

**Alpek, S. A. B. de C. V. and Subsidiaries  
(Subsidiary of Alfa, S. A. B. de C. V.)**

Consolidated Financial Statements as of  
and for the Years Ended December 31,  
2021, 2020 and 2019, and Independent  
Auditors' Report Dated January 31, 2022



**Alpek, S. A. B. de C. V. and Subsidiaries**  
**(Subsidiary of Alfa, S. A. B. de C. V.)**

# **Independent Auditors' Report and Consolidated Financial Statements as of and for the Years Ended December 31, 2021, 2020 and 2019**

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

## **Opinion**

We have audited the consolidated financial statements of Alpek, S. A. B. de C. V. and Subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2021, 2020 and 2019, and the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, and the 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 consolidated financial position of Alpek, S.A.B. de C.V. and Subsidiaries as of December 31, 2021, 2020 and 2019, and their consolidated financial performance and their consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

## **Basis for Opinion**

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

## **Other Matters**

The accompanying consolidated financial statements have been translated from Spanish to English for the convenience of readers.

This matter has not changed our opinion.

## **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 2021 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



### ***Business Combination- BVPV Styrenics LLC Purchase Price Allocation***

As mentioned in Note 2f. in the consolidated financial statements, on October 19, 2020, a subsidiary of Alpek, S.A.B. de C.V. ("Alpek") acquired all the shares representing the capital stock of BVPV Styrenics LLC, a company that owns and operates two styrenics plants in the United States. The initial value of the purchase amounted to US\$50 million, however, during 2021 the last adjustments to the purchase price were made, which resulted in a recovery of US\$4 million of the advances for the consideration of US\$46 million. The acquisition met the criteria of a business combination in accordance with the requirements of IFRS 3, *Business Combinations*; therefore, the Company applied the acquisition method to measure the assets acquired and the liabilities assumed in the transaction, such valuation was carried out in 2021, as a result, the fair value of the net assets acquired amounted to US\$47 million and the Company recognized a gain on the acquisition of US\$1 million.

Due to the significant judgments used by management in the valuation models for the determination of the consideration transferred, the fair values of the assets acquired and liabilities assumed, we believe that this transaction represents a key audit matter for our audit. Therefore, in order to perform the audit procedures to reasonably mitigate the identified risk, we involved a team of valuation experts to evaluate the premises and criteria used by management and its independent expert, which include the following procedures:

- We evaluated the skills and independence of the independent expert.
- We verified that the models and assumptions used by management to determine fair values were those used and recognized for valuing assets of similar characteristics in the industry.
- We challenged management's financial projections and compared them to historical business and industry performance and trends.
- We reviewed the most relevant valuation assumptions (discount rate and long-term growth), as well as the assumptions used in the valuation of long-lived tangible assets and compared them with independent market sources.

The results of our procedures were satisfactory, and we agree with the amount of the fair value of the assets acquired and liabilities assumed recognized by the Company.

### ***Information Other Than the Consolidated Financial Statements and Auditor's Report Thereon***

Management is responsible for the other information presented. Additional information includes; (i) the Annual Stock Exchange Filing, (ii) the information to be incorporated into the Annual Report that the Company is required to prepare in accordance with Article 33, section I, subsection b) of Title Four, Chapter One of the General Provisions Applicable to Issuers and other Participants of the Stock Market in Mexico and the Instructions that accompany these provisions (the "Provisions"). It is expected that the Annual Stock Exchange Filing and the Annual Report to be available for our reading after the date of this audit report; and (iii) other additional information, which is a measure that is not required by IFRS, and has been incorporated for the purpose of providing additional explanation to its investors and principal readers of its consolidated financial statements to assess the performance of each of the operating segments and other indicators on the ability to meet obligations with respect to the Company's earnings before income, taxes, depreciation, amortization and assets impairment ("adjusted EBITDA") of the Company; this information is presented in Note 29.

Our opinion of the consolidated financial statements does not cover the other information and we do not express any form of assurance over it.



In connection with our audit of the consolidated financial statements, our responsibility will be to read the other information, when available, and in doing so, consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or with our knowledge obtained in the audit, or otherwise appears to contain a material error. When we read the Annual Report, we will issue the legend on the reading of the annual report required in Article 33, Section I, subsection b) number 1.2 of the Provisions. Also, and in connection with our audit of the consolidated financial statements, it is our responsibility to read and recalculate the additional information, which in this case is the annual report and the measure not required by IFRS, and in reading it, consider whether the other information therein is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or appearing to contain a material misstatement. If based on the work we have performed, we conclude that there is a material misstatement therein; we are required to communicate this matter. As of the date of this report, we have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

### ***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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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 Company and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the audit of the consolidated financial statements of the Company. 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

  
C. P. C. Jesús Israel Almaguer Gámez  
Monterrey, Nuevo León, México  
January 31, 2022



**Alpek, S. A. B. de C. V. and Subsidiaries**  
**(Subsidiary of Alfa, S. A. B. de C. V.)**

# **Consolidated Statements of Financial Position**

**As of December 31, 2021, 2020 and 2019**

**In millions of Mexican pesos**

	<b>Note</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	6	\$ 10,541	\$ 10,144	\$ 7,059
Restricted cash	6	13	12	216
Trade and other accounts receivable, net	7	24,502	17,050	16,508
Inventories	8	25,705	17,447	17,966
Derivative financial instruments	4	333	454	41
Prepayments	9	686	442	1,785
Total current assets		<u>61,780</u>	<u>45,549</u>	<u>43,575</u>
Non-current assets:				
Property, plant and equipment, net	10	39,405	38,579	37,082
Right-of-use asset, net	11	3,554	2,991	3,437
Goodwill and intangible assets, net	12	3,348	3,637	3,783
Deferred income taxes	20	1,630	1,506	1,104
Derivative financial instruments	4	18	70	36
Prepayments	9	31	15	16
Investments accounted for using the equity method and other non-current assets	13	14,179	14,006	13,761
Total non-current assets		<u>62,165</u>	<u>60,804</u>	<u>59,219</u>
Total assets		<u><u>\$123,945</u></u>	<u><u>\$106,353</u></u>	<u><u>\$102,794</u></u>
<b>Liabilities and Stockholders' Equity</b>				
Current liabilities:				
Debt	16	\$ 2,660	\$ 456	\$ 707
Lease liability	17	733	704	912
Trade and other accounts payable	15	29,853	19,545	16,455
Income taxes payable	20	1,630	531	1,143
Derivative financial instruments	4	248	66	528
Provisions	18	546	50	576
Total current liabilities		<u>35,670</u>	<u>21,352</u>	<u>20,321</u>
Non-current liabilities:				
Debt	16	29,333	30,196	28,103
Lease liability	17	2,875	2,306	2,456
Derivative financial instruments	4	6	-	4
Provisions	18	835	1,120	1,078
Deferred income taxes	20	4,124	4,092	3,926
Income taxes payable	20	241	170	400
Employee benefits	19	1,029	1,316	1,092
Other non-current liabilities	21	246	289	356
Total non-current liabilities		<u>38,689</u>	<u>39,489</u>	<u>37,415</u>
Total liabilities		<u>74,359</u>	<u>60,841</u>	<u>57,736</u>
Stockholders' equity				
Controlling interest:				
Capital stock	22	6,028	6,035	6,045
Share premium		8,976	9,025	9,059
Retained earnings		24,591	21,035	20,625
Other reserves		4,121	4,291	4,751
Total controlling interest		<u>43,716</u>	<u>40,386</u>	<u>40,480</u>
Non-controlling interest	14	5,870	5,126	4,578
Total stockholders' equity		<u>49,586</u>	<u>45,512</u>	<u>45,058</u>
Total liabilities and stockholders' equity		<u><u>\$123,945</u></u>	<u><u>\$106,353</u></u>	<u><u>\$102,794</u></u>

The accompanying notes are an integral part of these consolidated financial statements.



**Alpek, S. A. B. de C. V. and Subsidiaries**  
**(Subsidiary of Alfa, S. A. B. de C. V.)**

## **Consolidated Statements of Income**

**For the years ended December 31, 2021, 2020 and 2019**

**In millions of Mexican pesos, except for earnings per share amounts**

	<b>Note</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Revenues	29	\$156,224	\$113,989	\$119,685
Cost of sales	24	<u>(131,537)</u>	<u>(102,283)</u>	<u>(106,669)</u>
Gross profit		24,687	11,706	13,016
Selling expenses	24	(2,570)	(2,136)	(2,088)
Administrative expenses	24	(3,466)	(3,260)	(2,831)
Other (expenses) income, net	25	<u>(1,157)</u>	<u>1,183</u>	<u>4,264</u>
Operating income		17,494	7,493	12,361
Financial income	26	590	525	774
Financial expenses	26	(3,082)	(2,497)	(2,822)
Loss due to exchange fluctuation, net	26	<u>(652)</u>	<u>(113)</u>	<u>(587)</u>
Financial result, net		(3,144)	(2,085)	(2,635)
Equity in loss of associates and joint ventures recognized using the equity method		<u>(39)</u>	<u>(85)</u>	<u>(313)</u>
Income before taxes		14,311	5,323	9,413
Income taxes	20	<u>(4,115)</u>	<u>(1,202)</u>	<u>(1,889)</u>
Net consolidated income		<u>\$ 10,196</u>	<u>\$ 4,121</u>	<u>\$ 7,524</u>
Income attributable to:				
Controlling interest		\$ 7,756	\$ 3,123	\$ 6,605
Non-controlling interest		<u>2,440</u>	<u>998</u>	<u>919</u>
		<u>\$ 10,196</u>	<u>\$ 4,121</u>	<u>\$ 7,524</u>
Earnings per basic and diluted share, in Mexican pesos		<u>\$ 3.67</u>	<u>\$ 1.48</u>	<u>\$ 3.12</u>
Weighted average outstanding shares (millions of shares)		<u>2,111</u>	<u>2,113</u>	<u>2,117</u>

The accompanying notes are an integral part of these consolidated financial statements.





**Alpek, S. A. B. de C. V. and Subsidiaries**  
**(Subsidiary of Alfa, S. A. B. de C. V.)**

## **Consolidated Statements of Comprehensive Income**

**For the years ended December 31, 2021, 2020 and 2019**

**In millions of Mexican pesos**

	<b>Note</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Net consolidated income		\$ 10,196	\$ 4,121	\$ 7,524
Other comprehensive income (loss) for the year:				
Equity in other comprehensive income of associates and joint ventures recognized through the equity method		(1)	3	-
<i>Items that will not be reclassified to the statement of income:</i>				
Remeasurement of employee benefit obligations, net of taxes	19, 20	344	(30)	22
<i>Items that will be reclassified to the statement of income:</i>				
Effect of derivative financial instruments designated as cash flow hedges, net of taxes	4, 20	(431)	614	765
Translation effect of foreign entities	4, 20	110	(767)	(1,954)
Total other comprehensive income (loss) for the year		22	(180)	(1,167)
Consolidated comprehensive income		<u>\$ 10,218</u>	<u>\$ 3,941</u>	<u>\$ 6,357</u>
Attributable to:				
Controlling interest		\$ 7,586	\$ 2,663	\$ 5,622
Non-controlling interest		2,632	1,278	735
Comprehensive income for the year		<u>\$ 10,218</u>	<u>\$ 3,941</u>	<u>\$ 6,357</u>

The accompanying notes are an integral part of these consolidated financial statements.



**Alpek, S. A. B. de C. V. and Subsidiaries**  
**(Subsidiary of Alfa, S. A. B. de C. V.)**

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

**For the years ended December 31, 2021, 2020 and 2019**

**In millions of Mexican pesos**

	<b>Capital stock</b>	<b>Share premium</b>	<b>Retained earnings</b>	<b>Other reserves</b>	<b>Total controlling interest</b>	<b>Non- controlling interest</b>	<b>Total stockholders' equity</b>
Balance as of January 1, 2019	\$ 6,052	\$ 9,106	\$ 17,235	\$ 5,734	\$ 38,127	\$ 5,036	\$ 43,163
Net income	-	-	6,605	-	6,605	919	7,524
Total other comprehensive loss for the year	-	-	-	(983)	(983)	(184)	(1,167)
Comprehensive income	-	-	6,605	(983)	5,622	735	6,357
Dividends declared	-	-	(2,778)	-	(2,778)	(1,182)	(3,960)
Reissuance of shares	51	338	-	-	389	-	389
Repurchase of shares	(58)	(385)	-	-	(443)	-	(443)
Acquisition of non-controlling interest in subsidiary	-	-	(190)	-	(190)	(4)	(194)
Other	-	-	(247)	-	(247)	(7)	(254)
Balance as of December 31, 2019	6,045	9,059	20,625	4,751	40,480	4,578	45,058
Net income	-	-	3,123	-	3,123	998	4,121
Total other comprehensive loss for the year	-	-	-	(460)	(460)	280	(180)
Comprehensive income	-	-	3,123	(460)	2,663	1,278	3,941
Dividends declared	-	-	(2,713)	-	(2,713)	(730)	(3,443)
Reissuance of shares	1	1	-	-	2	-	2
Repurchase of shares	(11)	(35)	-	-	(46)	-	(46)
Balance as of December 31, 2020	6,035	9,025	21,035	4,291	40,386	5,126	45,512
Net income	-	-	7,756	-	7,756	2,440	10,196
Total other comprehensive income for the year	-	-	-	(170)	(170)	192	22
Comprehensive income	-	-	7,756	(170)	7,586	2,632	10,218
Dividends declared	-	-	(3,806)	-	(3,806)	(1,889)	(5,695)
Reissuance of shares	30	206	-	-	236	-	236
Repurchase of shares	(37)	(255)	-	-	(292)	-	(292)
Other	-	-	(394)	-	(394)	1	(393)
Balance as of December 31, 2021	<u>\$ 6,028</u>	<u>\$ 8,976</u>	<u>\$ 24,591</u>	<u>\$ 4,121</u>	<u>\$ 43,716</u>	<u>\$ 5,870</u>	<u>\$ 49,586</u>

The accompanying notes are an integral part of these consolidated financial statements.



**Alpek, S. A. B. de C. V. and Subsidiaries**  
**(Subsidiary of Alfa, S. A. B. de C. V.)**

# **Consolidated Statements of Cash Flows**

**For the years ended December 31, 2021, 2020 and 2019**

**In millions of Mexican pesos**

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Cash flows from operating activities			
Income before income taxes	\$ 14,311	\$ 5,323	\$ 9,413
Depreciation and amortization	4,280	4,486	4,005
Impairment of long-lived assets	1,460	14	29
Allowance for doubtful accounts	25	77	40
Financial result, net	2,951	1,772	2,220
Gain on business combinations	(29)	(657)	-
Gain on business sale	-	(89)	(3,634)
Statutory employee profit sharing, provisions and other items	331	(426)	228
Subtotal	23,329	10,500	12,301
Movements in working capital			
(Increase) decrease in trade receivables and other assets	(8,159)	894	4,465
(Increase) decrease in inventories	(8,994)	2,522	5,523
Increase (decrease) in trade and other accounts payable	9,448	659	(9,523)
Income taxes paid	(2,394)	(2,641)	(2,765)
Net cash flows generated from operating activities	13,230	11,934	10,001
Cash flows from investing activities			
Interest collected	322	197	231
Cash flows in acquisition of property, plant and equipment	(4,418)	(2,543)	(3,123)
Cash flows in sale of property, plant and equipment	5	18	96
Cash flows in acquisition of intangible assets	(18)	(45)	(35)
Cash flows in business acquisition, net of cash acquired	78	(921)	(661)
Prepayment for business acquisition	-	-	(1,312)
Cash flows in business sale, net of cash transferred	-	108	15,400
Cash flows (paid) collected in investment in associates and joint ventures	(227)	15	(147)
Loans collected from related parties	-	10	188
Notes receivable	-	-	(1)
Collection of notes	398	845	531
Restricted cash	-	228	(219)
Net cash flows (used in) generated from investing activities	(3,860)	(2,088)	10,948
Cash flows from financing activities			
Proceeds from debt	13,038	13,044	22,000
Payments of debt	(12,708)	(12,550)	(32,005)
Lease payments	(1,049)	(1,083)	(1,108)
Interest paid	(2,566)	(1,954)	(2,379)
Dividends paid by Alpek, S. A. B. de C. V.	(3,710)	(2,713)	(2,778)
Dividends paid by subsidiaries to non-controlling interest	(1,889)	(730)	(1,182)
Acquisition of non-controlling interest in subsidiary	-	-	(194)
Repurchase of shares	(292)	(46)	(443)
Reissuance of shares	236	2	389
Loan payments to related parties	(46)	-	(1)
Net cash flows (used in) generated from financing activities	(8,986)	(6,030)	(17,701)
Net increase in cash and cash equivalents	384	3,816	3,248
Effect of changes in exchange rates	13	(731)	(357)
Cash and cash equivalents at the beginning of the year	10,144	7,059	4,168
Cash and cash equivalents at the end of the year	\$ 10,541	\$ 10,144	\$ 7,059

The accompanying notes are an integral part of these consolidated financial statements.



**Alpek, S. A. B. de C. V. and Subsidiaries**  
**(Subsidiary of Alfa, S. A. B. de C. V.)**

# **Notes to the Consolidated Financial Statements**

As of and for the years ended December 31, 2021, 2020 and 2019

Millions of Mexican pesos, except where otherwise indicated

## **1. General Information**

Alpek, S. A. B. de C. V. and subsidiaries (“Alpek” or the “Company”) operates through two major business segments: polyester chain products and plastic products. The polyester chain business segment comprises the production of purified terephthalic acid (PTA), polyethylene terephthalate (PET), recycled PET (rPET) and polyester fibers, which serves the food and beverage packaging, textile and industrial filament markets. The plastics & chemicals business segment comprises the production of polypropylene (PP), expandable polystyrene (EPS), caprolactam (CPL), fertilizers and other chemicals, which serves a wide range of markets, including the consumer goods, food and beverage packaging, automotive, construction, agriculture, oil industry, pharmaceutical markets and others.

Alpek is one of the largest petrochemical companies in Mexico and the second largest in Latin America. Additionally, it is the main integrated producer of polyester and one of the main producers of rPET in America. It operates the largest EPS plant in the continent, and one of the largest PP plants in North America and is the only producer of caprolactam in Mexico.

When reference is made to the controlling entity Alpek, S.A.B. of C.V. as an individual legal entity, it will be referred to as “Alpek SAB”.

The shares of Alpek SAB are traded on the Mexican Stock Exchange (“MSE”) and has Alfa, S. A. B. de C. V. (“Alfa”) as its main holding company. As of December 31, 2021, 2020 and 2019, the percentage of shares that traded on the MSE was 17.51%, 17.63% and 17.79%, respectively.

Alpek SAB is located at Avenida Gómez Morín Sur No. 1111, Col. Carrizalejo, San Pedro Garza García, Nuevo León, México and operates productive plants located in Mexico, the United States of America, Canada, Argentina, Chile, Brazil and United Kingdom.

In the following notes to the financial statements when referring to pesos or “\$”, it means millions of Mexican pesos. When referring to dollars or “US\$”, it means millions of dollars from the United States of America. When referring to Euros or “€” it means millions of Euros.

## **2. Significant events**

### 2021

#### **a. Debt issuance**

On February 18, 2021, Alpek SAB issued Senior Notes, on the Irish Stock Exchange, to qualified institutional investors under the Rule 144A and other investors outside the United States of America under Regulation S, for an amount of US\$600, gross of issuance costs of US\$5 and discounts of US\$2. The Senior Notes have a ten-year maturity and a 3.25% coupon payable semi-annually. Proceeds from the transaction were primarily used to prepay debt including accrued and unpaid interest.

#### **b. Acquisition of a rPET plant from CarbonLITE**

On June 10, 2021, the Company acquired a PET recycling and pelletizing facility from CarbonLite Recycling LLC (“CarbonLITE”) in Reading, Pennsylvania in the United States. The plant was acquired, free of debt, for US\$96, plus working capital.

CarbonLITE Reading facility is equipped with incoming bottle handling, washing and solid-state polymerization (“SSP”) systems, which enable the production of food-grade pellets and are required for bottle-to-bottle recycling. The site has a bottle-to-flake and flake-to-pellet capacity of 60,000 tons and 40,000 tons of production per year, respectively.



This acquisition is in line with the objective of promoting a circular economy in accordance with the Company's long-term strategic growth plan. Additionally, it increases Alpek's installed rPET capacity to 160,000 tons of production per year and advance towards the Company's goal of supplying certain customers with 25% rPET content by 2025.

The Company's consolidated financial statements include the financial information of the acquired assets.

The Company applied the optional test established in IFRS 3, *Business Combinations*, to assess the concentration of the fair value of the acquired assets and determine whether such fair value is substantially concentrated in a group of similar identifiable assets. In line with the above, the Company determined that the transaction did not meet the criteria of a business combination, therefore it was classified as an asset acquisition. In the initial recognition of the operation, the Company identified and recognized all the assets, allocating the purchase price to the individual assets identified, on a proportional basis in relation to their fair values at the acquisition date. Consequently, the transaction did not give rise to goodwill or gain from a bargain purchase.

**c. *Impairment in Univex***

In November 2021, the Company decided to close its caprolactam production area (raw material for the production of Nylon 6) of its Univex, S.A. de C.V. plant., subsidiary of Unimor, S.A. de C.V., as well as its affiliate Sales del Bajío, S.A. de C.V. that produces carbonates; the aforementioned, derived from the fall in the market prices and profit margins worldwide.

The Company is in process of evaluating the future use of the Univex, S.A. de C.V. facilities since they continue to be used for fertilizer production line, which continues in operation. Additionally, the Company is evaluating the labor impacts in connection to such shutdown.

As a result, the Company recognized an impairment of long-lived assets for \$936, deferred income tax asset for \$257, other liabilities for \$308 and early insurance cancellation for \$8, approximately.

**d. *Announcement of closure of the staple fibers operations in Cooper River***

On May 4, 2021, the Company through its subsidiary Dak Americas LLC, announced the closure of its polyester staple fiber operations at its Copper River site, in Charleston, SC.

As a result, the impact was \$679 (US\$33), approximately, recognized in the statement of income.

The plant ceased operations of staple fiber during the month of December.

**e. *Adjustments from previous years in Univex***

During 2021 in Univex S.A. of C.V. adjustments from previous years were identified and corrected in such subsidiary, the net effect of these adjustments is reflected in the consolidated statement of changes in stockholders' equity of Alpek in "others".

**f. *Acquisition of a styrenics business from NOVA Chemicals***

On October 19, 2020, the Company announced that one of its subsidiaries signed an agreement with NOVA Chemicals Corporation ("NOVA Chemicals") for the purchase of its expanded styrenics business, through the acquisition of a 100% interest in BVPV Styrenics LLC, owner and operator of two facilities in the United States. The first facility, located in Monaca, Pennsylvania, has an annual capacity of 123,000 tons of EPS and 36,000 tons of ARCEL®, in addition to a world-class research and development (R&D) pilot plant; and a second facility located in Painesville, Ohio, with an annual capacity of 45,000 tons of EPS.

