30,374
Fees	63,874	87,758	110,639
Maintenance	53,258	48,948	61,877
Leasing	19,598	24,935	23,099
Phone	15,765	13,167	13,993
Electricity	4,150	8,176	8,135
Bank commissions	2,538	2,075	2,032
Other	117,845	32,375	17,225
Subtotal	694,993	678,604	768,776
Depreciation and amortization	40,044	56,776	36,618
Depreciation of right-of-use asset	256	224	-
Total	$ 735,293	$ 735,604	$ 805,394

25. Other expenses (income), net

	2020	2019	2018
Loss on sale of machinery and equipment	$ (27,296)	$ 33,454	$ 1,516
Fair value adjustment of investment properties	283,034	(157,942)	(110,702)
Lease income	53,003	(19,626)	(13,551)
Revenues from sales of waste	(9,694)	(1,334)	(438)
Recovery of insurance	(14,846)	(4,213)	-
Amortization of debt issuance costs	28,093	25,617	23,262
Other expenses (income)	33,823	90,035	(105,767)
	$ 346,117	$ (34,009)	$ (205,680)

26. 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.

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 2020 and 2019, the Entity was subject to a 21% income tax rate and 34% rate for 2018.

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

	2020	2019	2018
ISR:			
Current	$ 218,711	$ 265,319	$ 228,373
Deferred	19,618	(55,072)	(109,604)
Income tax recognized in profit or loss before discontinued operations	$ 238,329	$ 210,247	118,769
Deferred of discontinued operations	62,103	(33,012)	(24,347)
Income tax recognized in profit or loss	$ 300,432	$ 177,235	$ 94,422

Deferred tax recognized in other comprehensive income:

	2020	2019	2018
Actuarial (gain) loss on employee benefits	$ (1,076)	$ (17,732)	$ 12,418

b. ***Deferred tax balances:***

	2020	2019	2018
Deferred income asset:			
Reserves and provisions	$ 135,391	$ 143,334	$ 106,968
Employee benefits	69,626	77,640	57,941
PTU	13,003	13,642	3,171
Lease liability	47,581	27,401	-
Tax loss carryforwards	48,286	91,464	179,920
Customer prepayments	68,515	21,827	33,212
Other	15,949	20,779	5,435
Deferred income tax asset	398,351	396,087	386,647
Deferred income liability:			
Property, plant and equipment	(1,811,559)	(1,532,382)	(1,575,019)
Prepayments	-	(33,826)	(64,241)
Other	(22,741)	(8,058)	1,630
Deferred income liability	(1,834,300)	(1,574,266)	(1,637,630)
Net deferred ISR liability	$ (1,435,949)	$ (1,178,179)	$ (1,250,983)

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:

	2020	2019	2018
Deferred income tax asset	$ 384,572	$ 756,074	$ 276,582
Deferred income tax liability	(1,820,521)	(1,934,253)	(1,527,565)
Deferred income tax liability	$ (1,435,949)	$ (1,178,179)	$ (1,250,983)

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

	2020	2019	2018
Beginning balance	$ 1,178,179	$ 1,250,983	$ 1,351,720
Initial application of IFRS 9 (Retained earnings)	-	-	(3,551)
Deferred income tax recognized in profit or loss	19,618	(55,072)	(109,604)
Deferred of discontinued operations	239,228	-	-
Deferred income tax recognized in other comprehensive income	(1,076)	(17,732)	12,418
Ending balance	$ 1,435,949	$ 1,178,179	$ 1,250,983

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

	2020 %	2019 %	2018 %
Income tax at statutory rate	30	30	30
Add (deduct) the effect of permanent differences:			
Non-deductible items	2	15	5
Adjustment for inflation	(12)	(26)	(18)
Tax losses	(20)	(321)	(43)
Effect of different tax rates and tax bases of operations in other jurisdictions	(18)	(13)	(20)
Discontinued operation and other and	(6)	209	28
Effective rate	(24)	(106)	(18)

e. In determining deferred income taxes as of December 31, 2020, 2019 and 2018, the effects of tax loss carryforwards were included for $247,853, $304,882 and $599,733, respectively. In the determination of deferred income taxes as of December 31, 2020 and 2019, the effects of deferred tax assets related to the carryforward of tax losses not recognized amounted to $26,070 and $1,136, respectively, as 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	120,480
2025	35,692
2026	39,337
2028	1,136
	$ 247,853

27. Contingencies

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 lawsuits at December 31, 2020, 2019 and 2018 is $99,710, $96,942 and $95,137, respectively, of which there is a liability recorded of $6,000, $13,303 and $9,106, respectively, which represents the Entity's best estimate of probable cash 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 $2,929, $15,905 and $22,650 during 2020, 2019 and 2018, respectively related to these matters. 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 as of such dates.

28. 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. Due to the sale of Milano, which is presented as a discontinued operation this segment has been eliminated for all periods presented.
- 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.

