2019
ANNUAL REPORT

alpek

Virgin PET and Recycled PET (rPET)

TABLE OF CONTENTS

CORPORATE PROFILE

(GRI Standards: 102-2, 102-6, 102-7)

- Operating in two business segments: Polyester and Plastics & Chemicals.
- Leading integrated polyester producer in the Americas.
- Sole manufacturer of polypropylene (PP) and caprolactam (CPL) in Mexico.
- Largest expandable polystyrene (EPS) player in the Americas.
- Largest recycled PET (rPET) producer in the Americas.
- 70% of sales outside of Mexico.
- 89% of Alpek's production is used in food, beverage and consumer goods packaging.
- Listed on the Mexican Stock Exchange since April 2012.

PET Recycling

FINANCIAL HIGHLIGHTS

(GRI Standard: 201-1)

	MILLIONS OF DOLLARS			MILLIONS OF PESOS		
INCOME STATEMENT	2019	2018	% var.	2019	2018	% var.
Net Sales	6,216	6,991	(11)	119,685	134,523	(11)
Operating Income	641	1,086	(41)	12,361	21,202	(42)
EBITDA(1)	850	1,063	(20)	16,395	20,607	(20)
Majority net income(2)	342	697	(51)	6,605	13,633	(52)
Net income per share(3)(5)	0.16	0.33		3.12	6.44	
BALANCE SHEET						
Assets	5,455	6,091	(10)	102,794	119,897	(14)
Liabilities	3,064	3,898	(21)	57,736	76,734	(25)
Stockholders' equity	2,391	2,193	9	45,058	43,163	4
Majority interest(2)	2,148	1,937	11	40,480	38,127	6
Book value per share(4)(5)	1.01	0.91		19.11	18.00	

NOTE: In this annual report, monetary figures are expressed in nominal Mexican pesos ($) and in nominal dollars (US $) unless otherwise specified.

The financial information for 2019 to 2015 was prepared in accordance with IFRS, in effect in Mexico since January 2012. Conversions from pesos to dollars were made using the weighted average exchange rate of the period in which the transactions were carried out. The percentage variations between 2019 and 2018 are expressed in nominal terms.

1) EBITDA = Operating income plus depreciation, amortization and impairment of non-current assets.

2) Attributable to the controlling interest.

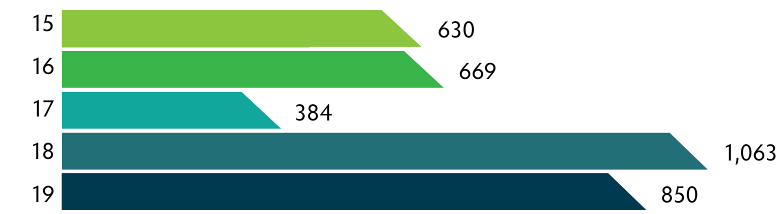
3) Based on the weighted average number of outstanding shares (2,117 million shares in 2019; and 2,118 in 2018).

4) Based on the number of outstanding shares (2,118 million shares in 2019; and 2,118 in 2018).

5) Dollars or pesos per share, accordingly.

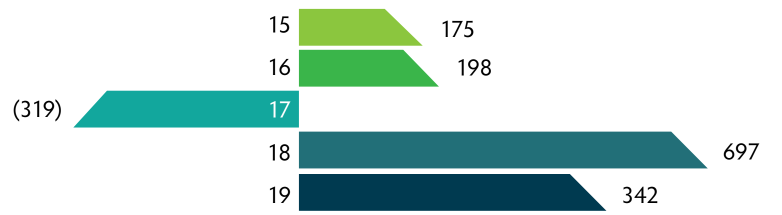
EBITDA(1)

Millions of dollars



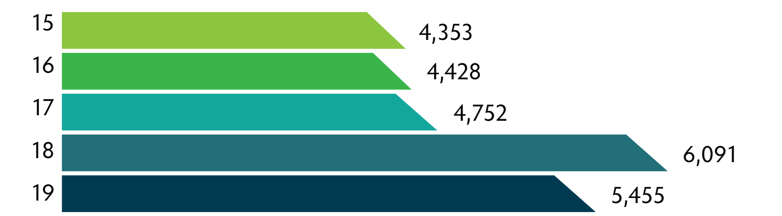
MAJORITY NET INCOME(2)

Millions of dollars



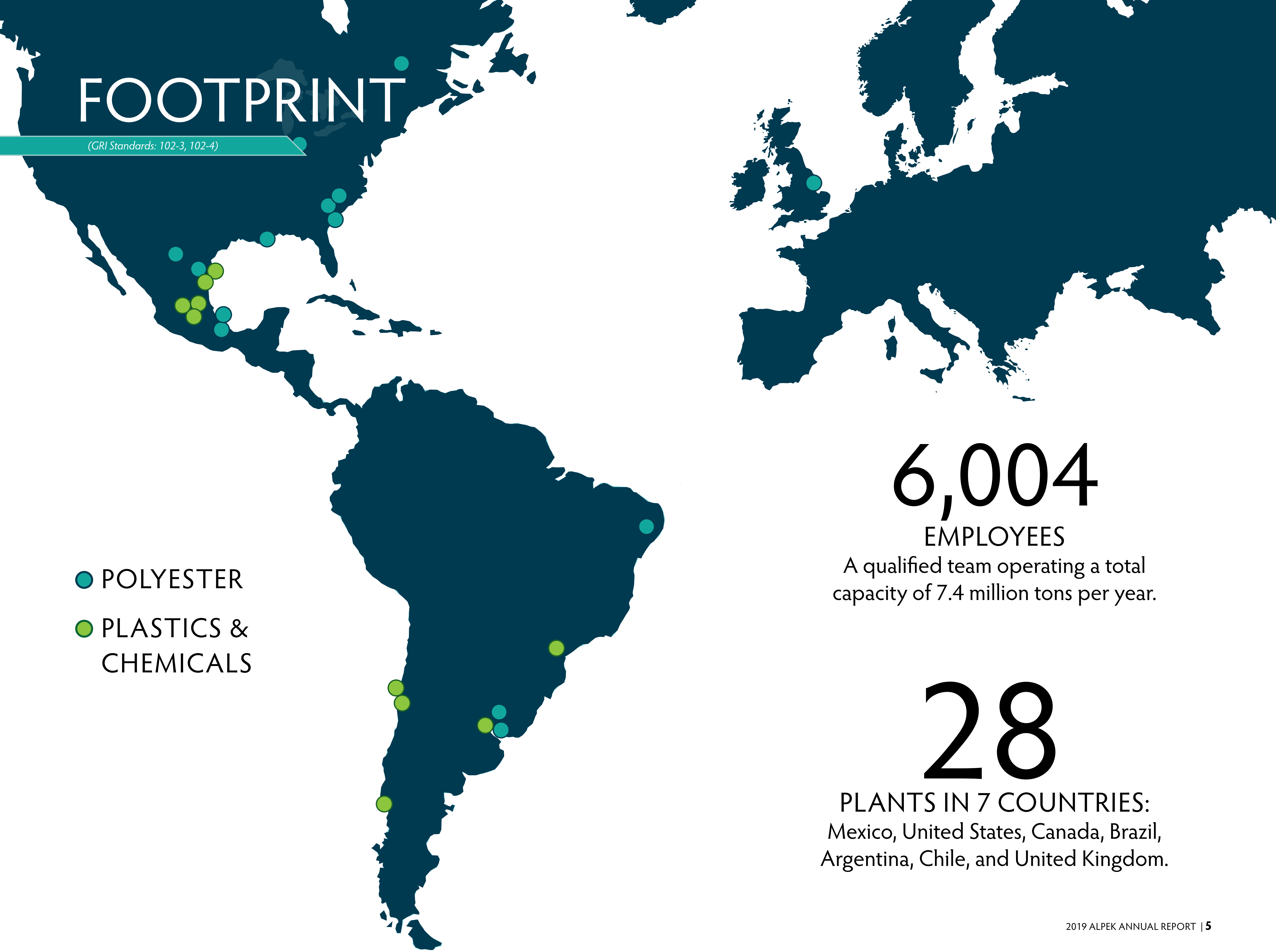
ASSETS

Millions of dollars



FOOTPRINT

(GRI Standards: 102-3, 102-4)



6,004

EMPLOYEES

A qualified team operating a total capacity of 7.4 million tons per year.

28

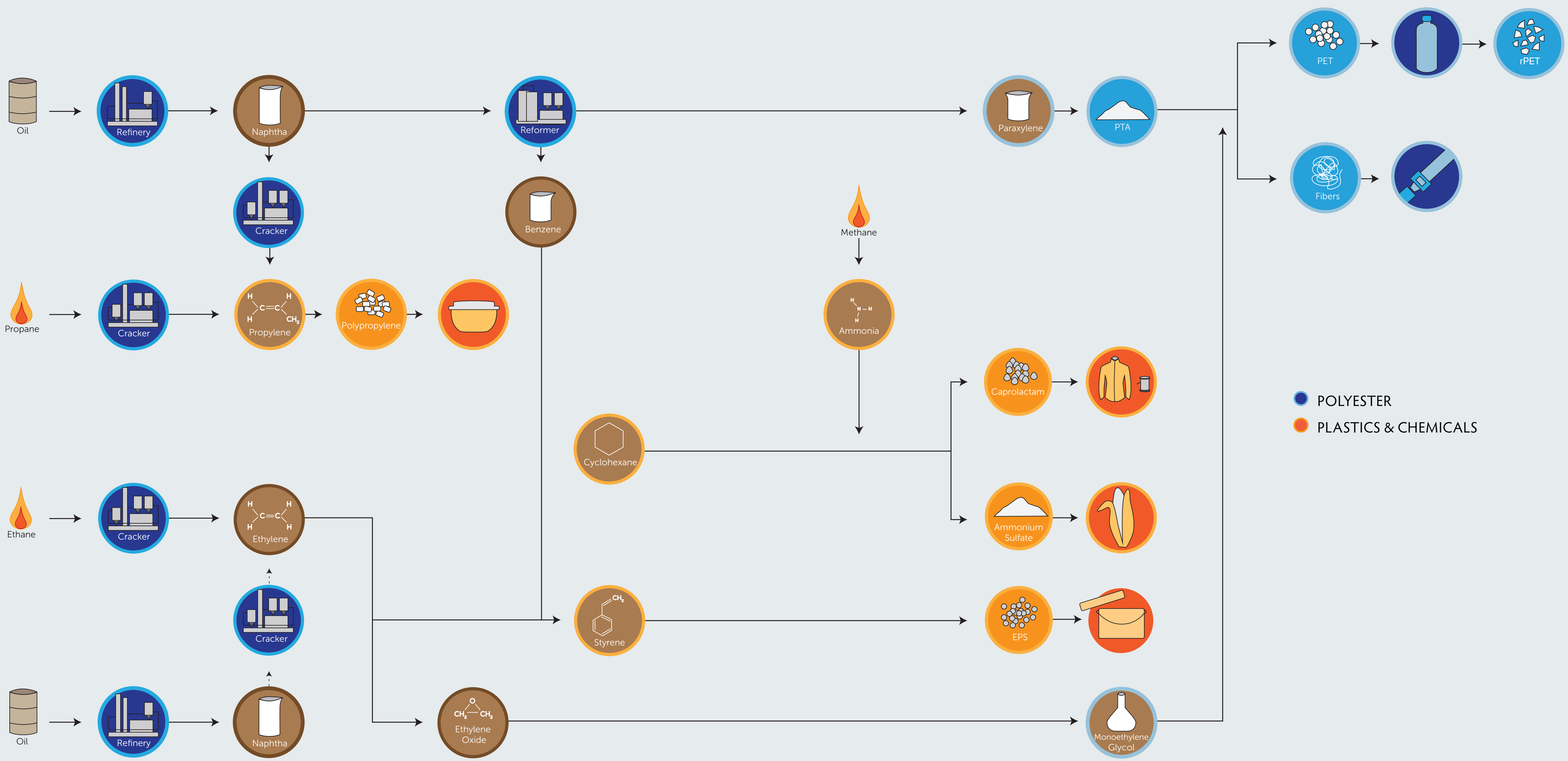
PLANTS IN 7 COUNTRIES:

Mexico, United States, Canada, Brazil, Argentina, Chile, and United Kingdom.

PETROCHEMICAL VALUE CHAINS

(GRI Standard: 102-9)

Alpek products are used by millions of people daily, in a wide variety of applications.



LETTER TO SHAREHOLDERS

(GRI Standards: 102-10, 102-11, 102-14, 102-15)

Dear Shareholders:

In 2019, Alpek registered one of its best years ever. In addition to finalizing the sale of its cogeneration plants, a better-than-expected performance in the Plastics and Chemicals segment offset the negative effect from the drop in paraxylene (Px) prices on Polyester results.

The average Brent crude oil price was US $64 per barrel, 10% lower than in 2018, with a maximum monthly average of US $71 in April and a minimum of US $59 in January. In turn, Px prices fell during the first semester, disconnecting from their usual correlation with crude oil prices.

Our consolidated sales in 2019 totaled US $6.216 billion, down 11% year-over-year, resulting from an 11% decrease in average prices.

Consolidated EBITDA totaled US $850 million, a drop of 20% from the record amount that was posted in 2018, mainly due to the prevailing also record margins that year. EBITDA in 2019 included an extraordinary gain of US $188 million from the sale of the cogeneration assets, and a net charge from non-operating expenses of US $60 million, largely due to an inventory loss of US $68 million. Excluding the impact of these non-operating items, comparable consolidated EBITDA totaled US $722 million.

The Polyester business posted sales of US $4.718 billion in 2019, 9% lower than the previous fiscal year, mainly due to a decrease in feedstock prices.

EBITDA for this segment totaled US $428 million, which includes a non-cash inventory loss of US $56 million, as well as a net gain of US $9 million from other items. Excluding these concepts, Polyester's comparable EBITDA was US $474 million, 10% lower than in 2018.

Alpek Polyester (PET). Fayetteville, NC, United States

Additionally, the drop in Px prices resulted in a raw material carry-forward effect of US $67 million. Not accounting for this impact, comparable EBITDA for this segment would have totaled US $541 million in 2019.

In 2019, sales from the Plastics and Chemicals (P&C) business dropped 18% to US $1.407 billion, mainly due to decreases of 2% and 16% in volume and average price, respectively.

EBITDA for this segment was US $218 million, which includes a non-cash inventory loss of US $13 million. Excluding the effect of this non-operating expense, comparable EBITDA for P&C totaled US $231 million.

The resilience shown by margins in North America for both polypropylene (PP) and, to a lesser degree, expandable polystyrene (EPS) largely during the first two quarters, offset a lower-than-expected performance by caprolactam (CPL).

In 2019, Alpek carried out its strategic investment plan while improving its leverage levels, decreeing record dividends, and accessing international capital markets under highly competitive conditions.

The company placed a US $500 million 10-year bond with a 4.25% annual coupon, the lowest in Alpek's history. This transaction, which was oversubscribed by 6.0 times, helped consolidate our financial position by refinancing short-term debt and extending the average debt maturity, after the fourth-quarter debt payment, to 5.3 years.

As of December 31, 2019, Alpek's net debt was at US $1.33 billion, down 27% from the previous year. Our financial ratios improved significantly: net debt to EBITDA dropped to 1.6 times, compared to 1.7 times at year-end 2018, while interest coverage increased to 7.2 times, versus 9.9 times in the previous year. Investment in fixed assets and strategic projects, as well as the effect of the new IFRS16 standard, which requires leases to be registered as debt, were offset by the extraordinary revenue stream derived from the sale of our cogeneration assets.

This level of leverage, the result of the company's substantial cash flow, places us in a favorable position to continue exploring strategic growth opportunities while facing a changing, ever-challenging environment.

Strategic projects and acquisitions

Alpek's investments in fixed assets and acquisitions, which totaled US $270 million in 2019, were all aligned with its three pillars of growth: i) strengthening core businesses; ii) strategic organic and inorganic growth; and iii) fostering a circular economy for our products.

1. Alpek concludes the sale of its cogeneration power plants.

During the fourth quarter, and once the construction of our Altamira site had been completed, we finalized the sale of our two cogeneration plants to ContourGlobal for US $801 million.

This transaction, the largest asset sale in Alpek's history, allowed the company, on the one hand, to strengthen its financial position by both significantly reducing its debt and improving its debt profile, and on the other, to decree a dividend of US $143 million.

Styropek (EPS). Altamira, Tamps, Mexico

Clear Path Recycling (rPET). Fayetteville, NC, United States

2. Alpek finalizes its first acquisition outside of The Americas.

In 2019, Alpek signed an agreement with Lotte Chemical Corporation to purchase 100% of the shares of Lotte Chemical UK Limited, which operates a PET plant in Wilton, United Kingdom. With an annual production capacity of 350,000 tons, this site increases our global PET production capacity to 2.8 million tons per year.

This plant, the sole PET producing site in the United Kingdom, is Alpek's first asset in Europe and improves the relative balance between our global PTA and PET capacities.

3. Alpek strengthens its leadership position in PET recycling.

Alpek finalized with Perpetual Recycling Solutions LLC, the acquisition of their high-quality recycled PET (rPET) plant in Richmond, Indiana, which has an annual capacity of 45,000 tons.

This site, along with the ones in Pacheco, Argentina, and Fayetteville, North Carolina, expands our total rPET installed capacity to 115,000 annual tons, which currently places Alpek as the leading PET recycler in the Americas.

In this report, we present the eighth annual edition of our sustainability section, in which we highlight our progress in this area according to Global Reporting Initiative standards, as well as our contribution to the UN's Sustainable Development Goals.

During the year, we invested over US $48 million in concrete actions to foster sustainability. Highlights include providing an average of 55 hours of training per employee across all company levels, well above 38 hours in 2018, as well as supporting schools neighboring communities, which benefited more than 6,500 students and their families.

These initiatives are all in line with the four pillars that comprise our sustainability model: i) internal well-being, ii) community, iii) environment and iv) sustainable economic value creation.

In 2019 we also increased our efforts to communicate the strengths of PET in terms of sustainability, such as:

- It is lighter, more resistant, and more affordable than glass or aluminum, which has turned it into the most-employed beverage packaging material in the world.
- It is 100% recyclable, and easy to separate, making it the most-recycled plastic worldwide.
- Its carbon footprint is significantly lower than that of glass or aluminum, given a lower energy consumption throughout its value chain.

To extend the reach of our sustainability efforts, in 2019 Alpek also joined The Recycling Partnership, a non-profit association dedicated to increasing recycling infrastructure in the United States, as well as promoting increased environmental awareness.

Conclusions and Perspectives

In 2019, Alpek posted its second-best year in terms of EBITDA, finalized acquisitions that strengthened its competitive position, all the while improving its leverage ratios.

Our 2020 perspective remains positive, although we forecast a less favorable environment than in 2019. International trade tensions have the potential to reduce demand for Asian exports, which may put downward pressure on margins. Nevertheless, we have a solid, long-term strategy, designed specifically to face such scenarios, and focused on three key pillars:

i. Strengthening our core businesses, expanding the use of our patented Integrex® technology and best practices to remain in the first quartile of the cost curve, as well as securing reliable, affordable, and long-term feedstock sources.

ii. Continuing our strategic growth plan, focused on selective and disciplined geographical expansion and vertical integration, leveraging our financial strength and integrating recent acquisitions such as the Richmond rPET site, Wilton PET site, and ongoing projects such as Corpus Christi Polymers.

iii. Reiterating our commitment to sustainability by expanding our presence in the rPET market, which will allow us to capitalize on opportunities created by the circular economy, and complementing our portfolio with more sustainable, value-added and client-customized solutions.

We would like to thank our employees, customers, suppliers, creditors, the community and you, our shareholders, for placing your trust in this Board of Directors this year.

Sincerely,

José de Jesús Valdez Simancas

Chief Executive Officer

Armando Garza Sada

Chairman of the Board

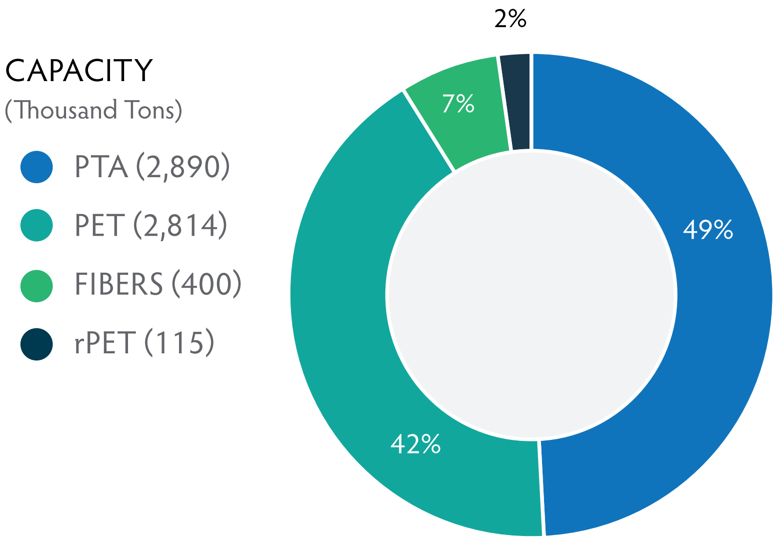
Alpek Polyester (PET). Fayetteville, NC, United States

POLYESTER

The products in the Polyester segment are:

- Purified terephthalic acid (PTA): produced from paraxylene and the main feedstock used to manufacture of PET and polyester fibers.
- Polyethylene terephthalate (PET): produced from PTA and monoethylene glycol (MEG), it is light, resistant and cheap; used mainly for packaging beverage, food, and consumer products; it is 100% recyclable and easily separated, making it the most recycled plastic in the world.
- Recycled PET (rPET): produced from recycling collected PET using a mechanical separation and cleaning process. Identical in properties to PET, its carbon footprint is one of the lowest among packaging materials – lower even than recycled glass bottles or aluminum cans.
- Polyester fibers: used to produce clothing, seat belts, and various textiles, among other applications.

CAPACITY
(Thousand Tons)



Alpek Polyester (PTA), Altamira, Tamps, Mexico

Alpek is one of the leading integrated PTA-PET producers worldwide, the sole PET producer in the United Kingdom, and Argentina's only manufacturer of virgin and recycled PET resin.

Polyester has a slate of 4,294 employees across the United States, Mexico, Brazil, Argentina, Canada, and the United Kingdom, operating 18 plants with a total installed capacity of 6.2 million tons.