The initial value of the consideration amounted to US\$50, which was paid in cash by means of a transfer on the closing date of the transaction, which occurred on October 30, 2020 which corresponds to the date on which the Company acquired control of the business. During 2021, net working capital adjustments were made that resulted in a recovery of US\$4 on the purchase price, resulting in a final consideration of US\$46.



The acquisition of BVPV Styrenics LLC met the criteria of a business combination in accordance with the requirements of IFRS 3, *Business Combinations*; therefore, the Company applied the acquisition method to measure the acquired assets and the assumed liabilities in the transaction. The purchase price allocation was determined in 2021, and the adjustments derived from the acquisition method were not material, therefore were recognized in 2021. The fair values of the acquired assets, and assumed liabilities as a result of this acquisition are as follows:

	US\$
Current assets <sup>(1)</sup>	\$ 56
Non-current assets <sup>(2)</sup>	15
Intangible assets <sup>(3)</sup>	2
Current liabilities	(17)
Non-current liabilities	(9)
Acquired net assets	47
Gain from a bargain purchase	(1)
Paid consideration	<u>\$ 46</u>

<sup>(1)</sup> Current assets consist of accounts receivable of US\$18, inventories of US\$38

<sup>(2)</sup> Non-current assets consist of fixed assets of US\$14 and right-of-use assets of US\$1

<sup>(3)</sup> Intangible assets consist of trademarks for US\$1 and patents for US\$1

As a result of this transaction, a gain from a bargain purchase of \$29 (US\$1.3), was recognized in 2021 under other income, net (Note 25). In terms of IFRS 3, the gain from a bargain purchase was mainly generated because the disposal was due to strategic plans of the seller.

## 2020

### g. Acquisition of Lotte Chemical PET business in UK

On October 29, 2019, the Company announced an agreement with Lotte Chemical Corporation ("Lotte") for the purchase of all the shares of Lotte Chemical UK Limited ("Lotte UK"), which is the owner of a PET production plant located in Wilton, United Kingdom. The acquisition is aligned with Alpek's growth strategy, expanding its reach outside the Americas and better integrating its PTA and PET capabilities.

During the month of December 2019, the Company made advance payments for the acquisition of Lotte UK for a total amount of US\$69 (Note 9); however, the final acquisition of the business occurred on January 1, 2020, considered as the date in which Alpek obtained control of Lotte UK, now called Alpek Polyester UK LTD ("Alpek Polyester UK"). During May 2020, the final adjustments to the purchase price were made resulting in a recovery of US\$1 from the advance payments for a final purchase price of US\$68. Such recovery is presented as a cash inflow in the consolidated statement of cash flows in the business acquisition line, together with the incorporation of Alpek Polyester UK's cash held at the time of acquisition.

The Company's consolidated financial statements include financial information of the entity from the acquisition date. The business acquired is included in the Polyester segment.

The acquisition of Alpek Polyester UK met the criteria of a business combination in accordance with the requirements of IFRS 3, *Business Combinations*; therefore, the Company applied the acquisition method to measure the assets acquired and the liabilities assumed in the transaction. The purchase price allocation was determined in 2020, and the adjustments derived from acquisition method accounting were recognized from the date of acquisition. The fair values of the acquired assets and assumed liabilities as a result of this acquisition are as follows:

	US\$
Inventories	\$ 48
Other current assets <sup>(1)</sup>	63
Property, plant and equipment	43
Current liabilities <sup>(2)</sup>	(51)
Net identifiable assets	103
Bargain purchase gain	(35)
Consideration paid	<u>\$ 68</u>

<sup>(1)</sup> Current assets consist of cash and cash equivalents for US\$6, accounts receivable for US\$55 and others for US\$2.

<sup>(2)</sup> Current liabilities consist of suppliers and other accounts payable of US\$47 and provisions of US\$4.



As a result of this transaction, a gain associated with the business combination was recognized for an amount of \$657 (US\$35), recorded in 2020 (Note 25). Under the terms of IFRS 3, the gain associated with the business combination was mainly generated because the disposals took place due to strategic plans of the seller.

***h. Impacts of COVID-19***

As a result of the outbreak of coronavirus (COVID-19) and its global outreach, on March 11, 2020, the World Health Organization declared the infectious disease a pandemic. Health actions have been taken in Mexico and other countries, including those where Alpek operates, to limit the spread of this virus, including, but not limited to, social distancing and closure of educational facilities (schools and universities), commercial establishments and non-essential businesses. The following is a breakdown of the main implications for the Company:

- At the ordinary stockholders' meeting of the Company on February 27, 2020, the stockholders agreed to declare dividends in cash of approximately US\$81.6. On May 21, 2020, the stockholders of the Company approved the revocation of the dividend payment as one of the decisions taken in order to prioritize its financial stability due to the emergence of COVID-19. It also approved delegating authority to the Board of Directors to monitor how the situation evolves, and at its sole discretion, set a date and an amount for a dividend payment, for an amount equal to or less than the one previously authorized.
- On March 18, 2020, the Company announced that its joint venture investment Corpus Christi Polymers extended the pre-construction period of its plant through the end of 2020 to help optimize project costs and maximize returns to the three joint venture shareholders. Alpek did not have to make capital contributions in the extended pre-construction period. During 2021, preparation tasks prior to construction resumed and the Company made additional capital contributions of US\$11.

The Company has taken actions to counteract the effects that COVID-19 has had on the economic markets in which it participates, focusing on strengthening operating and financial performance, by constant monitoring its cost structure, key business processes and a commitment to its employees. As of December 31, 2021, there were no significant impacts directly attributable to COVID-19.

***i. Approval of the restructuring plan for the recovery of financing to M&G México***

On September 4, 2020, the Company announced the final approval of the financial restructuring agreement between M&G Polímeros México S.A. de C.V. ("M&G México") and the majority of its creditors, including certain subsidiaries of Alpek. In accordance with the agreement, as of the end of 2020, the Company started the recovery of US\$160 of debt guaranteed by a first and second degree lien on M&G México's PET plant in Altamira by receiving a payment of US\$40 in December 2020. Additionally, during 2021, the Company continue to receive interest payments related to this debt and a principal payments of US\$8 in December.

**2019**

***j. Acquisition of a PET recycling plant with Perpetual Recycling Solutions***

On January 9, 2019, the Company announced that one of its subsidiaries signed an agreement with Perpetual Recycling Solutions, LLC ("Perpetual"), to acquire a PET recycling plant in Richmond, Indiana, USA. The Perpetual PET recycling plant has an installed capacity to produce approximately 45,000 tons per year of high quality recycled PET flakes. The acquisition was completed on January 31, 2019. This acquisition complements the Company's existing food-grade PET recycling operations in Argentina and its fiber-grade PET recycling facility in North Carolina. The operation was closed for the amount of US\$34 on January 31, 2019.

The Company's consolidated financial statements include Perpetual's financial information from the acquisition date. The business purchased is included in the Polyester segment.

The acquisition of Perpetual met the criteria of a business combination in accordance with the requirements of IFRS 3, *Business Combinations*; therefore, the Company applied the acquisition method to measure the assets acquired and the liabilities assumed in the transaction. The Company recognized goodwill in the amount of US\$3. The purchase price allocation was determined in 2019, and the adjustments derived from the acquisition method accounting were recognized from the acquisition date.

The 2019 consolidated statement of cash flows presents the incorporation of Perpetual's transactions into a single line within the investing activity.



***k. Sale of two electric power cogeneration plants***

On January 6, 2019, the Company signed an agreement with Contour Global Terra 3, S.a.r.l. ("CG Terra 3") for the sale of its cogeneration power plants, located in Cosoleacaque and Altamira, Mexico. Subsequently, CG Terra 3 transferred its rights to ContourGlobal Holding de Generación de Energía de México, S.A. de C.V. ("CG México"), a subsidiary of Contour Global, PLC. The agreement includes the sale of all the shares representing the capital stock of Cogeneración Altamira, S.A. de C.V. ("CGA"), held by Alpek SAB; CGA, in turn, holds 99.99% of the shares of the capital stock of Cogeneración de Energía Limpia de Cosoleacaque, S.A. de C.V. ("CELCSA").

Additionally, as part of the transaction, Alpek SAB signed with CG México, among others, a call option agreement whereby Alpek SAB and its subsidiaries undertake the obligation to sell all of its shares of the capital stock of Tereftalatos Mexicanos Gas, S. A. de C. V. (whose assets, among others, include gas pipelines that transport natural gas from the point of interconnection of the integrated national transport system to the point of consumption), to CG México, in the case that the later exercises the call option within a period of 5 years from the date of the signing of the call option agreement. The option will be subject to compliance with certain precedent conditions established in the contract, and its price will be subject to working capital adjustments.

On November 25, 2019, the Company announced that it had concluded the sale process of its cogeneration power plants for US\$801; however, the transaction price is subject to non-significant working capital adjustments, which are expected to be in favor of the Company.

The resources of the transaction were mainly used to reduce the Company's debt obligations and pay an extraordinary dividend (Note 22).

***l. Debt issuance***

On September 11, 2019, Alpek SAB issued Senior Notes, listed on the Irish Stock Exchange, to qualified institutional investors under Rule 144A and other investors outside the United States of America under Regulation S in the amount of US\$500, including issuance costs of US\$4 and discounts of US\$1. The Senior Notes mature in ten years at a coupon of 4.25% payable semiannually. The transaction proceeds were mainly used to prepay short-term debt and for general corporate purposes.

***m. Credit Agreement with Export Development Canada ("EDC")***

On May 10, 2019, Alpek and certain of its subsidiaries entered into a credit agreement to obtain an unsecured credit for up to US\$250 with Export Development Canada. This facility has a maturity of 6 years and an availability period that expired in May 2021. The loan accrues interest at a variable rate of LIBOR plus a spread that depends on leverage levels and can be prepaid at any time, in whole or in part, without penalty. As of December 31, 2021, this credit was no longer available; was refinanced (Note 16).

**3. Summary of significant accounting policies**

The following are the most significant accounting policies followed by the Company and its subsidiaries, which have been consistently applied in the preparation of their financial information in the years presented, unless otherwise specified:

***a) Basis of preparation***

The consolidated financial statements of Alpek have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). IFRS include all International Accounting Standards ("IAS") in force and all related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), including those previously issued by the Standing Interpretations Committee ("SIC").

The consolidated financial statements have been prepared on a historical cost basis, except for the cash flow hedges, which are measured at fair value, and for the financial assets and liabilities at fair value through profit or loss with changes reflected in the consolidated statement of income and for financial assets available for sale.





The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Additionally, it requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where judgments and estimates are significant to the consolidated financial statements are disclosed in Note 5.

**b) Consolidation**

**i. Subsidiaries**

The subsidiaries are all the entities over which the Company has control. The Company controls an entity when it is exposed, or has the right to variable returns from its interest in the entity and it is capable of affecting the returns through its power over the entity. When the Company's participation in subsidiaries is less than 100%, the share attributed to outside stockholders is reflected as non-controlling interest. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and up to the date it loses such control.

The accounting method used by the Company for business combinations is the acquisition method. The Company defines a business combination as a transaction through which it obtains control over a business, whereby it has the power to steer and manage the relevant operations of all assets and liabilities of the business with the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable acquired assets and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree based on the share of the non-controlling interest in the net identifiable assets of the acquired entity.

The Company accounts for business combinations of entities using the predecessor method in a jointly controlled entity. The predecessor method involves the incorporation of the carrying amounts of the acquired entity, which includes the goodwill recognized at the consolidated level with respect to the acquiree. Any difference between the carrying value of the net assets acquired at the level of the subsidiary and its carrying amount at the level of the Company is recognized in stockholders' equity.

The acquisition-related costs are recognized as expenses when incurred.

Goodwill is initially measured as excess of the sum of the consideration transferred and the fair value of the non-controlling interest over the net identifiable assets and liabilities assumed. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of income.

If the business combination is achieved in stages, the value in books at the acquisition date of the equity previously held by the Company in the acquired entity is remeasured at its fair value at the acquisition date. Any loss or gain resulting from such remeasurement is recorded in income of the year.

Transactions and intercompany balances and unrealized gains on transactions between Alpek's companies are eliminated in preparing the consolidated financial statements. Alpek's subsidiaries apply the same accounting policies as those disclosed in these consolidated financial statements.



As of December 31, 2021, 2020 and 2019, the main companies that comprise the consolidated financial statements of the Company are as follows:

	Country <sup>(1)</sup>	Shareholding (%) <sup>(2)</sup>			Functional Currency
		2021	2020	2019	
Alpek, S. A. B. de C. V. (Holding Company)					Mexican peso
Alpek Polyester, S. A. de C. V. (Holding Company) <sup>(6)</sup>		100	100	100	US dollar
DAK Americas, LLC	USA	100	100	100	US dollar
Dak Resinas Américas México, S. A. de C. V.		100	100	100	US dollar
DAK Américas Exterior, S. L. (Holding Company)	Spain	100	100	100	US dollar
DAK Americas Argentina, S. A.	Argentina	100	100	100	Argentine peso
Compagnie Selenis Canada (Selenis) <sup>(3)</sup>	Canada	50	50	50	US dollar
Tereftalatos Mexicanos, S. A. de C. V. (Temex)		91	91	91	US dollar
Akra Polyester, S. A. de C. V.		93	93	93	US dollar
Companhia Petroquímica de Pernambuco	Brazil	100	100	100	Brazilian real
Companhia Integrada Textil de Pernambuco	Brazil	100	100	100	Brazilian real
Indelpro, S. A. de C. V. (Indelpro)		51	51	51	US dollar
Polioles, S. A. de C. V. (Polioles)		50	50	50	US dollar
Grupo Styropek, S. A. de C. V. (Holding Company)		100	100	100	Mexican peso
Styropek México, S. A. de C. V.		100	100	100	US dollar
Styropek, S. A.	Argentina	100	100	100	Argentine peso
Aislapol, S. A.	Chile	100	100	100	Chilean peso
Styropek do Brasil, LTD	Brazil	100	100	100	Brazilian real
Unimor, S. A. de C. V. (Holding Company)		100	100	100	Mexican peso
Univex, S. A.		100	100	100	Mexican peso
Alpek Polyester UK LTD <sup>(4)(5)</sup>	United Kingdom	100	100	-	Pound sterling
BVPV Styrenics LLC <sup>(5)</sup>	USA	100	100	-	US dollar

<sup>(1)</sup> Companies incorporated in Mexico, except those indicated.

<sup>(2)</sup> Ownership percentage that Alpek has in the holding companies and ownership percentage that such holding companies have in the companies integrating the groups. Ownership percentages and the voting rights are the same.

<sup>(3)</sup> The purchase agreement of this entity, included an earn-out clause related to the potential production of PETG, to be initiated by Selenis. Under this clause, the seller holds in escrow the shares not acquired by the Company, which may be released to the Company or the seller depending on the fulfillment of certain conditions related to PETG production.

<sup>(4)</sup> Previously known as Lotte Chemical UK Limited ("Lotte UK").

<sup>(5)</sup> Entity acquired in 2020. (See Note 2f and 2g).

<sup>(6)</sup> On July 31, 2021, Grupo Petrotemex, S.A. de C.V. (Grupo Petrotemex), changed its company name to Alpek Polyester S.A. de C.V.

As of December 31, 2021, 2020 and 2019, there are no significant restrictions for investment in shares of subsidiary companies mentioned above.

## ii. Absorption (dilution) of control in subsidiaries

The effect of absorption (dilution) of control in subsidiaries, in example, an increase or decrease in the percentage of control, is recorded in stockholders' equity, directly in retained earnings, in the period in which the transactions that cause such effects occur. The effect of absorption (dilution) of control is determined by comparing the book value of the investment before the event of dilution or absorption against the book value after the relevant event. In the case of loss of control, the dilution effect is recognized in income.



When the Company issues purchase obligations on certain non-controlling interests in a consolidated subsidiary and non-controlling stockholders retain the risks and awards on these shares in the consolidated subsidiary, these are recognized as financial liabilities for the present value of the refundable amount of the options, initially recorded with a corresponding reduction in the stockholders' equity, and subsequently accruing through financial charges to income during the contractual period.

iii. Sale or disposal of subsidiaries

When the Company ceases to have control any retained interest in the entity is re-measured at fair value, and the change in the carrying amount is recognized in the consolidated statement of income. The fair value is the initial carrying value for the purposes of accounting for any subsequent retained interest in the associate, joint venture or financial asset. Any amount previously recognized in comprehensive income in respect of that entity is accounted for as if the Company had directly disposed of the related assets and liabilities. This results in the amounts previously recognized in comprehensive income being reclassified to income for the year.

iv. Associates

Associates are all entities over which the Company has significant influence but not control. Generally, an investor must hold between 20% and 50% of the voting rights in an investee for it to be an associate. Investments in associates are accounted for using the equity method and are initially recognized at cost. The Company's investment in associates includes goodwill identified at acquisition, net of any accumulated impairment loss.

If the equity in an associate is reduced but significant influence is maintained, only a portion of the amounts recognized in the comprehensive income are reclassified to income for the year, where appropriate.

The Company's share of profits or losses of associates, post-acquisition, is recognized in the consolidated statement of income and its share in the other comprehensive income of associates is recognized as other comprehensive income. When the Company's share of losses in an associate equals or exceeds its equity in the associate, including unsecured receivables, the Company does not recognize further losses unless it has incurred obligations or made payments on behalf of the associate.

The Company assesses at each reporting date whether there is objective evidence that the investment in the associate is impaired. If so, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes it in "equity in results of associates recognized using the equity method" in the consolidated statement of income.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's equity in such gains. Unrealized losses are also eliminated unless the transaction provides evidence that the asset transferred is impaired. In order to ensure consistency with the policies adopted by the Company, the accounting policies of associates have been modified. When the Company ceases to have significant influence over an associate, any difference between the fair value of the remaining investment, including any consideration received from the partial disposal of the investment and the book value of the investment is recognized in the consolidated statement of income.

v. Joint ventures

Joint arrangements are those where there is joint control since the decisions over relevant activities require the unanimous consent of each one of the parties sharing control.

Investments in joint arrangements are classified in accordance with the contractual rights and obligations of each investor such as: joint operations or joint ventures. When the Company holds the right over assets and obligations for related assets under a joint arrangement, this is classified as a joint operation. When the company holds rights over net assets of the joint arrangement, this is classified as a joint venture. The Company has assessed the nature of its joint arrangements and classified them as joint ventures. Joint ventures are accounted for by using the equity method applied to an investment in associates.



**c) Foreign currency translation**

**i. Functional and presentation currency**

The amounts included in the financial statements of each of the Company's subsidiaries, associates and joint ventures should be measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Mexican pesos.

When there is a change in the functional currency of one of the subsidiaries, according to International Accounting Standard 21, *Effects of Changes in Foreign Exchange Rates* ("IAS 21"), this change is accounted for prospectively, translating at the date of the functional currency change, all assets, liabilities, equity, and income items at the exchange rate of that date.

**ii. Transactions and balances**

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rates prevailing at the transaction date or valuation date when the amounts are re-measured. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing exchange rates are recognized as foreign exchange gain or loss in the consolidated statement of income, except for those which are deferred in comprehensive income and qualify as cash flow hedges.

Changes in the fair value of securities or monetary financial assets denominated in foreign currency classified as available for sale are divided between fluctuations resulting from changes in the amortized cost of such securities and other changes in value. Subsequently, currency fluctuations are recognized in income and changes in the carrying amount arising from any other circumstances are recognized as part of comprehensive income.

**iii. Translation of subsidiaries with recording currency other than the functional currency**

The financial statements of foreign subsidiaries, having a recording currency different from their functional currency were translated into the functional currency in accordance with the following procedure:

- a) The balances of monetary assets and liabilities denominated in the recording currency were translated at the closing exchange rate.
- b) To the historical balances of monetary assets and liabilities and stockholders' equity translated into the functional currency the movements that occurred during the period were added, which were translated at the historical exchange rates. In the case of the movements of non-monetary items recognized at fair value, which occurred during the period, stated in the recording currency, these were translated using the historical exchange rates in effect on the date when the fair value was determined.
- c) The income, costs and expenses of the periods, expressed in the recording currency, were translated at the historical exchange rate of the date they were accrued and recognized in the consolidated statement of income, except when they arose from non-monetary items, in which case the historical exchange rate of the non-monetary items was used.
- d) The exchange differences arising in the translation from the recording currency to the functional currency were recognized as income or expense in the consolidated statement of income in the period they arose.

**iv. Translation of subsidiaries with functional currency other than the presentation currency**

The results and financial position of all Company entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows, depending on whether the functional currency comes from a non-hyperinflationary or hyperinflationary environment:



*Non-hyperinflationary environment*

- a) Assets and liabilities for each statement of financial position presented are translated at the closing exchange rate at the date of the statement of financial position;
- b) Stockholders' equity of each statement of financial position presented is translated at historical exchange rate;
- c) Income and expenses for each statement of income are translated at average exchange rate (when the average exchange rate is not a reasonable approximation of the cumulative effect of the rates of the transaction, to the exchange rate at the date of the transaction is used); and
- d) The resulting exchange differences are recognized in the consolidated statement of other comprehensive income as translation effect.

*Hyperinflationary environment*

- a) Assets, liabilities and equity in the statement of financial position, as well as income and expenses in the income statement, are translated at the closing exchange rate of the statement of financial position, after being restated in its functional currency (Note 3d); and
- b) Assets, liabilities, equity, income and expenses of the comparative period, are maintained according to the amount obtained in the translation of the year in question, that is, the financial statements of the preceding period. These amounts are not adjusted to subsequent exchange rates because the Company presents its financial information in Mexican pesos, which correspond to a currency of a non-hyperinflationary environment.

The primary exchange rates in the various translation processes are listed below:

Country	Local Currency	Local currency to Mexican pesos Closing exchange rate at December 31,			Average annual exchange rate		
		2021	2020	2019	2021	2020	2019
United States	US dollar	20.58	19.95	18.85	20.38	21.59	19.30
Argentina	Argentine peso	0.20	0.24	0.31	0.21	0.30	0.40
Brazil	Brazilian real	3.69	3.84	4.69	3.77	4.12	4.90
Chile	Chilean peso	0.02	0.03	0.03	0.03	0.03	0.03
United Kingdom	Pound sterling	27.88	27.26	24.95	28.02	27.87	24.68

**d) *Hyperinflationary effects***

As of July 1, 2018, the cumulative inflation from the prior 3 years in Argentina exceeded 100%; consequently, the Argentine peso was classified as a currency of a hyperinflationary economic environment. As a result, the financial statements of the subsidiaries located in that country, whose functional currency is the Argentine peso, have been restated and adjusted for inflation in accordance with the requirements of the International Accounting Standard 29, *Financial Information in Hyperinflationary Economies* ("IAS 29"), and have been consolidated in compliance with the requirements of IAS 21. The purpose of applying these requirements is to consider changes in the general purchasing power of the Argentine peso in order to present the financial statements in the measuring unit current at the date of the statement of financial position. The financial statements before including any inflation adjustments were prepared using the historical cost method.



