Grupo Herdez, S. A. B. de C. V. and subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020 and 2019
with Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of
Grupo Herdez, S.A.B. de C.V. and subsidiaries

Opinion

We have audited the accompanying consolidated financial statements of Grupo Herdez, S.A.B. de C.V. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Grupo Herdez, S.A.B. de C.V. and its subsidiaries as at 31 December 2020 and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico in accordance with the *Código de Ética Profesional del Instituto Mexicano de Contadores Públicos* (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The consolidated financial statements as at and for the year ended 31 December 2019 were audited by other independent accountants, whose audit report dated 24 March 2020, expressed an unqualified opinion on those statements.

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.

Why the matter was determined to be a key audit matter

We considered the identification of the frozen product cash generating unit (CGU) to be a key audit matter, since management made significant judgments and estimates to:

- Identify the assumptions used by Management to group together the long-lived assets of the frozen products segment that generate cash inflows that are largely independent of the cash inflows from other assets;
- Identify the CGU based on how operations are controlled (for example, by product line, business or location) or on decisions made to dispose of the Company's assets or to continue operations.

The Group is required to identify the frozen product CGU in order to assess whether there is an indication that the Company's long-lived assets allocated to such CGU may be impaired, including goodwill of Ps. 1,296,500 thousand as at 31 December 2020.

Note 11 to the consolidated financial statements describes Management's assessment of the frozen product CGU identified as at and for the year ended 31 December 2020.

How we responded to this key audit matter

We analyzed the assumptions used by management to identify and group together the lines of business comprising the frozen product CGU. We verified that management's business model is consistent with the identification of the Company's CGU, specially the frozen product CGU. We evaluated the accounting estimates made by the Group regarding its financial projections of the frozen product segment. We analyzed Management's impairment assessment of the frozen product CGUs and verified the competence, technical skills and objectivity of the internal valuation specialists engaged by management. We involved our valuation specialists to assist us in evaluating the reasonableness of the significant assumptions and the approach used by the Group for identifying and assessing the frozen product CGU for impairment on an annual basis.

Additionally, we evaluated the appropriateness of the disclosures related to the identification and assessment of the frozen product CGU made by Management in the consolidated financial statements as at 31 December 2020.

Other information

The other information comprises the information included in the annual report filed with the National Banking and Securities Commission (the CNBV) and the annual report submitted to the shareholders, but does not include the consolidated financial statements and our auditor's report thereon. We expect to obtain the other information after the date of this auditor's report. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read and consider the Annual Report filed with the CNBV, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and to issue a statement on the Annual Report required by the CNBV that contains a description of the matter.

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

Management is responsible for the preparation and fair presentation of the accompanying 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 Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditor's 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Audit Committee, 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 auditor's 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.

The partner in charge of the audit resulting in this independent auditor's report is the undersigned.

Mancera, S.C.
A Member Practice of
Ernst & Young Global Limited

C.P.C. Ernestina Hernández López

Mexico City
13 March 2021

Grupo Herdez, S. A. B. de C. V. and subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in thousands of Mexican pesos)

Assets		As at 31 December 2020		2019
Current assets:				
Cash and cash equivalents	Ps.	3,680,580	Ps.	2,309,507
Accounts receivable:				
Trade (Notes 6 and 9)		2,997,265		3,173,045
Debtors (Note 9)		144,834		141,493
Recoverable value added tax		965,279		967,471
Recoverable income tax		46,338		7,286
Related parties (Note 7)		326,208		247,305
		4,479,924		4,536,600
Inventories (Note 8)		3,370,027		3,990,972
Derivative financial instruments (Note 5)		41,250		52,860
Prepaid expenses		68,999		84,716
Total current assets		11,640,780		10,974,655
Non-current recoverable taxes		360,612		-
Property, machinery and equipment (Note 10)		4,795,709		5,540,290
Right-of-use assets (Note 16)		955,356		1,007,375
Equity investment in associates (Note 12)		7,258,169		7,186,573
Intangible assets and goodwill (Note 11)		7,062,145		7,229,839
Deferred income tax (Note 18)		1,428,682		1,077,563
Other assets		73,200		65,139
Total assets	Ps.	33,574,653	Ps.	33,081,434

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

Grupo Herdez, S. A. B. de C. V. and subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in thousands of Mexican pesos)