The company has three PET recycling sites, two in the United States and one in Argentina, with a combined annual capacity to recycle the equivalent of 4 billion PET bottles. This makes Alpek the leading PET recycler in the Americas.

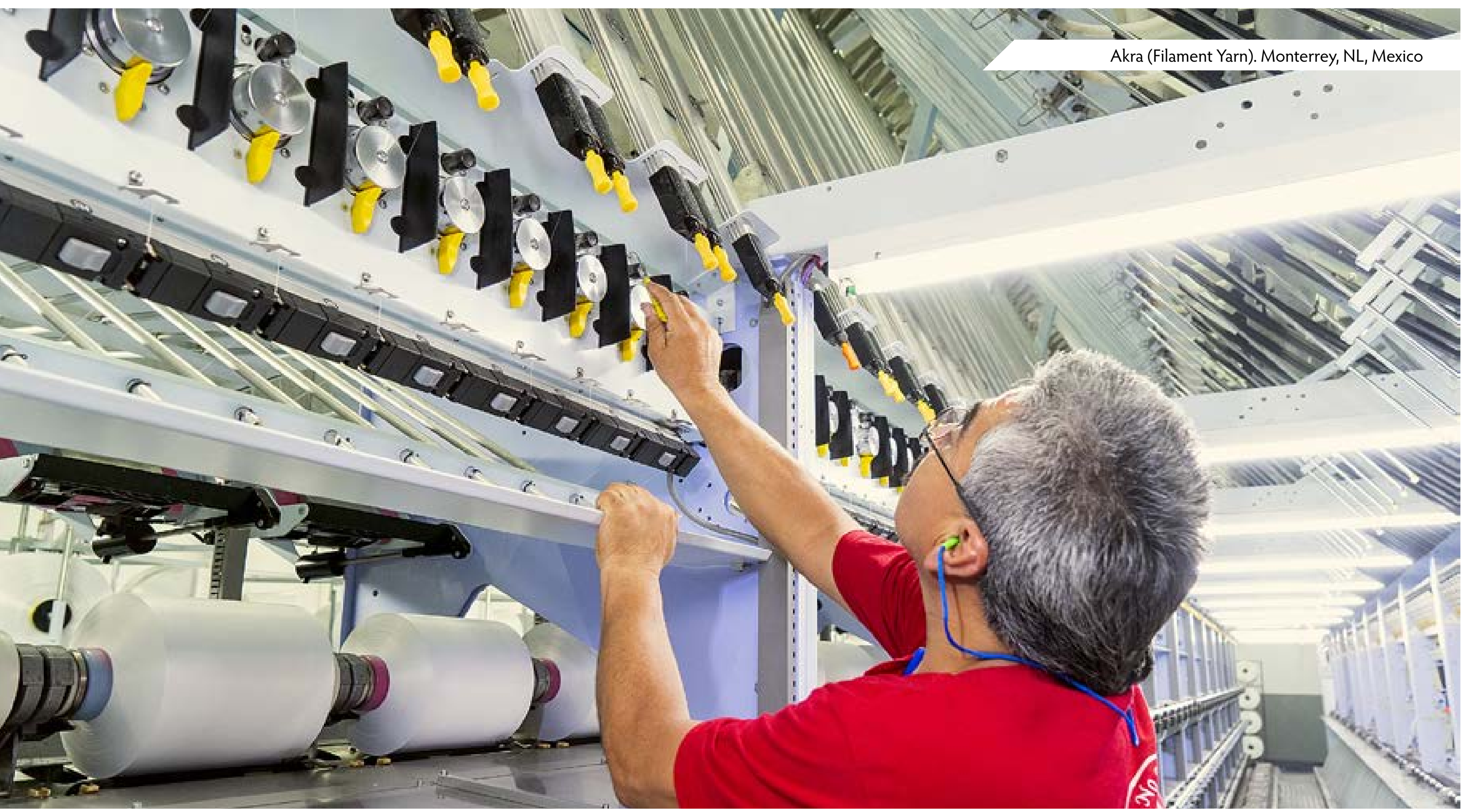
Polyester is Alpek's largest business, as it contributed 76% of the company's consolidated revenue in 2019. Two key factors drive demand and provide stability in this segment: up to 70% of its sales are in North America, with its large, stable, and mature demand; second, more than 80% of Polyester volume is used towards the packaging of consumer goods.

Results

Polyester sales totaled US $4.718 billion in 2019, 9% lower than the previous year as a result of the decrease in feedstock prices.

Consolidated EBITDA for this segment totaled US $428 million, which includes a non-cash inventory loss of US $56 million, and a net gain of US $9 million from other items. Excluding these concepts, the segment's comparable EBITDA was US $474 million, 10% lower than in 2018.

The environment in 2019 was positive for the segment, although not as positive as in 2018, when global PTA and PET margins reached record levels. On the other hand, the drop in Px prices caused extraordinary adverse effects on Polyester results during the first three quarters of the year.



Akra (Filament Yarn). Monterrey, NL, Mexico

Alpek Polyester (rPET). Richmond, IN, United States

Clear Path Recycling (rPET). Fayetteville, NC, United States

The aforementioned drop in the Px price resulted in a raw material carry-forward effect of US $67 million, adjusted for which comparable EBITDA for Polyester would have totaled US $541 million.

Our outlook for 2020 is positive, though from an industry standpoint, we expect a less favorable environment than in the past two years. This is partly because international trade tensions are expected to potentially reduce demand for Asian products, which in turn would negatively impact margins.

Nevertheless, from an operations perspective, we expect that a combination of increased sales volume and improvements to conversion costs will help us face the reduction to margins and natural cyclicality of the Polyester industry.

The Wilton site is Alpek's **first acquisition in Europe** and expands its consolidated annual PET capacity up to **2.8 million tons**

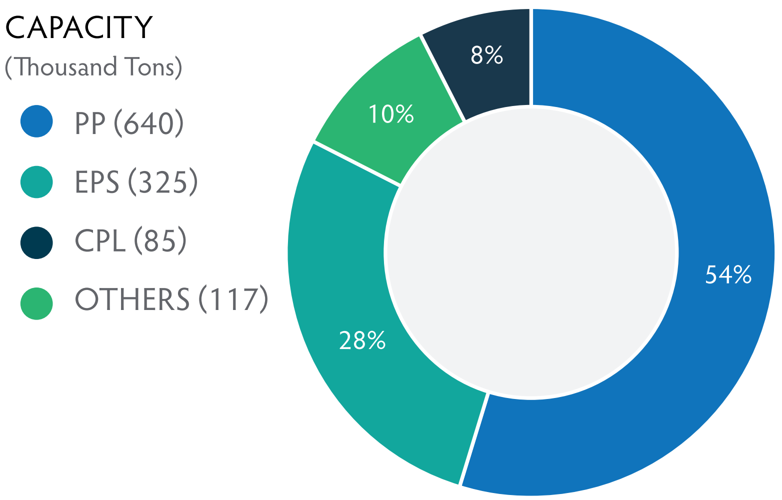
Alpek Polyester (rPET), Richmond, IN, United States.

PLASTICS & CHEMICALS

The main products in the Plastics & Chemicals segment are:

- Polypropylene (PP): a recyclable plastic made from propylene, ideal to produce food packaging, containers, medical equipment, auto parts, and other applications.
- Expandable polystyrene (EPS): a low-density material used as insulation and impact-absorption in the packaging of domestic appliances, electronics, and for its thermal properties, among others.
- Caprolactam (CPL): the main feedstock for Nylon 6 manufacturing, a product used in clothing, tire cord, engineering plastics, etc.
- Specialty and industrial chemicals: products with a wide variety of applications for the oil, pharmaceutical, automotive, and consumer goods industries.

CAPACITY
(Thousand Tons)



Indelpro (PP). Altamira, Tamps, Mexico

Alpek is the largest EPS producer in the Americas and Mexico's sole producer of PP and CPL. The Plastics and Chemicals (P&C) segment has 1,165 employees operating 10 plants with a total installed capacity of 1.2 million tons, located in Mexico, Brazil, Argentina, and Chile.

In 2019, Plastics and Chemicals represented 23% of Alpek's consolidated revenues.

Results

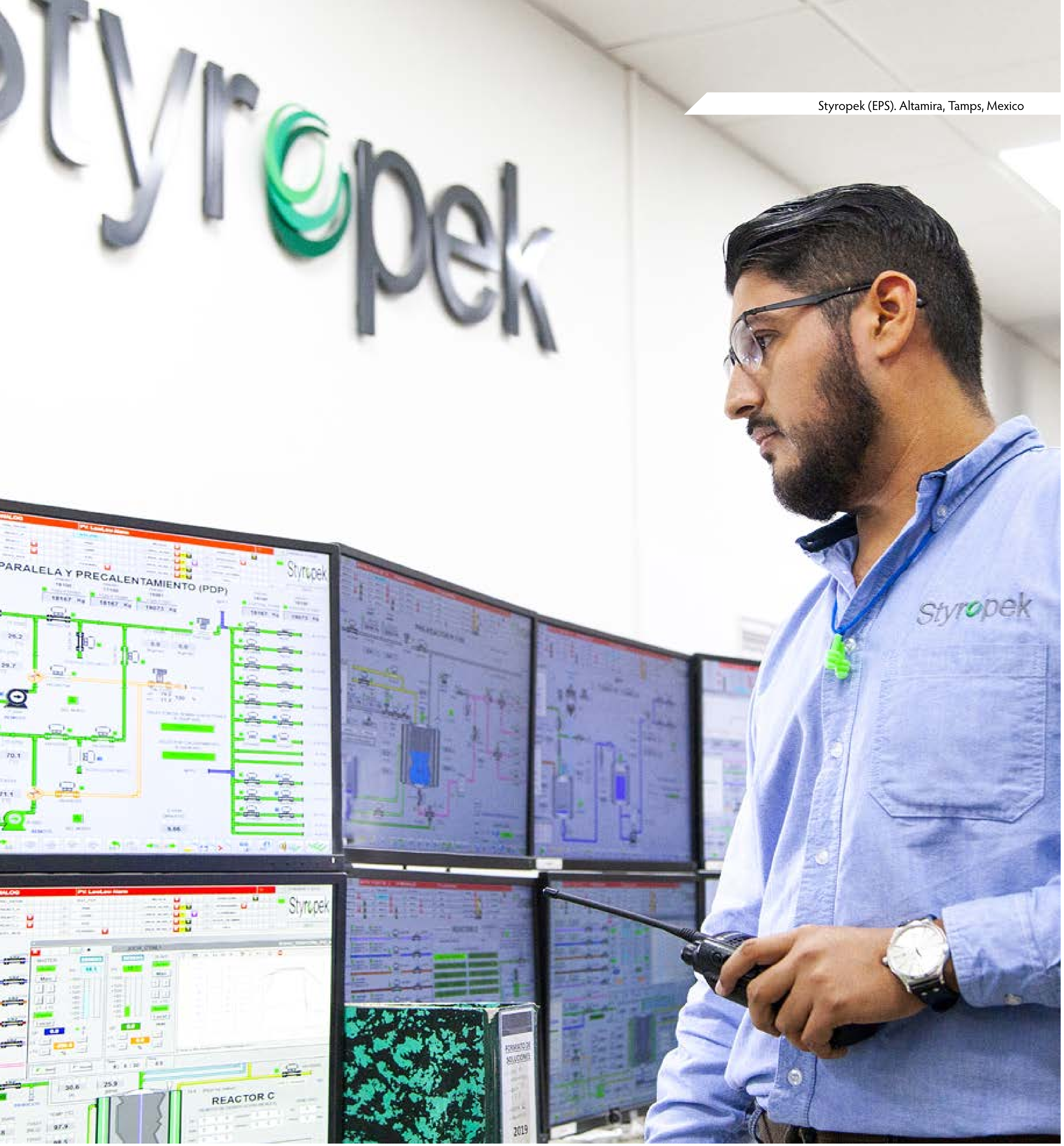
P&C posted sales of US $1.407 billion in 2019, 18% lower year-over-year, due to decreases of 2% and 16% in volume and average price, respectively.

This business produced an EBITDA of US $218 million, which includes a non-cash inventory loss of US $13 million. Excluding this effect, the comparable EBITDA for the segment totaled US $231 million, 16% below the figure for 2018.

P&C results were driven by a higher-than-expected margin environment for polypropylene (PP) and, to a lesser degree, expandable polystyrene (EPS), especially during the first six months of the year.

Indelpro (PP). Altamira, Tamps, Mexico

Styropek (EPS). Altamira, Tamps, Mexico



Styropek (EPS). Altamira, Tamps, Mexico

On the other hand, a decline in global margins negatively impacted the results of CPL, which only accounts for a small portion of sales in this segment.

In 2020, we expect to maintain our solid operating performance and to continue with strong volumes. The entry of new PP capacity in North America toward the end of the year will pressure the segment's margins, but Alpek has made considerable efforts to focus on more specialized products that will help mitigate that effect.

Alpek is the leading manufacturer of **EPS in the Americas** and the only producer of PP and CPL in Mexico.

Polypropylene (PP) Container

STRATEGIC INVESTMENTS

(GRI Standard: 102-11)

Alpek's strategy of vertical integration and geographical expansion is well-aligned with its three pillars of growth:

i. **Strengthening** core businesses

ii. **Strategic growth**, both organic and inorganic

iii. **Fostering** a circular economy for our products

In 2019, the company invested US $270 million in fixed assets and acquisitions.

Alpek Polyester (rPET). Richmond, IN, United States

Indelpro (PP). Altamira, Tamps, Mexico

Acquisitions

(GRI Standard: 102-11)

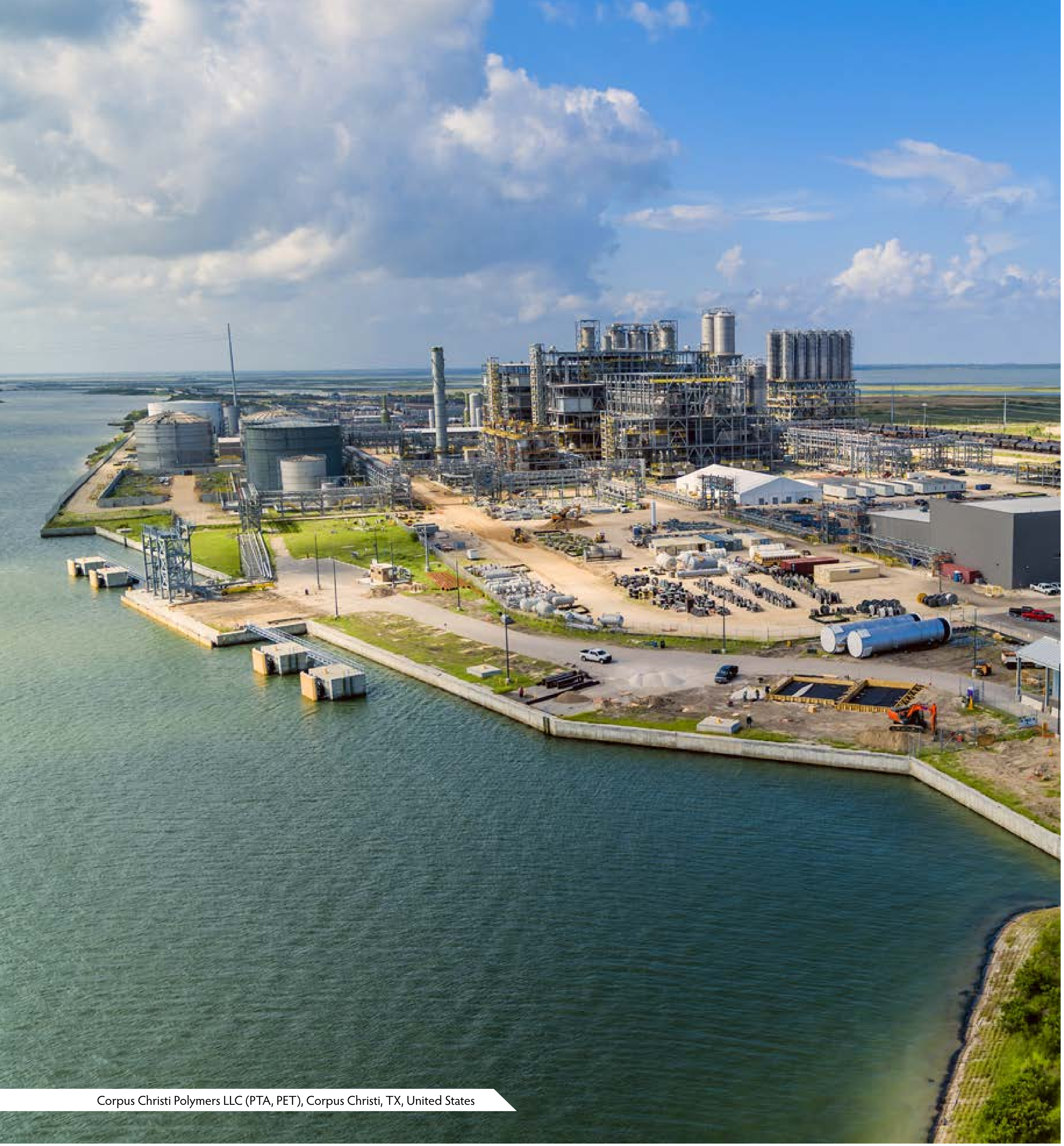
The company reached an agreement to acquire its first asset outside the Americas from Lotte Chemical Corporation by purchasing the full stake of Lotte Chemical UK Limited, whose plant at Wilton is the sole PET producing facility in the United Kingdom.

Besides improving the relative balance between our global PTA and PET capacities, the 350,000 tons per year from the Wilton site increase our annual consolidated PET capacity to 2.8 million tons.

Similarly, Alpek finalized the acquisition of a high-quality recycled PET plant in Richmond, Indiana, from Perpetual Recycling Solutions, LLC.

The plant has a capacity of 45,000 tons per year, which in addition to our operations in Pacheco, Argentina, and Fayetteville, North Carolina, raise our installed rPET capacity to 115,000 tons, a figure that currently makes us the market leader in the Americas.

Alpek Polyester (PET). Wilton, CVE, United Kingdom



Corpus Christi Polymers LLC (PTA, PET), Corpus Christi, TX, United States

Fixed Assets

In Corpus Christi, Texas, progress continued on the construction of the integrated PTA-PET site owned by Corpus Christi Polymers, LLC (CC Polymers), on which Alpek, Indorama and Far Eastern each hold a one-third stake.

Once completed, the plant will have an annual production capacity of 1.1 million and 1.3 million tons of PET and PTA, respectively, making it the largest PTA-PET integrated single-site facility worldwide, as well as the largest PTA site in the Americas. At start-up, Alpek will have the right to receive a third of CC Polymers' total PET and PTA production.

During the third quarter, the company completed construction of its second cogeneration plant, with a 350- megawatt capacity, located in Altamira, Tamaulipas.

Sale of cogeneration assets

During the fourth quarter, Alpek finalized the sale of its two cogeneration sites, both the recently completed plant in Altamira and the one located in Cosoleacaque, Veracruz, to ContourGlobal. With an amount of US $801 million, this is the largest asset sale in the company's history.

With the resources from this disinvestment, Alpek was able to significantly reduce its debt, improve its average debt maturity to 5.3 years, and decree a dividend of US $143 million for its shareholders.

Indelpro (PP). Altamira, Tamps, Mexico

SUSTAINABILITY

Reforestation with Styropek families. Altamira, Tamps, Mexico

Introduction

Innovation has always played an essential role in our operations. As a multinational company, Alpek is committed to operating in harmony with the environment, society, and our employees, in order to contribute today for a better future for everyone. Driven by a culture of ethics and innovation, we reinvented our way of doing things to align with global sustainability trends.

The main objectives of our vision of integrated growth are to increase the responsible use of resources, constantly reinforce safety at our facilities, and practice sustainable operational management.

This eighth edition of our Sustainability Report provides details about the initiatives, strengths, and opportunity areas for the company in terms of sustainability. Our path has allowed us to integrate environmental, social, and governance criteria into our business strategy, identifying the main impact in these areas, and refining our current and future management approach.

This is the sixth year that we use the Global Reporting Initiative (GRI) Methodology, and the third year in its Standard version. Our chosen option, "core" compliance, focuses on the key issues that the company and its stakeholders identified through the materiality analysis.

Alpek Polyester (PET). Zárate, BS, Argentina

Reforestation with Styropek families. Altamira, Tamps, Mexico

GRI Standards and their corresponding material aspects are denoted in this chapter and in other sections of the report. We also list the Sustainable Development Goals (SDGs) to which our actions contribute to, joining the international effort of reaching said goals established by the United Nations in the Paris Agreement in 2015. To see the entire list of standards, material aspects, and SDGs, please see the GRI index in the following link: http://www.alpek.com/sustainability.html

During the year, we invested over **US $48 million** in concrete **actions to foster sustainability.**

Our Sustainability Strategy

(GRI Standards: 102-30, 102-40, 102-42, 102-43, 102-44)

Material Aspects: Relations with NGOs and Regulatory Agencies; CSR Management; Operations and Risks Strategy.

SDG 17: Partnerships for the Goals.

The premise for developing and implementing our sustainable management strategy is simple: operate with a focus on responsible growth. Respect for the environment, employees, and communities is key to the current and future success of our operations.

In Alpek, we work to integrate our business and sustainability strategies to drive the creation of economic and social value. We are aware of the need to evolve in order to ensure our business remains relevant, therefore we strive constantly to minimize our operational impact on the environment and society.

In 2019, we revised our sustainability strategy in order to expressly integrate the concept of circular economy, though it had already formed part of our operations for over ten years. To do so, our efforts over the next years will be partly focused on communicating PET's environmental advantages versus other packaging materials, such as glass and aluminum.

Our Sustainability Model

(GRI Standards: 102-11, 102-40, 102-42, 102-43, 102-44)

Material Aspects: CSR Management; Relations with NGOs and Regulatory Agencies; Operations and risks strategy.

SDG 17: Partnerships for the Goals.

We identify our stakeholders based on the level of interaction we have with each one, the scope of impact our operations have on each of them, as well as the real or potential impact they exert on us. This is the base of our Sustainability Model (Fig. 1).

In order to ensure the effectiveness of the model, we have to identify the needs and concerns of our stakeholders, as well as recognize, proactively respond, and adapt to the social, environmental, and market trends that may impact the development of the industry that we serve (Fig. 2).