The Company determined the inflation adjustments in its consolidated financial statements in the following manner:

- a. The amounts corresponding to non-monetary items of each statement of financial position, which are not measured at the date of the statement of financial position at their fair value or net realizable value, as the case may be, are restated by applying to their historical cost the change of a general price index from the date of acquisition or the date of its last measurement at fair value, to the date of the statement of financial position;
- b. The amounts corresponding to monetary items of the statement of financial position are not restated;
- c. The components of stockholders' equity of each statement of financial position are restated:
  - 1) At the beginning of the first period of application of IAS 29, except for retained earnings, by applying the change of a general price index from the dates the components were originated to the date of restatement. Restated retained earnings are derived from all the other balances in the statement of financial position;
  - 2) At the end of the first period and in subsequent periods, all components of stockholders' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later.
- d. Revenues and expenses are restated by applying the change in the general price index, from the date on which the expenses and revenues were recognized, up to the reporting date.
- e. Gains or losses arising from the net monetary position are recognized in the consolidated statement of income.

The Company reflects the effects of hyperinflation on the financial information of its subsidiaries in Argentina using price indexes that are considered appropriate in accordance with Resolution 539/19 JG (the "Resolution") of the Argentine Federation of Professional Councils of Economic Sciences. This resolution establishes that a combination of price indices should be used in the calculation of the effects of restatement of financial statements. Therefore, the Company has decided to use the Consumer Price Index ("CPI") to restate balances and transactions.

The effects of the restatement of the financial statements of the subsidiaries located in Argentina were not material and were included in the "Financial result, net" line item of the year ended December 31, 2021.

***e) Cash and cash equivalents***

Cash and cash equivalents include cash on hand, bank deposits available for operations and other short-term investments of high liquidity and high credit quality with original maturities of three months or less, all of which are subject to insignificant risk of changes in value. Bank overdrafts are presented as loans as part of the current liabilities.

***f) Restricted cash***

Cash and cash equivalents whose restrictions cause them not to comply with the definition of cash and cash equivalents given above, are presented in a separate line in the consolidated statement of financial position and are excluded from cash and cash equivalents in the consolidated statement of cash flows.

***g) Financial instruments***

Financial assets

The Company subsequently classifies and measures its financial assets based on the Company's business model to manage financial assets, and on the characteristics of the contractual cash flows of such assets. This way financial assets can be classified at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss. Management determines the classification of its financial assets upon initial recognition. Purchases and sales of financial assets are recognized at settlement date.



Financial assets are entirely written off when the right to receive the related cash flows expires or is transferred, and the Company also has substantially transferred all the risks and rewards of its ownership, as well as the control of the financial asset.

#### *Classes of financial assets*

##### *i. Financial assets at amortized cost*

Financial assets at amortized cost are those that i) are held within a business model whose objective is to hold said assets in order to collect contractual cash flows; and ii) 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 amount of outstanding principal.

##### *ii. Financial assets at fair value through other comprehensive income*

Financial assets at fair value through other comprehensive income are those whose business model is based on both collecting contractual cash flows and selling the financial assets; and their contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal. As of December 31, 2021, 2020 and 2019, the Company does not hold financial assets to be measured at fair value through other comprehensive income.

##### *iii. Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss, in addition to those described in point *i* in this section, are those that do not meet the characteristics to be measured at amortized cost or fair value through other comprehensive income, since: i) they have a business model different to those that seek to collect contractual cash flows, or collect contractual cash flows and sell the financial assets, or otherwise ii) the generated cash flows are not solely payments of principal and interest on the amount of outstanding principal.

Despite the previously mentioned classifications, the Company may make the following irrevocable elections in the initial recognition of a financial asset:

- a. Disclose the subsequent changes in the fair value of an equity instrument in other comprehensive income, only if such investment (in which no significant influence, joint control or control is maintained) is not held for trading purposes, or is a contingent consideration recognized as a result of a business combination.
- b. Assign a debt instrument to be measured at fair value in profit or loss, if such election eliminates or significantly reduces an accounting mismatch that would arise from the measurement of assets or liabilities or the recognition of profits and losses on them in different basis.

As of December 31, 2021, 2020 and 2019, the Company has not made any of the irrevocable designations described above.

#### *Impairment of financial assets*

The Company uses an impairment model based on expected credit losses rather than losses incurred, applicable to financial assets subject to such assessment (i.e. financial assets measured at amortized cost and at fair value through other comprehensive income), as well as lease receivables, contract assets, certain written loan commitments, and financial guarantee contracts. The expected credit losses on these financial assets are estimated from the initial recognition of the asset at each reporting date, using as a reference the past experience of the Company's credit losses, adjusted for factors that are specific to the debtors or groups of debtors, general economic conditions, and an assessment of both the current direction and the forecast of future conditions.

##### *a. Trade receivables*

The Company adopted the simplified expected loss calculation model, through which expected credit losses during the account receivable's lifetime are recognized.



The Company performs an analysis of its portfolio of customer receivables, in order to determine if there are significant customers for whom it requires an individual assessment; meanwhile, customers with similar characteristics that share credit risks (participation in the portfolio of accounts receivable, type of market, sector, geographic area, etc.), are grouped to be evaluated collectively.

In its impairment assessment, the Company may include indications that the debtors or a group of debtors are experiencing significant financial difficulties, and also observable data indicating that there is a significant decrease in the estimated cash flows to be received, including arrears. For purposes of the historical estimate, the Company considers that the following constitutes an event of default, since historical experience indicates that financial assets are not recoverable when they meet any of the following criteria:

- the debtor does not fulfill its financial agreements; or
- Information obtained internally or from external sources indicates that it is unlikely that the debtor will pay its creditors, including the Company, in its entirety (without considering any guarantee held by the Company).

The Company defined the breach threshold as the period from which the recovery of the account receivable subjected to analysis is marginal, considering the internal risk management customers with similar characteristics sharing credit risks (participation in trade receivables portfolio, type of market, sector, geographic area, etc.), are grouped to be evaluated collectively.

b. Other financial instruments

The Company recognizes credit losses expected during the asset's lifetime of all financial instruments for which credit risk has significantly increased since its initial recognition (assessed on a collective or individual basis), considering all the reasonable and sustainable information, including the one referring to the future. If at the presentation date, the credit risk a financial instrument has not significantly increased since its initial recognition, the Company calculates the loss allowance for that financial instrument as the amount of expected credit losses in the following 12 months.

In both cases, the Company recognizes in profit or loss of the period the decrease or increase in the expected credit loss allowance at the end of the period.

Management assesses the impairment model and the inputs used therein at least once every 3 months, in order to ensure that they remain in effect based on the current situation of the portfolio.

*Financial liabilities*

Non-derivative financial liabilities are initially recognized at fair value and are subsequently valued at amortized cost using the effective interest method. Liabilities in this category are classified as current liabilities if expected to be settled within the next 12 months, otherwise they are classified as non-current.

Trade payables are obligations to pay for goods or services that have been acquired or received from suppliers in the ordinary course of business. Loans are initially recognized at fair value, net of transaction costs incurred. Loans are subsequently carried at amortized cost; any difference between the funds received (net of transaction costs) and the settlement value is recognized in the consolidated statement of income over the term of the loan using the effective interest method.

*Derecognition of financial liabilities*

The Company derecognizes financial liabilities if, and only if, the obligations of the Company are fulfilled, cancelled or have expired. The difference between the carrying amount of the derecognized financial liability and the consideration paid and payable is recognized in profit or loss.

Additionally, when the Company carries out a refinancing transaction and the previous liability qualifies to be derecognized, the costs incurred in the refinancing are recognized immediately in profit or loss at the date of termination of the previous financial liability.





### *Offsetting financial assets and liabilities*

Assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when the right to offset the recognized amounts is legally enforceable and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

### ***h) Derivative financial instruments and hedging activities***

All derivative financial instruments are identified and classified as fair value hedges or cash flow hedges, for trading or the hedging of market risks and are recognized in the consolidated statement of financial position as assets and/or liabilities at fair value and similarly measured subsequently at fair value. The fair value is determined based on recognized market prices and its fair value is determined using valuation techniques accepted in the financial sector.

The fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months.

Derivative financial instruments classified as hedges are contracted for risk hedging purposes and meet all hedging requirements; their designation at the beginning of the hedging operation is documented, describing the objective, primary position, risks to be hedged and the effectiveness of the hedging relationship, characteristics, accounting recognition and how the effectiveness is to be measured.

#### *Fair value hedges*

Changes in the fair value of derivative financial instruments are recorded in the consolidated statement of income. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the consolidated statement of income in the same line item as the hedged position. As of December 31, 2021, 2020 and 2019, the Company does not hold derivative financial instruments classified as fair value hedges.

#### *Cash flow hedges*

The changes in the fair value of derivative instruments associated to cash flow hedges are recorded in stockholders' equity. The effective portion is temporarily recorded in comprehensive income, within stockholders' equity and is reclassified to profit or loss when the hedged position affects these. The ineffective portion is immediately recorded in income.

#### *Net investment hedge in a foreign transaction*

The Company applies the hedge accounting to currency risk arising from its investments in foreign transactions for variations in exchange rates arising between the functional currency of such transaction and the functional currency of the holding entity, regardless of whether the investment is maintained directly or through a sub-holding entity. Variation in exchange rates is recognized in the other items of comprehensive income as part of the translation effect, when the foreign transaction is consolidated.

To this end, the Company designates the debt denominated in a foreign currency as a hedging instrument; therefore, the exchange rate effects caused by the debt are recognized in other components of comprehensive income, on the translation effects line item, to the extent that the hedge is effective. When the hedge is not effective, exchange differences are recognized in profit or loss.

#### *Suspension of hedge accounting*

The Company suspends hedge accounting when the derivative financial instrument or the non-derivative financial instrument has expired, is cancelled or exercised, when the derivative or non-derivative financial instrument is not highly effective to offset the changes in the fair value or cash flows of the hedged item. The replacement or successive renewal of a hedging instrument for another one is not an expiration or resolution if such replacement or renewal is part of the Company's documented risk management objective and it is consistent with this.



On suspending hedge accounting, in the case of fair value hedges, the adjustment to the carrying amount of a hedged amount for which the effective interest rate method is used, is amortized to income over the period to maturity. In the case of cash flow hedges, the amounts accumulated in equity as a part of comprehensive income remain in equity until the time when the effects of the forecasted transaction affect income. In the event the forecasted transaction is not likely to occur, the income or loss accumulated in comprehensive income are immediately recognized in the consolidated statement of income. When the hedge of a forecasted transaction appears satisfactory and subsequently does not meet the effectiveness test, the cumulative effects in comprehensive income in stockholders' equity are transferred proportionally to the consolidated statement of income, to the extent the forecasted transaction impacts it.

The fair value of derivative financial instruments reflected in the consolidated financial statements of the Company, is a mathematical approximation of their fair value. It is computed using proprietary models of independent third parties using assumptions based on past and present market conditions and future expectations at the closing date.

**i) *Inventories***

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the average cost method. The cost of finished goods and work-in-progress includes cost of product design, raw materials, direct labor, other direct costs and production overheads (based on normal operating capacity). It excludes borrowing costs. The net realizable value is the estimated selling price in the normal course of business, less the applicable variable selling expenses. Costs of inventories include any gain or loss transferred from other comprehensive income corresponding to raw material purchases that qualify as cash flow hedges.

**j) *Property, plant and equipment***

Items of property, plant and equipment are recorded at cost less the accumulated depreciation and any accrued impairment losses. The costs include expenses directly attributable to the asset acquisition.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. The carrying amount of the replaced part is derecognized. Repairs and maintenance are recognized in the consolidated statement of income during the year they are incurred. Major improvements are depreciated over the remaining useful life of the related asset.

When the Company carries out major repairs or maintenance of its property, plant and equipment assets, and the cost is recognized in the book value of the corresponding asset as a replacement, provided that the recognition criteria are met. The remaining portion of any major repair or maintenance is derecognized. The Company subsequently depreciates the recognized cost in the useful life assigned to it, based on its best estimate of useful life.

Depreciation is calculated using the straight-line method, considering separately each of the asset's components, except for land, which is not subject to depreciation. The estimated useful lives of the classes of assets are as follows:

Buildings and constructions	40 to 50 years
Machinery and equipment	10 to 40 years
Vehicles	15 years
Furniture and lab and IT equipment	2 to 13 years
Other	3 to 20 years

The spare parts to be used after one year and attributable to specific machinery are classified as property, plant and equipment in other fixed assets.

Borrowing costs related to financing of property, plant and equipment whose acquisition or construction requires a substantial period (nine months), are capitalized as part of the cost of acquiring such qualifying assets, up to the moment when they are suitable for their intended use or sale.



Assets classified as property, plant and equipment are subject to impairment tests when events or circumstances occur indicating that the carrying amount of the assets may not be recoverable. An impairment loss is recognized in the consolidated statement of income in other expenses, net, for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

The residual value and useful lives of assets are reviewed at least at the end of each reporting period and, if expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

Gains and losses on disposal of assets are determined by comparing the sale value with the carrying amount and are recognized in other expenses, net, in the consolidated statement of income.

**k) Leases**

**The Company as lessee**

The Company evaluates whether a contract is or contains a lease agreement at inception of a contract. A lease is defined as an agreement or part of an agreement that conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. The Company recognizes an asset for right-of-use and the corresponding lease liability, for all lease agreements in which it acts as lessee, except in the following cases: short-term leases (defined as leases with a lease term of less than 12 months); leases of low-value assets (defined as leases of assets with an individual market value of less than US\$5,000 (five thousand dollars)); and, lease agreements whose payments are variable (without any contractually defined fixed payment). For these agreements, which exempt the recognition of an asset for right-of-use and a lease liability, the Company recognizes the rent payments as an operating expense in a straight-line method over the lease period.

The right-of-use asset comprises all lease payments discounted at present value; the direct costs to obtain a lease; the advance lease payments; and the obligations of dismantling or removal of assets. The Company depreciates the right-of-use asset over the shorter of the lease term or the useful life of the underlying asset; therefore, when the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Depreciation begins on the lease commencement date.

The lease liability is initially measured at the present value of the future minimum lease payments that have not been paid at that date, using a discount rate that reflects the cost of obtaining funds for an amount similar to the value of the lease payments, for the acquisition of the underlying asset, in the same currency and for a similar period to the corresponding contract (incremental borrowing rate). When lease payments contain non-lease components (services), the Company has chosen, for some class of assets, not to separate them and measure all payments as a single lease component; however, for the rest of the class of assets, the Company measures the lease liability only considering lease payments, while all of the services implicit in the payments, are recognized directly in the consolidated statement of income as operating expenses.

To determine the lease term, the Company considers the non-cancellable period, including the probability to exercise any right to extend and/or terminate the lease term.

Subsequently, the lease liability is measured increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and reducing the carrying amount to reflect the lease payments made.

When there is a modification in future lease payments resulting from changes in an index or a rate used to determine those payments, the Company remeasures the lease liability when the adjustment to the lease payments takes effect, without reassessing the discount rate. However, if the modifications are related to the lease term or exercising a purchase option, the Company reassesses the discount rate during the liability's remeasurement. Any increase or decrease in the value of the lease liability subsequent to this remeasurement is recognized as an adjustment to the right-of-use asset to the same extent.



Finally, the lease liability is derecognized when the Company fulfills all lease payments. When the Company determines that it is probable that it will exercise an early termination of the contract that leads to a cash disbursement, such disbursement is accounted as part of the liability's remeasurement mentioned in the previous paragraph; however, in cases in which the early termination does not involve a cash disbursement, the Company cancels the lease liability and the corresponding right-of-use asset, recognizing the difference immediately in the consolidated statement of income.

#### The Company as lessor

Leases, determined based on the definition of IFRS 16, for which the Company acts as lessor, are classified as financial or operating. As long as the terms of the lease transfer substantially all the risks and rewards of the property to the lessee, the contract is classified as a finance lease. The other leases are classified as operating leases.

Income from operating leases is recognized in straight line during the corresponding lease term. Initial direct costs incurred in negotiating and arranging and operating lease are added to the carrying amount of the leased asset and are recognized straight- line over the term of the lease. The amounts for finance leases are recognized as accounts receivable for the amount of the Company's net investment in the leases.

#### ***l) Intangible assets***

Intangible assets are recognized in the consolidated statement of financial position when they meet the following conditions: they are identifiable, provide future economic benefits and the Company has control over such benefits.

Intangible assets are classified as follows:

##### *i. Indefinite useful life*

These intangible assets are not amortized and are subject to annual impairment assessment. As of December 31, 2021, 2020 and 2019, no factors have been identified limiting the life of these intangible assets.

##### *ii. Finite useful life*

These assets are recognized at cost less the accumulated amortization and impairment losses recognized. They are amortized on a straight, line basis over their estimated useful life, determined based on the expectation of generating future economic benefits, and are subject to impairment tests when triggering events of impairment are identified.

The estimated useful lives of intangible assets with finite useful lives are summarized as follows:

Development costs	15.5 years
Supply rights	15 years
Non-compete agreements	5 to 10 years
Customer relationships	6 to 7 years
Software and licenses	3 to 7 years
Intellectual property rights	20 to 25 years
Maquila rights	15 years
Other	20 years

##### *Development costs*

Research costs are recognized in income as incurred. Expenditures for development activities are recognized as intangible assets when such costs can be reliably measured, the product or process is technically and commercially feasible, potential future economic benefits are obtained and the Company intends also has sufficient resources to complete the development and to use or sell the asset. Their amortization is recognized in income by the straight-line method over the estimated useful life of the asset. Development expenditures that do not qualify for capitalization are recognized in income as incurred.

##### *Licenses*

Licenses acquired in a separate transaction, are recorded at acquisition cost, while those acquired in a business combination are recognized at fair value at acquisition date.



Licenses that have a defined useful life are presented at cost less accumulated amortization. Amortization is recorded by the straight-line method over its estimated useful life.

The acquisition of software licenses is capitalized based on the costs incurred to acquire and use the specific software.

#### *Software development*

Costs associated with the maintenance of software are recorded as expenses as incurred.

Development costs directly related with the design and tests of unique and identifiable software products controlled by the Company are recorded as intangible assets when they fulfill the following criteria:

- Technically, it is possible to complete the intangible asset so that it may be available for its use or sale;
- The intangible asset is to be completed for use or sale;
- The ability to use or sell the intangible asset;
- The way in which the intangible asset is to generate probable future economic benefits;
- The availability of adequate technical, financial or other type of resources, to complete the development and use or sell the intangible asset; and
- The ability to reliably calculate the disbursement attributable to the intangible asset during its development.

The amount initially recognized for an intangible asset generated internally will be the sum of disbursements incurred from the moment the element fulfills the conditions for recording, as established above. When no intangible asset internally generated may be recognized, the disbursements for development are charged to income in the period they are incurred.

#### **m) *Goodwill***

Goodwill represents the excess of the acquisition cost of a subsidiary over the Company's equity in the fair value of the identifiable net assets acquired, determined at the date of acquisition, and is not subject to amortization. Goodwill is shown under goodwill and intangible assets and is recognized at cost less accumulated impairment losses, which are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### **n) *Impairment of non-financial assets***

Assets that have an indefinite useful life, for example, goodwill, are not depreciable and are subject to annual impairment tests. Assets that are subject to amortization are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels at which separately identifiable cash flows exist (cash generating units). Non-financial long-term assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

When an impairment loss is reversed, the carrying amount of the asset or cash generating unit, is increased to the revised estimated value of its recoverable amount, in such a way that the adjusted carrying amount does not exceed the carrying amount that would have been determined if an impairment loss had not been recognized for that asset or cash generating unit in previous years. The reversal of an impairment loss is recognized immediately in the consolidated statement of income.

#### **o) *Income tax***

The amount of income taxes in the consolidated statement of income represents the sum of the current and deferred income taxes.



The amount of income taxes included in the consolidated statement of income represents the current tax and the effects of deferred income tax assets determined in each subsidiary by the asset and liability method, applying the rate established by the legislation enacted or substantially enacted at the consolidated statement of financial position date, wherever the Company operates and generates taxable income. The applicable rates are applied to the total temporary differences resulting from comparing the accounting and tax bases of assets and liabilities, and that are expected to be applied when the deferred tax asset is realized or the deferred tax liability is expected to be settled, considering, when applicable, any tax-loss carryforwards, prior to the recovery analysis. The effect of the change in current tax rates is recognized in current income of the period in which the rate change is determined.

Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable law is subject to interpretation. Provisions are recognized when appropriate, based on the amounts expected to be paid to the tax authorities.

Deferred tax assets are recognized only when it is probable that future taxable profits will exist against which the deductions for temporary differences can be taken.

The deferred income tax on temporary differences arising from investments in subsidiaries and associates is recognized, unless the period of reversal of temporary differences is controlled by the Company and it is probable that the temporary differences will not reverse in the near future.

Deferred tax assets and liabilities are offset when a legal right exists, and when the taxes are levied by the same tax authority.

**p) *Employee benefits***

**i. *Pension plans***

Defined contribution plans:

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to their service in the current and past periods. The contributions are recognized as employee benefit expense on the date that is required the contribution.

Defined benefit plans:

A defined benefit plan is a plan, which specifies the amount of the pension an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the consolidated statement of financial position date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rates in conformity with IAS 19, *Employee Benefits*, that are denominated in the currency in which the benefits will be paid, and have maturities that approximate the terms of the pension liability.

Actuarial gains and losses from adjustments and changes in actuarial assumptions are recognized directly in other items of the comprehensive income in the year they occur and will not be reclassified to the results of the period.

The Company determines the net finance expense (income) by applying the discount rate to the liabilities (assets) from net defined benefits.

Past-service costs are recognized immediately in the consolidated statement of income.



*ii. Post-employment medical benefits*

The Company provides medical benefits to retired employees after termination of employment. The right to access these benefits usually depends on the employee's having worked until retirement age and completing a minimum of years of service. The expected costs of these benefits are accrued over the period of employment using the same criteria as those described for defined benefit pension plans.

*iii. Termination benefits*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or when an employee accepts voluntary termination of employment in exchange for these benefits. The Company recognizes termination benefits in the first of the following dates: (a) when the Company can no longer withdraw the offer of these benefits, and (b) when the Company recognizes the costs from restructuring within the scope of the IAS 37 and it involves the payment of termination benefits. If there is an offer that promotes the termination of the employment relationship voluntarily by employees, termination benefits are valued based on the number of employees expected to accept the offer. The benefits that will be paid in the long term are discounted at their present value.

*iv. Short-term benefits*

The Company grants benefits to employees in the short term, which may include wages, salaries, annual compensation and bonuses payable within 12 months. The Company recognizes an undiscounted provision when it is contractually obligated or when past practice has created an obligation.

*v. Employee participation in profit and bonuses*

The Company recognizes a liability and an expense for bonuses and employee participation in profits when it has a legal or assumed obligation to pay these benefits and determines the amount to be recognized based on the profit for the year after certain adjustments.