Liabilities and equity		2020		2019
Current liabilities:				
Suppliers	Ps.	2,656,591	Ps.	2,455,053
Creditors		1,582,720		1,549,629
Related parties (Note 7)		84,695		77,432
Derivative financial instruments (Note 5)		72,709		19,245
Income tax payable		17,608		170,649
Lease liabilities (Note 16)		360,504		303,818
Employee profit sharing payable		32,522		52,095
Total current liabilities		4,807,349		4,627,921
Non-current liabilities:				
Notes payable (Note 14)		9,456,112		7,960,373
Long-term debt (Note 14)		5,925		7,644
Lease liabilities (Note 16)		471,096		587,208
Deferred income tax (Note 18)		1,049,037		1,273,795
Income tax from tax consolidation (Note 18)		77,487		113,013
Employee benefits (Note 17)		371,184		263,824
Total non-current liabilities		11,430,841		10,205,857
Total liabilities		16,238,190		14,833,778
Equity (Note 19):				
Share capital		575,625		575,625
Reserve for repurchase of shares		2,661,845		453,150
Retained earnings		3,204,797		6,282,338
Legal reserve		141,862		141,862
Share premium		135,316		135,316
Unrealized gain on valuation of financial instruments		12,810		44,683
Cumulative translation adjustment		489,896		340,995
Attributable to equity holders of the parent		7,222,151		7,973,969
Attributable to non-controlling interests		10,114,312		10,273,687
Total equity		17,336,463		18,247,656
Contingencies and commitments (Notes 27 and 28)				
Subsequent events (Note 29)				
Total liabilities and equity	Ps.	33,574,653	Ps.	33,081,434

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

Grupo Herdez, S. A. B. de C. V. and subsidiaries

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(Amounts in thousands of Mexican pesos)

	For the year ended 31 December			
		2020		2019
Net sales (Note 20)	Ps.	24,036,279	Ps.	22,420,369
Cost of sales (Note 21)		15,048,082		13,787,485
Gross profit		8,988,197		8,632,884
General expenses:				
Selling (Note 22)		5,267,538		4,960,707
Administrative (Note 22)		873,647		825,232
		6,141,185		5,785,939
Profit before other income and expenses		2,847,012		2,846,945
Other income, net (Note 23)		407,708		142,957
Operating profit		3,254,720		2,989,902
Net financing cost:				
Interest income and foreign exchange gain (Note 24)		768,577		308,390
Interest expense and foreign exchange loss (Note 24)		(1,438,161)		(920,518)
Net financing cost		(669,584)		(612,128)
Share of profit of associates (Note 12)		756,978		775,933
Profit before income tax		3,342,114		3,153,707
Income tax (Note 18)		973,658		929,665
Consolidated net profit for the year		2,368,456		2,224,042
Net profit of equity holders of the parent		827,960		1,014,497
Net profit attributable to non-controlling interests		1,540,496		1,209,545
Consolidated net profit		2,368,456		2,224,042
Basic and diluted earnings per share (Note 26)	Ps.	2.168	Ps.	2.475

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

Grupo Herdez, S. A. B. de C. V. and subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands of Mexican pesos)

	For the year ended 31 December			
		2020		2019
Consolidated net profit for the year	Ps.	2,368,456	Ps.	2,224,042
Items not to be reclassified to profit or loss:				
Actuarial loss on labor obligations, net of taxes		(64,891)		(57,551)
Items that may be subsequently reclassified to profit or loss:				
Foreign currency translation reserve		297,802		(184,215)
Unrealized (loss)/gain on derivative financial instruments		(74,357)		142,219
Unrealized (loss)/gain on investments		(97,505)		50,635
Consolidated comprehensive income	Ps.	2,429,505	Ps.	2,175,130
Comprehensive income attributable to non-controlling interests		1,630,831		1,200,371
Comprehensive income of equity holders of the parent		798,674		974,759
Consolidated comprehensive income	Ps.	2,429,505	Ps.	2,175,130

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

Grupo Herdez, S. A. B. de C. V. and subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

31 December 2020 and 2019
(Amounts in thousands of Mexican pesos)

	Share capital	Reserve for repurchase of shares	Retained earnings	Legal reserve
Balance as at 31 December 2018	Ps. 575,625	Ps. 616,506	Ps. 6,443,803	Ps. 141,862
Contributions to the repurchase fund	-	737,423	(737,423)	-
Reserve for repurchase of outstanding shares (Note 19b)	-	(900,779)	-	-
Dividends declared (Note 19d)	-	-	(449,856)	-
Decrease in share capital attributable to non-controlling interests (Note 19c)	-	-		-
	-	(163,356)	(1,187,279)	-
Comprehensive income (Note 3):				
Net profit for the year	-	-	1,014,497	-
Foreign currency translation reserve	-	-	-	-
Unrealized gain on valuation of derivative financial instruments, net of income tax	-	-	-	-
Unrealized gain on valuation of investments, net of income tax	-	-	50,635	-
Actuarial loss on employee benefit obligations, net of income tax	-	-	(39,318)	-
Comprehensive income for the year	-	-	1,025,814	-
Balance as at 31 December 2019	575,625	453,150	6,282,338	141,862
Contributions to the repurchase fund	-	3,341,132	(3,341,132)	-
Reserve for repurchase of outstanding shares (Note 19b)	-	(1,132,437)	-	-
Dividends declared (Note 19d)	-	-	(418,055)	-
Decrease in share capital attributable to non-controlling interests (Note 19c)	-	-	-	-
	-	2,208,695	(3,759,187)	-
Comprehensive income (Note 3):				
Net profit for the year	-	-	827,960	-
Foreign currency translation reserve	-	-	-	-
Unrealized loss on valuation of derivative financial instruments, net of income tax	-	-	-	-
Unrealized loss on valuation of investments, net of income tax	-	-	(97,505)	-
Actuarial loss on employee benefit obligations, net of income tax	-	-	(48,809)	-
Comprehensive income for the year	-	-	681,646	-
Balance as at 31 December 2020	Ps. 575,625	Ps. 2,661,845	Ps. 3,204,797	Ps. 141,862