Sustainable economic value creation:

Obtain adequate returns, taking into consideration the investment made and the assumed risk.

Directed toward:

SHAREHOLDERS

Environment:

Decrease the impact of our operations, reducing emissions and conserving resources, soil and water.

Directed toward:

ALL OF OUR STAKEHOLDERS

Fig. 1

Internal well-being:

Provide healthy & safe working conditions and opportunities for employee development.

Directed toward:

EMPLOYEES

Community:

Be a responsible citizen in the community.

Directed toward:

COMMUNITIES, CUSTOMERS AND SUPPLIERS

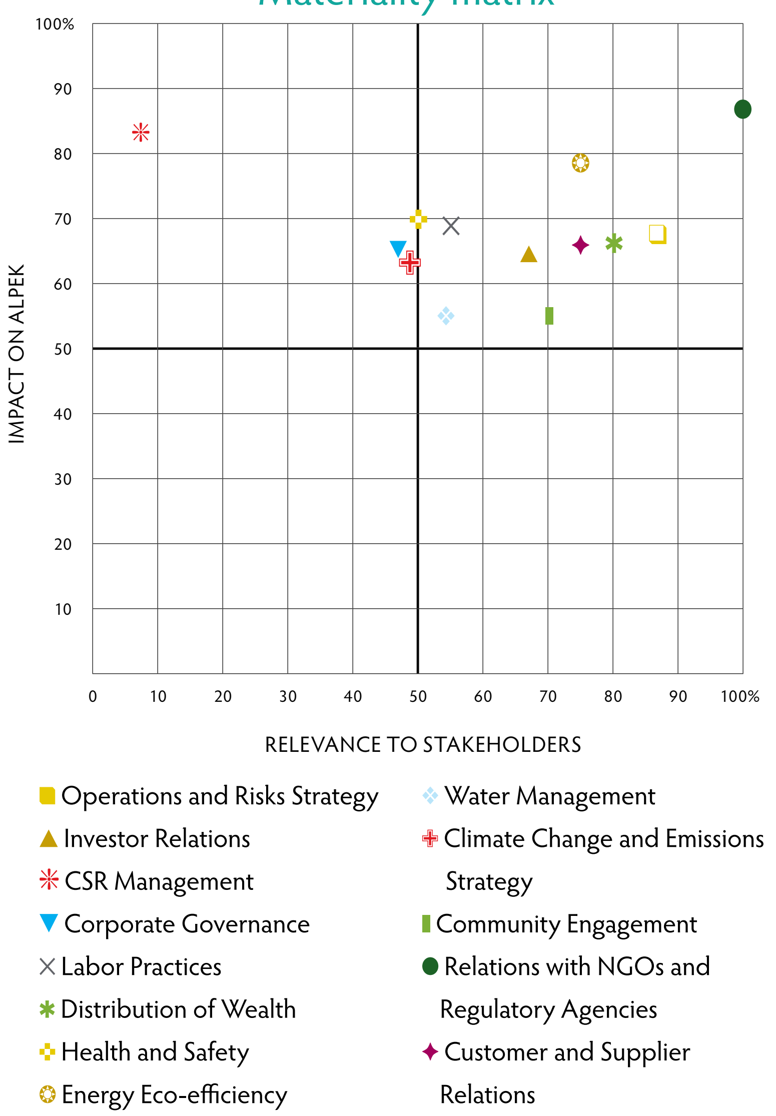
PUBLIC	COMMUNICATION CHANNELS	FREQUENCY	MAIN CONCERNS	HOW THOSE CONCERNS HAVE BEEN ADDRESSED
EMPLOYEES	• Monthly *MASH* meetings • Safety Talks • Organizational climate survey • Face-to-face meetings • Quality and performance scorecard • *Info boards* • Integrity and Transparency helpline • 01 800 Helpline • Communication and safety teams • Magazine, newsletter, email	• Permanent • Monthly • Weekly	• Risk and contingency management • Training and development • Performance evaluations • Future projects • Possible safety incidents	• We establish attention and action plans derived from meetings • Personal attention to every case • Establishment of working groups • Project development • Development initiatives
CUSTOMERS	• Press releases • Face-to-face meetings • Integrity and Transparency Helpline • Website • On-site visits • Surveys • Telephone • Email • Response on CDP and RobecoSAM platforms	• Weekly • Monthly • Permanent	• Development, logistics, and quality • Product price and availability • Economic and market trends • Social responsibility practices	• Programs of attention and response to findings • Compliance with domestic and international standards • Supplier follow-up and improvement programs • Corrective measures • Corporate Social Responsibility programs • Contingency management priority • Client-centered focus
SHAREHOLDERS	• Shareholders' meeting • Quarterly and annual reports • Dialogue and in-person meetings	• Monthly • Quarterly • Annually	• Work environment • Customer satisfaction • Forward-looking approach • Quarterly and annual results • Market Trends	• Quarterly and annual reports • Results from actions and plans • Strategy development based on risks and economic and social trends
SUPPLIERS	• Email • Telephone communication • Integrity and Transparency helpline • Face-to-face meetings • On-site visits • Surveys • Development projects/committee communication • Website • Talks and training	• Permanent • Monthly • Weekly	• Development and implementation of meeting-based programs • Internal requirements • Training • Purchasing strategy • Timely payments	• Meeting-based action plans • Constant dialogue • Execution of training projects • Teamwork • Fair operating practices
NEIGHBORS	• Community care talks • Community development programs • On-site visits • Complaints box • Community committees • Involvement of local authorities • Job fairs • Open door policy	• Permanent • Monthly • Annually	• Development and implementation of community care and community involvement programs • Involvement in community committees • Talks and training on environmental issues • School support programs	• Development and implementation of community care and community involvement programs • Involvement in community committees • Talks and training on environmental issues • School support programs
EDUCATIONAL AND YOUTH INSTITUTIONS	• On-site visits • Educational talks • Job fairs • Open door policy	• Permanent	• Job opportunities • Youth development • Project collaboration	• Job fairs • Job offers on social networks • On-site internships • Research agreements

Fig. 2

We performed a materiality analysis in order to strengthen our relationship with these groups, gain clarity on their expectations, and identify the topics most relevant to them, as well as our industry policies, reputation and regulations. This helped us chart a course for our business strategies and goals.

Thirteen material aspects were identified within four key CSR pillars, which shape our sustainability model: society and employees, environment, sustainable economic value creation, and corporate governance.

Materiality matrix



Reforestation with Styropek families. Altamira, Tamps, Mexico

PILLAR 1.

SUSTAINABLE ECONOMIC VALUE CREATION

Seeking out economic growth is part of the nature of any business. However, Alpek recognizes that our mission is to not only generate strong financial results, but to achieve them in a sustainable fashion. Therefore, we operate with a focus on long-term impact and we manage acquired risks in order to maximize our return on investment in a socially and environmentally responsible manner.

Corporate Governance

(GRI Standards: 102-18, 102-25, 102-26)

Material Aspect: Corporate governance.

SDGs 8 and 12: Decent Work and Economic Growth, Responsible Consumption and Production.

Alpek's business continuity depends on an efficient management of financial resources, in addition to a solid ethics and values platform. This is established by our Board of Directors, echoed throughout the entire organization, and extended to our stakeholders.

The policies and procedures that govern company performance adhere to international governance, labor, and environmental standards, and establish the criteria for the implementation of programs and initiatives. Each year, we update these policies and develop others that have been identified as essential to meeting our commitment to increasingly sustainable management.

CATEGORY	OBJECTIVE	OFFICIALS RESPONSIBLE
CODE OF ETHICS	Establish guidelines for the conduct we expect of our employees and upon which the daily company performance is based.	System of compliance with the Code of Ethics through signature, training, and anonymous complaint mechanisms.
ANTI-CORRUPTION POLICY	Establish guidelines to strengthen employee conduct and integrity in relation to the risk of corruption in the company.	System of compliance with the anti-corruption policy through signature, training, and anonymous grievance mechanisms.
HUMAN RIGHTS POLICY	Strengthen the commitment to respect and safeguard human rights.	Under consideration for future development.
PERSONAL INFORMATION PROTECTION POLICY	Management and protection of personal and confidential data for our stakeholders.	Managed through the Compliance Manual.
INTELLECTUAL PROPERTY RIGHTS POLICY	Prohibition of the illegal use of software.	Policy compliance through the signature of commodatum agreements.
COMPENSATION AND LABOR PRACTICES POLICY	Compliance with labor standards and publication of human resources standards.	Compensation and salary scheme.
ENVIRONMENTAL POLICY	Environmental protection and safety for both products and facilities.	Alpek companies have their own environmental protection policy and comply with all legal requirements. These are managed through the Departments of Integral Responsibility, and Ecology-Safety.
SUPPLIER POLICY	Establish the necessary processes for selecting, evaluating and monitoring current and future suppliers.	Managed through ISO procedures and instructions for Procurement: External Services and Materials.
CONFLICT OF INTEREST POLICY	Foster total transparency in all business activities performed by the Board of Directors and by our employees.	Managed through our Legal Department.

(GRI Standards: 102-16, 102-17)

Our Code of Ethics and the Anti-Corruption Policy were designed to strengthen integrity within the company and to define guidelines for the conduct we expect from our employees. We carry out ongoing training in both areas through in-person meetings, emails, information boards and messages sent through communication channels (calendars, leaflets, and communication screens).

We ensure that grievance mechanisms are available to our workforce to facilitate reports of any non-compliance with these policies. This includes the Integrity and Transparency Helpline, which operates 24 hours a day, 365 days a year, and which is also used to identify cases of money laundering and corruption. In addition to internal mechanisms, we also leverage external consulting services from specialized firms in legal, labor, environmental and social responsibility practices.

Our Conflict of Interests Policy seeks to promote total transparency in every business activity carried out by the members of the Board and all employees. is designed to foster complete transparency in all business activities performed by the Board of Directors and by our employees. This policy establishes that Board Members who may have a conflict of interest during decision-making must report it to the other members of the Board and abstain from participating in the discussion or exercising their vote during meetings. For employees, the policy indicates that they must avoid any situation in which their interests differ from those of the company. Employees who have interests with current or potential suppliers or customers must report these cases to their immediate supervisors.

In 2019, we addressed a total of 82 cases of non-compliance or violation of these policies, and 14 people left the company as a result. None of the cases were related to the involvement of employees with government authorities, and none involved cancellations or non-renewed contracts with business partners for reasons attributable to non-compliance with Alpek policies and values. There were also no cases in which Alpek was reported for matters dealing with corruption. One of our 2020 objectives is to increase compliance efforts throughout the business, aimed at reducing the number of these incidents to zero and strengthening Alpek's ethical culture.


Styropek (EPS). Gral. Lagos, SF, Argentina

Economic Performance

(GRI Standard: 201-1)

In 2019, Alpek posted one of its best years ever in terms of EBITDA. It finalized the sale of its cogeneration assets, as well as a had a better-than-expected performance in the Plastics and Chemicals segment that offset the negative impact of the drop in paraxylene prices on Polyester results.

FINANCIAL FIGURES

MILLIONS OF USD	2019	2018
Total revenue	6,216	6,911
Consolidated net income	390	765
Majority net income	342	697
Income per share (dollars)	0.16	0.33
Income Tax	144	92
Dividends paid	206	53
Investments and acquisitions	270	826
Net debt	1,330	1,832
Net debt/EBITDA (times)	1.6	1.7

**Financial results of the company can be reviewed in detail starting on page 51 of this document.*

Risks and Financial Opportunities Attributable to Climate Change

(GRI Standard: 201-2)

Material Aspects: Wealth Distribution, Operations and Risks Strategy, Climate Change Strategy.

SDG 13: Climate Action.

The goal of mitigating climate change is a priority on the global agenda as well as for our business. At Alpek, we understand the responsibilities inherent to working with non-renewable resources. The United Nations (UN) has invited companies, governments, institutions, and society in general to join the efforts against climate change through the Paris Agreement to meet the 2030 Sustainable Development Goals (SDGs).

This year, progress toward the 2030 Agenda was slower than expected. Our awareness of this issue means that we will continue to seek environmental and social value while maintaining financial health.

These efforts include the construction of two power cogeneration plants, whose sale was finalized in 2019. This represented great economic and environmental advantages for our company by continuing to cover part of the energy needs of our operations in Mexico. Furthermore, both of our propylene storage spheres remain in operation, allowing us to reduce costs and optimize inventories.

PROJECT	2019 PROGRESS	CHALLENGE	OPPORTUNITY
Cogeneration power plants.	Finalized the sale of both plants.	Supply our electricity needs more efficiently and in a more environmentally responsible manner.	Allows us to supply our electricity needs up to 350 MW.
Propylene storage spheres.	Project in operation.	Propylene, one of the basic raw materials used in our operations, is a non-renewable resource that requires careful handling.	The spheres benefit our PP segment by supporting the propylene supply chain within Mexico and providing greater flexibility for feedstock imports, creating better utilization.
PET Recycling.	We have identified this practice as part of our efforts to operate under a circular economy.	We have 3 PET recycling plants. The largest challenge is PET collection, due to low recycling infrastructure and the absence of legislation for properly separating waste.	In the process of identifying actions to leverage this activity to create significant positive impact on our operations.

Reforestation with Styropek families. Altamira, Tamps, Mexico

PILLAR 2.
INTERNAL WELL-BEING

Alpek's responsible and sustainable development would not be possible without the commitment of over 6,000 employees who make this company an industry leader. Fostering their well-being, providing a safe and inclusive workplace, driving competitiveness, talent development and boosting their skills for integrated growth and healthy work-life balance, are all essential management actions.

Workforce, Benefits and Inclusion

(GRI Standards: 202-1, 405-1, 405-2)

Material Aspect: Labor practices.

SDGs 1, 5, 8, and 10: No Poverty, Gender Equality, Decent Work and Economic Growth, Reduced Inequalities.

All of our employees receive a base salary that is higher than the legal minimum wage in every country where we operate, and they receive all the benefits corresponding to their job profile. Compensation is based on each job profile and the skillset needed to perform it. There is no difference between salaries offered to men and women who perform the same job. Although, due to the nature of our operations our workforce consists mainly of men, we operate with gender-equality policies such as the *Equal Employment Opportunity Policy*, flextime, maternity and paternity leave, and non-discrimination or harassment in the workplace.

Indelpro (PP). Altamira, Tamps, Mexico

In Mexico, Alpek Polyester received the *Empresas de Diez* award, which recognizes companies that demonstrate a serious commitment to their employees by timely delivering employer contributions for ten consecutive two-month periods, and by not having ongoing debt with Infonavit.

In 2019, our workforce was comprised as follows:

PERSONNEL	UNIONIZED		NON-UNIONIZED		% OF TOTAL	
	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN
Executives (Directors and Managers)	-	-	191	25	3.9	2.8
Executives (and floor managers)	-	-	1,420	651	28.6	71.8
Operators	3,271	226	85	5	67.6	25.5
Total	3,271	226	1,696	681	100	100

**This chart does not show numbers of the staff of the recently acquired facility in Wilton, UK, at the start of 2020*

Training and Development

(GRI Standards: 404-1, 404-2, 404-3, 403-5)

Material Aspect: Labor practices.

SDGs 4, 5 and 8: Quality Education, Gender Equality, Decent Work and Economic Growth.

Skill development and employee education are factors that drive professional growth, raise self-esteem and make employees apply what they have learned in their personal life. This represents one of our greatest competitive advantages.

In 2019, we invested more than US $3.4 million in training. More than 4,800 employees took an average of 55 training hours, including developing and strengthening their technical and soft skills (the latter is becoming increasingly important). In addition, safety training increased year-over-year, since it is one of our priorities. Moreover, as we have done each year since it began, we are active participants in Sustainability Week at ALFA, where best practices are shared.

Styropek (EPS). Altamira, Tamps, Mexico

Clear Path Recycling (rPET). Fayetteville, NC, United States

The 2019 average training hours per employee are shown below:

	2019	2018
All Employees	55	38
Women	37	35
Men	90	50
Unionized	40	32
Non-Unionized	55	40

Industrial Health and Safety

(GRI Standards: 403-3, 403-6, 403-7, 403-9, 403-10)

Material Aspect: Health and Safety.

SDG 3: Good health and well-being.

Both the company and employees are jointly responsible for keeping safe facilities. Establishing a culture of health and safe operating practices is a priority to which we devote ongoing effort.

In 2019, we carried out over 100 actions related to health and safety at all our facilities through a total investment of US$ 20.6 million. The implemented initiatives, such as the purchase, improvement and inspection of equipment and the development and execution of annual safety plans, allowed several of our operations to reach 2-, 5-, and 10-year milestones without lost time cases.

We make sure that health and safety services are of high quality through ongoing training, establishing objectives, scope, definition of responsibilities, protection measures and clear and precise behavior guidelines. We also implemented different protocols to provide objective identification of situations and activities that pose a risk to employee health and safety our facilities. Internal and external audits, as well as customer-initiated audits, allow us to use the results from these processes to improve our related management systems.

In terms of health, more than 5,200 employees benefited from initiatives such as a series of meetings related to diabetes, nutrition, pregnancy health, regular check-ups, DAK Healthy Rewards, immunization campaigns, and on-site medical services. Nearly 71 programs were implemented in order to improve the health of our workforce.

Notably, Aislapol representatives visited the Ergonomics Department at the *Universidad de Chile*'s Faculty of Medicine, to study how to design for ergonomic optimization and applied it to workstations and workplace conditions. These will be adapted based on employees' physical and psychological characteristics in order to increase their health and well-being and boost efficiency and safety.

INDICATOR	2019	2018
*Accident Rate	156.20	32.07
Frequency Rate	1.73	3.10
No. of Accidents	21	35
Days lost	1,891	582
Physical Losses	0	0

**Accident Rate increased due to the rise in Days lost, the result of a change in the calculation methodology during the year.*

We also improved our safety levels through the launch of monthly awareness campaigns to prevent accidents with hazardous materials by checking lines, placing caps, and identifying valves that could cause spillage, in addition to proper implementation of management systems such as the Competitive Company Program (PEC) or the *OSHAS*, among other actions, also helped us improve our results.

Alpek Polyester (PTA, PET, Polyester Yarn), Suape, PE, Brazil

PILLAR 3.
ENVIRONMENT

Alpek is committed to protecting and improving the environment. We do this through increasingly efficient processes, responsible resource use and disposal, a strong recycling strategy, and by developing more environmentally friendly products.

Investing on Environmental Conservation

(GRI Standard: 202-2)

Material Aspects: Climate Change and Emissions Strategy; Operations and Risks Strategy.

SDG 13: Climate Action.

The feedstocks we use in our products are mainly petroleum by-products. We assume this great responsibility and address it from different angles: i) we foster a culture of respect and conservation for the environment both within and outside of our facilities; ii) we invest in innovation and the development of technologies to make our processes even more efficient; iii) we ensure strict compliance with the environmental regulations that govern our industry.

The Health, Safety and Environment Policy ensures that our product production and marketing take place within a framework of preventive compliance, with the best-in-class administrative and operating practices, and under a focus on discipline and ongoing improvement.

Our investments in conservation and environmental well-being initiatives were distributed as follows in 2019:

INVESTMENT AREA (MILLIONS OF USD)	2019	2018
Emission Reduction	16.00	11.20
Environmental Management Costs	1.50	0.50
Waste Disposal and Reduction	2.20	2.40
Prevention Costs	0.64	0.30
Remediation Costs	-	2.90
Other Environmental Actions	3.20	-
Total	**23.5**	**17.3**

Energy Efficiency

(GRI Standards: 302-1 to 4)

Material Aspect: Energy eco-efficiency.

SDGs 7, 8, 12, and 13: Affordable and Clean Energy, Decent Work and Economic Growth, Responsible Consumption and Production, Climate Action.

Alpek joins the global community in the effort to reduce fossil fuel consumption, migrate toward renewable energy, and to optimize processes toward decreased energy demand.

Natural gas is used by 98% of our operations, the cleanest fossil fuel available. In 2019, our cogeneration power plants generated 11.86 million GJ of energy to supply our operations in Mexico, equivalent to the annual energy consumption of 360,000 Mexican families.

The initiatives implemented in our processes are designed to optimize and reduce energy consumption from non-renewable sources in the short-, medium-, and long-term. Through actions such as eliminating the use of 40 tons of flame retardant, optimization in our washing processes, neo-tech filter technology replacements, among others; the equivalent of 43,239 GJ was saved in our nominal processes, the equivalent of the consumption of 1,355 Mexican households. Our goal is to increase this amount every year.

GJ	2019	2018
Energy reduction	43,249	85,618

In 2019, our direct energy consumption by source was distributed as follows:

ENERGY CONSUMPTION (GJ X 10^6)	2019
Direct Energy Consumption (fuels)	26.47
*Indirect Consumption (electricity and steam)	7.44
Energy production with Natural Gas (internally, it does not count as indirect consumption)	11.86
Total	**33.91**
Energy intensity per ton produced	5.61

CONSUMPTION BY FUEL (GJ X 10^6)	2019
Natural Gas	26.110
LP Gas	0.000
Gasoline	0.003
Diesel	0.003
Coal	0.000
Fuel Oil	0.001
Ethanol	0.105
Other	0.250
Total	**26.471**

**This data contains only 2019 information due to the change in calculation of energy methodology, and the reporting categories on indirect consumption and the energy generated by the power cogeneration plants. The cogeneration data on consumption of natural gas does not consider the use of the fuel of the second plant, given that this was in trial periods.*

Alpek Polyester (PET). Fayettevile, NC, United States

Reduction of Emissions

(GRI Standards: 305-1, 305-2, 305-5, 305-7)

Material Aspect: Climate change and emissions strategy.

SDGs 3, 12, 13, 14 and 15: Good Health and Well-being, Responsible Consumption and Production, Climate Action, Life Below Water, Life on Land.

Meeting the world's commitment to limit global warming to an additional 1.5ºC presents a challenge in designing and implementing measures to reduce emissions. We have joined this effort through preventive and remediation actions, process optimization, and investments in equipment maintenance and upgrades at our facilities. All our companies implement strict policies that establish goals and progress indicators that prioritize environmental protection and sustainable development in their surroundings.

We exercise timely compliance with legal requirements and agreements, and work on pollution prevention while seeking to continuously improve our environmental performance. In order to achieve significant reductions in emissions, the initiatives that we implemented in our companies require commitment and discipline from employees, suppliers, and external contractors, and strict compliance with applicable legislation.