**q) Provisions**

Provisions represent a present legal obligation or a constructive obligation as a result of past events where an outflow of resources to meet the obligation is likely and where the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the value of money over time and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

A restructuring provision is recorded when the Company has developed a formal detailed plan for the restructure, and a valid expectation for the restructure has been created between the people affected, possibly for having started the plan implementation or for having announced its main characteristics to them.

**r) Share based payment**

The Company's compensation plans are based 50% on the market value of the shares of its holding entity and the other 50% on the market value of the shares of Alpek SAB, granted to certain senior executives of the Company and its subsidiaries. The conditions for granting such compensation to the eligible executives include compliance with certain financial metrics such as the level of profit achieved, and remaining in the Company for up to 5 years, among other requirements. The Board of Directors of Alfa has appointed a technical committee to manage the plan, and it reviews the estimated cash settlement of this compensation at the end of the year. The payment plan is subject to the discretion of Alfa's senior Management. Adjustments to this estimate are charged or credited to the consolidated statement of income.



The fair value of the amount payable to employees in respect of share-based payments which are settled in cash is recognized as an expense, with a corresponding increase in liabilities, over the period of service required. The liability is included within other liabilities and is adjusted at each reporting date and the settlement date. Any change in the fair value of the liability is recognized as compensation expense in the consolidated statement of income.

s) ***Treasury shares***

Alpek SAB's stockholders periodically authorize a maximum amount for the acquisition of the Company's own shares. Upon the occurrence of a repurchase of its own shares, they become treasury shares and the amount is presented as a reduction to stockholders' equity at the purchase price. These amounts are stated at their historical value.

t) ***Capital stock***

Alpek SAB's common shares are classified as capital stock within stockholders' equity. Incremental costs directly attributable to the issuance of new shares are included in equity as a reduction from the consideration received, net of tax.

u) ***Comprehensive income***

Comprehensive income is composed of net income plus the annual effects of their capital reserves, net of taxes, which are comprised of the translation of foreign subsidiaries, the effects of derivative cash flow hedges, actuarial gains or losses, the effects of the change in the fair value of financial instruments available for sale, the equity in other items of comprehensive income of associates and joint ventures as well as other items specifically required to be reflected in stockholders' equity, and which do not constitute capital contributions, reductions and distributions.

v) ***Segment reporting***

Segment information is presented consistently with the internal reporting provided to the chief operating decision maker who is the highest authority in operational decision-making, resource allocation and assessment of operating segment performance.

w) ***Revenue recognition***

Revenues comprise the fair value of the consideration received or to receive for the sale of goods and services in the ordinary course of the transactions, and are presented in the consolidated statement of income, net of the amount of variable considerations, which comprise the estimated amount of returns from customers, rebates and similar discounts and payments made to customers with the objective that goods are accommodated in attractive and favorable spaces at their facilities.

To recognize revenues from contracts with customers, the comprehensive model for revenue recognition is used, which is based on a five-step approach consisting of the following: (1) identify the contract; (2) identify performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when the Company satisfies a performance obligation.

i. ***Revenue from the sale of goods and products***

Contracts with customers are formalized by commercial agreements complemented by purchase orders, whose costs comprise the promises to produce, distribute and deliver goods based on the contractual terms and conditions set forth, which do not imply a significant judgment to be determined. When there are payments related to obtaining contracts, they are capitalized and amortized over the term of the contract.

Performance obligations held by the Company are not separable, and are not partially satisfied, since they are satisfied at a point in time, when the customer accepts the products. Moreover, the payment terms identified in most sources of revenue are short-term, with variable considerations including discounts given to customers, without financing components or guarantees. These discounts are recognized as a reduction in revenue; therefore, the allocation of the price is directly on the performance obligations of production, distribution and delivery, including the effects of variable consideration.





The Company recognizes revenue at a point in time, when control of sold goods has been transferred to the customer, which is given upon delivery of the goods promised to the customer according to the negotiated contractual terms. The Company recognizes an account receivable when the performance obligations have been met, recognizing the corresponding revenue; moreover, the considerations received before completing the performance obligations of production and distribution are recognized as customer advances.

Dividend income from investments is recognized once the rights of stockholders to receive this payment have been established (when it is probable that the economic benefits will flow to the Company and the revenue can be reliably determined).

**x) *Earnings per share***

Earnings per share are calculated by dividing the profit attributable to the stockholders of the controlling interest by the weighted average number of common shares outstanding during the year. As of December 31, 2021, 2020 and 2019, there are no dilutive effects from financial instruments potentially convertible into shares.

**y) *Changes in accounting policies and disclosures***

i. New standards and changes adopted by the Company.

In the current year, the Company has applied a number of new and amended IFRS and interpretations issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after January 1, 2021. The conclusions related to their adoption are described as follows:

The amendments to IFRS 16 extend for an additional year the amendment issued in May 2020, which introduces a practical expedient that provides lessees with the option not to assess whether a COVID-19 related rent concession is a lease modification. The practical expedient is applicable to rent concessions that occurred as a direct consequence of the COVID-19 pandemic, and only if all the following conditions are met:

- The change in the 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;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022 (originally due on or before June 30, 2021); and
- There is no substantive change to other terms and conditions of the lease.

Additionally, the modifications include the following changes:

- That the lessee applies such modifications for annual periods beginning on or after April 1, 2021.
- That the lessees who apply such modifications do so retrospectively, recognizing the cumulative effect of having applied the modifications initially as an adjustment to the initial balance of retained earnings at the beginning of the annual period in which the lessee applies these modifications.

The Company determined that it had no impact from the implementation of these amendments of its consolidated financial statements, as it received no COVID-19 related rental concessions during the year ended December 31, 2021.



## **Phase 2 of the benchmark interest rate reform (IBOR-Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)**

Interbank benchmark rates such as LIBOR, EURIBOR and TIBOR, which represent the cost of obtaining unsecured funds, have been questioned about their viability as long-term financing benchmark. The changes in the reform to the benchmark interest rates in its phase 2, refer to the modifications of financial assets, financial liabilities, accounting hedge requirements and disclosure of financial instruments.

Regarding the modification of financial assets, financial liabilities and lease liabilities, the IASB introduced a practical expedient that involves updating the effective interest rate at the moment in which a fallback reserve clause is activated for the substitution of the benchmark rate defined in the contract, without requiring the need to recognition of a modification in the valuation of the financial instrument.

On the other hand, regarding hedge accounting, the IFRS 9 amendments allow hedge accounting relationships, where the hedged item is the LIBOR rate, not to be discontinued by the elimination of such benchmark rate.

The Company assessed its exposure to IBOR rates and is in process of formalizing the benchmark interest rate of the only loan bearing such rate.

Additionally, the Company does not have any derivative financial instruments hedging the variability of the IBOR rates, therefore did not have significant impact on its consolidated financial statements due to the adoption of the reform.

### **ii. New and revised IFRS in use but not yet effective**

As of the authorization date of these financial statements, the Company has not applied the following new and revised IFRS issued, but not yet effective. The Company does not expect that the adoption of the following standards will have a material impact on the financial statements in future periods, considering that have no significant applicability:

- Amendments to IAS 16- Economic benefits before intended use of property, plant and equipment <sup>(1)</sup>
- Amendments to IAS 37 – Costs to complete an onerous contract <sup>(1)</sup>
- Amendments to IFRS 1 – Initial adoption of IFRS <sup>(1)</sup>
- Amendments to IFRS 9, Financial Instruments <sup>(1)</sup>
- Amendments to IAS 1 – Classification of liabilities as current and non-current <sup>(2)</sup>
- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies <sup>(2)</sup>
- Amendments to IAS 8 – Definition of accounting estimates <sup>(2)</sup>
- Amendment to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction <sup>(2)</sup>
- IFRS 17 – Insurance contracts <sup>(2)</sup>

(1) Effective for annual reporting periods beginning on January 1, 2022

(2) Effective for annual reporting periods beginning on January 1, 2023

## **4. Financial instruments and risk management**

The Company's activities expose it to various financial risks: market risk (including exchange rate risk, price risk and interest rate variation risk), credit risk and liquidity risk.

The Company has a general risk management program focused on the unpredictability of financial markets, and seeks to minimize the potential adverse effects on its financial performance.



The objective of the risk management program is to protect the financial health of its business, taking into account the volatility associated with foreign exchange and interest rates. Sometimes, the Company uses derivative financial instruments to hedge certain exposures to risks. In addition, due to the nature of the industries in which it participates, the Company has performed hedges of input prices with derivative financial instruments.

Alfa has a Risk Management Committee (RMC), comprised of the Board's Chairman, the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and a Risk Management Officer ("RMO") acting as technical secretary. The RMC reviews derivative transactions proposed by the subsidiaries of Alfa, including Alpek, in which a potential loss analysis surpasses US\$1. This Committee supports both the CEO and the President of Board of Alfa. All new derivative transactions which the Company proposes to enter into, as well as the renewal or cancellation of derivative arrangements, must be approved by both Alpek's and Alfa's CEO, according to the following schedule of authorizations:

	<b>Maximum possible loss US\$1</b>	
	<b>Individual transaction</b>	<b>Annual cumulative transactions</b>
Chief Executive Officer of the Company	1	5
Risk Management Committee of Alfa	30	100
Finance Committee	100	300
Board of Directors of Alfa	>100	>300

The proposed transactions must meet certain criteria, including that the hedges are lower than established risk parameters, and that they are the result of a detailed analysis and properly documented. Sensitivity analysis and other risk analyses should be performed before the operation is entered into.

Alfa's risk management policy indicates that hedging positions should always be less than the projected exposure to allow an acceptable margin of uncertainty. Exposed transactions are expressly prohibited. The Company's policy indicates that the further the exposure is, the lower the coverage, based on the following table:

***Maximum coverage (as a percentage of the projected exposure)***

	<b>Current year</b>
Commodities	100
Energy costs	75
Exchange rate for operating transactions	80
Exchange rate for financial transactions	100
Interest rates	100

***Capital management***

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to stockholders and benefits to other stakeholders, as well as maintaining an optimal capital structure to reduce the cost of capital.

To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to stockholders, return equity to stockholders, issue new shares or sell assets to reduce debt.

Alpek reviews capital based on a leverage ratio. This percentage is calculated by dividing total liabilities by total stockholders' equity.

The financial ratio of total liabilities/total equity was 1.50, 1.34 and 1.28 as of December 31, 2021, 2020 and 2019, respectively, resulting in a leverage ratio that meets the Company's management and risk policies.

***Financial instruments by category***

The following are the Company's financial instruments by category.



As of December 31, 2021, 2020 and 2019, financial assets and liabilities consist of the following:

	<b>As of December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 10,541	\$ 10,144	\$ 7,059
Restricted cash	13	12	216
Financial assets measured at amortized cost:			
Trade and other accounts receivable	20,725	12,726	12,046
Other non-current assets	4,085	4,518	4,806
Financial assets measured at fair value through profit or loss			
Derivate financial instruments <sup>(1)</sup>	351	524	77
	<u>\$ 35,715</u>	<u>\$ 27,924</u>	<u>\$ 24,204</u>
Financial liabilities measured at amortized cost:			
Debt	\$ 31,993	\$ 30,652	\$ 28,810
Trade and other accounts payable	27,657	17,991	14,955
Lease liability	3,608	3,010	3,368
Financial liabilities measured at fair value:			
Derivative financial instruments <sup>(1)</sup>	254	66	532
	<u>\$ 63,512</u>	<u>\$ 51,719</u>	<u>\$ 47,665</u>

<sup>(1)</sup> The Company designated the derivative financial instruments that comprise this balance, as accounting hedges, according to what is described in Note 4.

*Fair value of financial assets and liabilities valued at amortized cost*

The amount of cash and cash equivalents, restricted cash, trade and other accounts receivable, other current assets, trade and other accounts payable, current debt and other current liabilities approximate their fair value, due to their short maturity. The net carrying amount of these accounts represents the expected cash flows to be received as of December 31, 2021, 2020 and 2019.

The carrying amount and estimated fair value of assets and liabilities valued at amortized cost is presented below:

	<b>As of December 31,</b>		<b>As of December 31,</b>		<b>As of December 31,</b>	
	<b>2021</b>		<b>2020</b>		<b>2019</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
Financial assets:						
Non-current accounts receivable	\$ 3,471	\$ 3,469	\$ 3,942	\$ 3,941	\$ 4,127	\$ 4,121
Financial liabilities:						
Non-current debt	31,436	32,724	30,335	32,701	28,261	29,529

The carrying amount of the debt, for purposes of computing its fair value, is presented gross of interest payable and issuance costs.

The estimated fair values as of December 31, 2021, 2020 and 2019 were determined based on discounted cash flows and with reference to the yields at the closing of the debt securities, using rates reflecting a similar credit risk, depending on the currency, maturity period and country where the debt was acquired. The primary rates used are the Interbank Equilibrium Interest Rate ("TIE" for its acronym in Spanish) for instruments in Mexican pesos and London Interbank Offer Rate ("LIBOR") for instruments in U.S. dollars. Measurement at fair value for non-current accounts receivable is deemed within Level 3 of the fair value hierarchy, while, for the financial debt, the measurement at fair value is deemed within Levels 1 and 2 of the hierarchy, as described herein below.



## Market risks

### (i) Exchange rate risk

The Company is exposed to foreign exchange risk, primarily derived from the transactions and balances that the subsidiaries conduct and have in foreign currency, respectively. A foreign currency is that which is different from the functional currency of an entity. In addition, the Company is exposed to changes in the value of foreign investments (subsidiary entities that have a functional currency different from that of the ultimate holding company), which arise from changes in the exchange rates between the functional currency of the foreign operation and the functional currency of the holding company (pesos); therefore, the Company applies hedge accounting to mitigate this risk, designating financial liabilities as hedging instruments, regardless of whether the foreign investment is directly or indirectly maintained through a subholding.

The behavior of the exchange rates fluctuations between the Mexican peso, U.S. dollar and the euro represents an important factor for the Company due to the effect that such currencies have on its consolidated results, and because, in addition, Alpek has no interference in its determination. Historically, in certain times when the Mexican peso has appreciated against other currencies, such as the U.S. dollar, the Company's profit margins have been reduced. On the other hand, when the Mexican peso has lost value, Alpek's profit margins have been increased. However, there is no assurance that this correlation will be repeated in case the exchange rate between the Mexican peso and any other currency fluctuates again, because these effects also depend on the balances in foreign currency that the entities of the Company hold.

Accordingly, the Company sometimes enters into derivative financial instruments in order to keep under control the integrated total cost of its financing and the volatility associated with exchange rates. Additionally, as most of the Company's revenues are in U.S. dollars, there is a natural hedge against its obligations in U.S. dollars.

The Company has the following assets and liabilities in foreign currency in relation to the functional currency of the subsidiary entities, translated to millions of Mexican pesos at the closing exchange rate as of December 31, 2021:

	<b>MXN</b>	<b>USD</b>	<b>EUR</b>
Financial assets	\$ 13,026	\$ 31,599	\$ 1,013
Financial liabilities	(12,997)	(38,527)	(416)
Foreign exchange financial position	<u>\$ 29</u>	<u>\$ (6,928)</u>	<u>\$ 597</u>

The exchange rates used to translate the foreign currency financial positions to Mexican pesos are those described in Note 3.

Based on the financial positions in foreign currency maintained by the Company, a hypothetical variation of 10% in the MXN/USD and MXN/EUR exchange rate and keeping all other variables constant, would result in an effect of \$(630) on the consolidated statement of income and stockholders' equity.

### *Financial instruments to hedge net investments in foreign transactions*

The Company designated certain non-current debt instruments as hedging instruments to net investments in foreign transactions, in order to mitigate the variations in exchange rates arising between the functional currency for such transactions and the functional currency of the holding or sub-holding company that maintains these investments.

The Company formally designated and documented each hedging relationship establishing objectives, strategy to hedge the risk, the identification of the hedging instrument, the hedged item, the nature of the risk to be hedged, and the methodology to assess the effectiveness. Given that the exchange rate hedging relationship is clear, the method that the Company used to assess the effectiveness consisted of a qualitative effectiveness test by comparing the critical terms between the hedging instruments and the hedged items. The hedging effectiveness results confirm that the hedging relationships are highly effective due to the economic relationship between the hedging instrument and the hedged items.



The hedge will be effective as long as the notional debt designated as a hedging instrument is equal to or less than the value of the net assets of the covered foreign operation. On the other hand, when the value of the net assets of the foreign operation is less than the notional value of the designated debt, the Company rebalances the hedging relationship and recognizes the ineffectiveness in the income statement.

As of December 31, 2021, 2020 and 2019, Alpek maintains the following hedging relationships:

As of December 31, 2021						
	Functional					Net assets of the
Holding	Currency	Hedging Instrument	Notional Value	Hedged Item		hedged item
Alpek SAB	MXN	Senior Notes 144A fixed rate	US\$ 49	Indelpro	US\$	261
		Senior Notes 144A fixed rate	267	Temex		42
		Senior Notes 144A fixed rate	22	Dak Americas Ms		240
		Senior Notes 144A fixed rate	100	Dak Resinas Americas		101
				Akra Polyester		179
			US\$ 438		US\$	823
As of December 31, 2020						
	Functional					Net assets of the
Holding	Currency	Hedging Instrument	Notional Value	Hedged Item		hedged item
Alpek SAB	MXN	Senior Notes 144A fixed rate	US\$ 72	Indelpro	US\$	232
		Senior Notes 144A fixed rate	267	Temex		69
		Senior Notes 144A fixed rate	22	Dak Americas Ms		223
				Dak Resinas Americas		98
				Akra Polyester		159
			US\$ 361		US\$	781
As of December 31, 2019						
	Functional					Net assets of the
Holding	Currency	Hedging Instrument	Notional Value	Hedged Item		hedged item
Alpek SAB	MXN	Senior Notes 144A fixed rate	US\$ 72	Indelpro	US\$	215
		Senior Notes 144A fixed rate	210	Temex		78
		Senior Notes 144A fixed rate	22	Dak Americas Ms		196
				Dak Resinas Americas		129
				Akra Polyester		203
			US\$ 304		US\$	821

For the years ended December 31, 2021, 2020 and 2019, the Company's average hedging ratio amounted to 54.9%, 49.5% and 59.3%, respectively. Therefore, the exchange rate fluctuation generated by the hedging instruments for the years ended December 31, 2021, 2020 and 2019 amounted to a net loss of \$(238), \$(403) and \$264, respectively, which was recognized in other comprehensive income, offsetting the translation effect generated by each foreign investment. The hedging effectiveness results confirm that the hedging relationships are highly effective due to the economic relationship between the hedging instrument and the hedged items.

#### *Derivative financial instruments to hedge exchange rate risks*

As of December 31, 2021, 2020 and 2019, the Company holds forwards (EUR/USD) to hedge different needs. In 2019, the EUR/USD forwards were used to hedge revenues received in Euros in an entity with a functional currency of USD, for which a highly probable transaction related to income received in foreign currency (euros) was documented. For 2020 and 2021, a similar strategy was carried out with these instruments, but now these forwards are mirrored to an entity with the functional currency of pound sterling (GBP), because part of its revenue is received in euros and part of its purchases are made in US dollars. Therefore, a highly probable forecasted transaction related to budgeted sales and purchases in each corresponding currency has been documented as a hedged item.



For accounting purposes, the Company has designated such forwards as cash flow hedging relationships to hedge the aforementioned items, and has formally documented these relationships, setting the objectives, management's strategy to hedge the risk, identification of hedging instruments, hedged items, the nature of the risk to be hedged and the methodology of the effectiveness assessment.

The conditions of the derivative financial instruments and the considerations of their valuation as hedging instruments are mentioned below:

Characteristics	Forwards EUR/USD		
	2021 EUR	2020 EUR	2019 EUR
Currency	8.1	39.9	1.5
Notional amount	1.2421	1.2169	1.1756
Strike (average)	Monthly through December 30, 2022	Monthly through December 30, 2022	Monthly through March 31, 2020
Maturity	\$16.5	\$ (11.9)	\$ 1.4
Carrying amount			
Change in the fair value to measure ineffectiveness	15.9	(11.9)	1.4
Reclassification from OCI to profit or loss	-	-	(0.2)
Recognized in OCI, net of reclassifications	16.5	(11.9)	1.6
Change in the fair value of the hedged item to measure ineffectiveness	(15.9)	11.9	(1.4)
Change in the fair value of the forward	28.4	(13.3)	0.4

As of December 31, 2021 and 2020, the Company hold EUR/USD forwards that were contracted with the objective of reducing transaction costs; therefore, for accounting purposes and for hedge evaluation, derivatives are divided into synthetic derivatives to hedge each hedged item individually (revenue in euros and purchases in dollars). The Company determined that they are highly effective according to the characteristics and modeling of both hedged items, resulting in 99% effectiveness for 2021 and 100% effectiveness for 2020. Furthermore, both the credit profile of the Company and the counterparty are adequate and are not expected to change in the medium term, so the credit risk component is not considered to dominate the hedging relationship.

As of December 31, 2019, the prospective effectiveness test for the EUR/USD exchange rate resulted in 100%, confirming that there is an economic relationship between the hedging instruments and the hedged items. The method used by the Company to evaluate effectiveness is a qualitative evaluation comparing the key terms of the hedging instrument and the hedged item.

In accordance with the reference amounts described and the way in which the flows of the derivatives are exchanged, the average coverage ratio for the EUR/USD exchange rate for 2021, 2020 and 2019 is 55%, 100% and 86%, respectively. If necessary, a rebalancing will be done to maintain this relationship for the strategy.

The source of ineffectiveness may be caused by the difference in the settlement date of the derivative and the hedged item, and that the expected amount becomes a lower amount than the hedging instruments, as well as the credit risk. For the years ended December 31, 2021, 2020 and 2019, no ineffectiveness was recognized in profit or loss.

## (ii) Price risk

In carrying out its activities, the Company depends on the supply of raw materials provided by its suppliers, both in Mexico and abroad, among which are intermediate petrochemicals, principally.

In recent years, the price of certain inputs has shown volatility, especially those related to oil and natural gas.

In order to fix the selling prices of certain of its products, the Company has entered into agreements with certain customers. At the same time, it has entered into transactions involving derivatives on natural gas that seek to reduce price volatility of the prices of this input.

Additionally, the Company has entered into derivative financial instruments transactions to hedge purchases of certain raw materials, since these inputs have a direct or indirect relationship with the prices of its products.



The derivative financial operations have been privately contracted with various financial institutions, whose financial strength was highly rated at the time by rating agencies. The documentation used to formalize the contract operations is that based generally on the "Master Agreement", generated by the "International Swaps & Derivatives Association" ("ISDA"), which is accompanied by various accessory documents known in generic terms as "Schedule", "Credit Support Appendix" and "Confirmation".