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

Grupo Herdez, S. A. B. de C. V. and subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

31 December 2020 and 2019

(Amounts in thousands of Mexican pesos)

Share premium	Cumulative effect of unrealized (loss)/gain on financial instruments	Cumulative translation adjustment	Attributable to equity holders of the parent	Attributable to non-controlling interests	Total equity
Ps. 135,316	Ps. (6,303)	Ps. 443,036	Ps. 8,349,845	Ps. 9,899,802	Ps. 18,249,647
-	-	-	-	-	-
-	-	-	(900,779)	-	(900,779)
-	-	-	(449,856)	(813,418)	(1,263,274)
-	-	-	-	(13,068)	(13,068)
-	-	-	(1,350,635)	(826,486)	(2,177,121)
-	-	-	1,014,497	1,209,545	2,224,042
-	-	(102,041)	(102,041)	(82,174)	(184,215)
-	50,986	-	50,986	91,233	142,219
-	-	-	50,635	-	50,635
-	-	-	(39,318)	(18,233)	(57,551)
-	50,986	(102,041)	974,759	1,200,371	2,175,130
135,316	44,683	340,995	7,973,969	10,273,687	18,247,656
-	-	-	-	-	-
-	-	-	(1,132,437)	-	(1,132,437)
-	-	-	(418,055)	(1,795,875)	(2,213,930)
-	-	-	-	5,667	5,667
-	-	-	(1,550,492)	(1,790,208)	(3,340,700)
-	-	-	827,960	1,540,496	2,368,456
-	-	148,901	148,901	148,901	297,802
-	(31,873)	-	(31,873)	(42,482)	(74,355)
-	-	-	(97,505)	-	(97,505)
-	-	-	(48,809)	(16,082)	(64,891)
-	(31,873)	148,901	798,674	1,630,833	2,429,507
Ps. 135,316	Ps. 12,810	Ps. 489,896	Ps. 7,222,151	Ps. 10,114,312	Ps. 17,336,463

Grupo Herdez, S. A. B. de C. V. and subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands of Mexican pesos)

		2020		2019
Operating activities				
Consolidated profit before income tax	Ps.	3,342,114	Ps.	3,153,707
Adjustments for:				
Depreciation and amortization		942,710		827,625
Fishing equipment maintenance		70,872		119,433
Gain on sale of property, machinery and equipment		(183,852)		(88,401)
Net periodic benefit expense of employee benefits		44,936		33,706
Interest income		(174,670)		(145,955)
Share of profit of associates		(756,978)		(775,933)
Loss on sale of shares		2,750		-
Gain on sale of brand		(68,053)		-
Realized gain on investment funds		(168,140)		-
Other expenses not requiring cash flows		104,802		35,028
Employee profit sharing		33,952		52,920
Interest expense		906,811		724,314
Total		4,097,254		3,936,444
Changes in operating assets and liabilities:				
Accounts receivable		136,151		(214,382)
Inventories		564,083		(363,572)
Related parties, net		(71,612)		3,652
Prepaid expenses and recoverable taxes		(403,613)		(291,788)
Suppliers		202,436		297,404
Other accounts payable and creditors		(119,593)		338,185
Income tax paid		(1,572,907)		(1,010,076)
Net cash flows from operating activities		2,832,199		2,695,867
Investing activities				
Other equity investments		(16,988)		416
Realized gain on investment funds		223,435		-
Sale of shares		133,811		-
Sale of brand		68,053		-
Business acquired		-		(324,749)
Dividends received		811,196		446,447
Interest income		174,670		145,955
Purchase of property, machinery and equipment		(549,594)		(754,269)
Proceeds from sale of property, machinery and equipment		849,078		138,679
Purchase of intangible assets		(160,908)		(271,288)
Net cash flows from/(used in) investing activities		1,532,753		(618,809)

To be continued >

Grupo Herdez, S. A. B. de C. V. and subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands of Mexican pesos)