We achieved a reduction of 43,000 tons of CO_2 in 2019. One of our most important initiatives to reduce our carbon footprint is to produce rPET by recycling PET bottles, one of the most environmentally friendly bottling materials in existence. Through this and other initiatives, including replacing heaters, substituting cartridges that produce emissions, halting furnace use, and installing condensers on two emission sources located in the industrial filament production process, we achieved reductions equivalent to those of 9,000 vehicles a year.

In 2019, the emissions from our processes were distributed as follows:

EMISSIONS 1 X 10^6 TON CO_2 e	2019	2018
Direct Emissions	0.80	1.29
Indirect Emissions	1.62	1.13
Emissions per ton produced	0.48	0.43
Total Emissions	**2.42**	**2.42**

The decrease in direct emissions as well as increased indirect emissions, is due to the fact that in 2019 there was a change in the supply of our energy sources.

Emissions from other pollutants (tons of CO_2 e)

POLLUTANT (TON CO_2 e)	2019	2018
NOx	779.0	408.6
SOx	94.7	263.0
Hazardous Air Pollutants (HAP)	396.0	368.6
Particulate Matter (MP)	146.0	174.5
Volatile Organic Compound (VOC)	816.0	839.6
Total	**2,231.7**	**2,045.3**

Water Management

(GRI Standards: 303-1, 303-3, 304-1)

Material Aspect: Water management.

SDGs 6, 8, 12, and 14: Clean Water and Sanitation, Decent Work and Economic Growth, Responsible Consumption and Production, Life Below Water.

Alpek continuously endeavors to improve its management and use of one of the planet's most critical natural resources: water. Reducing the impact of our water footprint is one of the priorities within our environmental strategy and is key to our operational continuity.

We have decided to record our real water consumption using the updated Water and Effluents GRI Standard, which is aligned with the international platforms Carbon Disclosure Project (CDP) and RobecoSAM. Therefore, in 2019 our real water consumption was calculated by subtracting the volume of discharge from our withdrawal in megaliters (ML).

In 2019, we reduced our consumption by 2,019 ML and reused 2,535 ML in our processes. We treated 10,666 ML at the water treatment plants owned by the company. The amount of recycled water represents 2% of our total withdrawal.

In order to achieve these results, the companies implemented initiatives such as reducing water use per ton of product, identifying process improvements to lower resource consumption, and recovering effluents to reincorporate them into the processes. The reductions that were achieved in 2019 are equivalent to the water consumption of 3,573 Mexican families in a year.

Alpek Polyester (PTA & PET). Columbia, SC, United States

MEGALITERS (ML)	2019	2018
Treated water	10,666	9,300
Recycled water	2,534	2,900
Total	**13,200**	**12,200**

In 2019, our water withdrawal by source was distributed as follows:

MEGALITERS (ML)	*2019	2018
Municipal water supply	6,266	8,100
Rivers, lakes, and oceans	92,450	80,200
Groundwater	3,105	3,700
Waste water from other organizations	497	-
Other	25,500	950
Total	**127,818**	**93,000**

**The increase in water withdrawal is mostly due to the fact that the full year of operations of PQS (Brazil) and Richmond, IN (USA) was recorded*

Alpek complies with all regulations for water discharge quality in the countries where we operate. Discharges to rivers, lagoons, municipal sewage, and other destinations was 127,140 ML in 2019. Therefore, the real water consumption of the company was 678 ML.

Certain Alpek operations are located close to areas of high biodiversity. In the United States, our Columbia plant is located 24 km from the Congaree National Park, while the Zárate plant in Argentina, is less than 25 km from the Paraná Delta Biosphere Reserve. Given that these are high-value areas for water and biodiversity, these facilities implement activities that contribute to water conservation and nearby habitats, such as funding habitat recovery and giving talks on species conservation.

Akra (Polyester Yarn). Monterrey, NL, Mexico

Raw Materials and Resource Use

(GRI Standards: 301-2, 416-1)

Material Aspect: Climate change and emissions strategy.

SDGs 8 and 12: Decent Work and Economic Growth, Responsible Consumption and Production.

According to the Ellen McArthur Foundation, known for coining the term "circular economy", this system has four sources of value creation. One is "to keep products and materials in use", which refers to maximizing the number of consecutive cycles (whether reuse, remanufacturing, or recycling) and/or the period for each cycle. This is the approach Alpek has chosen to create value.

Although we are at an early stage, we have taken important steps toward making PET recycling one of our most important activities. Increasing the efficiency of the resources used allows us to reduce production costs, increase the company's productivity, and contribute to environmental well-being.

With the acquisition of three recycling plants, the most recent being at the start of 2019, this year we were able to recover 99,100 tons of PET (not only bottles; we also recovered other waste that was separated for processing), and produced 62,700 tons of rPET, an increase of 33% compared to 2018. This consolidated our position as one of the largest recyclers of PET in the Americas.

The reuse cycle for PET allows it to be continuously recycled. Apart from being one of the best materials for developing products for the industry, the carbon footprint in PET production has the lowest impact on the environment compared to other packaging materials, such as glass or aluminum.

In the United States, Alpek Polyester has joined The Recycling Partnership, a non-profit organization that seeks to promote changes in the recycling culture throughout the United States. It also belongs to the GAPC, a movement to spur the development of public policies to integrate the synergy of the circular economy.

Other actions related to caring for and reusing materials and resources included the sale of discard material such as polymers in Styropek Argentina, which prevented 125 tons of material from being sent to the landfill. Polioles was able to place 100% of its pallets, cardboard, junk and other materials for reuse with suppliers, as well as 100% of electronic waste.

Indelpro joined the ANIPAC initiative to reduce pellet waste and made a voluntary commitment in favor of the circular economy in the plastic resins sector with the ANIQ.

We also monitored the survival rate, of reforested trees at Parque Sierra Morelos, which was 95%. Alpek Polyester Mexico has also reduced oil waste production by 18% since 2017.

Most of our companies make their commitment to environmental conservation public by distributing their environmental policies or serving as founding members of associations such as The Climate Registry in the United States.

PILLAR 4.
OUR COMMUNITIES

Working alongside our communities has become increasingly important. Not only are they responsible for issuing our operational permits, they are an essential pillar so that our sustainability and business strategies may be implemented successfully. Participating in their development and fostering social well-being is our responsibility as a corporate citizen and neighbor.

Community Engagement

(GRI Standards: 413-1, 413-2)

Material Aspect: Community engagement.
SDGs 1 and 2: No Poverty, Zero Hunger.

Alpek companies develop community engagement strategies by fostering neighborhood safety, promoting educational programs, and encouraging environmental awareness.

In 2019, more than 6,500 students from 46 schools received support through grants issued by Alpek companies. The Alpek Polyester plants continued to offer the ANSPAC program to spouses of employees to drive progress in social, ethical and cultural spheres. It also joined community efforts tied to jaguar conservation led by the CDEN, a company that provides services and environmental advisory services related to the conservation and sustainable development of Mexico's natural resources. They were also involved in releasing Lora turtles at the Altamira port as they do each year. Other activities include job fairs, Earth Day celebrations, the USC Engineering Forums in the United States, providing advisory services to engineering students, and infrastructure repairs within schools and communities.

In addition to engaging with civil authorities through local advisory panels in the United States and Brazil, and by forming partnerships with civil associations such as CEAISTAC (Emergency Committees of the Association of Industrial Companies in Southern Tamaulipas) in Altamira, Mexico, most of Alpek facilities has formal complaint or claim processes established for their communities.

We signed 53 research agreements with academic institutions, which benefited 143 students; more than 210 interns broadened their work experience at Alpek companies, and finally, 530 employees participated in volunteer activities, with an average of 2 hours per person.

Reforestation with Styropek families. Altamira, Tamps, Mexico

Our Customers and Suppliers

Material Aspect: Customer and supplier relations.
SDGs 8 and 12: Decent Work and Economic Growth, Responsible Consumption and Production.

In 2019, we launched initiatives and programs with our value chain to build mutually beneficial relationships. This allows us to ensure the quality of our products to offer customers the best integral solutions.

The initiatives included the following:

COMPANY	INITIATIVE	2019 PROGRESS	CUSTOMER OR SUPPLIER
AKRA POLYESTER	Customer sales of dyed filament (gray, silver, black, blue, bright optical).	When selling dyed filament, customers no longer need to use dye in their processes, helping them reduce their energy requirements and thus, their indirect greenhouse gas emissions.	Three main customers
ALPEK POLYESTER MÉXICO	Training suppliers in hazardous waste management. This program is implemented once a year and consists of teaching the drivers of our carriers how to correctly handle hazardous waste.	Nearly 100% of incidents related to waste management have been eliminated at the facilities.	Four suppliers
	Development of new feedstock and packaging suppliers who offer better price, quality and service.	Training has been given in packaging development, resolving design problems with the support of personnel from Alpek Polyester, as well as from other packaging material suppliers.	Three suppliers
	Technical support is provided to produce short fiber with better levels of quality and consistency in their characteristics.	Increase in Level 1 quality product, waste reduction, and reduction of complaints about low quality.	One supplier
	Support in the "NAFINSA Production Chains" program	This program grants financing to suppliers to boost their growth.	300 suppliers affiliated with NAFINSA
	Reduction of energy consumption in the blowing process through resin reformulation.	This project has represented savings in the process for Alpek Polyester, as well as a reduction of customer claims and product returns. On the client side, we have identified an increase in their sales and market acceptance. In addition, to a reduction of 12% in the use of active lamps in the blowing process.	Customers

(GRI Standards: 308-1, 308-2, 414-1, 414-2)

In 2019, 50% of Alpek companies carried out social, environmental, and labor impact assessments in their supply chains, and were able to identify only positive impacts out of the 212 essential suppliers who were evaluated.

Our customer and investor relations continued to be strengthened with the participation and response to outreach platforms such as the Carbon Disclosure Project with information on energy efficiency and emissions; RobecoSAM, used to increase transparency in our management models, and the Sustainable CPI from the Mexican Stock Exchange in terms of Environment, Social, and Governance (ESG) practices that we have integrated into our operations.

Likewise, in 2019, we will continue to evaluate our general performance to strengthen communication with our customers, meet their expectations, and address their needs. The 2019 satisfaction surveys reflect a level of 85% satisfaction with the company and 92% with our products and services.

In addition, in 2019 we achieved the elimination of substances of very high concern (SVHC) in our products. These substances are used only in small quantities for laboratory samples. This is a breakthrough in our commitment to take care of the health and safety of the client and other stakeholders when using of our products.

COMPANY	INITIATIVE	2019 PROGRESS	CUSTOMER OR SUPPLIER
ALPEK POLYESTER ARGENTINA	Supporting suppliers for more responsible management.	The main results include: • Support for the needs requested to comply with work and legal documentation policies for purchases of goods and services. • Support and advisory services for suppliers regarding ISO certifications or other standards • Support and advisory services for suppliers regarding product specifications or requested services.	Suppliers
ALPEK POLYESTER BRAZIL	Circular logistics for cardboard boxes.	Reduction of solid waste elimination by reusing 5,478 pallets from the PTA plant and reusing 37,290 cardboard boxes from the textured plant.	Suppliers
	Inverse logistics to eliminate batteries.	Reduction of hazardous waste send the industrial landfill, avoiding soil contamination.	Suppliers
	Reusing multi-directional coating.	The use of multi-directional coating (reused up to 6 times) in deliveries of PTA products reduces the disposal of solid waste into industrial landfills.	PTA Customer
	Hiring the services of companies with SASSMAQ certification.	Mitigation of environmental impacts associated with transportation services by implementing a quality, environmental, and health and safety management system.	Suppliers of transport service

Participation in Chambers and Associations

(GRI Standard: 102-13)

Material Aspect: Relations with NGOs and Regulatory Agencies.

SDG 17: Partnerships for the Goals.

We participate in industrial, business, educational, and sustainability partnerships selectively and strategically. This helps us stay current on the issues that affect our stakeholders, allows us to work as a team with other companies to share best practices, and keeps us up to date on domestic and international standards affecting business, labor, and the environment.

In 2019, we participated with industry peers in the following:

COMPANY	ASSOCIATION	PARTICIPATION IN EXECUTIVE COMMITTEES OR SPECIAL PROJECTS
AKRA POLYESTER	ANIQ (*Asociación Nacional de la Industria Química*)	No
ALPEK POLYESTER UNITED STATES	FTCC (Fayetteville Technical Community College)	No, a partnership was created for free employee training
	NAPCOR (National Association for PET Container Resources)	Yes, one of our Executives performs as Vice President of the Association
	NCTO (National Council of Textile Organizations)	Yes, Board presence
	PETRA (The PET Resin Association)	Yes, one of our Executives is the President of the Association
	CAPCA (Carolinas Air Pollution Control Association)	Yes, Board presence
ALPEK POLYESTER MÉXICO	ANIQ (*Asociación Nacional de la Industria Química*)	Yes
	AISTAC (*Asociación de Industriales del Sur de Tamaulipas, A.C.*)	Yes
	CAINTRA (*Cámara Nacional de la Industria de la Transformación*)	Yes
	AIEVAC (*Asociación de Industriales del Estado de Veracruz, A.C.*)	Yes
ALPEK POLYESTER ARGENTINA	CAIRPLAS (*Cámara Argentina de la Industria de Reciclados Plásticos*)	Yes
ALPEK POLYESTER BRAZIL	ABRAFAS (*Associação Brasileira de Produtores de Fibras Artificiais e Sintéticas*)	Yes
	ABIQUIM (*Associação Brasileira da Indústria Química*)	Yes
INDELPRO	ANIQ (*Asociación Nacional de la Industria Química*)	Yes
	AISTAC (*Asociación de Industriales del Sur de Tamaulipas, A.C.*)	Yes
POLIOLES	ANIQ (*Asociación Nacional de la Industria Química*)	Yes
STYROPEK BRAZIL	ABIQUIM (*Associação Brasileira da Indústria Química*)	Yes
STYROPEK ARGENTINA	AAPE (*Asociación Argentina del Poliestireno Expandido*)	Yes
	CAIP (*Cámara Argentina de la Industria Plástica*)	Yes
	CIQyP (*Cámara de la Industria Química y Petroquímica*)	Yes
	ANDIMA (*Asociación Nacional de Industrias de Materiales Aislantes*)	Yes
STYROPEK MÉXICO	ANIQ (*Asociación Nacional de la Industria Química*)	Yes
	AISTAC (*Asociación de Industriales del Sur de Tamaulipas, A.C.*)	Yes
	ALENER (*Asociación de Empresas para el Ahorro de Energía en la Edificación, A.C.*)	Yes, founding member
UNIVEX	ANIQ (*Asociación Nacional de la Industria Química*)	Yes

BOARD OF DIRECTORS

(GRI Standards: 102-18, 102-22)

ARMANDO GARZA SADA (3)
Chairman of the Board of Alpek, S.A.B. de C.V.

Alpek Board Member since April 2011.

Chairman of the Board of ALFA and Nemak. Member of the Boards of Axtel, BBVA México, CEMEX, Grupo Lamosa and Liverpool.

ÁLVARO FERNÁNDEZ GARZA (3)
President of ALFA, S.A.B. de C.V.

Alpek Board Member since April 2011.

Chairman of the Board of Universidad de Monterrey (UDEM). Member of the Boards of Cydsa, Grupo Aeroportuario del Pacífico, Grupo Citibanamex and Vitro.

FRANCISCO JOSÉ CALDERÓN ROJAS (2A)
Chief Financial Officer of Grupo Franca Industrias, S.A. de C.V.

Alpek Board Member since April 2012.

Board Member of Franca Industrias, Universidad de Monterrey (UDEM) and Regional Advisor for BBVA México and Citibanamex. Alternate Member of the Board of FEMSA.

RODRIGO FERNÁNDEZ MARTÍNEZ (4)
President of Sigma Alimentos, S.A. de C.V

Alpek Board Member since April 2012.

Previously, served as Chief Operations Officer and Chief Executive Officer of Sigma Américas. Member of the Boards of CAINTRA and Consejo Mexicano de la Industria de Productos de Consumo, A.C. (ConMéxico).

FRANCISCO GARZA EGLOFF (1)
President of Proval Consultores

Alpek Board Member since February 2019.

Former CEO of Arca Continental. Member of the Boards of Arca Continental, Alen, Axtel, Grupo Financiero Banregio, Ovniver, Ragasa, Grupo Industrial Saltillo and Proeza.

ANDRÉS E. GARZA HERRERA (1A)
Chief Executive Officer of Qualtia Alimentos Operaciones, S. de R.L. de C.V.

Alpek Board Member since April 2012.

Member of the Boards of Xignux, Regional Board of Banorte, Universidad de Monterrey (UDEM) and Ciudad de los Niños.

MERICI GARZA SADA (4)
Investor

Alpek Board Member since April 2012.

PIERRE FRANCIS HAAS GARCÍA (1)
Advisory Services Director of Hartree Partners, LP

Alpek Board Member since April 2012.

JOSÉ ANTONIO RIVERO LARREA (1)
Chairman of the Board of Compañia Minera Autlán, S.A.B. de C.V.

Alpek Board Member since April 2018.

Executive Board Member of Cámara Minera de México (Camimex) and Board member of the Executive Commission of Cámara Nacional de la Industria del Hierro y del Acero (Canacero). Member of the Boards of Museo del Acero in Monterrey, N.L., Fundación de Empresarios por la Educación Básica, and Regional Board member of Nacional Financiera (Nafinsa).

ENRIQUE ZAMBRANO BENÍTEZ (1A)
Chairman of the Board and Chief Executive Officer of Grupo Proeza, S.A. de C.V.

Alpek Board Member since April 2012.

Member of the Boards of Grupo Proeza and Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM).

JAIME ZABLUDOVSKY KUPER (1)
Executive President of Consejo Mexicano de la Industria de Productos de Consumo, A.C. (ConMéxico)

Alpek Board Member since February 2019.

Vice President of IQOM Inteligencia Comercial, S.A. de C.V. Member of the Technical Committee of FibraHotel and member of the Boards of Baja Ferries, Consejo Mexicano de Asuntos Internacionales (COMEXI), and Servicio Panamericano de Seguridad.

CARLOS JIMÉNEZ BARRERA
Secretary of the Board

Key

1. Independent Board Member
2. Independent Patrimonial Board Member
3. Related Patrimonial Board Member
4. Patrimonial Board Member

A. Audit and Corporate Practices Committee

MANAGEMENT TEAM

(GRI Standards: 102-18, 102-23)

JOSÉ CARLOS PONS DE LA GARZA
Chief Financial Officer

CFO of Alpek since 2018. Former Vice President of Business Development of Nemak, where he also held several executive positions. Holds an undergraduate and an MBA from ITESM, and a master's degree from IPADE.

GUSTAVO TALANCÓN GÓMEZ
President of the Caprolactam, Fertilizer and Polyester Filament Business Unit

President of the Caprolactam and Fertilizer Business Unit since 2013 and starting in 2018, also of Polyester Filaments. Joined ALFA in 1989, served as CEO of Terza, and held management positions in various Business Units of Alpek. Holds an undergraduate degree from ITESM and a master's degree from IPADE.

JORGE P. YOUNG CERECEDO
Co-President, Alpek Polyester

President of the PET and Staple Fibers Business Unit of Alpek from 2012 to 2016. Former Executive Vice President of PET Resins and Vice President of Planning and Administration of DAK Americas LLC. Holds an undergraduate degree from ITESM and a master's degree from the University of Pennsylvania.

JOSÉ DE JESÚS VALDEZ SIMANCAS
Chief Executive Officer

President of Alpek since 1988. Former CEO of Petrocel, Indelpro and Polioles, and former Chairman of the Asociación Nacional de la Industria Química (ANIQ). Holds an undergraduate and MBA from ITESM and a master's degree from Stanford University.

FELIPE GARZA MEDINA
Co-President, Alpek Polyester

President of Alpek's PTA Business Unit from 2008 to 2016. He joined ALFA in 1977 and served as CEO of Indelpro and of Galvacer. Holds an undergraduate degree from Stanford University and a master's degree from Cornell University.

ALEJANDRO LLOVERA ZAMBRANO
President of the Polypropylene Business Unit

President of Polypropylene Business Unit of Alpek since 2008. He joined ALFA in 1985 and served as Director of Human Resources at ALFA. He held various management positions in the Synthetic Fibers Business Unit at Alpek and is a former Chairman of ANIQ. Holds an undergraduate and master's degree from ITESM.

JOSÉ LUIS ZEPEDA PEÑA
President of the EPS and Chemicals Business Unit

President of Alpek's EPS and Chemicals Business Unit since 1999. He joined Alpek in 1986 and served as Vice President of Planning, Finance, Administration and Sales at Grupo Petrotemex. Holds an undergraduate and a master's degree from UNAM and a master's degree from ITESM.

CORPORATE GOVERNANCE

(GRI Standards: 102-18, 102-23)

Once a year, all companies that are listed on the Bolsa Mexicana de Valores, S.A.B. de C.V. (BMV) must disclose the extent to which they adhere to the Corporate Governance Code of Principles and Best Practices (CMPC) by answering a questionnaire. The Code has been in effect in Mexico since 2000, and companies respond to a questionnaire that is available to the investing public on the BMV website. We have presented a summary of Alpek's corporate governance principles below, reflecting the answers the company gave to the questionnaire in May 2019 and updated where necessary:

- The Board of Directors is comprised of eleven proprietary members, with no alternates. Of these, six are independent board members, two are proprietary board members, two are related proprietary board members and one is an independent proprietary board member. This annual report provides information about each Member of the Board, identifying those who are independent and their participation on the Audit and Corporate Practices Committee.
- In carrying out their duties, the Board of Directors receives support from the Audit and Corporate Practices Committee. The Committee Chairman is an independent board member.
- The Board of Directors meets four times per year. Meetings of the Board may be called by the Chairman of the Board, by the President of the Audit and Corporate Practices Committee, by the Secretary, or by at least 25% of its members. At least one meeting per year is dedicated to defining the Company's medium- and long-term strategies.
- Members must inform the Chairman of the Board regarding any conflict of interest that may arise and abstain from participating in any related deliberations. There was an 98% attendance rate at the Board meetings in 2019.
- The Audit and Corporate Practices Committee studies and issues recommendations to the Board on audit-related matters such as: selecting and determining the fees to be paid to the external auditor, coordinating with the Company's internal audit committee and studying accounting policies, among others.
- In addition, the Audit and Corporate Practices Committee issues recommendations to the Board on matters related to corporate practices, such as employment terms and severance payments for senior executives, and compensation policies.
- The company has internal control systems with general guidelines that are submitted to the Audit and Corporate Practices Committee for its opinion. In addition, the external auditor validates the effectiveness of the internal control system and issues the corresponding reports.
- The Board of Directors is advised by the planning and finance department when evaluating matters related to the feasibility of investments, strategic positioning of the company, alignment of investing and financing policies, and reviewing investment projects. This is carried out in coordination with the finance and planning department of the holding company, Alfa, S.A.B. de C.V.
- Alpek has a department that is specifically responsible for maintaining open communication with its shareholders and investors. This ensures that they have the financial and general information required to assess the Company's progress in developing its activities. This function makes use of press releases, notifications of relevant events, conference calls for quarterly reports, investor meetings, its website, and other communication channels.
- Alpek promotes good corporate citizenship and adheres to the recommendations issued by its holding company, Alfa, S.A.B. de C.V. It has a mission, vision, values and a code of ethics that are promoted within the organization.