Regarding natural gas, Pemex is the only supplier in Mexico. The selling price of natural gas is determined based by the price of that product on the "spot" market in South Texas, USA, which has experienced volatility. For its part, the Mexican Electric Commission is a decentralized public company in charge of producing and distributing electricity in Mexico. Electricity rates have also been influenced by the volatility of natural gas, since most power plants are gas-based.

The Company entered into various derivative agreements with various counterparties to protect it against increases in prices of natural gas and other raw materials. In the case of natural gas derivatives, hedging strategies for products were designed to mitigate the impact of potential increases in prices. The purpose is to protect the price from volatility by taking positions that provide stable cash flow expectations, and thus avoid price uncertainty. The reference market price for natural gas is the Henry Hub New York Mercantile Exchange (NYMEX). The average price per MMBTU for 2021, 2020 and 2019 was \$3.8, \$2.0 and \$2.6 US dollars, respectively.

As of December 31, 2021, 2020 and 2019, the Company had hedges of natural gas prices for a portion expected of consumption needs in Mexico and the United States.

*Derivative contracts to hedge adverse changes in commodity prices*

The Company uses natural gas to operate, and some of its main raw materials are paraxylene, ethylene and monoethylene glycol (MEG), ethane and terephthalic acid (PTA). Therefore, an increase in the price of natural gas, paraxylene, ethylene, monoethylene glycol (MEG), ethane or terephthalic acid (PTA), would have a negative impact on the operating cash flows. The objective of the hedge designated by the Company is to mitigate against the exposure in the price increase of the aforementioned commodities, for future purchases by contracting swaps where a variable price is received and a fixed price is paid. In the case of PET, the Company uses these derivatives to hedge against sales related to this commodity. The Company has implemented strategies called roll-over, through which it analyzes on a monthly basis if more derivatives are contracted to expand the time or the amount of coverage; currently, the Company has contracted hedges until January 2023. Raw material derivatives are mirrored to DAK Americas and DAK Resinas Américas México and Alpek Polyester UK, as the risk lies in such entities, and derivative financial instruments are contracted by Grupo Petromex; this process is carried out through the formalization of internal derivatives to be able to apply hedging accounting.

These derivative financial instruments have been classified as cash flow hedges for accounting purposes. In this sense, management has documented, as a hedged item, a highly probable transaction in relation to the budget for purchases of these commodities. The conditions of the derivative financial instruments and the considerations of their valuation as hedging instruments are mentioned below:

Characteristics	As of December 31, 2021			
	Natural Gas Swaps	Paraxylene Swaps	Ethylene Swaps	MEG Swaps
Total notional	57,025,808	274,000	2,000,000	174,400
Units	MMBtu	MT	Lb	MT
Price received	Fair value	Fair value	Fair value	Fair value
Price paid (average)	\$1.69/MMBtu	\$821/MT	\$0.1544/lb	\$658/MT
Maturity (monthly)	June 2024	January 2023	January 2022	January 2023
Net position of the swap <sup>(1)</sup>	\$ (154.8)	\$ 317.5	\$ 6.4	\$ (88.8)
Ineffectiveness recognized in the statement of income	-	-	-	-
Change in the fair value to measure ineffectiveness	(147.2)	363.7	7.7	(96.9)
Reclassification from OCI to profit or loss	-	87.9	6.4	32.2
Balance recognized in OCI, net of reclassifications	(154.8)	229.4	-	(121)
Change in the fair value to measure ineffectiveness of hedge item	147.2	(363.8)	(7.7)	96.9
Effectiveness test results	99.96%	99.99%	100%	99.99%

<sup>(1)</sup> Due to the high volume of operations, the net position of derivative financial instruments is presented; however, since these instruments do not meet the criteria for the offsetting of financial instruments, they are presented in their gross amounts in the consolidated statement of financial position.





As of December 31, 2020							
Characteristics	Natural Gas Swaps	Paraxylene Swaps	PTA Swaps	Ethylene Swaps	PET Swaps	MEG Swaps	Ethane Swaps
Total notional	3,474,000	338,750	2,000	37,500,000	220	184,500	600,000
Units	MMBtu	MT	MT	Lb	MT	MT	gal
Price received	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value
Price paid (average)	\$2.73/MMBtu	\$635/MT	\$627/MT	\$0.1567/lb	\$910/Lbs	\$501/MT	\$0.21/gal
Maturity (monthly)	February 2022	January 2023	January 2021	January 2022	January 2021	January 2023	January 2021
Net position of the swap <sup>(1)</sup>	\$ (5.4)	\$ 121.5	\$ (6.1)	\$ 98.3	\$ 0.8	\$ 260.5	\$ (0.2)
Ineffectiveness recognized in the statement of income	-	-	-	-	-	-	-
Change in the fair value to measure ineffectiveness	(4.2)	132.7	(6.1)	103.9	0.8	273.3	(0.2)
Reclassification from OCI to profit or loss	-	(109.5)	(6.1)	39.9	0.8	2.1	(0.2)
Balance recognized in OCI, net of reclassifications	(5.4)	231	-	58.4	-	258.4	-
Change in the fair value to measure ineffectiveness of hedge item	4.2	(132.8)	6.1	(103.9)	(0.8)	(273.4)	0.4
Effectiveness test results	99.91%	99.95%	99.96%	99.95%	99.96%	99.94%	99.96%

<sup>(1)</sup> Due to the high volume of operations, the net position of derivative financial instruments is presented; however, since these instruments do not meet the criteria for the offsetting of financial instruments, they are presented in their gross amounts in the consolidated statement of financial position.

Additionally, as of December 31, 2020, the Company maintains an additional balance in other comprehensive income for an amount of \$31.2, due to the fact that derivatives contracted for hedging gasoline were settled in advance. Given that the forecasted transaction that was being hedged, future purchases, is still expected to occur, such balance will be recognized in the income statement as the transaction occurs.

As of December 31, 2019						
Characteristics	Natural Gas Swaps	Paraxylene Swaps	PTA Swaps	Ethylene Swaps	MEG Swaps	Ethane Swaps
Total notional	7,800,000	327,250	22,500	110,000,000	58,000	9,400,000
Units	MMBtu	MT	MT	Lb	MT	gal
Price received	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value
Price paid (average)	\$4.35/MMBtu	\$856/MT	\$627/MT	\$0.17/lb	\$564/MT	\$0.22/gal
	December	December	December	December	December	December
Maturity (monthly)	2020	2020	2020	2020	2020	2020
Net position of the swap <sup>(1)</sup>	\$ (302)	\$ (154)	\$ 8	\$ (4)	\$ 5	\$ (9)
Ineffectiveness recognized in the statement of income	-	-	-	-	-	-
Change in the fair value to measure ineffectiveness	(302)	(181)	38	(14)	2	(8)
Reclassification from OCI to profit or loss	-	(120)	-	(6)	(3)	(2)
Balance recognized in OCI, net of reclassifications	(302)	(34)	8	(2)	8	(7)
Effectiveness test results	99.98%	99.97%	99.97%	99.93%	99.96%	99.95%

<sup>(1)</sup> Due to the high volume of operations, the net position of derivative financial instruments is presented; however, since these instruments do not meet the criteria for the offsetting of financial instruments, they are presented in their gross amounts in the consolidated statement of financial position.

The change in the fair value of the derivative financial instruments recognized in OCI for the year ended December 31, 2021, 2020 and 2019 is \$(592), \$885 and \$998, respectively.



The fair value of the derivate financial instruments according to their classification in the consolidated statement of financial position is as follows:

<b>As of December 31, 2021</b>	<b>Asset</b>	<b>Liability</b>	<b>Total</b>
Natural Gas	\$ -	\$ (155)	\$ (155)
Paraxylene	323	(5)	318
Ethylene	6	-	6
MEG	5	(94)	(89)
Forward	17	-	17
<b>Total</b>	<b>\$ 351</b>	<b>\$ (254)</b>	<b>\$ 97</b>

  

<b>As of December 31, 2020</b>	<b>Asset</b>	<b>Liability</b>	<b>Total</b>
Natural Gas	\$ -	\$ (5)	\$ (5)
Paraxylene	164	(42)	122
Ethanol	-	(1)	(1)
Ethylene	98	-	98
MEG	261	-	261
PTA	-	(6)	(6)
PET	1	-	1
Forward	-	(12)	(12)
<b>Total</b>	<b>\$ 524</b>	<b>\$ (66)</b>	<b>\$ 458</b>

  

<b>As of December 31, 2019</b>	<b>Asset</b>	<b>Liability</b>	<b>Total</b>
Natural Gas	\$ 29	\$ (331)	\$ (302)
Paraxylene	29	(184)	(155)
Ethanol	-	(9)	(9)
Ethylene	4	(8)	(4)
MEG	5	-	5
PTA	9	-	9
Forward	1	-	1
<b>Total</b>	<b>\$ 77</b>	<b>\$ (532)</b>	<b>\$ (455)</b>

With the reference amounts of these derivative financial instruments, the Company offsets the fluctuation of the prices of these commodities that are used as raw material in the production processes of the entities.

For commodity hedging relationships, management is designating as a hedged item a specific risk, which is defined by the underlying assets that are clearly determined that the risk component is separable, it can be reliably measured and is also highly correlated.

On the other hand, in the measurement of the effectiveness of these hedges, the Company determined that they are highly effective because the changes in the fair value and cash flows of each hedged item are compensated within the range of effectiveness established by management. Due to the results shown on the effectiveness tests, it is confirmed that there is an economic relationship between the hedging instruments and the hedged item. The method used by the Company is to offset cash flows using a hypothetical derivative, which consists of comparing the changes in the fair value of the hedging instrument with the changes in the fair value of the hypothetical derivative that would result in a perfect hedge.



As of December 31, 2021, according to the reference amounts described and the way in which the flows of the derivatives are exchanged, the average coverage ratio for the natural gas, paraxylene, ethylene and ethane, pta and pet for 2021, 2020 and 2019 are shown below and, if necessary, a rebalancing will be done to maintain this relationship for the strategy.

<b>Average coverage ratio</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Natural gas	21%	6%	40%
Paraxylene	44%	54%	79%
Ethylene	47%	58%	54%
Ethane	-	2%	2%
Terephthalic acid (PTA)	-	5%	5%
PET	-	0.2%	-

The source of ineffectiveness can be caused mainly by the difference in the settlement date of the hedging instruments and the hedged items, and that the budget becomes less than the hedging instruments. For the years ended December 31, 2021, 2020 and 2019, there was no ineffectiveness recognized in profit or loss.

### (iii) Interest rate risk

The Company is exposed to interest rate risk mainly for long-term loans bearing interest at variable rates. Fixed-interest loans expose the Company to interest rate risk at fair value, which reflects that Alpek might be paying interest at rates significantly different from those of an observable market.

As of December 31, 2021, 97% of the financing is denominated at a fixed rate, and 3% at a variable rate.

As of December 31, 2021, if interest rates on variable rate loans are increased or decreased by 100 basis points in relation to the rate in effect, the income and stockholders' equity of the Company would change by \$9.

#### *Derivative financial instruments to hedge interest rate risks*

In order to mitigate the risk of the volatility associated with the reference interest rates (Libor) of the long-term liabilities described above, the Company contracted interest rate swaps ("IRS") and designated the interest payments derived from the debts it maintains as a covered item. However, on December 26, 2019, the Company settled the swap, as it paid in advance the debt it was hedging.

#### *Credit risk*

Credit risk represents the potential loss due to non-compliance of counterparts in their payment obligations. Credit risk is generated from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions as well as credit exposure to customers, including receivables and committed transactions.

The Company determines, from a business standpoint and credit risk profile, the significant customers with whom it maintains an account receivable, distinguishing those that require an individual credit risk assessment. For the rest of the customers, the company carries out its classification according to the type of market in which they operate (domestic or foreign), according with the business and internal risk administration. Each subsidiary is responsible for managing and analyzing credit risk for each of its new customers before setting the terms and conditions of payment. If wholesale customers are rated independent, these are the ratings used. If there is no independent rating, the Company's risk control group evaluates the creditworthiness of the customer, taking into account their financial position, past experience and other factors. The maximum exposure to credit risk is given by the balances of these items as presented in the consolidated state of financial position.

Individual risk limits are determined based on internal and external ratings in accordance with limits set by the Board of Directors. The use of credit risk is monitored regularly. Sales to retail customers are in cash or by credit card. During the years ended December 31, 2021, 2020 and 2019, credit limits were not exceeded.

In addition, the Company performs a qualitative evaluation of economic projections, with the purpose of determining the possible impact on probabilities of default and the rate of recovery that it assigns to its clients.



During the year ended December 31, 2021, there have been no changes in the techniques of estimation or assumption.

#### *Liquidity risk*

Projected cash flows are determined at each operating entity of the Company and subsequently the finance department consolidates this information. The finance department of the Company continuously monitors the cash flow projections and liquidity requirements of the Company ensuring that sufficient cash and highly liquid investments are maintained to meet operating needs, and it's that some flexibility is maintained through open and committed credit lines. The Company regularly monitors and makes decisions ensuring that the limits or covenants set forth in debt contracts are not violated. The projections consider the financing plans of the Company, compliance with covenants, compliance with minimum liquidity ratios and internal legal or regulatory requirements.

The Company's treasury department invests those funds in time deposits and marketable securities whose maturities or liquidity allow flexibility to meet the cash needs of the Company.

The following table analyzes the derivative and non-derivative, grouped according to their maturity, from the date of the consolidated statement of financial position to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are required to understand the timing of the Company's cash flows. The amounts disclosed in the table are contractual undiscounted cash flows.

	<b>Less than a year</b>	<b>From 1 to 5 years</b>	<b>More than 5 years</b>
As of December 31, 2021			
Suppliers and other accounts payable	\$27,657	\$ -	\$ -
Current and non-current debt (excluding debt issuance costs)	3,519	10,540	25,828
Derivative financial instruments	248	6	-
As of December 31, 2020			
Suppliers and other accounts payable	\$17,991	\$ -	\$ -
Current and non-current debt (excluding debt issuance costs)	1,508	23,252	11,796
Derivative financial instruments	66	-	-
As of December 31, 2019			
Suppliers and other accounts payable	\$14,955	\$ -	\$ -
Current and non-current debt (excluding debt issuance costs)	1,700	22,370	11,541
Derivative financial instruments	528	4	-

#### *Fair value hierarchy*

The following is an analysis of financial instruments measured in accordance with the fair value hierarchy. The 3 different levels used are presented below:

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Other valuations including quoted prices for similar instruments in active markets that are directly or indirectly observable.
- Level 3: Valuations made through techniques where one or more of their significant data inputs are unobservable.

The derivative financial instruments of the Company that are measured at fair value as of December 31, 2021, 2020 and 2019, are located within level 2 of the fair value hierarchy.

There were no transfers between Level 1 and 2 or between Level 2 and 3.

The specific valuation techniques used to value financial instruments include:

- Market quotations or trader quotations for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on observable yield curves.
- The fair value of forward exchange agreements is determined using exchange rates at the closing balance date, with the resulting value discounted at present value.



- Other techniques such as the analysis of discounted cash flows, which are used to determine fair value of the remaining financial instruments.

## 5. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 5.1 Critical accounting estimates and assumptions.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will be, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

#### a) *Estimated impairment of goodwill and intangible assets with indefinite useful lives*

The Company performs annual tests to determine whether goodwill and intangible assets with indefinite useful lives have suffered any impairment (see Note 12). For impairment testing, goodwill and intangible assets with indefinite lives are allocated to those groups of cash-generating units ("CGUs") from which the Company has considered that economic and operational synergies of business combinations are generated. The recoverable amounts of the CGUs have been determined based on the calculations of their value in use, which require the use of estimates. The most significant of these estimates are as follows:

- Estimates of future gross and operating margins, according to the historical performance and industry expectations for each CGU group.
- Discount rate based on the weighted average cost of capital (WACC) of each CGU or group of CGUs.
- Long-term growth rates.

#### b) *Recoverability of deferred tax assets*

Alpek has tax loss carryforwards, which can be used in the following years until maturity expires. Based on the projections of taxable income that Alpek will generate in the subsequent years through a structured and robust business plan, management has determined that current tax losses will be used before they expire and, therefore, it was considered probable that the deferred tax assets for such losses will be recovered.

#### c) *Long-lived assets*

The Company estimates the useful lives of long-lived assets in order to determine the depreciation and amortization expenses to be recorded during the reporting period. The useful life of an asset is calculated when the asset is acquired and is based on past experience with similar assets, considering anticipated technological changes or any other type of changes; or in the case of the right-of-use assets, based on the term of the lease agreement. Were technological changes to occur faster than estimated, or differently than anticipated, the useful lives assigned to these assets could have to be reduced. This would lead to the recognition of a greater depreciation and amortization expense in future periods. Alternatively, these types of technological changes could result in the recognition of a charge for impairment to reflect the reduction in the expected future economic benefits associated with the assets.

The Company reviews depreciable and amortizable assets on an annual basis for signs of impairment, or when certain events or circumstances indicate that the book value may not be recovered during the remaining useful life of the assets. For intangible assets with an indefinite useful life, the Company performs impairment tests annually and at any time that there is an indication that the asset may be impaired.



To test for impairment, the Company uses projected cash flows, which consider the estimates of future transactions, including estimates of revenues, costs, operating expenses, capital expenses and debt service. In accordance with IFRS, discounted future cash flows associated with an asset or CGU are compared to the book value of the asset or CGU being tested to determine if impairment or a reversal of impairment exist.

*d) Estimation of default probabilities and recovery rate to apply the model of expected losses in the calculation of impairment of financial assets*

The Company assigns to customers with whom it maintains an account receivable at each reporting date, either individually or as a group, an estimate of the probability of default on the payment of accounts receivable and the estimated recovery rate, with the purpose of reflecting the cash flows expected to be received from the outstanding balances on such reporting date.

*e) Business combinations*

When business combinations are concluded, the acquisition method is required to recognize the identifiable net assets acquired at fair value, at the date of acquisition; any excess of the consideration paid on the identified net assets is recognized as goodwill, which is subject to impairment tests at least once a year. On the other hand, any excess of the net assets acquired over the consideration paid is recognized as a gain in profit or loss.

To estimate the fair value of the assets acquired and liabilities assumed, the Company uses observable market data to the extent it is available. When the input data of Level 1 is not available, the Company hires an independent qualified appraiser to perform the valuation. Management works closely with the independent qualified appraiser to establish the valuation techniques, the premises, the appropriate input data and the criteria to be used in the valuation models.

*f) Estimation of the discount rate to calculate the present value of future minimum lease payments*

The Company estimates the discount rate to be used in determining the lease liability, based on the incremental borrowing rate (“IBR”).

The Company uses a three-tier model, with which it determines the three elements that make up 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 that obtained at the corporate level (that is, by the parent), or at the level of each subsidiary. Finally, for real estate leases, or, in which there is significant and observable evidence of the residual value, the Company estimates and evaluates an adjustment for characteristics of the underlying asset, taking into account the possibility that said asset is granted as collateral or guarantee against the risk of default.

*g) Estimation of the lease term*

The Company 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 likely to be exercised. The Company participates in lease agreements that do not have a defined non-cancellable term, a defined renewal period (if it contains a renewal clause), or automatic annual renewals, so, to measure the lease liability, it estimates the term of the contracts considering their contractual rights and limitations, their business plan, as well as management’s intentions for the use of the underlying asset.

Additionally, the Company considers the early termination clauses of its contracts and the probability of exercising them, as part of its estimate of the lease term.

## 5.2 Critical judgments in applying the entity's accounting policies

*a) Determination of exercise of control over certain investments in shares*

The Company has evaluated critical control factors and has concluded that it should consolidate the financial statements of its subsidiaries Polioles and Indelpro. The analysis performed by the Company included the assessment of the substantive decision making rights of the respective shareholders set forth in their bylaws, resulting in management’s conclusion that it has the power to govern their relevant activities.



*b) Acquisitions of assets and business combinations*

Management uses its professional judgment to determine whether the acquisition of a group of assets represents a business combination or an acquisition of assets. Such determination could have a significant impact on how acquired assets and assumed liabilities are accounted for, both in their initial recognition and in subsequent years.

**6. Cash and cash equivalents and restricted cash**

The cash and cash equivalents are comprised as follows:

	As of December 31,		
	2021	2020	2019
Cash on hand and in banks	\$ 7,784	\$ 7,016	\$ 5,413
Short-term bank deposits	<u>2,757</u>	<u>3,128</u>	<u>1,646</u>
Total cash and cash equivalents	<u>\$10,541</u>	<u>\$10,144</u>	<u>\$ 7,059</u>
Restricted cash			

As of December 31, 2021, 2020 and 2019, the Company has restricted cash of approximately \$13, \$12 and \$216, respectively. As of December 31, 2021, the increase was mainly due a charge to the Company for an additional cash guarantee required by insurers to cover insurance policies for the workers. The restricted cash balance is classified as a current asset in the consolidated statement of financial position based on the maturity date of the restriction.

**7. Trade and other receivables, net**

Trade and other accounts receivable are comprised as follows:

	As of December 31,		
	2021	2020	2019
Trade accounts receivable	\$ 22,003	\$ 13,985	\$ 12,751
Trade and other accounts receivable from related parties (Note 28)	622	588	585
Recoverable taxes	3,777	4,324	4,462
Notes receivable	776	532	485
Interest receivable	1	1	200
Sundry debtors	251	334	511
Allowance for impairment of trade and other accounts receivable	<u>(2,928)</u>	<u>(2,714)</u>	<u>(2,486)</u>
Total	<u>\$ 24,502</u>	<u>\$ 17,050</u>	<u>\$ 16,508</u>



The changes in the impairment allowance for trade and other receivables in 2021, 2020 and 2019, with the expected losses model used by the Company, are as follows:

For the year ended December 31, 2021:

Customers or customer groups	Default probability range	Loss given default range	Opening balance – Impairment allowance	Increases in the allowance	Cancellations in the allowance	Translation effect	Ending balance – Impairment allowance
Alpek Polyester <sup>(1)(2)</sup>	0% - 81%	0% - 98%	\$ (2,521)	\$ (42)	\$ 41	\$ (74)	\$ (2,596)
Grupo Unimor	5.43%	50%	-	-	-	-	-
Grupo Styropek <sup>(1)</sup>	0%	0% - 10%	(99)	(129)	-	(4)	(232)
Polioles	0%	0% - 10%	(28)	-	6	(1)	(23)
Indelpro and other <sup>(1)</sup>	1.23%	0.25%	(66)	(17)	6	-	(77)
<b>Total</b>			<u>\$ (2,714)</u>	<u>\$ (188)</u>	<u>\$ 53</u>	<u>\$ (79)</u>	<u>\$ (2,928)</u>

<sup>(1)</sup> The default probability range does not consider customers and groups of customers for which the probability is 100%.

<sup>(2)</sup> On July 31, 2021, Grupo Petrotex, S.A. de C.V. (Grupo Petrotex), changed its company name to Alpek Polyester S.A. de C.V.