	2020			
	International	Textile	Eliminations	Total Consolidated
Net sales	$ 6,968,605	$ 10,498,656	$ (6,005,354)	$ 11,461,907
Gross profit	1,236,038	843,921	(129,226)	1,950,733
Sales expense	580,967	137,874	(116,842)	601,999
Administrative expenses	428,649	439,869	(133,830)	735,293
Other expenses (income), net	(210,491)	13,658	542,950	346,117
Depreciation and amortization	61,856	417,656	-	(479,512)
Depreciation of right-of-use asset	-	20,959	-	(110,769)
EBITDA	77,787	718,706	(605)	795,888
Interest expenses, net	215,663	563,306	217,598	(996,567)
Exchange gain, net	(55,222)	(311,044)	(157,866)	(524,132)
Income tax	29,424	17,864	253,144	300,432
Consolidated net loss of continuing operations	(284,378)	(645,959)	(623,470)	(1,553,807)
Total assets	$ 6,715,823	$ 14,580,516	$ 2,477,129	$ 23,773,468
Total liabilities	$ 4,001,631	$ 13,142,539	$ 4,191,119	$ 21,335,289

	2019			
	International	Textile	Eliminations	Total Consolidated
Net sales	$ 7,223,169	$ 14,040,283	$ (7,185,161)	$ 14,078,291
Gross profit	971,480	1,359,343	(355,289)	1,975,534
Sales expense	568,429	547,704	(409,746)	706,387
Administrative expenses	415,803	497,867	(178,066)	735,604
Other expenses (income), net	(12,752)	313,772	(335,029)	(34,009)
Depreciation and amortization	73,444	453,261	(9,538)	517,167
Depreciation of right-of-use asset	42,377	55,956	-	98,333
EBITDA	230,180	969,344	(631,972)	567,552

	2019			
	International	Textile	Eliminations	Total Consolidated
Interest expenses, net	309,922	580,363	191,899	1,082,184
Exchange gain, net	(17,201)	(236,228)	(94,030)	(347,459)
Income tax	(6,988)	184,223	-	177,235
Consolidated net loss of continuing operations	(171,374)	(89,757)	(83,277)	(344,408)
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	$ -	$ 10,329,507
Total assets	$ 7,747,797	$ 13,860,933	$ 2,997,699	$ 24,606,429
Total liabilities	$ 4,527,938	$ 11,877,084	$ 4,168,578	$ 20,573,600

	2018			
	International	Textile	Eliminations	Total Consolidated
Net sales	$ 7,042,363	$ 13,028,979	$ (5,532,345)	$ 14,538,997
Gross profit	1,010,762	1,299,793	(532,791)	1,777,764
Sales expense	565,511	212,488	(73,563)	704,436
Administrative expenses	412,232	815,285	(422,123)	805,394
Other expenses (income), net	33,019	272,020	(510,719)	(205,680)
Depreciation and amortization	80,977	484,498	(12,553)	552,922
EBITDA	298,923	740,216	-	1,039,139
Interest expenses, net	279,063	501,949	235,874	1,016,886
Exchange gain, net	9,095	(13,547)	(1,854)	(6,306)
Income tax	11,807	59,186	23,429	94,422
Consolidated net loss of continuing operations	(82,019)	(388,373)	(160,996)	(631,388)
Acquisition of property, plant and equipment	$ 16,614	$ 227,678	$ -	$ 244,292
Property, plant and equipment, net	$ 3,667,158	$ 6,700,942	$ -	$ 10,368,100
Total assets	$ 7,172,276	$ 13,773,431	$ 1,043,803	$ 21,989,510
Total liabilities	$ 3,681,749	$ 11,299,617	$ 1,206,239	$ 16,187,605

29. Subsequent event

a) Labor Reform.

During April 2021, various labor reforms to the Federal Labor Law (“LFT”), Social Security Law (“LSS”), Law of the National Housing Fund Institute for Workers (“LINFONAVIT”), Federal Tax Code (“CFF”), Income Tax Law (“LISR”) and the Value Added Tax Law (“LIVA”) were enacted, with the aim of regulating the regime of subcontracting of labor personnel ("outsourcing") in Mexico. This reform was approved and published in the Official Gazette of the Federation on April 23, 2021, and entered into effect the day after its publication. Additionally, the applicable rules in relation to the labor reform were published on May 24, 2021.

The main changes of this reform are:

- Outsourcing schemes are prohibited by law.
- As the only exception, it is established that the provision of specialized services or the execution of specialized activities, which are not part of the corporate purpose or the economic activity of the beneficiary of the services, will not be considered subcontracting of personnel.
- The contractor must register in the public registry of specialized services to obtain an authorization from the Ministry of Labor and Social Welfare to operate as a provider of specialized services.
- Economic sanctions are established for employers who benefit from outsourcing and fail to comply with the law.
- For tax purposes, it is established that the tax receipts that have been issued may not have tax effects as a result of the subcontracting of personnel.
- The contractors of the referred specialized services will be jointly liable for the contributions paid by the contractor.
- It is proposed to establish as qualifying for the commission of the crime of tax fraud and its equivalents, the use of simulated schemes for the provision of specialized services or the execution of specialized works, as well as the execution of the subcontracting of personnel.
- The amount of PTU that is paid to workers will have a maximum limit of three months of the worker's salary or the average of the participation received in the last three years; the amount that is most favorable to the worker will be applied.

According to the reform, compliance with the requirements has a deadline of July 23, 2021. Management is in the process of implementing internal restructurings associated with the new labor reform and is in the process of evaluating the potential impacts to ensure compliance with these regulations.

30. Authorization to issue the consolidated financial statements

On August 26, 2021, 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.

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