GLOSSARY

ADMINISTRATIVE COUNCIL FOR ECONOMIC DEFENSE

Brazilian agency responsible for investigating and deciding on issues of competence.

CAPROLACTAM (CPL)

CPL is made by reacting cyclohexane, ammonia and sulfur and is the raw material to produce Nylon 6 polymer. Nylon 6 is a synthetic resin that, because of its strength, flexibility and softness, has a range of end uses, including for sportswear, underclothes and engineering plastics.

CLEAN INDUSTRY CERTIFICATION

Certification granted by the Mexican Environmental Protection Agency (PROFEPA) to companies that comply with environmental legislation.

COGENERATION

Process that produces both electricity and steam.

Comprehensive Responsibility Administrative System (National Association of the Chemical Industry, ANIQ)
Certification given to companies that comply with the six comprehensive responsibility requirements established by the ANIQ, covering Process safety, Health and safety in the workplace, Product safety, Transportation and distribution, Prevention and control of environmental pollution and Community protection.

CO2 EMISSIONS

Unit to measure the carbon dioxide produced by the burning of solid, liquid and gaseous fuels, including natural gas.

CYCLOHEXANE

Compound produced by the hydrogenation of benzene and used in caprolactam production.

ETHANE

Hydrocarbon part of the natural gas liquids, which at room temperature is colorless and odorless. It is used as a raw material to produce ethylene.

ETHYLENE

Compound produced from ethane. It is the raw material for produce vinyl acetate, ethyl chloride, styrene, ethylene oxide and polyethylenes.

ETHYLENE OXIDE

Compound produced from ethylene and used as an intermediate in the production of MEG and other chemicals.

EXPANDABLE POLYSTYRENE (EPS)

Light, rigid, cellular plastic, product of the polymerization of styrene monomer. EPS is a versatile material because of its properties as an impact reducer and thermal insulator, with customized molding capacity. These properties, combined with the ease with which it can be processed, make EPS a popular packaging for impact-sensitive items and for protecting perishables. It is also widely used in construction systems, to lighten floor and roof structures, and as an insulator.

GREENHOUSE GASES (GHG)

Components of the atmosphere that absorb and emit radiation within the infrared range, causing the earth surface temperature to increase.

INTEGREX®

Alpek-owned technology for producing PTA and PET from paraxylene (pX) and monoethylene glycol (MEG), offering significant cost savings and fewer intermediate steps in the production process.

ISO 9001 CERTIFICATION

Certification issued by rating agencies to those companies that operate with proven procedures for assuring the quality of their products, in accordance with the standard defined by the International Organization for Standardization (ISO).

ISO 14001 CERTIFICATION

Internationally accepted standard for establishing an efficient Environmental Management System (EMS). The standard is designed to support companies' profitability and at the same time minimize environmental impact.

MEGAWATT (MW)

Unit of power, equal to 1 million watts.

MONOETHYLENE GLYCOL (MEG)

Raw material with diverse industrial uses, especially for producing polyester (PET and fiber), antifreeze, refrigerants and solvents.

PARAXYLENE (PX)

Hydrocarbon in the xylene family used to produce PTA. It is also a component of gasoline.

POLYETHYLENE TEREPHTHALATE (PET)

Material widely used in the manufacture of bottles and other containers for liquids, food and personal hygiene, household and healthcare products. PET flakes and films are used to produce caps, trays and recipients. Because of its transparency, strength, durability and high protection barriers, PET presents no known health risks, is light and recyclable, and has a wide range of applications in reusable, temperature-sensitive packaging. PET has replaced glass and aluminum, as well as other plastics such as PVC and polyethylene, for making containers.

RECYCLED POLYETHYLENE TEREPHTHALATE (RPET)

PET bottles are cleaned and crushed to produce new PET products. Other rPET uses include carpets, fabrics for the clothing industry, and fibers.

POLYPROPYLENE (PP)

Thermoplastic polymer, produced from the polymerization of propylene monomer. Its properties include a low specific gravity, great rigidity, resistance to relatively high temperatures and good resistance to chemicals and fatigue. PP has diverse applications, including for packaging, textiles, recyclable plastic parts and different kinds of containers, auto-parts and polymer (plastic) banknotes.

PROPYLENE

Unsaturated, 3-carbon hydrocarbon, co-product of the cracking process at petrochemical complexes and a by-product at oil refineries. It is used in the petrochemical industry to produce PP, propylene oxide, cumene, isopropanol, acrylic acid and acrylonitrile. It is also converted into a gasoline component by alkylation with butanes or pentanes.

PROPYLENE OXIDE

Compound produced from propylene and used to manufacture commercial and industrial products, including polyols, glycols and glycoethers.

PURIFIED TEREPHTHALIC ACID (PTA)

Aromatic dicarboxylic acid, the main raw material in polyester production. PTA is produced by the oxidation of paraxylene. It is used to manufacture PET, which is then used to make bottles for water, soft drinks and other beverages, containers and other packaging, and polyester fiber for rugs, clothing, furniture and industrial applications, as well as other consumer products.

STYRENE MONOMER

Unsaturated hydrocarbon used to make a variety of plastics, synthetic rubber, protective coatings and resins. It is the main raw material in EPS production and also used as a solvent and chemical intermediate.

WATT

Unit of power in the International System of Units (SI).

MANAGEMENT'S ANALYSIS

2019

The following analysis complements the Letter to Shareholders, Audited Financial Statements, and Complementary Information. Unless otherwise specified, figures are expressed in millions of nominal pesos, while certain figures are expressed as millions of dollars (US $) due to the high dollarization of Alpek's revenues. Percentage variations are stated in nominal terms. All information is presented in accordance with International Financial Reporting Standards (IFRS).

The global financial environment showed a slower growth in 2019, compared with the previous year. Likewise, financial market risks persisted due to economic policy decisions in advanced countries, geopolitical topics and trade tensions between the United States, China and the European Union. In the United States, the economy continued to show signs of a slowdown caused by the fading of fiscal stimuli measures that had been implemented in the past, among other factors. Like advanced countries, emerging economies showed an economic slowdown caused by both internal and external factors. The Mexican currency had an appreciation against the dollar compared to the previous year, despite the adverse environment facing the Mexican economy.

The behavior of the GDP and other variables in Mexico and the United States, which is essential to understanding the context of Alpek's results, is described below:

In the United States, Gross Domestic Product (GDP) increased 2.3%[a] in 2019, lower than the 2.9% reported in 2018. Consumer inflation was 1.5%[b] in 2019, lower than the 1.9%[b] recorded in 2018.

Mexico's Gross Domestic Product (GDP) decreased -0.1% (estimated) in 2019. Consumer inflation was 2.8%[b] in 2019, lower than the 4.8%[b] recorded in 2018. The Mexican peso experienced a nominal annual appreciation of 4.4%[e] in 2019, compared with 0.1%[e] in 2018. Additionally, in real terms the annual average for the Mexican peso experienced an overvaluation against the dollar of 1.0% in 2018 and a value of -0.5% at the close of 2019.

In Mexico, the average Interbank Equilibrium Interest Rate (TIIE) was 8.3%[d] in nominal terms, as compared to 8.0% in 2018. In real terms, there was an increase in the annual aggregate from 4.8% in 2019 to 3.2% in 2018. Regarding interest rates, the annual average nominal 3-month US dollar LIBOR rate, was 2.3% in 2019, compared to 2.3%[d] in 2018. If the peso's nominal appreciation against the dollar is included, the LIBOR rate in constant pesos went from -0.8%[c] in 2018 to -1.2% in 2019.

Sources:

(a) Bureau of Economic Analysis (BEA). Actual figure in 2019.

(b) Bureau of Labor Statistics (BLS)

(c) National Institute of Statistics and Geography (INEGI). GDP 4Q 25 FEB (5 feb)

(d) Bank of Mexico (Banxico)

(e) Banxico: Exchange rate for settling liabilities denominated in foreign currency payable in Mexico.

VOLUME (THOUSANDS OF TONS)	2019	2018	2017	VAR. % 2019 VS 2018	VAR. % 2018 VS 2017
Polyester	3,490	3,490	3,105	-	12
Plastics and Chemicals	895	912	906	(2)	1
Total volume	4,384	4,402	4,012	-	10

REVENUE	2019	2018	2017	VAR. % 2019 VS. 2018	VAR. % 2018 VS. 2017
Polyester					
Millions of Pesos	90,857	99,559	70,477	(9)	41
Millions of Dollars	4,718	5,174	3,724	(9)	39
Plastics and Chemicals					
Millions of Pesos	27,097	32,925	28,522	(18)	15
Millions of Dollars	1,407	1,713	1,506	(18)	14
Total revenues					
Millions of Pesos	119,685	134,523	98,998	(11)	36
Millions of Dollars	6,216	6,991	5,231	(11)	34

PRICE INDEX	2019	2018	2017	VAR. % 2019 VS. 2018	VAR. % 2018 VS. 2017
Polyester					
Millions of Pesos	115	126	100	(9)	26
Millions of Dollars	113	124	100	(9)	24
Plastics and Chemicals					
Millions of Pesos	96	115	100	(16)	15
Millions of Dollars	95	113	100	(16)	13
Total					
Millions of Pesos	111	124	100	(11)	24
Millions of Dollars	109	122	100	(11)	22

Revenues

Alpek's revenue in 2019 was $119,685 million (US $6.216 billion), 11% lower than the $134,523 million (US $6.991 billion) in 2018. This decrease was caused by a drop in average prices of 11% in pesos and in dollars, driven by lower feedstock prices.

Revenues by Business Segment

Polyester's net revenues in 2019 were $90,857 million (US $4.718 billion), 9% less than the $99,559 million (US $5.174 billion) in 2018. This segment posted a decrease of 9% in average sale prices in pesos and in dollars. Volume remained stable against the record levels observed in 2018.

Plastics and Chemicals posted revenues of $27,097 million (US $1.407 billion) in 2019, in comparison to the $32,925 million (US $1.713 billion) in 2018. The 18% decrease in revenues was mainly due to the 16% drop in the average sale price in pesos and in dollars reflecting lower feedstock prices. The segment's volume posted a drop of 2% compared to 2018, since the annual increase in the displaced volume of PP partially offset lower sales of caprolactam and industrial chemical products that were sold.

Operating Profit and EBITDA

In 2019, the operating profit was $12,361 million (US $641 million), 42% lower than the $21,202 million (US $1.086 billion) in 2018. In 2019, operating profit includes an extraordinary gain of $3,634 million (US $188 million) from the finalization of the cogeneration plants' sale. The operating profit in 2018 includes a non-cash benefit of $3,936 million (US $195 million) corresponding to the implicit recovery after the purchase of the Corpus Christi project from M&G.

As of December 31, 2019, aggregate consolidated EBITDA was $16,395 million (US $850 million), a decrease of 20% compared to the $20,607 million (US $1.063 billion) of 2018. The consolidated EBITDA for this segment includes a net benefit from extraordinary items of $2,484 million (US $128 million), resulting in an EBITDA in comparable terms of $13,911 million (US $722 million), 9% lower than in 2018.

In 2019, the EBITDA for the Polyester segment decreased by 46% to $8,236 million (US $428 million), including a net charge from extraordinary items of $901 million (US $47 million). Adjusting for these items, the comparable EBITDA for the Polyester segment was $9,137 million (US $474 million), a decrease of 9% year-over-year, resulting from lower margins compared to the extraordinary levels recorded the previous year.

The EBITDA for the Plastics and Chemicals segment dropped 21% to $4,198 million (US $218 million), compared to $5,292 million (US $276 million) in 2018. Excluding non-cash inventory losses and other extraordinary items, the comparable EBITDA for Plastics and Chemicals dropped 16% in comparison to the $5,271 million (US $275 million) in 2018, resulting from the high polypropylene margins at that time.

EBITDA (MILLIONS OF PESOS)	2019	2018	2017	VAR. % 2019 VS 2018	VAR. % 2018 VS 2017
Polyester	8,236	15,318	2,970	(46)	416
Plastics and Chemicals	4,198	5,292	4,519	(21)	17
Others	3,961	(3)	(5)	N/A	42
Total EBITDA	16,395	20,607	7,483	(20)	175

EBITDA (MILLIONS OF DOLLARS)	2019	2018	2017	VAR. % 2019 VS 2018	VAR. % 2018 VS 2017
Polyester	428	788	147	(46)	435
Plastics and Chemicals	218	276	237	(21)	16
Others	205	(1)	(0)	N/A	(80)
Total EBITDA	850	1,063	384	(20)	177

Net Financial Result

In 2019, the net financial cost was -$2,635 million (US -$136 million), 5% lower than in 2018. The net financing expenses that comprise this item grew from -$1,741 million (-US $90 million) in 2018, to -$2,048 million (-US $106 million), mainly reflecting the increase in average debt during the year. In addition, variations in exchange rates resulted in the recognition of a non-cash foreign exchange loss of -$587 million (US -$30 million) in 2019, versus -$1,042 million (US -$50 million) in 2018.

FINANCIAL RESULT, NET (MILLIONS OF PESOS)	2019	2018	2017	VAR. % 2019 VS 2018	VAR. % 2018 VS 2017
Financial Expense	(2,822)	(2,183)	(1,482)	(29)	(47)
Financial Income	774	442	198	75	123
Financial expenses, Net	(2,048)	(1,741)	(1,284)	(18)	(36)
Impairment of financial assets	-	-	(1,694)	-	100
Loss due to exchange fluctuation, net	(587)	(1,042)	(432)	44	(141)
Financial Result, Net	(2,635)	(2,783)	(3,410)	5	18

Taxes

In 2019, a tax on profit was posted for -$1,889 million (US -$98 million) as a result of the increased pre-tax profit, while 2018 posted a tax on profit of -$3,455 million (US -$178 million).

TAXES (MILLIONS OF PESOS)	2019	2018	2017	VAR. % 2019 VS. 2018	VAR. % 2018 VS. 2017
Income (loss) before taxes	9,413	18,389	(6,268)	(49)	393
Income tax rate	30%	30%	30%		
Statutory income tax rate (expenses) benefit	(2,824)	(5,517)	1,881	49	(393)
Taxes for permanent differences between accounting-taxable profit	935	2,062	(168)	(55)	1,327
Total Income Tax	(1,889)	(3,455)	1,713	45	(302)
Effective tax rate	20%	19%	27%		
Comprised as follows:					
Current Income Tax	(2,463)	(2,075)	(1,323)	(19)	(57)
Deferred income tax	574	(1,380)	3,036	142	(145)
Total income tax	(1,889)	(3,455)	1,713	45	(302)

Net Income Attributable to the Controlling Interest

In 2019, consolidated net income attributable to the controlling interest was $6,605 million (US $342 million including an extraordinary gain related to the sale of the cogeneration plants. In 2018, the consolidated net income attributable to the controlling interest was $13,633 million (US $697 million), including a net benefit of $7,532 million (US $356 million) from the gain in the business combination and the Corpus Christi recovery.

STATEMENT OF INCOME (MILLIONS OF PESOS)	2019	2018	2017	VAR. % 2019 VS. 2018	VAR. % 2018 VS. 2017
Operational Income (loss)	12,361	21,202	(2,854)	(42)	843
Financial Result, net	(2,635)	(2,783)	(3,410)	5	18
Share in losses of associates	(313)	(30)	(4)	(945)	(692)
Income taxes	(1,889)	(3,455)	1,713	45	(302)
Net consolidated income (loss)	7,524	14,934	(4,555)	(50)	428
Income (loss) attributable to the controlling interest	6,605	13,633	(5,487)	(52)	348

Investments in Fixed and Intangible Assets

In 2019, investments in fixed and intangible assets totaled $5,182 million (US $270 million), 67% lower than the $15,684 million (US $826 million) posted in 2018. The resources were used for strategic projects, such as finishing construction of the second cogeneration plant in Altamira, Mexico, and the acquisition of the PET recycling plant that was formerly owned by Perpetual.

Net debt[1]

Net debt rose to $25,057 million (US $1.330 billion) as of December 31, 2019, 30% below the $36,051 million (US $1.832 billion) as of December 31, 2018. The cash balance and cash equivalents totaled $7,275 million (US $386 million) at year-end 2019.

SHORT AND LONG-TERM DEBT [2] (MILLIONS OF DOLLARS)	2019	2018	'19 VS '18 %	INTEGRATED 2019 %	INTEGRATED 2018 %
Short-term debt	38	514	(93)	2	25
Long-term 1 year	19	170	(89)	1	8
2 years	674	345	95	44	17
3 years	300	714	(58)	20	35
4 years	-	300	(100)	-	15
5 years	-	-		-	-
10+ years	506	-	100	33	-
Total	1,537	2,043	(25)	100	100
Avg. maturity long-term debt (years)	5.5	3.5			
Avg. maturity total debt (years)	5.4	2.7			

FINANCIAL INDICATORS (TIMES)	2019	2018	2017
Net Debt / EBITDA	1.6	1.7	3.3
Interest Coverage	7.2	9.9	4.8
Total liabilities / Stockholders' equity	1.3	1.8	2.0

(1) Net Debt = Current debt plus non-current debt (excluding debt issuance costs), plus accrued interest payable, less cash and cash equivalents, less restricted cash and cash equivalents.

(2) Excludes leases and lease interests

INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, and the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in 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 the Company as of December 31, 2019 and 2018, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were 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.

Divestitures of electric power cogeneration companies, Cogeneradora de Energía Limpia de Cosoleacaque, S.A. de C.V. ("CELCSA") and Cogeneración de Altamira, S.A. de C.V. ("CGA")

As mentioned in Note 2b to the consolidated financial statements, on January 6, 2019, Alpek, S. A. B. de C. V. ("Alpek"), signed an agreement for the direct sale to Contour Global Terra 3 S.a.r.l. ("CG Terra 3") of the entire shares of CGA, and the consequent indirect sale of CELCSA, under the basis that CGA holds 99.99% of CELCSA's share capital.

Alpek also signed with ContourGlobal Holding de Generación de Energía de México, S.A. de C.V. ("CG Mexico"), a subsidiary of ContourGlobal PLC, a contract option in which Alpek and its subsidiaries are required to sell the shares of Tereftalatos Mexicanos Gas, S.A. de C. V. ("Temex Gas") ("the option contract"), whose assets include pipelines that transport natural gas from the point of interconnection of the integrated national transport system to the consumption point, in case CG Mexico exercises the call option within a maximum period of five years from the date of signature of the call option contract, an option that will be subject to compliance with certain conditions precedent under that option contract.

On November 25, 2019, the Company announced that it completed the process of selling the cogeneration plants for USD$801 million; however, the transaction price is subject to non-significant adjustments in working capital that are expected to turn out to be in favor of the Company.

Due to the relative importance of this transaction and the application of estimates made by management of the Company to determine the value of the liabilities arising from the share purchase agreement, as part of our audit, we conducted, among others, the following procedures:

- We reviewed the share purchase agreement as well as the option contract.
- We verified the documentation supporting the transaction and the corresponding accounting records.
- We challenged the assumptions and premises used by Management in determining the provision to cover the obligations set forth in the purchase agreement through the involvement of specialists; we also reviewed the tax effects of the transaction.
- We physically inspected the alienated assets to confirm their integrity and existence thereof in the transaction.

The results of our procedures were satisfactory; therefore, we concluded that the transaction was reasonably accounted for.

Changes in accounting principles

As mentioned in Notes 3k, 3y, 11 and 17 to the consolidated financial statements, the Company changed the methodology of lease recognition in the consolidated financial statements beginning January 1, 2019, derived from the adoption of IFRS 16, *"Leases."* Therefore, since the method used by the Company, based on temporary provisions of the standard, did not involve adjusting the comparative periods, the financial information as of and for the year ended December 31, 2018, is not comparative in some areas or indicators of the financial situation and results for 2019.