For the year ended December 31, 2020:

Customers or customer groups	Default probability range	Loss given default range	Opening balance – Impairment allowance	Increases in the allowance	Cancellations in the allowance	Translation effect	Ending balance – Impairment allowance
Grupo Petrotex <sup>(1)</sup>	0% - 80%	0% - 34%	\$ (2,320)	\$ (122)	\$ 39	\$ (118)	\$ (2,521)
Grupo Unimor	5.43%	50%	-	-	-	-	-
Grupo Styropek <sup>(1)</sup>	0%	0% - 10%	(71)	(26)	-	(2)	(99)
Polioles	0%	0% - 10%	(28)	(1)	1	-	(28)
Indelpro and other <sup>(1)</sup>	1.92%	0.47%	(67)	-	1	-	(66)
<b>Total</b>			<u>\$ (2,486)</u>	<u>\$ (149)</u>	<u>\$ 41</u>	<u>\$ (120)</u>	<u>\$ (2,714)</u>

<sup>(1)</sup> The default probability range does not consider customers and groups of customers for which the probability is 100%.





For the year ended December 31, 2019:

<b>Customers or customer groups</b>	<b>Default probability range</b>	<b>Loss given default range</b>	<b>Opening balance – Impairment allowance</b>	<b>Increases in the allowance</b>	<b>Cancellations in the allowance</b>	<b>Translation effect</b>	<b>Ending balance – Impairment allowance</b>
Grupo PetroteMex <sup>(1)</sup>	0.03% - 2.36%	10% - 45%	\$ (2,423)	\$ (114)	\$ 109	\$ 108	\$ (2,320)
Grupo Unimor	5.43%	50%	-	-	-	-	-
Grupo Styropek <sup>(1)</sup>	0.01% - 0.82%	10% - 35%	(37)	(37)	2	1	(71)
Polioles	0%	0% - 10%	(25)	-	4	(7)	(28)
Indelpro and other	1.75%	1.20%	(74)	(1)	8	-	(67)
<b>Total</b>			<u>\$ (2,559)</u>	<u>\$ (152)</u>	<u>\$ 123</u>	<u>\$ 102</u>	<u>\$ (2,486)</u>

<sup>(1)</sup> The default probability range does not consider customers and groups of customers for which the probability is 100%.

As of December 31, 2021, 2020 and 2019, the Company has guaranteed accounts receivable of \$3,506, \$2,184 and \$1,635, respectively.



The net change in the allowance for impairment of trade and other receivables for \$214 and \$228, as of December 31, 2021 and 2020, respectively, was mainly due to the increase in the probability of default in some customer groups, as well as the translation effect. For its part, the variation in the allowance for impairment of trade and other receivables of \$(73) for the year ended December 31, 2019, was mainly due to the decrease in the probability of default allocated to certain customers with respect to the beginning of the year.

The Company has long-term receivables that are guaranteed with the properties of M&G México's PET production plant in Altamira, Mexico, which have been used by management to mitigate the exposure to credit risk of such financial assets, and therefore has not recognized an impairment in their carrying amount.

## 8. Inventories

	As of December 31,		
	2021	2020	2019
Finished good	\$ 12,269	\$ 8,189	\$ 10,203
Raw material and other consumables	10,746	6,896	5,606
Materials and tools	2,255	1,912	1,637
Production in progress	435	450	520
	<u>\$ 25,705</u>	<u>\$17,447</u>	<u>\$ 17,966</u>

For the years ended December 31, 2021, 2020 and 2019, a provision amounting to \$94, \$72 and \$17, respectively, related to damaged, slow-moving and obsolete inventory was recognized in the consolidated statement of income.

At December 31, 2021, 2020 and 2019, there were no inventories pledged as collateral.

## 9. Prepayments

The current portion and non-current portion of prepaid expenses is summarized as follows:

	As of December 31,		
	2021	2020	2019
Current portion <sup>(1)</sup>	\$ 686	\$ 442	\$ 1,785
Non-current portion	31	15	16
Total prepayments	<u>\$ 717</u>	<u>\$ 457</u>	<u>\$ 1,801</u>

<sup>(1)</sup> This item mainly consists of advance payments for raw materials and prepaid insurance. Additionally, as of December 31, 2019, it includes \$1,300 related to the advance payment for the acquisition of Alpek Polyester UK, as described in Note 2g.



## 10. Property, plant and equipment, net

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Furniture, lab and information technology equipment	Construction in progress	Other fixed assets	Total
For the year ended December 31, 2019								
Opening balance	\$ 3,838	\$ 6,884	\$ 26,232	\$ 59	\$ 350	\$ 8,669	\$ 1,001	\$ 47,033
Additions	-	-	9	-	1	3,234	121	3,365
Additions for business acquisitions	3	122	444	1	4	6	-	580
Disposals	-	(1)	(59)	-	(1)	(4)	(6)	(71)
Disposals for sale of subsidiary	(18)	(1,083)	(7,736)	-	(3)	(250)	-	(9,090)
Impairment	-	(23)	(6)	-	-	-	-	(29)
Restatement and translation effect	(91)	(318)	(1,105)	(4)	(23)	(148)	(51)	(1,740)
Depreciation charges recognized in the year	-	(279)	(2,440)	(13)	(84)	-	-	(2,816)
Transfers	-	508	7,752	15	87	(8,670)	158	(150)
Ending balance as of December 31, 2019	<u>\$ 3,732</u>	<u>\$ 5,810</u>	<u>\$ 23,091</u>	<u>\$ 58</u>	<u>\$ 331</u>	<u>\$ 2,837</u>	<u>\$ 1,223</u>	<u>\$ 37,082</u>
As of December 31, 2019								
Cost	3,732	16,724	70,632	323	1,881	2,837	1,223	97,352
Accumulated depreciation and accumulated impairment	-	(10,914)	(47,541)	(265)	(1,550)	-	-	(60,270)
Net carrying amount as of December 31, 2019	<u>\$ 3,732</u>	<u>\$ 5,810</u>	<u>\$ 23,091</u>	<u>\$ 58</u>	<u>\$ 331</u>	<u>\$ 2,837</u>	<u>\$ 1,223</u>	<u>\$ 37,082</u>
For the year ended December 31, 2020								
						\$		
Opening balance	\$ 3,732	\$ 5,810	\$ 23,091	\$ 58	\$ 331	2,837	\$ 1,223	\$ 37,082
Additions	4	1	8	1	2	2,506	143	2,665
Additions for business acquisitions	159	5	1,039	-	3	158	-	1,364
Disposals	-	(1)	(52)	(1)	(1)	(29)	(23)	(107)
Impairment	-	(11)	(2)	-	-	(2)	-	(15)
Restatement and translation effect	61	(138)	897	7	32	(123)	24	760
Depreciation charges recognized in the year	-	(315)	(2,710)	(17)	(92)	-	-	(3,134)
Transfers	-	93	1,617	64	118	(1,933)	5	(36)
Ending balance as of December 31, 2020	<u>\$ 3,956</u>	<u>\$ 5,444</u>	<u>\$ 23,888</u>	<u>\$ 112</u>	<u>\$ 393</u>	<u>\$ 3,414</u>	<u>\$ 1,372</u>	<u>\$ 38,579</u>
As of December 31, 2020								
Cost	3,956	16,854	78,944	379	2,103	3,414	1,372	107,022
Accumulated depreciation and accumulated impairment	-	(11,410)	(55,056)	(267)	(1,710)	-	-	(68,443)
Net carrying amount as of December 31, 2020	<u>\$ 3,956</u>	<u>\$ 5,444</u>	<u>\$ 23,888</u>	<u>\$ 112</u>	<u>\$ 393</u>	<u>\$ 3,414</u>	<u>\$ 1,372</u>	<u>\$ 38,579</u>



	Land	Buildings and constructions	Machinery and equipment	Vehicles	Furniture, lab and information technology equipment	Construction in progress	Other fixed assets	Total
For the year ended December 31, 2021								
Opening balance	\$ 3,956	\$ 5,444	\$ 23,888	\$ 112	\$ 393	\$ 3,414	\$ 1,372	\$ 38,579
Additions	-	1	1,691	1	272	2,561	112	4,638
Additions for business acquisitions	(36)	-	(162)	-	-	(28)	-	(226)
Disposals	-	(1)	(23)	(1)	-	(7)	(88)	(120)
Impairment <sup>(1)</sup>	-	(256)	(965)	(2)	(7)	(111)	(23)	(1,364)
Restatement and translation effect	70	18	542	4	4	193	31	862
Depreciation charges recognized in the year	-	(290)	(2,554)	(16)	(97)	-	-	(2,957)
Transfers	5	357	2,164	41	170	(2,746)	2	(7)
Ending balance as of December 31, 2021	<u>\$ 3,995</u>	<u>\$ 5,273</u>	<u>\$ 24,581</u>	<u>\$ 139</u>	<u>\$ 735</u>	<u>\$ 3,276</u>	<u>\$ 1,406</u>	<u>\$ 39,405</u>
As of December 31, 2021								
Cost	3,995	16,716	79,876	404	2,519	3,276	1,406	108,192
Accumulated depreciation and accumulated impairment	<u>-</u>	<u>(11,443)</u>	<u>(55,295)</u>	<u>(265)</u>	<u>(1,784)</u>	<u>-</u>	<u>-</u>	<u>(68,787)</u>
Net carrying amount as of December 31, 2021	<u>\$ 3,995</u>	<u>\$ 5,273</u>	<u>\$ 24,581</u>	<u>\$ 139</u>	<u>\$ 735</u>	<u>\$ 3,276</u>	<u>\$ 1,406</u>	<u>\$ 39,405</u>

<sup>(1)</sup> Mainly corresponds to \$433 from the closure of the polyester staple fiber operations at the Cooper River site, \$829 from the shutdown of Univex, \$10 from the shutdown of Sales del Bajío and the remainder to the normal operations of the Company.

Depreciation expenses of \$2,905, \$3,075 and \$2,742 were recorded in cost of sales, \$10, \$16 and \$31, in selling expenses and \$42, \$43 and \$43, in administrative expenses in 2021, 2020 and 2019, respectively. The Company has capitalized costs of loans on qualified assets for \$182 for the year ended December 31, 2019. Costs from loans were capitalized at the weighted average borrowing rate of approximately 4.8%.



## 11. Right-of-use asset, net

The Company has leases of fixed assets including buildings, machinery and equipment, transportation equipment, and computer equipment. The average term of the lease contracts is 8 years.

The right-of-use recognized in the consolidated statement of financial position as of December 31, 2021, 2020 and 2019, is integrated as follows:

	Land	Buildings	Machinery and equipment	Rail cars	Ships and other leased assets	Total
<b>Net carrying amount:</b>						
Balance as of December 31, 2019	\$ 104	\$ 176	\$ 1,011	\$ 1,975	\$ 171	\$ 3,437
Balance as of December 31, 2020	\$ 110	\$ 124	\$ 790	\$ 1,924	\$ 43	\$ 2,991
Balance as of December 31, 2021	\$ 109	\$ 799	\$ 934	\$ 1,666	\$ 46	\$ 3,554
Depreciation for the year 2019	\$ (6)	\$ (46)	\$ (260)	\$ (409)	\$ (113)	\$ (834)
Depreciation for the year 2020	\$ (8)	\$ (46)	\$ (303)	\$ (470)	\$ (151)	\$ (978)
Depreciation for the year 2021	\$ (7)	\$ (54)	\$ (296)	\$ (437)	\$ (163)	\$ (957)

During the years ended December 31, 2021, 2020 and 2019, the Company recognized a lease expense of \$693, \$810 and \$644, respectively, related to low value and short-term lease agreements.

Additions derived from new contracts and modifications to the lease liability, reflected in the net book value of the right-of-use asset as of December 31, 2021, 2020 and 2019 amounted to \$1,452, \$486 and \$1,226, respectively.

As of December 31, 2021, 2020 and 2019, the Company does not have any commitments related to short-term lease agreements.

The Company has not signed lease contracts, which at the date of the consolidated financial statements have not started.

During the year, the Company did not execute significant extensions to the term of its lease contracts.



## 12. Goodwill and intangible assets, net

Cost	Definite life					Indefinite life			Total
	Development costs	Non-compete agreements	Customer relationships	Software and licenses	Trademarks with definite life	Intellectual property, and others	Goodwill	Other	
As of January 1, 2019	\$ 918	\$ 88	\$ 1,120	\$ 555	\$ -	\$ 3,996	\$ 338	\$ 30	\$ 7,045
Additions	8	-	-	69	-	4	-	3	84
Additions for business acquisitions	-	-	-	-	69	-	53	-	122
Disposals for sale of subsidiary	-	-	-	-	-	(296)	-	-	(296)
Transfers	-	-	-	7	-	22	-	(22)	7
Translation effect	(39)	(7)	(61)	(27)	(1)	(158)	(14)	(2)	(309)
As of December 31, 2019	<u>\$ 887</u>	<u>\$ 81</u>	<u>\$ 1,059</u>	<u>\$ 604</u>	<u>\$ 68</u>	<u>\$ 3,568</u>	<u>\$ 377</u>	<u>\$ 9</u>	<u>\$ 6,653</u>
Additions	12	-	-	70	-	4	-	-	86
Additions for business acquisitions	-	-	-	6	-	-	-	-	6
Disposals	-	-	-	-	-	(1)	-	-	(1)
Transfers	1	-	-	(157)	160	-	-	-	4
Translation effect	50	(2)	(27)	(22)	(13)	188	22	1	197
As of December 31, 2020	<u>\$ 950</u>	<u>\$ 79</u>	<u>\$ 1,032</u>	<u>\$ 501</u>	<u>\$ 215</u>	<u>\$ 3,759</u>	<u>\$ 399</u>	<u>\$ 10</u>	<u>\$ 6,945</u>
Additions	10	-	-	7	-	2	-	-	19
Additions for business acquisitions	-	-	-	18	23	-	-	-	41
Disposals	-	-	-	-	-	(1)	-	-	(1)
Impairment	-	-	-	(221)	-	-	-	-	(221)
Transfers	5	-	-	-	-	-	-	-	5
Translation effect	30	(2)	12	2	(3)	138	13	-	190
As of December 31, 2021	<u>\$ 995</u>	<u>\$ 77</u>	<u>\$ 1,044</u>	<u>\$ 307</u>	<u>\$ 235</u>	<u>\$ 3,898</u>	<u>\$ 412</u>	<u>\$ 10</u>	<u>\$ 6,978</u>
<b>Amortization and Impairment</b>									
As of January 1, 2019	\$ (531)	\$ (82)	\$ (444)	\$ (418)	\$ -	\$ (1,202)	\$ -	\$ -	\$ (2,677)
Amortization	(23)	(6)	(62)	(42)	(4)	(218)	-	-	(355)
Disposals for sale of subsidiary	-	-	-	-	-	31	-	-	31
Translation effect	23	7	22	25	-	54	-	-	131
As of December 31, 2019	<u>\$ (531)</u>	<u>\$ (81)</u>	<u>\$ (484)</u>	<u>\$ (435)</u>	<u>\$ (4)</u>	<u>\$ (1,335)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,870)</u>
Amortization	(26)	-	(63)	(49)	(5)	(231)	-	-	(374)
Additions for business acquisitions	-	-	-	(6)	-	-	-	-	(6)
Transfers	-	-	-	160	(160)	-	-	-	-
Translation effect	(29)	2	(14)	25	17	(59)	-	-	(58)
As of December 31, 2020	<u>\$ (586)</u>	<u>\$ (79)</u>	<u>\$ (561)</u>	<u>\$ (305)</u>	<u>\$ (152)</u>	<u>\$ (1,625)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,308)</u>
Amortization	(28)	-	(59)	(55)	(5)	(219)	-	-	(366)
Transfers	-	-	-	-	-	-	-	-	-
Impairment	-	-	-	125	-	-	-	-	125
Translation effect	(18)	2	(15)	(1)	4	(53)	-	-	(81)
As of December 31, 2021	<u>\$ (632)</u>	<u>\$ (77)</u>	<u>\$ (635)</u>	<u>\$ (236)</u>	<u>\$ (153)</u>	<u>\$ (1,897)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,630)</u>



<b>Net carrying amount</b>									
Cost	\$ 887	\$ 81	\$ 1,059	\$ 604	\$ 68	\$ 3,568	\$ 377	\$ 9	\$ 6,653
Amortization	(531)	(81)	(484)	(435)	(4)	(1,335)	-	-	(2,870)
As of December 31, 2019	<u>\$ 356</u>	<u>\$ -</u>	<u>\$ 575</u>	<u>\$ 169</u>	<u>\$ 64</u>	<u>\$ 2,233</u>	<u>\$ 377</u>	<u>\$ 9</u>	<u>\$ 3,783</u>
Cost	950	79	1,032	501	215	3,759	399	10	6,945
Amortization	(586)	(79)	(561)	(305)	(152)	(1,625)	-	-	(3,308)
As of December 31, 2020	<u>\$ 364</u>	<u>\$ -</u>	<u>\$ 471</u>	<u>\$ 196</u>	<u>\$ 63</u>	<u>\$ 2,134</u>	<u>\$ 399</u>	<u>\$ 10</u>	<u>\$ 3,637</u>
Cost	995	77	1,044	307	235	3,898	412	10	6,978
Amortization and impairment	(632)	(77)	(635)	(236)	(153)	(1,897)	-	-	(3,630)
As of December 31, 2021	<u>\$ 363</u>	<u>\$ -</u>	<u>\$ 409</u>	<u>\$ 71</u>	<u>\$ 82</u>	<u>\$ 2,001</u>	<u>\$ 412</u>	<u>\$ 10</u>	<u>\$ 3,348</u>



Of the total amortization expense, \$352, \$363 and \$345 have been recorded in cost of sales and \$14, \$11 and \$9 in administrative expenses in 2021, 2020 and 2019, respectively.

Incurred research and development expenses that have been recorded in the 2021, 2020 and 2019 consolidated statements of income were \$67, \$74 and \$40, respectively.

### **Impairment testing of goodwill and indefinite lived intangible assets**

As mentioned in Note 5, goodwill is allocated to operating segments that are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units or groups of units. As of December 31, 2021, 2020 and 2019, goodwill of \$412, \$399 and \$377, respectively, arises primarily from the Polyester segment.

The recoverable amount from each group of CGU has been determined based on calculations of values in use, which are formed by after-tax cash flow projections based on financial budgets approved by Management covering a period of 5 years.

The gross and operating margins included in the estimates of value in use have been estimated based on the historical performance and the growth expectations of the market in which each group of CGUs operates. The long-term growth rate used in estimating the value in use is consistent with the projections included in industry reports. The present value of the cash flows was discounted using a specific discount rate after taxes for each group of CGU and reflects the specific risks associated with each of them.

The Company performed a sensitivity analysis considering a possible increase of 100 basis points in the discount rate and a possible decrease in the long-term growth rate at a similar level. As a result of this analysis, the Company concluded that there are no significant variations compared to the impairment calculation prepared as of December 31, 2021.

The key assumptions used in calculating the value in use in 2021, 2020, 2019 and 2018, were as follows:

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Estimated gross margin	8.6%	5.0%	5.2%
Growth rate	1.9%	2.0%	1.8%
Discount rate	8.5%	8.4%	8.9%

### **13. Investments accounted for using the equity method and other non-current assets**

	<b>As of December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Notes receivable <sup>(1)</sup>	\$ 2,595	\$ 3,119	\$ 3,365
Due from related parties (Note 28)	876	823	762
Trade receivables related with business acquisitions	614	576	679
Total other non-current financial assets	<u>\$ 4,085</u>	<u>\$ 4,518</u>	<u>\$ 4,806</u>
Investment in associates and joint ventures <sup>(2)</sup>	9,045	8,586	8,197
Recoverable taxes	906	724	582
Other	143	178	176
Total other assets	<u>\$ 14,179</u>	<u>\$ 14,006</u>	<u>\$ 13,761</u>

<sup>(1)</sup> As of December 31, 2021, 2020 and 2019, this item mainly consisted of the financing provided to M&G Polímeros México, S.A. de C.V.

<sup>(2)</sup> Investment in associates and joint ventures

The Company's account of investments in associates and joint ventures consists of the following:

	<b>Shareholding %</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Clear Path Recycling, LLC	49.90%	\$ 251	\$ 246	\$ 257
Terminal Petroquímica Altamira, S.A. de C.V.	42.04%	43	42	40
Agua Industrial del Poniente, S.A. de C.V.	47.59%	81	76	71
Corpus Christi Polymers LLC	33.33%	<u>8,670</u>	<u>8,222</u>	<u>7,774</u>
Investment in associates and joint ventures as of December 31		<u>\$ 9,045</u>	<u>\$ 8,586</u>	<u>\$ 8,142</u>





Additionally, as of December 31, 2019 the Company held a 50% interest in Galpek, LDA with a book value of \$55.

Below is summarized the net loss of investments in associates and joint ventures, which are accounted for by the equity method:

	2021	2020	2019
Net comprehensive loss	\$ (121)	\$ (12)	\$ (740)

There are neither commitments nor contingent liabilities regarding the Company's investment in associates and joint ventures as of December 31, 2021, 2020 or 2019.

#### 14. Subsidiaries with significant non-controlling interest

The significant non-controlling interest is integrated as follows:

	Non-controlling ownership percentage	Non-controlling interest income for the period			Non-controlling interest as of December 31,		
		2021	2020	2019	2021	2020	2019
Indelpro, S. A. de C. V. and subsidiary	49%	\$2,341	\$981	\$890	\$5,160	\$4,453	\$3,902
Polioles, S. A. de C. V. and subsidiary	50%	53	30	49	366	319	279
Other		46	(13)	(20)	344	354	397
		<u>\$2,440</u>	<u>\$998</u>	<u>\$919</u>	<u>\$5,870</u>	<u>\$5,126</u>	<u>\$4,578</u>

The summarized consolidated financial information as of December 31, 2021, 2020 and 2019, and for the years then ended, corresponding to each subsidiary with a significant non-controlling interest is shown below:

	Indelpro, S. A. de C. V. and subsidiary			Polioles, S. A. de C. V. and subsidiary		
	2021	2020	2019	2021	2020	2019
Statement of financial position						
Current assets	\$ 6,790	\$ 5,238	\$ 4,114	\$ 1,451	\$ 1,325	\$ 1,317
Non-current assets	8,372	8,055	7,536	998	959	974
Current liabilities	2,638	2,223	1,723	867	521	538
Non-current liabilities	1,993	1,982	1,965	850	1,124	1,195
Stockholders' equity	10,531	9,088	7,962	732	639	558
Statements of income						
Revenues	22,589	11,841	12,019	2,954	2,409	3,087
Consolidated net income	4,778	2,003	1,817	107	59	97
Total comprehensive income of the year	5,150	2,493	1,472	113	81	46
Comprehensive income attributable to non-controlling interest	2,524	1,222	721	57	40	23
Dividends paid to non-controlling interest	1,816	670	955	10	-	38
Statements of cash flows						
Net cash flows generated by operating activities	4,156	2,423	2,100	133	196	74
Net cash flows (used in) generated by investing activities	(446)	(572)	(259)	57	(26)	200
Net cash flows used in financing activities	(3,988)	(1,645)	(2,187)	(261)	(123)	(268)
Net increase (decrease) in cash and cash equivalents	(226)	365	(351)	(66)	28	1



**15. Trade and other accounts payable**

	As of December 31,		
	2021	2020	2019
Trade accounts payable	\$ 25,595	\$ 16,173	\$ 13,064
Short-term employee benefits	1,263	984	554
Advances from customers	242	117	17
Taxes other than income taxes	691	453	929
Due to related parties (Note 28)	261	286	247
Other accrued accounts and expenses payable	1,801	1,532	1,644
	<u>\$ 29,853</u>	<u>\$ 19,545</u>	<u>\$ 16,455</u>

**16. Debt**

	As of December 31,		
	2021	2020	2019
Current:			
Bank loans <sup>(1)(2)</sup>	\$ 279	\$ 98	\$ 375
Current portion of non-current debt	1,931	-	5
Notes payable <sup>(1)(2)</sup>	42	42	27
Interest payable	408	316	300
Current debt	<u>\$ 2,660</u>	<u>\$ 456</u>	<u>\$ 707</u>
Non-current:			
Senior Notes	\$ 30,895	\$ 29,061	\$ 27,426
Unsecured bank loans	619	1,299	836
Other loans	156	151	142
Total	31,670	30,511	28,404
Less: current portion of non-current debt	(1,931)	-	(5)
Less: interest generated by non-current debt	(406)	(315)	(296)
Non-current debt	<u>\$ 29,333</u>	<u>\$ 30,196</u>	<u>\$ 28,103</u>

<sup>(1)</sup> As of December 31, 2021, 2020 and 2019, short-term bank loans and notes payable incurred interest at an annual average rate of 1.40%, 1.87% and 4.19%, respectively.