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 Report, (ii) the information to be incorporated into the Annual Report that the Company is required to prepare in accordance with Article 33, fraction I, paragraph b) of Title Four, Chapter One of the Provisions of a General Nature Applicable to the Issuers of Securities and to Participants in the Securities Market and with the Instructions accompanying those provisions (the "Provisions"); the Annual Report is expected 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 and amortization ("EBITDA") of the Company; this information is presented in Notes 16 and 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, Fraction I, paragraph b) numeral 1.2 of the Provisions. Also, and in connection with our audit of the consolidated financial statements, it is our responsibility to read 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 Company and subsidiaries audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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. César Adrián Garza Tamez
Monterrey, Nuevo León, México
January 31, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2019 and 2018 / In millions of Mexican pesos

	Note	2019	2018
Assets			
Current assets:			
Cash and cash equivalents	6	$ 7,059	$ 4,168
Restricted cash	6	216	3
Trade and other accounts receivable, net	7	16,508	21,934
Inventories	8	17,966	24,511
Derivative financial instruments	4	41	30
Prepayments	9	1,785	469
Total current assets		43,575	51,115
Non-current assets:			
Property, plant and equipment, net	10	37,082	47,033
Right of use, net	11	3,437	-
Goodwill and intangible assets, net	12	3,783	4,368
Deferred income taxes	20	1,104	1,384
Derivative financial instruments	4	36	-
Prepayments	9	16	38
Other non-current assets	13	13,761	15,959
Total non-current assets		59,219	68,782
Total assets		$ 102,794	$ 119,897
Liabilities and Stockholders' Equity			
Current liabilities:			
Debt	16	$ 707	$ 10,118
Lease liability	17	912	-
Trade and other accounts payable	15	16,455	26,051
Income taxes payable	20	1,143	1,279
Derivative financial instruments	4	528	1,047
Provisions	18	576	81
Total current liabilities		20,321	38,576
Non-current liabilities:			
Debt	16	28,103	30,012
Lease liability	17	2,456	-
Derivative financial instruments	4	4	283
Provisions	18	1,078	1,107
Deferred income taxes	20	3,926	4,752
Income taxes payable	20	400	469
Employee benefits	19	1,092	1,099
Other non-current liabilities	21	356	436
Total non-current liabilities		37,415	38,158
Total liabilities		57,736	76,734
Stockholders' equity			
Controlling interest:			
Capital stock	22	6,045	6,052
Share premium		9,059	9,106
Retained earnings		20,625	17,235
Other reserves		4,751	5,734
Total controlling interest		40,480	38,127
Non-controlling interest	14	4,578	5,036
Total stockholders' equity		45,058	43,163
Total liabilities and stockholders' equity		$ 102,794	$ 119,897

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

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2019 and 2018 / In millions of Mexican pesos, except for earnings per share amounts

	Note	2019	2018
Revenues		$ 119,685	$ 134,523
Cost of sales	24	(106,669)	(116,519)
Gross profit		13,016	18,004
Selling expenses	24	(2,088)	(2,136)
Administrative expenses	24	(2,831)	(3,166)
Other income, net	25	4,264	4,564
Income before reversal of impairment of intangible assets		12,361	17,266
Reversal of impairment of intangible assets	2g	-	3,936
Operating income		12,361	21,202
Financial income	26	774	442
Financial expenses	26	(2,822)	(2,183)
Loss due to exchange fluctuation, net	26	(587)	(1,042)
Financial result, net		(2,635)	(2,783)
Equity in loss of associates and joint ventures recognized using the equity method		(313)	(30)
Income before taxes		9,413	18,389
Income taxes	20	(1,889)	(3,455)
Net consolidated income		$ 7,524	$ 14,934
Income attributable to:			
Controlling interest		$ 6,605	$ 13,633
Non-controlling interest		919	1,301
		$ 7,524	$ 14,934
Earnings per basic and diluted share, in Mexican pesos		$ 3.12	$ 6.44
Weighted average outstanding shares (millions of shares)		2,117	2,118

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2019 and 2018 / In millions of Mexican pesos

	Note	2019	2018
Net consolidated income		$ 7,524	$ 14,934
Other comprehensive loss for the year:			
Items that will not be reclassified to the statement of income:			
Remeasurement of employee benefit obligations, net of taxes	19, 20	22	(55)
Items that will be reclassified to the statement of income:			
Effect of derivative financial instruments designated as cash flow hedges, net of taxes	4, 20	765	(560)
Translation effect of foreign entities	4, 20	(1,954)	(1,814)
Total other comprehensive loss for the year		(1,167)	(2,429)
Consolidated comprehensive income		$ 6,357	$ 12,505
Attributable to:			
Controlling interest		$ 5,622	$ 11,241
Non-controlling interest		735	1,264
Comprehensive income for the year		$ 6,357	$ 12,505

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2019 and 2018 / In millions of Mexican pesos

	Capital stock	Share premium	Retained earnings	Other reserves	Total controlling interest	Non-controlling interest	Total stockholders' equity
Balance as of January 1, 2018	$ 6,048	$ 9,071	$ 3,671	$ 8,126	$ 26,916	$ 4,748	$ 31,664
Net income	-	-	13,633	-	13,633	1,301	14,934
Total other comprehensive loss for the year	-	-	-	(2,392)	(2,392)	(37)	(2,429)
Comprehensive income	-	-	13,633	(2,392)	11,241	1,264	12,505
Dividends declared	-	-	-	-	-	(981)	(981)
Reissuance of shares	4	35	-	-	39	-	39
Effect of initial adoption of IFRS	-	-	(14)	-	(14)	-	(14)
Other	-	-	(55)	-	(55)	5	(50)
Balance as of December 31, 2018	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 sales	(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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2019 and 2018 / In millions of Mexican pesos

	2019	2018
Cash flows from operating activities		
Income before income taxes	$ 9,413	$ 18,389
Depreciation and amortization	4,005	2,885
Impairment (reversal of impairment) of long-lived assets	29	(3,480)
Allowance for doubtful accounts	40	102
Financial result, net	2,220	2,359
Gain on business combination	-	(4,597)
Gain on business sale	(3,634)	-
Statutory employee profit sharing, provisions and other items	228	(60)
Subtotal	12,301	15,598
Movements in working capital		
Decrease (increase) in trade receivables and other assets	4,465	(4,373)
Decrease (increase) in inventories	5,523	(6,977)
(Decrease) increase in trade and other accounts payable	(9,523)	5,772
Income taxes paid	(2,765)	(1,759)
Net cash flows generated from operating activities	10,001	8,261
Cash flows from investing activities		
Interest collected	231	353
Cash flows in acquisition of property, plant and equipment	(3,027)	(1,979)
Cash flows in acquisition of intangible assets	(35)	(26)
Cash flows in business acquisition, net of cash acquired	(661)	(7,120)
Prepayment for business acquisition	(1,312)	-
Cash flows in business sale, net of cash transferred	15,400	-
Investment in joint ventures and associates	(147)	(5,805)
Loans collected from related parties	188	195
Notes receivable	(1)	(1,124)
Collection of notes	531	17
Restricted cash	(219)	-
Net cash flows generated from (used in) investing activities	10,948	(15,489)
Cash flows from financing activities		
Proceeds from debt	22,000	9,137
Payments of debt	(32,005)	(3,153)
Lease payments	(1,108)	-
Interest paid	(2,379)	(2,038)
Derivative financial instruments	-	(12)
Dividends paid by Alpek, S. A. B. de C. V.	(2,778)	-
Dividends paid to non-controlling interest	(1,182)	(981)
Acquisition of non-controlling interest in subsidiary	(194)	-
Repurchase of sales	(443)	-
Reissuance of shares	389	39
Loan payments to related parties	(1)	(2)
Net cash flows (used in) generated from financing activities	(17,701)	2,990
Net increase (decrease) in cash and cash equivalents	3,248	(4,238)
Effect of changes in exchange rates	(357)	(389)
Cash and cash equivalents at the beginning of the year	4,168	8,795
Cash and cash equivalents at the end of the year	$ 7,059	$ 4,168

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of and for the years ended December 31, 2019 and 2018
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 produces 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. de 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, 2019 and 2018, the percentage of shares that traded on the MSE was 17.79% and 17.91%, respectively.

Alpek SAB is located at Avenida Gomez Morin Sur No. 1111, Col. Carrizalejo, San Pedro Garza Garcia, Nuevo Leon, Mexico and operates productive plants located in Mexico, the United States of America, Canada, Argentina, Chile and Brazil.

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

_2019_

a. *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.

b. 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 Mexico"), 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; at the same time, CGA is the holder of 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 Mexico, 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 Mexico, 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 31).

c. 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.

d. *Signing of an agreement for the acquisition of a PET plant in Lotte Chemical*

On October 29, 2019, the Company announced that one of its subsidiaries signed an agreement with Lotte Chemical Corporation ("Lotte") for the purchase of all the shares of Lotte Chemical UK Limited ("Lotte UK"), which is owner of a PET production plant located in Wilton, United Kingdom. The plant has a capacity to produce approximately 350,000 tons per year. The acquisition is aligned with Alpek's growth strategy, expanding its reach outside the Americas.

During the month of December 2019, the Company gave advance payments for the acquisition of Lotte UK for a total amount of US$69; however, the final acquisition of the business occurred on January 1, 2020, considered as the moment from which Alpek gained control of Lotte UK.

e. *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 5 years and an availability period that expires 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.

<u>2018</u>

f. *Secured financing to M&G Mexico*

On December 29, 2017, the Company signed an agreement to provide secured financing to M&G Polímeros México, S. A. de C. V. ("M&G Mexico") to help support its PET operation during its debt restructuring process. The US$60 credit facility is secured by a second lien on M&G Mexico's PET production plant in Altamira, Mexico, and has a two-year term. During the year ended December 31, 2018, M&G Mexico disposed of the total amount of the credit facility. This amount was disbursed in several intervals subject to certain conditions, including a restructuring plan that was presented by M&G Mexico and approved by its creditors. Additionally, Alpek holds the credit rights over a US$100 loan made to M&G Mexico, which is secured by a first lien on this same PET production facility in Altamira.

g. *Acquisition of Corpus Christi Project from Mossi & Ghisolfi Group ("M&G")*

On March 21, 2018, Alpek announced that it had entered into a joint venture with Indorama Ventures Holdings LP ("Indorama") and Far Eastern Investment (Holding) Limited ("Far Eastern"), to create Corpus Christi Polymers LLC ("CCP"), which signed an asset purchase agreement with M&G USA Corp. and its affiliated debtors ("M&G Corp.") for the acquisition of the integrated PTA-PET site under construction located in Corpus Christi, Texas, and certain intellectual property and a desalination/boiler plant that supplies water and steam to the place (the "Corpus Christi Project").

On December 28, 2018, the Company announced that CCP completed the acquisition of the Corpus Christi Project, for an aggregate amount of US$1,199 in cash and other capital contributions. For this purchase, Alpek contributed US$266 in cash and US$133 in other non-cash capital contributions, associated with a portion of its secured claim with M&G with respect to the Capacity Reservation Agreement with Corpus Christi (the "Capacity Reservation Agreement"); furthermore, as of December 31, 2018, Alpek had contributed US$16 in cash that remain in CCP's cash account. In addition, the Company agreed to sell the rest of the Capacity Reservation Agreement to Indorama and Far Eastern (the "buyers") for which it will obtain US$67 in cash, which will be payable in 3 years in equal parts from each of the buyers, subject to certain conditions. Alpek recognized its investment in CCP as a joint venture through the equity method.

In accordance with the terms of CCP, the partners will provide resources to complete the Corpus Christi Project in the most efficient way. As of December 31, 2019 and 2018, Alpek has invested US$423 and US$416, respectively.

Once the facility is finished, Alpek, Indorama and Far Eastern will each have the right to receive one third of the PTA and PET produced by the Corpus Christi Project, which will have a nominal production capacity of 1.1 million and 1.3 million metric tons per year of PET and PTA, respectively. Moreover, each one is responsible for acquiring their raw materials independently, as well as carrying out the sale and distribution of their corresponding PTA and PET.

In line with the foregoing, Alpek recognized the reversal of a portion of the impairment recorded in 2017 on intangible assets for US$195, which correspond to the amount that the Company expects to recover from the Capacity Reservation Agreement, which is recognized as part of its investment in CCP for US$133, and as an account receivable from its joint venture partners for US$62 (recognized at present value).

h. *Acquisition of Petroquímica SUAPE and CITEPE*

On April 30, 2018, Alpek completed the acquisition of 100% of Companhia Petroquímica de Pernambuco ("Petroquímica Suape") and Companhia Integrada Têxtil de Pernambuco ("Citepe"), owned by Petróleo Brasileiro, S.A. ("Petrobras"), through DAK Americas Exterior, S.L. and Grupo Petrotemex, S. A. de C. V., with stakes of 99.99% and 0.01%, respectively. The total consideration paid by the Company was US$435, free of debt, which was paid in Brazilian reals at the closing date of the transaction.

As a result of this transaction, Alpek acquired an integrated PTA-PET site in Ipojuca, Pernambuco, Brazil, with a capacity of 640,000 and 450,000 tons per year of PTA and PET, respectively. Citepe also operates a textured polyester filament plant with a capacity of 90,000 tons per year. The operation was carried out due to Alpek's strategy of making continuous and selected investments in integration, efficiency and expansion projects, in order to achieve a sustainable growth.

The consolidated financial statements of the Company include the financial information of Petroquímica Suape and Citepe as of the date of acquisition. The acquisition of the business is included in the Polyester segment.

The acquisition of Petroquímica Suape and Citepe met the criteria of a business combination in accordance with the requirements of IFRS 3, *Business Combinations,* for which the Company applied the acquisition method to measure the assets acquired and liabilities assumed in the transaction. The purchase price allocation was determined in 2018, and the adjustments derived from acquisition method accounting were recognized from the date of acquisition. The fair values of the assets acquired and liabilities assumed as a result of this acquisition are as follows:

	US$	
Inventories	$	101
Other current assets[1]		162
Recoverable taxes		115
Property, plant and equipment, net		353
Intangible assets[2]		21
Other non-current assets[3]		40
Current liabilities[4]		(87)
Provisions[5]		(50)
Net acquired assets		655
Bargain purchase gain		(220)
Consideration paid	$	435

(1) Current assets consist of cash and cash equivalents for US$18, accounts receivable for US$98, recoverable taxes for US$45 and others for US$1.

(2) Intangible assets consist of customer relationships, which guarantee the existence and continuity of the business from the moment of acquisition.

(3) Other non-current assets consist of an indemnification asset for US$23 and others for US$17. The indemnification asset corresponds to the right of reimbursement in case of any disbursement that is made corresponding to labor and civil contingencies.

(4) Current liabilities consist of suppliers and accounts payable for US$77 and others for US$10.

(5) Provisions consist of provisions for labor contingencies for US$6, provisions for civil contingencies for US$18, provisions for tax contingencies for US$11 and provisions for reimbursement of taxes recovered for Petrobras for US$15.

As a result of this transaction, a gain associated with the business combination was recognized for an amount of US$220, recorded in 2018 (Note 25). Under the terms of IFRS 3, the gain associated with the business combination is mainly the result of Petrobras divesting of these operations as part of its Strategic Plan, in order to optimize its business portfolio and cease its participation in the petrochemical industry; the aforementioned portfolio included the plan to sell Petroquímica Suape and Citepe.

The consolidated statement of cash flows in 2018 presents the incorporation of the operations of Petroquímica Suape and Citepe into a single line within the investment activity, net of cash acquired.

i. Credit Agreement with JP Morgan

On March 28, 2018, Alpek signed a contract to obtain an unsecured loan, for an amount of up to US$710, with MUFG Bank, Ltd. (formerly, The Bank of Tokyo-Mitsubishi UFJ, Ltd.), Citigroup Global Markets Inc., HSBC México S.A., Grupo Financiero HSBC and JPMorgan Chase Bank, N.A., which was later syndicated. The maturity of the loan is 3 years and has a period of availability of 18 months. The loan accrues interest at a variable rate of Libor plus a spread that depends on leverage levels, and is subject to be prepaid at any time, totally or partially, without penalty. This credit agreement was prepaid in full during 2019.

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 profit (loss) 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 consolidated in full 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 assured. 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 profit.

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, 2019 and 2018, the main companies that comprise the consolidated financial statements of the Company are as follows:

	Country [(1)]	Shareholding (%) [(2)]		Functional currency
		2019	2018	
Alpek, S. A. B. de C. V. (Holding Company)				Mexican peso
Grupo Petrotemex, S. A. de C. V. (Holding Company)		100	100	US Dollar
DAK Americas, LLC	USA	100	100	US Dollar
Dak Resinas Americas México, S. A. de C. V.		100	100	US Dollar
DAK Americas Exterior, S. L. (Holding Company)	Spain	100	100	US Dollar
DAK Americas Argentina, S. A.	Argentina	100	100	Argentine peso
Compagnie Selenis Canada (Selenis) [(3)]	Canada	50	50	US Dollar
Tereftalatos Mexicanos, S. A. de C. V. (Temex)		91	91	US Dollar
Akra Polyester, S. A. de C. V.		93	93	US Dollar
Cogeneración de Energía Limpia de Cosoleacaque, S. A. de C. V. [(5)]		-	100	Mexican peso
Cogeneración de Altamira, S. A. de C. V. [(5)]		-	100	Mexican peso
Companhia Petroquímica de Pernambuco [(4)]	Brazil	100	100	Brazilian real
Companhia Integrada Textil de Pernambuco [(4)]	Brazil	100	100	Brazilian real
Indelpro, S. A. de C. V. (Indelpro)		51	51	US Dollar
Polioles, S. A. de C. V. (Polioles)		50	50	US Dollar
Grupo Styropek, S. A. de C. V. (Holding Company)		100	100	Mexican peso
Styropek México, S. A. de C. V.		100	100	US Dollar
Styropek, S. A.	Argentina	100	100	Argentine peso
Aislapol, S. A.	Chile	100	100	Chilean peso
Styropek do Brasil, LTD	Brazil	100	100	Brazilian real
Unimor, S. A. de C. V. (Holding Company)		100	100	Mexican peso
Univex, S. A.		100	100	Mexican peso

(1) Companies incorporated in Mexico, except those indicated.

(2) 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.

(3) The purchase agreement of this entity, included an earn-out clause related to the production of PETG, which was initiated by Selenis. Under this clause, the seller holds in escrow the shares not acquired by the Company, which may be released as long as the Company completes the first PETG production run.

(4) Entities acquired in 2018. See note 2g.

(5) Entities sold in 2019. See note 2b.

As of December 31, 2019 and 2018, 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 profit (loss). 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 profit 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 profit (loss), 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 profit (loss) 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:

		Local currency to Mexican pesos			
		Closing exchange rate at December 31,		Average annual exchange rate	
Country	Local currency	**2019**	2018	**2019**	2018
United States	US Dollar	18.85	19.68	19.30	20.15
Argentina	Argentine peso	0.31	0.52	0.40	0.53
Brazil	Brazilian real	4.69	5.07	4.9	5.18
Chile	Chilean peso	0.03	0.03	0.03	0.03

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.

As of July 1, 2018, 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 that have been generated from January 2017; and the IPIM (domestic wholesale price index) for balances and transactions generated for all months prior to 2017, except for the months of November and December 2015, due to the fact that such index was not available. For these months, the Company used the IPCBA (consumer price index of the city of Buenos Aires).

The effects of the restatement of the financial statements of the subsidiaries located in Argentina were not material; therefore, they were included in the "Financial result, net" line item of the year ended December 31, 2019.

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 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, 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, 2019, the Company has not made any of the irrevocable designations described above.

Impairment of financial assets

Beginning January 1, 2018, the Company used a new 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, 2019 and 2018, 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

Beginning March 1, 2018, 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

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

The Company as lessee

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

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

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

The Company as lessor

Leases for which the Company is considered a lessor were classified as financial or operating. As long as the lease terms transfer substantially all the risks and rewards of ownership to the lessee, the contract was classified as a finance lease. The other leases were classified as operating leases.

Revenues arising from operating leases were recognized in straight-line over the term of the corresponding lease. The initial direct costs incurred in the negotiation and the organization of an operating lease were added to the book value of the leased asset and were recognized in a straight line over the term of the lease. Revenues arising from financial leases were recognized as accounts receivable for the amount of the net investment of the Company in the leases.

Classification and valuation of leases under IAS 17, in effect beginning January 1, 2019

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.

<u>The Company as lessor</u>

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

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, 2019 and 2018, 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-competition 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

The Company'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*

The Company'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, 2019 and 2018, 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

The Company adopted IFRS 16, *Leases,* and IFRIC 23, *Interpretation on Uncertainty over Income Tax Treatments,* all new standards and interpretations in effect as of January 1, 2019, including the annual improvements to IFRS, as described below:

IFRS 16, Leases
IFRS 16, *Leases,* supersedes IAS 17, Leases, and the related interpretations. This new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases, while the model for lessors remains without significant changes. IFRS 16 is effective from January 1, 2019 and the Company decided to adopt it with the recognition of all the effects as of that date, without changing prior years. Therefore, since the method used by the Company based on the transitional provisions of the standard did not involve adjusting the comparative periods, the financial information as of and for the year ended December 31, 2018, is not comparative in some line items or indicators of the financial situation and results for 2019.

Under this standard, lessees will recognize the right of use of an asset and the corresponding lease liability. The right-of-use asset will be depreciated based on the contractual term or, in some cases, on its economic useful life. On the other hand, the financial liability will be measured at initial recognition, discounting future minimum lease payments at present value according to a term, using the discount rate that represents the lease funding cost; subsequently, the liability will accrue interest through maturity.

The Company applied the exemptions to not to recognize an asset and a liability as described above, for leases with a term of less than 12 months (provided that they do not contain purchase or term renewal options), and for those agreements where the acquisition of an individual asset of the contract was less than US$5,000 (five thousand dollars). Therefore, payment for such leases will continue to be recognized as expenses within operating income.

The Company adopted IFRS 16 on January 1, 2019; therefore, it recognized a right-of-use asset and a lease liability of $3,242.

The weighted average incremental borrowing rate which was used to calculate the present value of the minimum lease payments in the scope of IFRS 16 was 5.60%.

In addition, the Company adopted and applied the following practical expedients provided by IFRS 16:

- Account for as leases the payments made in conjunction with the rent, and that represent services (for example, maintenance and insurance).
- Create portfolios of contracts that are similar in terms, economic environment and characteristics of assets, and use of a funding rate by portfolio to measure leases.
- Not to revisit the previously reached conclusions for service agreements which were analyzed as of December 31, 2018 under IFRIC 4, *Determining Whether a Contract Contains a Lease,* and where it had been concluded that there was no implicit lease.

The following is a reconciliation of the total commitments of operating leases as of December 31, 2018 and the lease liability at the date of initial adoption:

Operating lease commitments as of December 31, 2018	$	4,231
Amount discounted using the incremental borrowing rate as of January 1, 2019	$	3,540
(-): Short-term leases not recognized as lease liabilities		(188)
(-): Low-value assets not recognized as lease liabilities		(110)
(+/-): Adjustments by extension of terms and others		-
(+/-) Adjustments related to changes in the index of variable payment		-
Lease liability as of January 1, 2019	$	3,242

The Company has taken the required steps to implement the changes that the standard represents in terms of internal control, tax and systems affairs, from the adoption date.

IFRIC 23, Interpretation on uncertainty over income tax treatments

This new interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Tax,* when there is uncertainty over income tax treatments. Uncertain tax treatments are those tax treatments for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law.

In such circumstances, the Company shall recognize and measure its current or deferred tax assets or liabilities by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and the tax rates determined by applying this interpretation.

An entity shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted and the fact must be disclosed. On initial application, the Interpretation must be applied retrospectively under the requirements of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* modifying comparative periods or retrospectively with the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings, without modifying comparative periods.

The Company determined that the impacts of the implementation of this Interpretation as of January 1, 2019 are not material, considering the prevailing conditions of the tax positions that it has taken at the date of adoption and the faculties of the competent authorities to assess tax positions held by the Company at the same date.

ii. New standards and interpretations yet to be adopted by the Company

The Company has reviewed the following new IFRS and improvements issued by the IASB not in force in the reporting period, and in its assessment process it did not find potential impacts from its adoption, considering that they are not of significant applicability:

- IFRS 17 – Insurance Contracts (1)
- Amendments to IFRS 3 – Definition of a business (2)
- Amendments to IAS 1 and IAS 8 – Definition of material (2)
- Amendment to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform (2)

(1) In force for annual periods beginning January 1, 2021
(2) In force for annual periods beginning January 1, 2020

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:

	Maximum possible loss US$1	
	Individual transaction	Annual cumulative transactions
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)	
	Current year
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 1.28 and 1.77 as of December 31, 2019 and 2018, 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, 2019 and 2018, financial assets and liabilities consist of the following:

	As of December 31, 2019	As of December 31, 2018
Cash and cash equivalents	$ 7,059	$ 4,168
Restricted cash	216	3
Financial assets measured at amortized cost:		
Trade and other accounts receivable	12,046	17,287
Other non-current as	4,806	5,372
Financial assets measured at fair value through profit or loss		
Derivate financial instruments(1)	77	30
	$ 24,204	$ 26,860
Financial liabilities measured at amortized cost:		
Debt	$ 28,810	$ 40,130
Trade and other accounts payable	14,955	24,217
Lease liability	3,368	-
Financial liabilities measured at fair value:		
Derivative financial instruments(1)	532	1,330
	$ 47,665	$ 65,677

(1) 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, 2019 and 2018.

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

	As of December 31, 2019		As of December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Non-current accounts receivable	$ 4,127	$ 4,121	$ 4,756	$ 4,745
Financial liabilities:				
Non-current debt	28,261	29,529	30,317	30,211

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, 2019 and 2018 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 ("TIIE" 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' 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, 2019:

	MXN	USD	EUR
Financial assets	$ 17,615	$ 27,364	$ 686
Financial liabilities	17,500	34,462	102
Foreign exchange financial position	$ 115	$ (7,098)	$ 584

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 $640 on the consolidated statement of income and stockholders' equity.

Financial instruments to hedge net investments in foreign transactions

Beginning March 1, 2018, 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, 2019 and 2018, Alpek maintains the following hedging relationships:

Holding	Functional Currency	Hedging Instrument	Notional Value		Hedged Item	Net assets of the 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

Holding	Functional Currency	Hedging Instrument	Notional Value		Hedged Item	Net assets of the hedged item	
Alpek SAB	MXN	Senior Notes 144A fixed rate	US$	2	Indelpro	US$	219
		Senior Notes 144A fixed rate		60	Temex		124
		Bank loan, LIBOR +1.10(1)		150	Dak Americas Ms		179
		Bank loan, LIBOR +1.25		180	Dak Resinas Americas		91
		Bank loan, LIBOR +1.25		110	Akra Polyester		261
			US$	502		US$	874

(1) This hedging instrument includes two provisions of a loan maintained by the Company. The conditions of each of the provisions are detailed in Note 16.

For the year ended December 31, 2019 and from the date of designation until December 31, 2018, the Company's average hedging ratio amounted to 59.3% and 55.2%, respectively. Therefore, the exchange rate fluctuation generated by the hedging instruments for the year ended December 31, 2019 and from the date of designation until December 31, 2018 amounted to a net income (loss) of $264 and $(324), 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, 2019 and 2018, the Company holds forwards (EUR/USD) to cover different needs. Additionally, as of December 31, 2018, the Company also held forwards (USD/MXN). In the case of the USD/MXN ratio, the Company sought to cover short-term needs, which correspond to the sale of U.S. dollars for the purchase of raw materials in Mexican pesos. For its part, the EUR/USD ratio is used because part of Alpek's revenues are received in Euros, therefore, a highly probable forecasted transaction related to revenues budgeted in said foreign 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:

As of December 31, 2019

Characteristics	Forwards EUR/USD
Currency	EUR
Notional amount	1.5
Strike (average)	1.1756 EUR/USD
Maturity	Monthly through March 31, 2020
Carrying amount	1.4
Change in the fair value to measure ineffectiveness	1.4
Reclassification from OCI to profit or loss	(0.2)
Recognized in OCI, net of reclassifications	1.6
Change in the fair value of the hedged item to measure ineffectiveness	(1.4)
Change in the fair value of the forward	0.4

As of December 31, 2018

Characteristics	Forwards EUR/USD	Forwards USD/MXN
Notional amount	6	16
Currency	EUR	USD
Strike (average)	1.1756 EUR/USD	20.79 MXN/USD
Maturity	Monthly through March 31, 2020	Weekly through February 27, 2019
Carrying amount	1	17
Change in the fair value to measure ineffectiveness	1	17
Recognized in OCI, net of reclassifications	-	(8)
Effectiveness test results	100%	100%

As of December 31, 2019, in measuring the effectiveness of these hedges, the Company determined that they are highly effective because changes in the fair value and cash flows of each hedged item are compensated within the range of effectiveness established by management. 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 effectiveness result for the USD/MXN exchange rate in 2018 was 100%. Furthermore, both the credit profile of the Company and its counterparties are positive and no changes are expected in the mid-term; thus, the credit risk component is not expected to dominate the hedging relationship. The method used by the Company is the offsetting of cash flows using a hypothetical derivative, which consists in 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 an identical hedge.

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 is 86%. If necessary, a rebalancing will be done to maintain this relationship for the strategy. As of December 31, 2018, the average coverage ratio was 77% for the USD/MXN exchange ratio and 86% for the EUR/USD ratio.

In this hedging relationship, 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, 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 2019 and 2018 was 2.6 and 3.2 US dollars, respectively.

As of December 31, 2019 and 2018, 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. 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 December 2020. Raw material derivatives are mirrored to DAK Americas and DAK Resinas Americas México, as the risk lies in such entities, and derivative financial instruments are contracted by Petrotemex; 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:

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
Maturity (monthly)	December 2020	December 2020	December 2020	December 2020	December 2020	December 2020
Net position of the swap (1)	(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%

(1) 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, 2018

Characteristics	Natural Gas Swaps	Paraxylene Swaps	PTA Swaps	Ethylene Swaps	MEG Swaps	Ethane Swaps
Total notional	17,288,760	297,200	10,500	118,000,000	33,500	10,200,000
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 USD/ MMBtu	$1,057/MT	$459/MT	$0.21/lb	$741/MT	$0.32/gal
Maturity (monthly)	December 2014	December 2019	December 2019	December 2019	December 2019	December 2019
Net position of the swap (1) (2)	(478)	(710)	(3)	(12)	(70)	(2)
Change in the fair value to measure ineffectiveness	200	(803)	(3)	(28)	(70)	(2)
Balance recognized in OCI, net of reclassifications	(478)	(710)	(3)	(12)	(70)	(2)
Effectiveness test results	99%	99.82%	99.82%	99.60%	99.59%	99.59%

(1) 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.

(2) The change in the fair value of the derivative financial instruments recognized in OCI for the year ended December 31, 2019 and 2018 is $998 and $(721), respectively.

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

As of December 31, 2019

	Asset	Liability	Total
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
Total	$ 77	$ (532)	$ (455)

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 identified in the corresponding purchase invoices. In the case of Naphtha, the underlying item of derivative financial instruments is different from that of the hedged item; however, the Company determined that the risk component is separable, it can be reliably measured and is also highly correlated, and has a strong market structure.

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, 2019, 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 for 2019 and 2018 are shown below and, if necessary, a rebalancing will be done to maintain this relationship for the strategy.

Average coverage ratio	**2019**	2018
Natural gas	40%	30%
Paraxylene	79%	72%
Ethylene	54%	44%
Ethane	2%	33%
Terephthalic acid (PTA)	5%	-

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, 2019 and 2018, 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, 2019, 96% of the financing is denominated at a fixed rate, and 4% at a variable rate.

As of December 31, 2019, 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 $12.

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 covering.

The conditions of the derivative financial instrument and the considerations of its valuation as a hedging instrument are mentioned below:

As of December 31, 2018

Characteristics of the swap	Interest rate swap
Currency	USD
Notional	290
Interest rate received	Libor 3m
Interest rate paid	2.897%
Maturity	26/03/2021
Carrying amount of the swap	(42)
Change in the fair value of the swap to measure ineffectiveness	(42)
Recognized in OCI, net of reclassifications	39
Reclassification from OCI to profit or loss	(3)
Change in the fair value of the hedged item to measure ineffectiveness	42

As of December 31, 2018, this hedge is highly effective, given that the critical terms of the derivative and the loan are perfectly matched, so it is confirmed that there is an economic relationship. In addition, both the credit profile of the Company and the counterparty are good and are not expected to change in the medium term; therefore, the credit risk component is not considered to be significant to the hedging relationship. The method used to evaluate effectiveness is through a qualitative evaluation comparing the critical terms between the hedging instrument and the hedged instrument.

In accordance with the reference amounts described and the way in which the flows of derivative financial instruments are exchanged, the average hedging ratio for the interest rate relationship was 100% during 2018. In this hedge relationship, the source of ineffectiveness was mainly credit risk; for the year ended December 31, 2018, there was no ineffectiveness recognized in profit or loss.

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, 2019 and 2018, 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, 2019, 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.

	Less than a year	From 1 to 5 years	More than 5 years
As of December 31, 2019			
Suppliers and other accounts payable	$ 16,455	$ -	$ -
Current and non-current debt (excluding debt issuance costs)	1,700	22,370	11,541
Derivative financial instruments	528	4	-
As of December 31, 2018			
Suppliers and other accounts payable	$ 26,051	$ -	$ -
Current and non-current debt (excluding debt issuance costs)	11,333	34,082	-
Derivative financial instruments	1,047	283	-

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, 2019 and 2018, 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 or 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 said 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 in which this 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 income payments

The Company estimates the discount rate to be used in determining the lease liability, based on the incremental loan 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 holder), or at the level of each subsidiary. Finally, for the leases of real estate, or, in which there is significant and observable evidence of its residual value, the Company estimates and evaluates an adjustment for the characteristics of the underlying asset, taking into account the possibility that said asset be granted as collateral or guarantee against the risk of default.

g. Estimate of the lease term

The Company defines the term of the leases 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 definite forced 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 the administration'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,	
	2019	2018
Cash on hand and in banks	$ 5,413	$ 1,559
Short-term bank deposits	1,646	2,609
Total cash and cash equivalents	$ 7,059	$ 4,168

Restricted cash

At December 31, 2019 and 2018, the Company has restricted cash of approximately $216 and $3, respectively. As of December 31, 2019, the increase in the balance as compared to the prior year is due to the fact that the Company entered into an agreement in which it is committed to hold restricted cash for the acquisition of machinery and equipment. 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,	
	2019	2018
Trade accounts receivable	$ 12,751	$ 18,139
Trade and other accounts receivable from related parties (Note 28)	585	712
Recoverable taxes	4,462	4,647
Notes receivable	485	506
Interest receivable	200	16
Sundry debtors	511	473
Allowance for impairment of trade and other accounts receivable	(2,486)	(2,559)
Current portion	$ 16,508	$ 21,934

The changes in the impairment allowance for trade and other receivables in 2019 and 2018, with the new expected losses model used by the Company, are as follows:

For the year ended December 31, 2019

Customers or customer groups	Default probability range	Loss given default range	Opening balance – Impairment allowance	Increases in the allowance	Cancellations in the allowance	Ending balance – Impairment allowance
Grupo Petrotemex [1]	0.03% - 2.36%	10% - 45%	$ (2,423)	$ (114)	$ 217	$ (2,320)
Grupo Unimor	5.43%	50%	-	-	-	-
Grupo Styropek [1]	0.01% - 0.82%	10% - 35%	(37)	(40)	6	(71)
Polioles	0%	0% - 10%	(25)	(4)	1	(28)
Indelpro and other	1.75%	1.20%	(74)	(1)	8	(67)
Total			$ (2,559)	$ (159)	$ 232	$ (2,486)

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

For the year ended December 31, 2018

Customers or customer groups	Default probability range	Loss given default range	Opening balance – Impairment allowance	Increases in the allowance	Cancellations in the allowance	Ending balance – Impairment allowance
Grupo Petrotemex	0% - 0.24%	10.30% - 35.00%	$ (2,353)	$ (116)	$ 46	$ (2,423)
Grupo Unimor	3.15%	50.00%	-	-	-	-
Grupo Styropek	0% - 100%	0% - 92.05%	(19)	(18)	-	(37)
Polioles	0.01% - 0.14%	0% - 10.00%	(22)	(3)	-	(25)
Indelpro and other	1.68%	1.92%	(63)	(14)	-	(74)
Total			$ (2,457)	$ (151)	$ 49	$ (2,559)

(1) The opening balance of the estimate of impairment of receivables includes $30 of the current portion of long-term notes receivables, which was considered in the balance of the estimate of impairment of trade and other accounts receivable as of January 1, 2018.

As of December 31, 2019 and 2018, the Company has guaranteed accounts receivable of $1,635 and $2,158, respectively.

The net change in the allowance for impairment of trade and other receivables for $(73) in the year ended December 31, 2019, was mainly due to the decrease in the probability of default assigned to certain customers with respect to the beginning of the year. For its part, the variation in the allowance for impairment of trade and other receivables of $102 in the year ended December 31, 2018, was mainly due to the increase in the probability of default allocated to certain customers with respect to the beginning of the year in which the new methodology for impairment of financial assets was applied.

The Company has long-term receivables that are guaranteed with the properties described in Note 2f, 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, 2019	As of December 31, 2018
Finished good	$ 10,203	$ 13,632
Raw material and other consumables	5,606	8,916
Materials and tools	1,637	1,423
Production in progress	520	540
	$ 17,966	$ 24,511

For the years ended December 31, 2019 and 2018, a provision amounting to $17 and $15, respectively, related to damaged, slow-moving and obsolete inventory was recognized in the consolidated statement of income.

At December 31, 2019 and 2018, 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, 2019	As of December 31, 2018
Current portion [1]	$ 1,785	$ 469
Non-current portion	16	38
Total prepayments	$ 1,801	$ 507

(1) This item mainly consists of advertising and prepaid insurance. Additionally, as of December 31, 2019, it includes $1,300 related to the advance payment for the acquisition of Lotte UK, as described in Note 2d.

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, 2018								
Opening balance	$ 3,494	$ 4,616	$ 23,998	$ 62	$ 273	$ 8,114	$ 978	$ 41,535
Additions	-	2	71	2	4	2,584	26	2,689
Additions for business acquisitions	369	2,592	3,249	-	64	386	-	6,660
Disposals	(11)	-	(35)	(3)	-	(339)	(4)	(392)
Impairment	-	(1)	(16)	-	-	(318)	-	(335)
Restatement and translation effect	(14)	(203)	(160)	(3)	1	(50)	1	(428)
Depreciation charges recognized in the year	-	(390)	(2,052)	(15)	(85)	-	-	(2,542)
Transfers	-	268	1,177	16	93	(1,708)	-	(154)
Ending balance as of December 31, 2018	3,838	6,884	26,232	59	350	8,669	1,001	47,033
As of December 31, 2018								
Cost	3,838	18,003	73,914	328	1,914	8,669	1,001	107,667
Accumulated depreciation	-	(11,119)	(47,682)	(269)	(1,564)	-	-	(60,634)
Net carrying amount as of December 31, 2018	$ 3,838	$ 6,884	$ 26,232	$ 59	$ 350	$ 8,669	$ 1,001	$ 47,033
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	3,732	5,810	23,091	58	331	2,837	1,223	37,082
As of December 31, 2019								
Cost	3,732	16,724	70,632	323	1,881	2,837	1,223	97,352
Accumulated depreciation	-	(10,914)	(47,541)	(265)	(1,550)	-	-	(60,270)
Net carrying amount as of December 31, 2019	$ 3,732	$ 5,810	$ 23,091	$ 58	$ 331	$ 2,837	$ 1,223	$ 37,082

Depreciation expenses of $2,742 and $2,483 were recorded in cost of sales, $31 and $13, in selling expenses and $43 and $46, in administrative expenses in 2019 and 2018, respectively. The Company has capitalized costs of loans on qualified assets for $182 and $314 for the years ended December 31, 2019 and 2018, respectively. Costs from loans were capitalized at the weighted average borrowing rate of approximately 4.8% and 5.4%, respectively.

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, 2019, is integrated as follows:

Net book value:	Land	Buildings	Machinery and equipment	Rail cars	Ships and other leased assets	Total
Adoption effect						
Balance as of January 1, 2019	$ 115	$ 195	$ 904	$ 2,005	$ 23	$ 3,242
Balance as of December 31, 2019	104	176	1,011	1,975	171	3,437
Depreciation for the year 2019	$ (6)	$ (46)	$ (260)	$ (409)	$ (113)	$ (834)

During the year ended December 31, 2019, the Company recognized a lease expense of $664 related to low value and short-term lease agreements.

Additions to the net book value of the right of use asset as of December 31, 2019 amounted to $1,226.

As of December 31, 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

	Definite life						Indefinite life		
Cost	Development costs	Non-competence agreements	Customer relationships	Software and licenses	Trademarks with definite life	Intellectual property, maquila rights and others	Goodwill	Other	Total
As of January 1, 2018	$ 910	$ 106	$ 751	$ 263	$ -	$ 3,765	$ 339	$ 14	$ 6,148
Additions	11	-	-	19	-	239	-	14	283
Additions for business acquisitions	-	-	384	289	-	-	-	-	673
Translation effect	(3)	(18)	(15)	(16)	-	(8)	(1)	2	(59)
As of December 31, 2018	$ 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	$ 887	$ 81	$ 1,059	$ 604	$ 68	$ 3,568	$ 377	$ 9	$ 6,653
Amortization									
As of January 1, 2018	$ (508)	$ (86)	$ (384)	$ (111)	$ -	$ (994)	$ -	$ -	$ (2,083)
Amortization	(24)	(12)	(62)	(38)	-	(207)	-	-	(343)
Additions for business acquisitions	-	-	-	(285)	-	-	-	-	(285)
Disposals	-	-	-	-	-	(1)	-	-	(1)
Translation effect	1	16	2	16	-	-	-	-	35
As of December 31, 2018	$ (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	$ (531)	$ (81)	$ (484)	$ (435)	$ (4)	$ (1,335)	$ -	$ -	$ (2,870)
Net carrying amount									
Cost	$ 918	$ 88	$ 1,120	$ 555	$ -	$ 3,996	$ 338	$ 30	$ 7,045
Amortization	(531)	(82)	(444)	(418)	-	(1,202)	-	-	(2,677)
As of December 31, 2018	$ 387	$ 6	$ 676	$ 137	$ -	$ 2,794	$ 338	$ 30	$ 4,368
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	$ 356	$ -	$ 575	$ 169	$ 64	$ 2,233	$ 377	$ 9	$ 3,783

Of the total amortization expense, $345 and $326 have been recorded in cost of sales and $9 and $17 in administrative expenses in 2019 and 2018, respectively.

Incurred research and development expenses that have been recorded in the 2019 and 2018 consolidated statements of income were $40 and $53, 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, 2019 and 2018, goodwill of $377 and $338, 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 key assumptions used in calculating the value in use in 2019 and 2018, were as follows:

	2019	2018
Estimated gross margin	5.2%	5.7%
Growth rate	1.8%	1.0%
Discount rate	8.9%	8.9%

13. OTHER NON-CURRENT ASSETS

	As of December 31, 2019	2018
Notes receivable (1)	$ 3,365	$ 3,995
Due from related parties (Note 28)	762	761
Trade receivables related with business acquisitions	679	616
Total other non-current financial assets	4,806	5,372
Investment in associates and joint ventures (2)	8,197	8,746
Recoverable taxes	582	1,736
Other	176	105
Total other assets	$ 13,761	$ 15,959

(1) As of December 31, 2019 and 2018, this item mainly consisted of the financing described in Note 2f.

(2) Investment in associates and joint ventures

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

	Shareholding %	2019	2018
Clear Path Recycling, LLC	49.90%	$ 257	$ 305
Terminal Petroquímica Altamira, S.A. de C.V.	42.00%	40	35
Agua Industrial del Poniente, S.A. de C.V.	47.60%	71	66
Galpek, LDA	50.00%	55	236
Corpus Christi Polymers LLC	33.30%	7,774	8,104
Investment in associates and joint ventures as of December 31		$ 8,197	$ 8,746

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

	2019	2018
Net comprehensive loss	$ (740)	$ (61)

There are neither commitments nor contingencies liabilities regarding the Company's investment in associates and joint ventures as of December 31, 2019 or 2018.

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,	
		2019	2018	2019	2018
Indelpro, S. A. de C. V. and subsidiary	49%	$ 890	$ 1,138	$ 3,902	$ 4,135
Polioles, S. A. de C. V. and subsidiary	50%	49	38	279	294
Other		(20)	125	397	607
		$ 919	$ 1,301	$ 4,578	$ 5,036

The summarized consolidated financial information as of December 31, 2019 and 2018, 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	
	2019	2018	**2019**	2018
Statement of financial position				
Current assets	$ 4,114	$ 5,076	$ 1,317	$ 1,775
Non-current assets	7,536	7,458	974	1,005
Current liabilities	1,723	2,230	538	824
Non-current liabilities	1,965	1,865	1,195	1,369
Stockholders' equity	7,962	8,439	558	587
Statements of income				
Revenues	12,019	14,494	3,087	3,736
Consolidated net income	1,817	2,323	97	76
Total comprehensive income of the year	1,472	2,239	46	63
Comprehensive income attributable to non-controlling interest	721	1,097	23	32
Dividends paid to non-controlling interest	955	902	38	79
Statements of cash flows				
Net cash flows generated by operating activities	2,100	3,232	74	129
Net cash flows (used in) generated by investing activities	(259)	(286)	200	363
Net cash flows used in financing activities	(2,187)	(2,273)	(268)	(418)
Net increase (decrease) in cash and cash equivalents	(351)	611	1	89

15. TRADE AND OTHER ACCOUNTS PAYABLE

	As of December 31, 2019		2018	
Trade accounts payable	$	13,064	$	22,330
Short-term employee benefits		545		889
Advances from customers		17		18
Taxes other than income taxes		938		927
Due to related parties (Note 28)		247		392
Other accrued accounts and expenses payable		1,644		1,495
	$	16,455	$	26,051

16. DEBT

	As of December 31, 2019		2018	
Current:				
Bank loans (1)	$	375	$	9,588
Current portion of non-current debt		301		472
Notes payable (1)		27		43
Interest payable		4		15
Current debt	$	707	$	10,118
Non-current:				
Senior Notes	$	27,426	$	18,777
Unsecured bank loans		836		11,707
Other loans		142		-
Total		28,404		30,484
Less: current portion of non-current debt		(301)		(472)
Non-current debt (2)	$	28,103	$	30,012

(1) As of December 31, 2019 and 2018, short-term bank loans and notes payable incurred interest at an average rate of 4.19%, and 3.55%, respectively.