<sup>(2)</sup> The fair value of bank loans and notes payable approximates their current carrying amount because of their short maturity.



The carrying amounts, terms and conditions of non-current debt are as follows:

Description	Currency	Value in MXN	Debt issuance costs	Interest payable	Balance as of December 31, 2021	Balance as of December 31, 2020	Balance as of December 31, 2019 <sup>(1)</sup>	Maturity date	Interest rate
Senior Notes 144A/Reg. S / fixed rate	USD	\$ 1,934	\$ (3)	\$ 10	\$ 1,941	\$ 12,977	\$ 12,247	20-nov-22	4.50%
Senior Notes 144A/Reg. S / fixed rate	USD	6,175	(16)	131	6,290	6,090	5,748	08-aug-23	5.38%
Senior Notes 144A/Reg. S / fixed rate	USD	10,269	(69)	124	10,324	9,994	9,431	18-sep-29	4.25%
Senior Notes 144A/Reg. S / fixed rate	USD	12,285	(84)	139	12,340	-	-	25-feb-31	3.25%
Total Senior Notes		<u>\$ 30,663</u>	<u>\$ (172)</u>	<u>\$ 404</u>	<u>\$ 30,895</u>	<u>\$ 29,061</u>	<u>\$ 27,426</u>		
Bank loan, BADLAR + 1.00%	ARS	-	-	-	-	-	2	01-apr-20	45.69%
Bank loan, fixed 25.00%	ARS	-	-	-	-	-	3	08-dec-20	25.00%
Bank loan, LIBOR +1.45% <sup>(2)</sup>	USD	-	-	-	-	-	831	15-dec-22	3.34%
Bank loan, LIBOR +2.60%	USD	618	-	1	619	800	-	03-dec-24	2.77%
Bank loan, LIBOR +2.05% <sup>(3)</sup>	USD	-	-	-	-	500	-	11-dec-24	2.27%
Total unsecured bank loans		<u>618</u>	<u>-</u>	<u>1</u>	<u>619</u>	<u>1,300</u>	<u>836</u>		
Other loans	USD	<u>155</u>	<u>-</u>	<u>1</u>	<u>156</u>	<u>150</u>	<u>142</u>	Various	Various
Total		<u>\$ 31,436</u>	<u>\$ (172)</u>	<u>\$ 406</u>	<u>\$ 31,670</u>	<u>\$ 30,511</u>	<u>\$ 28,404</u>		
Less: current portion and interest of non-current debt		<u>(1,934)</u>	<u>3</u>	<u>(406)</u>	<u>(2,337)</u>	<u>(315)</u>	<u>(301)</u>		
Non-current debt		<u>\$ 29,502</u>	<u>\$ (169)</u>	<u>\$ -</u>	<u>\$ 29,333</u>	<u>\$ 30,196</u>	<u>\$ 28,103</u>		

<sup>(1)</sup> As of December 31, 2021, 2020 and 2019, issuance costs of the debt pending amortization were \$172, \$139 and \$153, respectively.

<sup>(2)</sup> Loan paid during 2020.

<sup>(3)</sup> Loan paid during 2021.

As of December 31, 2021, the annual maturities of non-current debt, gross from issuance costs are as follows:

	2021 <sup>(1)</sup>	2022	2023	2024	2025 and thereafter	Total
Senior Notes	\$ 404	\$ 1,934	\$ 6,175	\$ -	\$ 22,554	\$ 31,067
Bank loans	1	-	-	618	-	619
Other loans	1	-	-	-	155	156
	<u>\$ 406</u>	<u>\$ 1,934</u>	<u>\$ 6,175</u>	<u>\$ 618</u>	<u>\$ 22,709</u>	<u>\$ 31,842</u>

<sup>(1)</sup> This amount corresponds to interest payable generated by non-current debt

As of December 31, 2021, 2020 and 2019, the Company has committed unused lines of credit totaling US\$560, US\$680 and US\$740, respectively.

Covenants:

Loan contracts and debt agreements contain restrictions, primarily relating to compliance with financial ratios, which include the following:

- Interest hedge ratio: it is calculated by dividing the profit before financial result, net, share of result of associates and joint ventures, income taxes, depreciation and amortization (EBITDA) by the net interest charges for the last four quarters of the analyzed period. This ratio cannot be less than 3.0 times.



- b) Leverage ratio: defined as the result of dividing the consolidated net debt (current and non-current debt, excluding debt issuance costs less restricted and unrestricted cash and cash equivalents) by the EBITDA of the last four quarters of the period analyzed. This ratio cannot be greater than 3.5 times.

Additionally, there are other restrictions in regards of incurring additional debt or making loans that require mortgaging assets, dividend payments and submission of financial information, which if not met or remedied within a specified period to the satisfaction of creditors may cause the debt to become payable immediately. During 2021, 2020 and 2019, the financial ratios were calculated according to the formulas set forth in the loan agreements. As of December 31, 2021 and the date of issuance of these consolidated financial statements, the Company complied satisfactorily with such covenants and restrictions.

## 17. Lease liability

	2021	As of December 31, 2020	2019
Current portion:			
USD	\$ 462	\$ 454	\$ 531
MXN	123	123	214
Other currencies	148	127	167
Current lease liability	<u>\$ 733</u>	<u>\$ 704</u>	<u>\$ 912</u>
Non-current portion:			
USD	\$ 2,641	\$ 2,280	\$ 2,387
MXN	304	288	405
Other currencies	663	442	576
	<u>3,608</u>	<u>3,010</u>	<u>3,368</u>
Less: Current portion of lease liability	<u>(733)</u>	<u>(704)</u>	<u>(912)</u>
Non-current lease liability	<u>\$ 2,875</u>	<u>\$ 2,306</u>	<u>\$ 2,456</u>

As of December 31, 2021, 2020 and 2019, respectively, changes in the lease liability related to finance activities in accordance with the consolidated statement of cash flow are integrated as follows:

	2021	2020	2019
Beginning balance	\$ 3,010	\$ 3,368	\$ 3,242
New contracts	1,435	420	1,226
Write-offs	(32)	(45)	(165)
Adjustment to liability balance	9	40	74
Interest expense from lease liability	178	193	205
Lease payments	(1,049)	(1,083)	(1,108)
Exchange (loss) gain	<u>57</u>	<u>117</u>	<u>(106)</u>
Ending balance	<u>\$ 3,608</u>	<u>\$ 3,010</u>	<u>\$ 3,368</u>



The total of future minimum payments of leases that include non-accrued interest is analyzed as follows:

	As of December 31,		
	2021	2020	2019
Less than a year	\$ 733	\$ 704	\$ 912
Over 1 year and less than 5 years	1,681	1,701	1,885
Over 5 years	1,194	605	571
Total	<u>\$ 3,608</u>	<u>\$ 3,010</u>	<u>\$ 3,368</u>

## 18. Provisions

	Dismantling, demolition and environmental remediation	Legal contingencies	Warranties	Other	Total
As of January 1, 2019	\$ 9	\$ 620	\$ -	\$ 559	\$ 1,188
Increases	-	105	544	12	661
Payments	(3)	-	-	(28)	(31)
Write-offs	-	(13)	-	(27)	(40)
Translation effect	-	(50)	-	(74)	(124)
As of December 31, 2019	<u>\$ 6</u>	<u>\$ 662</u>	<u>\$ 544</u>	<u>\$ 442</u>	<u>\$ 1,654</u>
Increases	183	12	-	15	210
Payments	(3)	-	(563)	(2)	(568)
Write-offs	-	-	(67)	(39)	(106)
Translation effect	1	(100)	124	(45)	(20)
As of December 31, 2020	<u>\$ 187</u>	<u>\$ 574</u>	<u>\$ 38</u>	<u>\$ 371</u>	<u>\$ 1,170</u>
Increases	131	342	-	152	625
Payments	(2)	(3)	(38)	-	(43)
Write-offs	(193)	(10)	-	(154)	(357)
Translation effect	11	(25)	-	-	(14)
As of December 31, 2021	<u>\$ 134</u>	<u>\$ 878</u>	<u>\$ -</u>	<u>\$ 369</u>	<u>\$ 1,381</u>

	2021	2020	2019
Short-term provisions	\$ 546	\$ 50	\$ 576
Long-term provisions	835	1,120	1,078
As of December 31	<u>\$ 1,381</u>	<u>\$ 1,170</u>	<u>\$ 1,654</u>

As of December 31, 2021, 2020 and 2019, the provisions shown in the table above mainly include \$48 (US\$2), \$206 (US\$10) and \$251 (US\$13), respectively, related to the obligation to give back to Petrobras certain tax credits, in case they are recovered by Petroquímica Suape and Citepe, as well as \$605 (US\$29), \$574 (US\$29) and \$662 (US\$35) for labor, civil and tax contingencies also derived from the acquisition of Petroquímica Suape and Citepe, for which the Company holds an account receivable, included in other non-current assets, for \$614 (US\$30), \$576 (US\$29) and \$679 (US\$36) as of December 31, 2021, 2020 and 2019, respectively. In addition, as of December 31, 2019, they also include a provision of warranties related to the sales transaction described in Note 2k.

Additionally, as of December 31, 2021, 2020 and 2019, \$153 (US\$7.5), \$149 (US\$7.5) and \$140 (US\$7.5), respectively, were related to for the contingent liability for the earn-out payment related to the acquisition of Selenis.

As of December 31, 2021, the increases shown in the table above include \$186 related to the closure of the polyester staple fiber operation at the Cooper River site and \$349 related to the shutdown of the Univex plant.



## 19. Employee benefits

The valuation of retirement plan employee benefits includes formal plans and constructive obligations that covers all employees and is based primarily on their years of service, current age and estimated salary at retirement date.

The subsidiaries of the Company have established irrevocable trust funds for payment of pensions and seniority premiums and health-care expenses.

Below is a summary of the main financial data of such employee benefits:

	As of December 31,		
	2021	2020	2019
Employee benefit obligations:			
Pension benefits	\$ 598	\$ 956	\$ 766
Post-employment medical benefits	99	105	106
	<u>697</u>	<u>1,061</u>	<u>872</u>
Defined contribution plans	332	255	220
Employee benefits in the consolidated statement of financial position	<u>\$ 1,029</u>	<u>\$ 1,316</u>	<u>\$ 1,092</u>
Charge to the consolidated statement of income for:			
Pension benefits	\$ (79)	\$ (62)	\$ (59)
Post-employment medical benefits	(4)	(5)	(6)
	<u>\$ (83)</u>	<u>\$ (67)</u>	<u>\$ (65)</u>
Remeasurements of employee benefit obligations recognized in other comprehensive income of the year	<u>\$ 453</u>	<u>\$ (39)</u>	<u>\$ 19</u>
Remeasurements of accrued employee benefit obligations recognized in other comprehensive income	<u>\$ 329</u>	<u>\$ (124)</u>	<u>\$ (85)</u>

### *Pension and post-employment medical benefits*

The Company operates defined benefit pension plans based on employees' pensionable remuneration and length of service. Most plans are externally funded. Plan assets are held in trusts, foundations or similar entities, governed by local regulations and practice in each country, as is the nature of the relationship between the Company and the respective trustees (or equivalent) and their composition. The Company operates post-employment medical benefit schemes mainly in its subsidiary DAK Americas. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes. Most of these plans are not being funded.

Amounts recognized in the consolidated statement of financial position are determined as follows:

	As of December 31,		
	2021	2020	2019
Present value of defined benefit obligations	\$ 4,329	\$ 4,455	\$ 3,813
Fair value of plan assets	<u>(3,632)</u>	<u>(3,394)</u>	<u>(2,941)</u>
Liability in the statement of financial position	<u>\$ 697</u>	<u>\$ 1,061</u>	<u>\$ 872</u>



The movements of defined benefit obligations are as follows:

	<b>2021</b>	<b>2020</b>	<b>2019</b>
As of January 1,	\$ 4,455	\$ 3,813	\$ 3,672
Service cost	69	50	45
Interest cost	100	107	127
Contributions from plan participants	6	6	10
Remeasurements:			
(Gains) losses from changes in financial assumptions	(154)	329	310
Losses (gains) from changes in demographic assumptions and experience adjustments	-	42	(89)
Translation effect	148	198	12
Benefits paid	(299)	(284)	(265)
Liability acquired in business combination	-	195	-
Transfer of personnel	18	-	-
Plan curtailments	(14)	(1)	(9)
As of December 31,	<u>\$ 4,329</u>	<u>\$ 4,455</u>	<u>\$ 3,813</u>

The movement in the fair value of plan assets for the year is as follows:

	<b>2021</b>	<b>2020</b>	<b>2019</b>
As of January 1	\$ (3,394)	\$ (2,940)	\$ (2,755)
Interest income	(73)	(89)	(146)
Remeasurements – return on plan assets, excluding interest income	(299)	(332)	(239)
Translation effect	(96)	(153)	(1)
Contributions	(14)	(96)	(46)
Benefits paid	244	216	247
As of December 31	<u>\$ (3,632)</u>	<u>\$ (3,394)</u>	<u>\$ (2,940)</u>

The amounts recorded in the consolidated statement of income for the years ended December 31 are the following:

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Service cost	\$ (69)	\$ (50)	\$ (45)
Interest cost, net	(28)	(18)	(29)
Effect of plan curtailments and/or settlements	14	1	9
Total included in personnel cost	<u>\$ (83)</u>	<u>\$ (67)</u>	<u>\$ (65)</u>

The principal actuarial assumptions are as follows:

	<b>As of December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Discount rate Mexico	7.75%	6.75%	7.00%
Discount rate United States	2.42%-2.64%	1.99%-2.30%	2.92%-3.12%
Inflation rate	3.50%	3.50%	4.50%
Wage increase rate	4.50%	4.50%	4.50%
Medical inflation rate Mexico	7.00%	6.50%	6.50%

The sensitivity analysis of the discount rate for defined benefit obligations is as follows:

	<b>Effect in defined benefit obligations</b>		
	<b>Change in assumption</b>	<b>Increase in assumption</b>	<b>Decrease in assumption</b>
Discount rate	MX 1%	Decrease by \$213	Increase by \$225



Sensitivity analyses are based on a change in assumptions, while the all other assumptions remain constant. In practice, this is slightly probable, and the changes in some assumptions may be correlated. In the calculation of the sensitivity from the defined benefit obligation, significant actuarial assumptions the same method (present value of calculated defined benefit obligation with the projected unit credit method at reporting period) has been applied as in the calculation of liabilities for pensions recognized within the consolidated statement of financial position.

*Defined benefit plan assets*

Plan assets are comprised as follows:

	<b>As of December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Equity instruments	\$ 1,341	\$ 2,290	\$ 1,932
Fixed income	2,291	1,104	1,008
Fair value of plan assets	<u>\$ 3,632</u>	<u>\$ 3,394</u>	<u>\$ 2,940</u>

## 20. Income taxes

The Company is subject to income tax, whose rate is 30% in Mexico. The statutory income tax rates applicable to the main foreign subsidiaries were as follows:

	<b>2021</b>	<b>2020</b>	<b>2019</b>
United States	21%	21%	21%
Brazil	34%	34%	34%
Argentina	30%	30%	30%
Chile	27%	27%	27%
Canada	26%	25%	25%
Spain	25%	25%	25%
United Kingdom	19%	17%	19%

a. Income taxes recognized in the consolidated statement of income are as follows:

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Current income tax	\$ (4,304)	\$ (1,933)	\$ (2,463)
Deferred income taxes	189	731	574
Income taxes	<u>\$ (4,115)</u>	<u>\$ (1,202)</u>	<u>\$ (1,889)</u>

b. The reconciliation between the statutory and effective income tax rates is as follows:

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Income before income taxes	\$ 14,311	\$ 5,323	\$ 9,413
Income tax rate	30%	30%	30%
Statutory income tax rate expense	(4,293)	(1,597)	(2,824)
(Less) add income tax effect on:			
Annual adjustment for inflation	(189)	(186)	(268)
Cancellation of tax losses	(805)	-	-
Non-deductible expenses	(18)	(13)	(24)
Non-taxable income	934	642	1,095
Effect of different tax rates of other countries other than Mexico	179	(33)	94
True up with respect to prior years' current income tax	101	(35)	94
Translation effect from the functional currency	(36)	45	38
Investments in associates and joint ventures	12	(25)	(94)
Total income taxes	<u>\$ (4,115)</u>	<u>\$ (1,202)</u>	<u>\$ (1,889)</u>
Effective tax rate	29%	23%	20%





- c. The breakdown of the deferred tax asset and deferred tax liability is as follows:

	<b>Asset (liability) December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Property, plant and equipment	\$ 9	\$ (155)	\$ (118)
Intangible assets	(94)	(137)	(163)
Debt issuance costs	(20)	(16)	(15)
Provisions	306	275	212
Derivative financial instruments	46	2	-
Tax loss carryforwards	601	889	558
Tax credits, impairment allowance and other	805	669	633
Effect of tax rates of other countries and changes in tax rates	(23)	(21)	(3)
Deferred tax asset	<u>\$ 1,630</u>	<u>\$ 1,506</u>	<u>\$ 1,104</u>

	<b>Asset (liability) December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Inventories	\$ (72)	\$ (121)	\$ (126)
Property, plant and equipment, net	(6,601)	(5,999)	(5,766)
Intangible assets	(282)	(280)	(304)
Tax loss carryforwards	780	752	582
Other items	1,815	1,414	1,634
Effect of tax rates of other countries and changes in tax rates	236	142	54
Deferred tax liability	<u>\$ (4,124)</u>	<u>\$ (4,092)</u>	<u>\$ (3,926)</u>

Deferred income tax assets are recognized on tax loss carryforwards to the extent the realization of the related tax benefit through future tax income is probable. Tax losses amount to \$26,843, \$29,312 and \$32,320 in 2021, 2020 and 2019, respectively.

Tax losses as of December 31, 2021 expire in the following years:

<b>Loss for the year incurred</b>	<b>Tax-loss carryforwards</b>	<b>Expiration year</b>
2014	\$ 1	2024
2015	14	2025
2016	32	2026
2017	33	2027
2018	345	2028
2019	3,169	2029
2020	864	2030
2021	147	2031
Other	22,238	No maturity
	<u>\$ 26,843</u>	

As of December 31, 2021, the Company holds tax losses to be amortized in Brazil, through Petroquímica Suape and Citepe, for an amount of \$22,238, which have no expiration date. The Company has decided to reserve the total amount of the tax losses, according to management's estimate of future reversals of temporary differences; thus, as of December 31, 2021, they do not generate deferred tax assets.



d. Income tax related to other comprehensive income is as follows:

	2021			2020			2019		
	Before taxes	Tax charged	After taxes	Before taxes	Tax charged	After taxes	Before taxes	Tax charged	After taxes
Equity in other comprehensive income of associates and joint ventures recognized through the equity method	\$ (1)	\$ -	\$ (1)	\$ 3	\$ -	\$ 3	\$ -	\$ -	\$ -
Foreign currency translation effect	110	-	110	(767)	-	(767)	(1,954)	-	(1,954)
Remeasurement of employee benefit obligations	453	(109)	344	(39)	9	(30)	18	4	22
Effect of derivative financial instruments designated as cash flow hedges	(592)	161	(431)	885	(271)	614	998	(233)	765
Other comprehensive income	<u>\$ (30)</u>	<u>\$ 52</u>	<u>\$ 22</u>	<u>\$ 82</u>	<u>\$ (262)</u>	<u>\$ (180)</u>	<u>\$ (938)</u>	<u>\$ (229)</u>	<u>\$ (1,167)</u>

e. Income tax payable consists of the following:

	As of December 31,		
	2021	2020	2019
Current portion	\$ 1,630	\$ 531	\$ 1,143
Non-current portion	241	170	400
Total income tax payable	<u>\$ 1,871</u>	<u>\$ 701</u>	<u>\$ 1,543</u>

## 21. Other non-current liabilities

	As of December 31,		
	2021	2020	2019
Advances from customers <sup>(1)</sup>	\$ 196	\$ 249	\$ 290
Other	50	40	66
Total other liabilities	<u>\$ 246</u>	<u>\$ 289</u>	<u>\$ 356</u>

<sup>(1)</sup> This item corresponds to revenues charged in advance and relates to the future delivery of goods.

## 22. Stockholders' equity

As of December 31, 2021, capital stock is variable, with a fixed minimum of \$6,052 represented by 2,118,163,635 ordinary, nominative shares, "Class I" Series "A", with no par value, fully subscribed and paid in. The variable capital entitled to withdrawal will be represented, if issued, by registered "Class II" Series "A" shares without par value.

As of December 31, 2021, Alpek SAB had 8,381,988 treasury shares. As of such date, the market value per share was \$21.28 Mexican pesos.

From March to December 2021, the Company purchased 12,879,634 shares in the amount of \$292 and sold 10,363,950 shares in the amount of \$236 in connection to a repurchase program approved by the Company's stockholders and exercised discretionally by Management. From January to March 2020, the Company purchased 3,544,763 shares in the amount of \$46 and sold 175,000 shares in the amount of \$2 in connection with the same program. From May to December 2019, the Company purchased 20,190,080 shares in the amount of \$443, and sold 17,693,539 shares in the amount of \$389, in relation to the same program.