(2) 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, 2019	Balance as of December 31, 2018 (1)	Maturity date MM/DD/YY	Interest rate
Senior Notes 144A/Reg. S / fixed rate	USD	$ 12,234	$ (48)	$ 61	$ 12,247	$ 12,778	20-nov-22	4.50%
Senior Notes 144A/Reg. S / fixed rate	USD	5,654	(25)	119	5,748	5,999	08-aug-23	5.38%
Senior Notes 144A/Reg. S / fixed rate	USD	9,397	(80)	114	9,431	-	18-sep-29	4.25%
Total Senior Notes		27,285	(153)	294	27,426	18,777		
Bank loan, BADLAR + 1.00%	ARS	2	-	-	2	20	01-apr-20	45.69%
Bank loan, fixed 25.00%	ARS	3	-	-	3	5	08-dec-20	25.00%
Bank loan, Libor +1.10% (2)	USD	-	-	-	-	1,982	30-nov-20	3.62%
Bank loan, Libor +1.10% (2)	USD	-	-	-	-	989	30-nov-20	3.55%
Bank loan, Libor +3.25% (2)	USD	-	-	-	-	1,989	25-oct-22	5.75%
Bank loan, Libor +1.45%	USD	829	-	2	831	986	15-dec-22	3.34%
Bank loan, Libor +1.25% (2)	USD	-	-	-	-	2,169	28-mar-21	4.03%
Bank loan, Libor +1.25% (2)	USD	-	-	-	-	3,567	28-mar-21	3.76%
Total unsecured bank loans		834	-	2	836	11,707		
Other loans	USD	142	-	-	142	-	Various	Various
Total		$ 28,261	$ (153)	$ 296	$ 28,404	$ 30,484		

(1) As of December 31, 2018, debt issuance costs pending to be amortized were $92.

(2) These loans were paid in advance during the year ended December 31, 2019, using the resources obtained from the debt issuance (Note 2c), and the sale transaction described in Note 2b.

As of December 31, 2019, the annual maturities of non-current debt are as follows:

	2021	2022	2023	2024 and thereafter	Total
Bank loans	$ 358	$ 471	$ -	$ -	$ 829
Senior Notes	-	12,186	5,629	9,317	27,132
Notes payable	-	-	-	142	142
	$ 358	$ 12,657	$ 5,629	$ 9,459	$ 28,103

As of December 31, 2019 and 2018, the Company has committed unused lines of credit totaling US$740 and US$728, respectively.

Covenants:

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

a) 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 factor 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 factor 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 2019 and 2018, the financial ratios were calculated according to the formulas set forth in the loan agreements. As of December 31, 2019 and the date of issuance of these consolidated financial statements, the Company complied satisfactorily with such covenants and restrictions.

17. LEASE LIABILITY

	As of December 31, 2019
Current portion:	
USD	$ 531
MXN	214
Other currencies	167
Current lease liability	912
Non-current portion:	
USD	2,387
MXN	405
Other currencies	576
	3,368
Less: Current portion of lease liability	(912)
Non-current lease liability	$ 2,456

As of December 31, 2019, changes in the lease lability related to finance activities in accordance with the statement of cash flow are integrated as follows:

		2019
Beginning balance	$	3,242
New contracts		1,226
Write-offs		(165)
Adjustment to liability balance		74
Interest expense from lease liability		205
Lease payments		(1,108)
Exchange (loss) gain		(106)
Ending balance	$	3,368

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

		December 31, 2019
Less than a year	$	912
Over 1 year and less than 5 years		1,885
Over 5 years		571
Total	$	3,368

18. PROVISIONS

	Dismantling, demolition and environmental remediation	Legal contingencies	Warranties	Other	Total
As of January 1, 2018	$ 13	$ -	$ -	$ 167	$ 180
Increases	-	639	-	485	1,124
Payments	(4)	-	-	(56)	(60)
Write-offs	-	(18)	-	-	(18)
Translation effect	-	(1)	-	(37)	(38)
As of December 31, 2018	$ 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	$ 6	$ 662	$ 544	$ 442	$ 1,654

	2019	2018
Short-term provisions	$ 576	$ 81
Long-term provisions	1,078	1,107
As of December 31	$ 1,654	$ 1,188

As of December 31, 2019, the provisions shown in the table above mainly include $251 (US$13) 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 $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 $679 (US$36) as of December 31, 2019. In addition, as of December 31, 2019, they also include a provision of warranties related to the sales transaction described in Note 2b.

Additionally, as of December 31, 2019, $140 (US$7.5) were related to for the contingent liability for the earn-out payment related to the acquisition of Selenis.

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, 2019	2018
Employee benefit obligations:		
Pension benefits	$ 766	$ 797
Post-employment medical benefits	106	120
	872	917
Defined contribution plans	220	182
Employee benefits in the consolidated statement of financial position	$ 1,092	$ 1,099
Charge to the consolidated statement of income for:		
Pension benefits	$ (59)	$ (64)
Post-employment medical benefits	(6)	(6)
	(65)	(70)
Remeasurements of employee benefit obligations recognized in other comprehensive income of the year	$ 19	$ (73)
Remeasurements of accrued employee benefit obligations recognized in other comprehensive income	$ (85)	$ (104)

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, 2019	2018
Present value of defined benefit obligations	$ 3,813	$ 3,672
Fair value of plan assets	(2,941)	(2,755)
Liability in the statement of financial position	$ 872	$ 917

The movements of defined benefit obligations are as follows:

	2019	2018
As of January 1	$ 3,672	$ 3,998
Service cost	45	45
Interest cost	127	145
Contributions from plan participants	10	11
Remeasurements:		
Losses (gains) from changes in financial assumptions	310	(191)
Losses (gains) from changes in demographic assumptions and experience adjustments	(89)	(7)
Translation effect	12	-
Benefits paid	(265)	(328)
Plan curtailments	(9)	(1)
As of December 31	$ 3,813	$ 3,672

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

	2019	2018
As of January 1	$ (2,755)	$ (3,097)
Interest income	(146)	(119)
Remeasurements – return on plan assets, excluding interest income	(239)	261
Translation effect	(1)	7
Contributions	(46)	(47)
Benefits paid	247	240
As of December 31	$ (2,940)	$ (2,755)

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

	2019	2018
Service cost	$ (45)	$ (45)
Interest cost, net	(29)	(26)
Effect of plan curtailments and/or settlements	9	1
Total included in personnel cost	$ (65)	$ (70)

The principal actuarial assumptions are as follows:

	As of December 31,	
	2019	2018
Discount rate Mexico	7.00%	9.50%
Discount rate United States	2.92%-3.12%	3.89%-4.03%
Inflation rate	4.50%	3.50%
Wage increase rate	4.50%	4.50%
Medical inflation rate Mexico	6.50%	6.50%

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

	Effect in defined benefit obligations		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	Mx 1%	Decrease by $114	Increase by $121

Sensibility 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 sensibility 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:

	As of December 31,	
	2019	2018
Equity instruments	$ 1,932	$ 1,797
Fixed income	1,008	958
Fair value of plan assets	$ 2,940	$ 2,755

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:

	2019	2018
United States	21%	21%
Brazil	34%	34%
Argentina	30%	30%
Chile	27%	27%
Canada	25%	25%
Spain	25%	25%

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

	2019	2018
Current income tax	$ (2,463)	$ (2,075)
Deferred income tax	574	(1,380)
Income taxes	$ (1,889)	$ (3,455)

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

	2019	2018
Income before income taxes	$ 9,413	$ 18,389
Income tax rate	30%	30%
Statutory income tax rate expense	(2,824)	(5,517)
(Less) add income tax effect on:		
Annual adjustment for inflation	(268)	(388)
Non-deductible expenses	(24)	(12)
Non-taxable income	1,095	1,362
Effect of different tax rates of other countries other than Mexico	94	504
True up with respect to prior years' current income tax	94	474
Translation effect from the functional currency	38	131
Investments in associates and joint ventures	(94)	(9)
Total income taxes	$ (1,889)	$ (3,455)
Effective tax rate	20%	19%

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

	Asset (liability) December 31, 2019	Asset (liability) December 31, 2018
Property, plant and equipment	$ (118)	$ (1,221)
Intangible assets	(163)	(246)
Debt issuance costs	(15)	(17)
Provisions	212	123
Derivative financial instruments	-	334
Tax loss carryforwards	558	1,019
Tax credits, impairment allowance and other	633	1,489
Effect of tax rates of other countries and changes in tax rates	(3)	(97)
Deferred tax asset	$ 1,104	$ 1,384
Inventories	(126)	(106)
Property, plant and equipment, net	(5,766)	(5,757)
Intangible assets	(304)	(48)
Tax loss carryforwards	582	177
Other items	1,634	981
Effect of tax rates of other countries and changes in tax rates	54	1
Deferred tax liability	$ (3,926)	$ (4,752)

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 $32,320 and $9,328 in 2019 and 2018, respectively.

Tax losses as of December 31, 2019 expire in the following years:

Loss for the year incurred	Tax-loss carryforwards	Expiration year
2010	$ 5	2020
2011	124	2021
2013	55	2023
2014	409	2024
2015	187	2025
2016	272	2026
2017	33	2027
2018	2,244	2028
2019	472	2029 and thereafter
Other	28,519	No maturity
	$ 32,320	

As of December 31, 2019, the Company holds tax losses to be amortized in Brazil, through Petroquímica Suape and Citepe, for an amount of $28,519, which have no expiration date. The Company has decided to reserve a portion of these tax losses, according to management's estimate of future reversals of temporary differences; thus, as of December 31, 2019, they do not generate deferred tax assets.

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

	2019			2018		
	Before taxes	Tax charged	After taxes	Before taxes	Tax charged	After taxes
Foreign currency translation effect	$ (1,954)	$ -	$ (1,954)	$ (1,814)	$ -	$ (1,814)
Remeasurement of employee benefit obligations	18	4	22	(73)	18	(55)
Effect of derivative financial instruments designated as cash flow hedges	998	(233)	765	(721)	161	(560)
Other comprehensive loss	$ (938)	$ (229)	$ (1,167)	$ (2,608)	$ 179	$ (2,429)

e. *Income tax payable consists of the following:*

	As of December 31,	
	2019	2018
Current portion	$ 1,143	$ 1,279
Non-current portion	400	469
Total income tax payable	$ 1,543	$ 1,748

21. OTHER NON-CURRENT LIABILITIES

	As of December 31,	
	2019	2018
Advances from customers (1)	$ 290	$ 361
Other	66	75
Total other liabilities	$ 356	$ 436

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

22. STOCKHOLDERS' EQUITY

As of December 31, 2019, 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, 2019, Alpek SAB had 2,496,541 treasury shares. As of such date, the market value per share was $20.89 Mexican pesos.

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 connection to a repurchase program that was approved by the Company's stockholders and exercised discretionally by Management. During 2018, the Company sold 1,485,884 shares in the amount of $39, in connection with the abovementioned repurchase 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, 2019 and 2018, the legal reserve amounts to $854 and $804, respectively.

At the ordinary stockholders' meeting of Alpek on February 27, 2019, the stockholders agreed to declare dividends in cash in the aggregate amount of $2,778 (US$143), 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, 2019, the tax value of the consolidated CUFIN and value of the Capital Contribution Account (CUCA Spanish acronym) amounted to $3,811 and $20,823, 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 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 used as reference is:

	2019	2018
Alfa, S. A. B. de C. V.	15.72	22.11
Alpek, S. A. B. de C. V.	20.94	24.13

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

	As of December 31,	
	2019	2018
Short term	$ 8	$ 8
Long term	18	20
Total carrying amount	$ 26	$ 28

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:

	2019	2018
Raw material and other	$ (85,823)	$ (95,750)
Employee benefit expenses (Note 27)	(5,365)	(5,128)
Human resource expenses	(86)	(48)
Maintenance	(2,003)	(1,746)
Depreciation and amortization	(4,005)	(2,887)
Advertising expenses	(2)	(3)
Freight expenses	(4,987)	(5,305)
Consumption of energy and fuel (gas, electricity, etc.)	(4,637)	(5,380)
Travel expenses	(203)	(171)
Lease expenses [1]	(664)	(966)
Technical assistance, professional fees and administrative services	(1,599)	(1,481)
Other (insurance and bonds, water, containers and packing, etc.)	(2,214)	(2,956)
Total	$ (111,588)	$ (121,821)

[1] Beginning January 1, 2019, this concept includes the expense for those short-term leases and low-value assets which, according to the Company's accounting policy, do not result in the recognition of a right-of-use asset and a lease liability.

25. OTHER INCOME, NET

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

	2019	2018
Gain on business acquisition	$ -	$ 4,597
Gain on business sale	3,634	-
Other income	659	423
Impairment of property, plant and equipment and other	(29)	(456)
Total	$ 4,264	$ 4,564

26. FINANCE INCOME AND COSTS

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

	2019	2018
Financial income:		
Interest income on short-term bank deposits	$ 152	$ 98
Interest income on loans from related parties	26	27
Other financial income	596	317
Total financial income	$ 774	$ 442
Financial expenses:		
Interest expense on loans to related parties	$ (3)	$ (2)
Interest expense on bank loans	(1,035)	(893)
Non-bank interest expense	(1,075)	(966)
Lease interest expense	(205)	-
Interest cost on employee benefits, net	(42)	(21)
Other financial expenses	(462)	(301)
Total financial expense	$ (2,822)	$ (2,183)
Loss in exchange fluctuation, net		
Foreign exchange gain	4,637	3,302
Foreign exchange loss	(5,224)	(4,344)
Loss in exchange fluctuation, net	$ (587)	$ (1,042)
Financial result, net	$ (2,635)	$ (2,783)

27. EMPLOYEE BENEFIT EXPENSES

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

	2019	2018
Salaries, wages and benefits	$ (3,896)	$ (3,869)
Social security fees	(419)	(351)
Employee benefits	(36)	(44)
Other fees	(1,014)	(864)
Total	$ (5,365)	$ (5,128)

28. RELATED PARTY TRANSACTIONS

Transactions with related parties during the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Income		
Income from sale of goods:		
Associates and joint ventures	$ 3	$ -
Stockholders with significant influence over subsidiaries	1,445	1,486
Income from services:		
Affiliates	78	263
Stockholders with significant influence over subsidiaries	181	220
Income from financial interest:		
Alfa	25	25
Affiliates	1	-
Stockholders with significant influence over subsidiaries	-	2
Income from leases:		
Stockholders with significant influence over subsidiaries	25	-
Income from sale of energy:		
Affiliates	354	-
Stockholders with significant influence over subsidiaries	29	-
Income from technical assistance:		
Stockholders with significant influence over subsidiaries	3	-
Other income:		
Affiliates	1	-
Associates and joint ventures	-	3

(To be continue)

Costs / expenses		
Purchase of finished goods and raw materials:		
Stockholders with significant influence over subsidiaries	(824)	(992)
Expenses from services:		
Affiliates	(344)	(394)
Associates and joint ventures	(18)	-
Stockholders with significant influence over subsidiaries	(22)	(24)
Financial interest expenses:		
Associates and joint ventures	(2)	(2)
Commission expenses:		
Stockholders with significant influence over subsidiaries	(1)	-
Other expenses:		
Affiliates	(16)	(18)
Associates and joint ventures	(63)	(38)
Stockholders with significant influence over subsidiaries	(3)	-
Dividends declared:		
Alfa	(2,280)	-
Other stockholders	(498)	-
Dividends of subsidiaries to non-controlling interest:		
Stockholders with significant influence over subsidiaries	(993)	(981)
Other stockholders	(189)	-

For the year ended December 31, 2019, the remunerations and benefits received by the top officers of the Company amounted to $413 ($281 in 2018), 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:

	Nature of the transaction	As of December 31, 2019	2018
Short-term accounts receivable:			
Holding company			
Alfa, S. A. B. de C. V.	Administrative services	$ 190	$ 190
Affiliates			
Innovación y Desarrollo de Energía			
Alfa Sustentable, S. A. de C. V.	Administrative services	115	115
Newpek, LLC	Administrative services	14	4
Nemak México, S. A. de C. V.	Sale of goods	31	9
Terza, S. A. de C. V.	Sale of goods	1	1
Sigma Alimentos Lácteos, S.A. de C.V.		-	4
Sigma Alimentos Centro, S.A. de C.V.	Administrative services	2	-
Stockholders with significant influence on subsidiaries			
BASF	Sale of goods	196	132
BASF	Sale of business	-	203
Basell	Sale of goods	30	54
Basell	Administrative services	6	-
		$ 585	$ 712
Long-term accounts receivable:			
Holding company			
Alfa, S. A. B. de C. V. (1)	Financing and interest	$ 753	$ 761
Affiliates			
Colombin Bel, S.A. de C.V. (1)	Financing and interest	9	-
		$ 762	$ 761

(To be continue)

	Nature of the transaction	As of December 31, 2019		2018	
Short-term accounts payable:					
Affiliates					
Alliax, S. A. de C. V.	Administrative services	$	13	$	21
Nemak Exterior, LTD	Administrative services		3		2
Alfa Corporativo, S. A. de C. V.	Administrative services		25		23
Servicios Empresariales del Norte, S.A. de C.V.	Administrative services		-		2
Axtel S.A.B. de C.V.	Administrative services		4		3
Associates					
Clear Path Recycling, LLC	Financing and interest		48		69
Stockholders with significant influence over subsidiaries					
BASF	Purchase of raw material		140		-
BASF	Purchase of goods		-		259
Basell	Purchase of goods		14		-
Basell	Other		-		12
Terminal Petroquímica Altamira, S.A. de C.V.	Other		-		1
		$	247	$	392
Long-term accounts payable:					
Affiliates					
Alfa Corporativo, S. A. de C. V.	Administrative services	$	-	$	4
		$	-	$	4

(1) As of December 31, 2019 and 2018, the loans granted bore interest at average fixed interest rate of 5.32% and 5.34%, 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:

For the year ended December 31, 2019:

	Polyester	Plastics and Chemicals	Other	Total
Statement of income:				
Income by segment	$ 91,247	$ 27,217	$ 1,221	$ 119,685
Inter-segment income	(390)	(120)	510	-
Income from external customers	$ 90,857	$ 27,097	$ 1,731	$ 119,685
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
Adjusted EBITDA	$ 8,236	$ 4,198	$ 3,961	$ 16,395
Investments in fixed and intangible assets	$ 2,578	$ 475	$ 9	$ 3,062

For the year ended December 31, 2018:

	Polyester	Plastics and Chemicals	Other	Total
Statement of income:				
Income by segment	$ 99,664	$ 33,204	$ 1,655	$ 134,523
Inter-segment income	(105)	(279)	384	-
Income from external customers	$ 99,559	$ 32,925	$ 2,039	$ 134,523
Operating income	$ 16,470	$ 4,735	$ (3)	$ 21,202
Depreciation and amortization	2,329	556	-	2,885
Impairment of long-lived assets	(3,481)	1	-	(3,480)
Adjusted EBITDA	$ 15,318	$ 5,292	$ (3)	$ 20,607
Investments in fixed and intangible assets	$ 1,509	$ 491	$ 5	$ 2,005

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

	2019	2018
Adjusted EBITDA	$ 16,395	$ 20,607
Depreciation and amortization	(4,005)	(2,885)
(Impairment) reversal of impairment of long-lived assets	(29)	3,480
Operating income	12,361	21,202
Financial result, net	(2,635)	(2,783)
Equity in loss of associates and joint ventures	(313)	(30)
Income before income taxes	$ 9,413	$ 18,389

The Company's main customer generated revenue amounting to $11,455 for year ended December 31, 2019. This revenue is obtained from the polyester reporting segment and represents 9.6% of the consolidated revenue with external costumers for the year ended December 31, 2019.

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

	2019	2018
Mexico	$ 47,702	$ 54,282
United States	47,563	57,894
Argentina	5,545	6,784
Brazil	15,413	11,291
Chile	947	1,094
Canada	2,515	3,178
Total revenues	$ 119,685	$ 134,523

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

	As of December 31,	
	2019	2018
Mexico	$ 1,789	$ 2,243
United States	1,638	1,712
Canada	24	29
Brazil	332	384
Total intangible assets	$ 3,783	$ 4,368
Mexico	$ 23,040	$ 32,520
United States	7,077	6,773
Canada	932	1,068
Argentina	110	140
Chile	240	273
Brazil	5,683	6,259
Total property, plant and equipment	$ 37,082	$ 47,033

30. COMMITMENTS AND CONTINGENCIES

At December 31, 2019, the Company has the following commitments:

a) At December 31, 2019 and 2018, 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. The term of these agreements varies between one and five years and generally contain price adjustment clauses.

b) Indelpro 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 determinate period.

As of December 31, 2019, the Company has the following contingencies:

a) During the normal course of the business, the Company may be involved in disputes and litigations. While the results of these can't 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.

b) 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, 2019, 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 said 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 $416 in taxes, fines and interest that the SFSP demands; therefore, as of December 31, 2019, the Company has not recognized any provision related to this concept.

On the other hand, for the concept of ICMS crediting, the amount demanded amounts to $83, 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, 2019.

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, 2019 and through January 31, 2020 (date of issuance of the consolidated financial statements), and has identified the following subsequent events:

a) The Company closed the transaction described in Note 2d on January 1, 2020; therefore, beginning that date, the financial information of the entity, now called Alpek Polyester UK LTD, is consolidated in Alpek's financial statements.

b) At the ordinary stockholders' meeting of the Company on January 20, 2020, the stockholders agreed to declare dividends in cash in the aggregate amount of $2,713 (US$143), which were paid in a single disbursement on January 29, 2020.

32. AUTHORIZATION TO ISSUE THE CONSOLIDATED FINANCIAL STATEMENTS

On January 31, 2020, 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.

* * *

INVESTOR RELATIONS

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