The net income of the year is subject to decisions made by the General Stockholders' Meeting, the Company's by-laws and the General Law of Mercantile Corporations. In accordance with the General Law of Mercantile Corporations, the legal reserve should be increased annually by 5% of the net annual income until it reaches 20% of the fully paid in capital stock. As of December 31, 2021, 2020 and 2019, the legal reserve amounts to \$1,210, \$1,200 and \$854, respectively.

On October 26, 2021, the Company's Board of Director, through the powers delegated at the ordinary stockholders' meeting held on March 9, 2021, approved the payment of a cash dividend per share of \$0.0265 US dollars, equivalent to the aggregate amount of \$1,129(US\$56), approximately, which were paid on November 10, 2021.

At the ordinary stockholders' meeting of Alpek on March 9, 2021, the stockholders agreed to declare dividends in cash per share of \$0.0596 US dollars, equivalent to the aggregate amount of \$2,677 (US\$126), approximately, which were paid on April 6 in the same year.

At the ordinary stockholders' meeting of Alpek on January 20, 2020, the stockholders agreed to declare dividends in cash per share of \$0.0677 US dollars, equivalent to the aggregate amount of \$2,713 (US\$143), approximately, which were paid on January 29 in the same year.

At the ordinary stockholders' meeting of Alpek on February 27, 2019, the stockholders agreed to declare dividends in cash per share of \$0.0677 US dollars, equivalent to the aggregate amount of \$2,778 (US\$143), approximately, which were paid on March 8 in the same year.

The Income Tax Law establishes a tax rate of 10% to the dividends paid to foreign residents and Mexican individuals derived from the profits generated since 2014, also provides that for the years 2001-2013, the net taxable profit will be determined in terms of the Income Tax Law in force in the fiscal year concerned.

Dividends paid are not subject to income tax if they derived from the Net Tax Profit Account (CUFIN Spanish acronym). Any dividends paid in excess of this account will cause an income tax charge based on the tax rate valid in the period in which they are paid. This tax is payable by the Company and may be credited against its income tax in the same year or the following two years. Dividends paid from profits which have previously paid income tax are not subject to tax withholding or to any additional tax payment. As of December 31, 2021, the tax value of the consolidated CUFIN and value of the Capital Contribution Account (CUCA Spanish acronym) amounted to \$3,603 and \$23,089, respectively.

## 23. Shared-based payments

Alpek has a stock based compensation scheme referred to at 50% of the value of stock of Alfa and the other 50% of the value of the shares of Alpek SAB for directors of the Company and its subsidiaries. In accordance with the terms of the plan, the eligible directors will obtain a cash payment contingent upon achieving both quantitative and qualitative metrics derived from the following financial measures:

- Improved share price
- Improvement in net income
- Permanence of the executives in the Company

The program consists in determining a number of shares which the executives will have a right to, that will be paid in cash over the next five years; i.e., 20% every year and will be paid with reference at the average price of the shares during the year. These payments are measured at the fair value of the consideration, therefore, because they are based on the price of Alfa and Alpek shares, the measurement is considered to be within level 1 of the fair value hierarchy.

The average price of the shares in pesos considered for the measurement of the executive incentive is:

	2021	2020	2019
Alfa, S. A. B. de C. V.	15.26	15.39	15.72
Alpek, S. A. B. de C. V.	22.25	17.60	20.94



The short-term and long-term liabilities are comprised as follows:

	As of December 31,		
	2021	2020	2019
Short term	\$ 12	\$ 8	\$ 8
Long term	25	20	18
Total carrying amount	<u>\$ 37</u>	<u>\$ 28</u>	<u>\$ 26</u>

## 24. Expenses classified by their nature

The total cost of sales and selling and administrative expenses, classified by the nature of the expense, are comprised as follows:

	2021	2020	2019
Raw material and other	\$ (110,114)	\$ (79,743)	\$ (85,823)
Employee benefit expenses (Note 27)	(7,348)	(6,319)	(5,365)
Human resource expenses	(51)	(40)	(86)
Maintenance	(2,301)	(1,991)	(2,003)
Depreciation and amortization	(4,280)	(4,486)	(4,005)
Advertising expenses	(1)	(2)	(2)
Freight expenses	(2,104)	(5,949)	(4,987)
Consumption of energy and fuel (gas, electricity, etc.)	(5,264)	(4,544)	(4,637)
Travel expenses	(66)	(71)	(203)
Lease expenses	(693)	(810)	(664)
Technical assistance, professional fees and administrative services	(1,840)	(1,694)	(1,599)
Other (insurance and bonds, water, containers and packing, etc.)	<u>(3,511)</u>	<u>(2,030)</u>	<u>(2,214)</u>
Total	<u><u>\$(137,573)</u></u>	<u><u>\$(107,679)</u></u>	<u><u>\$(111,588)</u></u>

## 25. Other (expense) income, net

Other (expense) income for the years ended December 31, are comprised as follows:

	2021	2020	2019
Gain on business acquisition	\$ 29	\$ 657	\$ -
Gain on business sale	-	89	3,634
Other income, net <sup>(1)</sup>	274	451	659
Impairment of property, plant and equipment and other	<u>(1,460)</u>	<u>(14)</u>	<u>(29)</u>
Total	<u><u>\$(1,157)</u></u>	<u><u>\$ 1,183</u></u>	<u><u>\$ 4,264</u></u>

(1) For the year ended December 31, 2021, includes \$8.7 from the cancellation of ContourGlobal joint venture.



**26. Finance income and costs**

Financial result, net for the years ended December 31, are comprised as follows:

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Financial income:			
Interest income on short-term bank deposits	\$ 140	\$ 105	\$ 152
Interest income on loans from related parties	26	28	26
Other financial income	424	392	596
Total financial income	<u>\$ 590</u>	<u>\$ 525</u>	<u>\$ 774</u>
Financial expenses:			
Interest expense on loans to related parties	\$ -	\$ (1)	\$ (3)
Interest expense on bank loans	(86)	(183)	(1,035)
Non-bank interest expense	(2,284)	(1,588)	(1,075)
Lease interest expense	(178)	(193)	(205)
Interest cost on employee benefits, net	(59)	(44)	(42)
Other financial expenses	(475)	(488)	(462)
Total financial expense	<u>\$ (3,082)</u>	<u>\$ (2,497)</u>	<u>\$ (2,822)</u>
Loss in exchange fluctuation, net			
Foreign exchange gain	1,614	4,653	4,637
Foreign exchange loss	(2,266)	(4,766)	(5,224)
Loss in exchange fluctuation, net	<u>\$ (652)</u>	<u>\$ (113)</u>	<u>\$ (587)</u>
Financial result, net	<u><u>\$ (3,144)</u></u>	<u><u>\$ (2,085)</u></u>	<u><u>\$ (2,635)</u></u>

**27. Employee benefit expenses**

Employee benefits expenses for the years ended December 31, are as follows:

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Salaries, wages and benefits	\$(5,766)	\$(4,780)	\$(3,896)
Social security fees	(426)	(380)	(419)
Employee benefits	(53)	(49)	(36)
Other fees	<u>(1,103)</u>	<u>(1,110)</u>	<u>(1,014)</u>
Total	<u><u>\$(7,348)</u></u>	<u><u>\$(6,319)</u></u>	<u><u>\$(5,365)</u></u>



## 28. Related party transactions

Transactions with related parties during the years ended December 31, 2021, 2020 and 2019 were as follows:

	2021	2020	2019
<b>Income</b>			
Income from sale of goods:			
Associates and joint ventures	\$ -	\$ -	\$ 3
Stockholders with significant influence over subsidiaries	1,576	1,155	1,445
Income from services:			
Affiliates	13	60	78
Stockholders with significant influence over subsidiaries	198	197	181
Income from financial interest:			
Alfa	26	28	25
Affiliates	-	-	1
Stockholders with significant influence over subsidiaries	-	-	-
Income from leases:			
Stockholders with significant influence over subsidiaries	38	28	25
Income from sale of energetic:			
Affiliates	121	408	354
Stockholders with significant influence over subsidiaries	29	28	29
Affiliates outside Alfa (Nemak)	288	36	-
Income from technical assistance:			
Stockholders with significant influence over subsidiaries	-	-	3
Other income:			
Affiliates	-	3	1
<b>Costs / expenses</b>			
Purchase of finished goods and raw materials:			
Stockholders with significant influence over subsidiaries	\$(2,120)	\$(1,454)	\$(824)
Expenses from services:			
Alfa	(16)	-	-
Affiliates	(252)	(315)	(344)
Associates and joint ventures	-	-	(18)
Stockholders with significant influence over subsidiaries	(14)	(13)	(22)
Affiliates outside Alfa (Nemak)	(6)	(1)	-
Financial interest expenses:			
Associates and joint ventures	-	(1)	(2)
Commission expenses:			
Stockholders with significant influence over subsidiaries	-	(1)	(1)
Other expenses:			
Affiliates	(30)	(22)	(16)
Associates and joint ventures	(77)	(38)	(63)
Stockholders with significant influence over subsidiaries	-	(6)	(3)
Affiliates outside Alfa	-	(36)	-
Dividends paid to Alfa	(3,055)	(2,230)	(2,280)
Dividends of subsidiaries to shareholders with significant influence	(1,826)	(670)	(993)

For the year ended December 31, 2021, the remunerations and benefits received by the top officers of the Company amounted to \$409 (\$347 in 2020 and \$413 in 2019), comprising of base salary and social security benefits, and supplemented by a variable consideration program based on the Company's results and the market value of the shares thereof and of its holding company.



As of December 31, balances with related parties are as follows:

		As of December 31,		
Nature of the transaction		2021	2020	2019
<b>Short-term accounts receivable:</b>				
<b>Holding company</b>				
Alfa, S. A. B. de C. V.	Administrative services	\$ 174	\$ 190	\$ 190
<b>Affiliates</b>				
Innovación y Desarrollo de Energía				
Alfa Sustentable, S. A. de C. V.	Administrative services	115	115	115
Newpek, LLC	Administrative services	1	-	14
Newpek, S.A. de C.V.	Administrative services	-	1	-
Terza, S. A. de C. V.	Sale of goods	1	1	1
Sigma Alimentos Lácteos, S.A. de C.V.	Energetics	4	2	-
Sigma Alimentos Centro, S.A. de C.V.	Energetics	6	3	2
Sigma Alimentos Noreste, S.A. de C.V.	Energetics	1	-	-
Alimentos Finos Occidente, S.A. de C.V.	Energetics	1	1	-
<b>Affiliates outside Alfa</b>				
Nemak México, S.A. de C.V.	Energetics	1	35	31
<b>Stockholders with significant influence on subsidiaries</b>				
BASF	Sale of goods	286	193	196
Basell	Sale of goods	26	44	30
Basell	Energetics	6	3	6
		<u>\$ 622</u>	<u>\$ 588</u>	<u>\$ 585</u>
<b>Long-term accounts receivable:</b>				
<b>Holding company</b>				
Alfa, S. A. B. de C. V. <sup>(1)</sup>	Financing and interest	\$ 876	\$ 823	\$ 753
<b>Affiliates</b>				
Colombin Bel, S.A. de C.V.	Financing and interest	-	-	9
		<u>\$ 876</u>	<u>\$ 823</u>	<u>\$ 762</u>
<b>Short-term accounts payable:</b>				
<b>Holding Company</b>				
Alfa, S. A. B. de C. V. <sup>(1)</sup>	Administrative services	\$ 19	\$ -	\$ -
<b>Affiliates</b>				
Alliax, S. A. de C. V.	Administrative services	2	3	13
Alfa Corporativo, S. A. de C. V.	Administrative services	-	10	25
Axtel, S.A.B. de C.V.	Administrative services	8	3	4
Proyectos Ejecutivos Profesionales, S.A. de C.V.	Administrative services	-	12	-
Servicios Eficientes de R.H., S.A. de C.V.	Administrative services	2	2	-
Transportación Aérea del Norte, S.A. de C.V.	Administrative services	1	-	-
<b>Affiliates outside Alfa</b>				
Nemak Exterior, LTD	Administrative services	1	4	3
<b>Associates</b>				
Clear Path Recycling, LLC	Financing and interest	-	50	48
<b>Stockholders with significant influence over subsidiaries</b>				
BASF	Purchase of raw materials	202	202	140
BASF	Purchase of goods	26	-	14
		<u>\$ 261</u>	<u>\$ 286</u>	<u>\$ 247</u>

<sup>(1)</sup> As of December 31, 2021, 2020 and 2019, the loans granted bore interest at average fixed interest rate of 5.34%, 5.34% and 5.32%, respectively.



## 29. Segment reporting

Segment reporting is presented consistently with the financial information provided to the Chief Executive Officer, who is the highest authority in operational decision making, allocation of resources and performance assessment of operating segments.

An operating segment is defined as a component of an entity on which separate financial information is regularly evaluated.

Management controls and assesses its operations through two business segments: the Polyester business and the Plastics and Chemicals business. These segments are managed separately since its products vary and targeted markets are different. Their activities are performed through various subsidiaries.

The operations between operating segments are performed at market value and the accounting policies with which the financial information by segments is prepared, are consistent with those described in Note 3.

The Company has defined Adjusted EBITDA as the calculation of adding operating income, depreciation, amortization, and impairment of long-lived assets.

The Company evaluates the performance of each of the operating segments based on Adjusted EBITDA, considering that this indicator is a good metric to evaluate operating performance and the ability to meet principal and interest obligations with respect to indebtedness, and the ability to fund capital expenditures and working capital requirements. Nevertheless, Adjusted EBITDA is not a measure of financial performance under IFRS and should not be considered as an alternative to net income as a measure of operating performance or cash flows as a measure of liquidity.

Following is the condensed financial information of the Company's operating segments:

	<b>Polyester</b>	<b>Plastics and Chemicals</b>	<b>Other</b>	<b>Total</b>
For the year ended December 31, 2021:				
Statement of income:				
Income by segment	\$ 98,103	\$ 47,533	\$10,588	\$ 156,224
Inter-segment income	(103)	(63)	166	-
	<u>\$ 98,000</u>	<u>\$ 47,470</u>	<u>\$10,754</u>	<u>\$ 156,224</u>
Income from external customers				
Operating income	\$ 8,801	\$ 8,192	\$ 501	17,494
Depreciation and amortization	3,235	1,045	-	4,280
Impairment of long-lived assets	524	936	-	1,460
	<u>\$ 12,560</u>	<u>\$ 10,173</u>	<u>\$ 501</u>	<u>\$ 23,234</u>
Adjusted EBITDA				
	<u>\$ 3,774</u>	<u>\$ 653</u>	<u>\$ 4</u>	<u>\$ 4,431</u>
Investments in fixed and intangible assets				

	<b>Polyester</b>	<b>Plastics and Chemicals</b>	<b>Other</b>	<b>Total</b>
For the year ended December 31, 2020:				
Statement of income:				
Income by segment	\$85,350	\$ 25,403	\$3,236	\$113,989
Inter-segment income	(70)	(54)	124	-
	<u>\$85,280</u>	<u>\$ 25,349</u>	<u>\$3,360</u>	<u>\$113,989</u>
Income from external customers				
Operating income	\$ 3,401	\$ 3,860	\$ 232	\$ 7,493
Depreciation and amortization	3,426	1,060	-	4,486
Impairment of long-lived assets	14	-	-	14
	<u>\$ 6,841</u>	<u>\$ 4,920</u>	<u>\$ 232</u>	<u>\$ 11,993</u>
Adjusted EBITDA				
	<u>\$ 1,855</u>	<u>\$ 715</u>	<u>\$ -</u>	<u>\$ 2,570</u>
Investments in fixed and intangible assets				





		<b>Plastics and Chemicals</b>	<b>Other</b>	<b>Total</b>
For the year ended December 31, 2019:	<b>Polyester</b>			
Statement of income:				
Income by segment	\$91,247	\$ 27,217	\$ 1,221	\$119,685
Inter-segment income	(390)	(120)	510	-
	<u>\$90,857</u>	<u>\$ 27,097</u>	<u>\$ 1,731</u>	<u>\$119,685</u>
Income from external customers				
Operating income	\$ 5,029	\$ 3,368	\$ 3,964	\$ 12,361
Depreciation and amortization	3,179	829	(3)	4,005
Impairment of long-lived assets	28	1	-	29
	<u>\$ 8,236</u>	<u>\$ 4,198</u>	<u>\$ 3,961</u>	<u>\$ 16,395</u>
Adjusted EBITDA				
Investments in fixed and intangible assets	<u>\$ 2,578</u>	<u>\$ 475</u>	<u>\$ 9</u>	<u>\$ 3,062</u>

The reconciliation between adjusted EBITDA and income before taxes for the years ended December 31, is as follows:

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Adjusted EBITDA	\$23,234	\$11,993	\$16,395
Depreciation and amortization	(4,280)	(4,486)	(4,005)
Impairment of long-lived assets	(1,460)	(14)	(29)
Operating income	<u>17,494</u>	<u>7,493</u>	<u>12,361</u>
Financial result, net	(3,144)	(2,085)	(2,635)
Equity in loss of associates and joint ventures	<u>(39)</u>	<u>(85)</u>	<u>(313)</u>
Income before income taxes	<u>\$14,311</u>	<u>\$ 5,323</u>	<u>\$ 9,413</u>

The Company's main customer generated revenues amounting to \$11,403, \$10,426 and \$11,455 for the years ended December 31, 2021, 2020 and 2019. These revenues are resulted from the polyester reporting segment and represent 7.3%, 9.1% and 9.6% of the consolidated revenues with external costumers for the years ended December 31, 2021, 2020 and 2019.

Following is a summary of revenues per country of origin for the years ended December 31:

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Mexico	\$ 71,646	\$ 44,189	\$ 47,702
United States	49,710	45,113	47,563
Argentina	7,255	4,303	5,545
Brazil	18,090	12,649	15,413
Chile	1,413	936	947
Canada	3,143	1,966	2,515
United Kingdom	<u>4,967</u>	<u>4,833</u>	<u>-</u>
Total revenues	<u>\$156,224</u>	<u>\$113,989</u>	<u>\$119,685</u>

The following table shows the intangible assets and property, plant and equipment by country:

	<b>As of December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Mexico	\$ 1,575	\$ 1,741	\$ 1,789
United States	1,521	1,616	1,638
Canada	20	22	24
Brazil	<u>232</u>	<u>258</u>	<u>332</u>
Total intangible assets	<u>\$ 3,348</u>	<u>\$ 3,637</u>	<u>\$ 3,783</u>



	As of December 31,		
	2021	2020	2019
Mexico	\$ 23,157	\$ 23,737	\$ 23,040
United States	9,821	8,090	7,077
Canada	775	865	932
Argentina	163	111	110
Chile	267	316	240
Brazil	4,356	4,538	5,683
United Kingdom	866	922	-
Total property, plant and equipment	<u>\$ 39,405</u>	<u>\$ 38,579</u>	<u>\$ 37,082</u>

### 30. Commitments and contingencies

At December 31, 2021, the Company has the following commitments:

- At December 31, 2021, 2020 and 2019, the Company's subsidiaries had entered into various agreements with suppliers and customers for purchases of raw materials used for production and the sale of finished goods, respectively. These agreements, are effective between one and five years and generally contain price adjustment clauses.
- A subsidiary of the Company entered into agreements to cover the supply of propylene, which establish the obligation to purchase the product at a priced referenced to market values for a specific period.

As of December 31, 2021, the Company has the following contingencies:

- During the normal course of the business, the Company is involved in disputes and litigations. While the results of these may not be predicted, the Company does not believe that there are actions pending to apply, claims or legal proceedings against or affecting the Company which, if it will result in an adverse resolution to the Company, would negatively impact the results of its operations or its financial position.
- Some of the Company's subsidiaries use hazardous materials to manufacture polyester filaments and staple fibers, polyethylene terephthalate (PET) and terephthalic acid (PTA) resin, polypropylene (PP) resin, expandable polystyrene (EPS), caprolactam (CPL), chemical specialties and they generate and dispose of waste, such as catalysts and glycols. These and other activities of the subsidiaries are subject to various federal, state and local laws and regulations governing the generation, handling, storage, treatment and disposal of hazardous substances and wastes. According to such laws, the owner or lessor of real estate property may be liable for, among other things, (i) the costs of removal or remediation of certain hazardous or toxic substances located on, in, or emanating from, such property, as well as the related cost of investigation and property damage and substantial penalties for violations of such law, and (ii) environmental contamination of facilities where its waste is or has been disposed of. Such laws impose such liability without regard to whether the owner or lessee knew of, or was responsible for, the presence of such hazardous or toxic substances.

Although the subsidiaries estimate that there are no existing material liabilities relating to noncompliance with environmental laws and regulations, there can be no assurance that there are no undiscovered potential liabilities related to historic or current operations that will require investigation and/or remediation under environmental laws, or that future uses or conditions will not result in the imposition of an environmental liability or expose them to third-party or related parties actions, such as tort suits. Furthermore, there can be no assurance that changes in environmental regulations in the future will not require the subsidiaries to make significant capital expenditures to change methods of disposal of hazardous materials or otherwise alter aspects of their operations.



- c. As of December 31, 2021, the Company is in a process of fiscal litigation in one of its subsidiaries in Brazil, in relation to the demand for payment of the Tax on the Circulation of Goods and Services ("ICMS") that the Ministry of Finance of the State of Sao Paulo ("SFSP", for its initials in Portuguese) has raised against the Company, due to differences in the criteria for the calculation and crediting of such tax. Considering all the circumstances and precedents of jurisprudence available at that date, management and its advisors have determined that it is probable that the Superior Court of Justice of Brazil will issue a judgment in favor of the Company for the amount related to differences in the calculation, which would exempt it from paying \$370 in taxes, fines and interest that the SFSP demands; therefore, as of December 31, 2021, the Company has not recognized any provision related to this concept.

On the other hand, for the concept of ICMS crediting, the demanded amount is \$74, and management and its advisors consider that it is not probable that the authorities will issue an unfavorable resolution for the Company; thus, it has not recognized any provision related to this concept as of December 31, 2021.

### **31. Subsequent events**

In preparing the financial statements the Company has evaluated the events and transactions for their recognition or disclosure subsequent to December 31, 2021 and through January 31, 2022 (date of issuance of the consolidated financial statements), and for except the following has not identified significant subsequent events:

- a. On January 31, 2022, a subsidiary of the Company signed an agreement to acquire 100% of OCTAL Holding SAOC ("Octal") shares for US\$620, free of debt. This acquisition forward-integrates Alpek into the high-value PET sheet business. Octal is a globally major PET sheet producer through a strategically focused logistics position in Oman. The acquisition adds more than one million tons of installed capacity to Alpek.

The transaction is subject to the customary closing conditions, including the approval by the corresponding regulatory authorities. Closing is expected to occur in the first half of 2022.

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

On January 31, 2022, the issuance of the accompanying consolidated financial statements was authorized by José de Jesús Valdez Simancas, General Director and José Carlos Pons de la Garza, Administration and Finance Director.

These consolidated financial statements are subject to the approval of the Company's ordinary shareholders' meeting.