	2020	2019
Financing activities		
Issue of structured notes	3,500,000	-
Bank loans obtained	1,500,000	2,400,000
Bank loans repaid	(1,500,000)	(830,000)
Repayment of structured note loan	(2,000,000)	(200,000)
Other non-current liabilities	(5,980)	(40,241)
Purchase of non-controlling interests	-	(13,068)
Repurchase of shares	(1,132,437)	(900,779)
Interest paid	(776,563)	(599,943)
Dividends paid	(2,213,930)	(1,263,274)
Lease liabilities paid	(381,638)	(338,373)
Net cash flows used in financing activities	(3,010,548)	(1,785,678)
Net increase in cash and cash equivalents	1,354,404	291,380
Net foreign exchange difference	16,669	(8,498)
Net increase in cash and cash equivalents	1,371,073	282,882
Cash and cash equivalents:		
At beginning of year	2,309,507	2,026,625
At end of year	Ps. 3,680,580	Ps. 2,309,507

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

Grupo Herdez, S. A. B. de C. V. and subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020 and 2019

(Amounts in thousands of Mexican pesos)

1. Reporting Entity

Grupo Herdez, S.A.B. de C.V. (the Group) is a Mexican company whose shares are publicly traded on the Mexican Stock Exchange and its head offices are located at Calzada San Bartolo Naucalpan No. 360, Col. Argentina Poniente, 11230, Mexico City. The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (collectively referred to as the “Group” and individually as the “Group entities”) and the Groups’ equity interest in its related parties and jointly controlled entities. The Group is a 56.4%-owned subsidiary of Hechos con Amor, S.A. de C.V., which is exposed, or has rights, to variable returns from its involvement with the Company.

The Group is primarily engaged in manufacturing, purchasing, distributing and selling canned and packed food and ice cream in Mexico, as well as food targeted to the Mexican food segment in the United States.

The entities of Grupo Herdez, S.A.B. de C.V. produce and sell products under the following brands: Aires de Campo, Barilla, Búfalo, Carlota, ChiChi’s, Del Fuerte, Don Miguel, Doña María, Embasa, Herdez, La Victoria, McCormick, Wholly, Yemina, Nutrisa, Helados Nestlé, Cielito Querido Café and Moyo, among others. For such purposes, Grupo Herdez, S.A.B. de C.V. has partnerships with global leading companies, such as: McCormick and Company Inc., Hormel Foods Corp., Barilla G.e.R. Fratelli S. p.A. and Grupo Kuo, S.A.B. de C.V. (Kuo Group).

2. Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

On 25 February 2021, the Group’s Board of Directors authorized the issue of the accompanying consolidated financial statements and its notes.

In accordance with the Mexican Corporations Act and the Group’s bylaws, the shareholders have the authority to modify the financial statements after issuance. The consolidated financial statements will be subject to approval in the next shareholders’ meeting.

Note 3 describes the Group’s accounting policies, including the relevant changes made during the year.

a) Basis for measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following items, which are measured on an alternative basis on each reporting date:

- The net defined benefit obligation is recognized as the fair value of plan assets, less the present value of the defined benefit obligation, limited as explained in Note 3i).
- Derivative financial instruments are measured at fair value and recognized in comprehensive income provided they qualify as cash flow hedges and maintain a hedge ratio that complies with the hedge effectiveness requirements, otherwise they are recognized through profit or loss.

b) Functional and presentation currency

The consolidated financial statements are presented in Mexican pesos, which is the Company's functional and presentation currency. All financial information presented in Mexican pesos is rounded to the nearest thousand, except where otherwise indicated.

Foreign entities that are part of the Group's joint venture in the U.S. present their financial statements in U.S. dollars, which is their functional currency. These U.S. dollar balances are then translated into Mexican pesos so that the Group is able to recognize its equity interest in the investees.

c) Use of judgments and estimates

In preparing these financial statements, management has made judgments and estimates that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates with a significant risk of causing a material adjustment within the next financial year are described below:

i) *Consolidation of non-controlling interests*

The Group analyzes whether it has less than a majority of the voting or similar rights of an investee. Specifically, the Group assesses whether it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. If as a result of this analysis, the Group determines that it exercises control over the investees, the financial statements of the investees must be consolidated in the Group's financial statements. If there is a presumption that the Group does not exercise control over the investees, equity investments in associates and joint ventures are accounted for using the equity method.

ii) *Fair value measurement*

The Group applies the guidelines of IFRS 13 *Fair Value Measurement* to determine the fair values of financial assets and financial liabilities recognized or disclosed at fair value. IFRS 13 does not require fair value measurements other than those required or allowed by other IFRS and is not intended to establish valuation standards or affect valuation practices outside financial reporting. Under IFRS, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, considering the counterparty credit risk in the valuation.

The concept of selling price is based on the assumption that there is a market and market participants for the specific asset or liability. When there is no market and/or market participants, IFRS 13 establishes a fair value hierarchy that categorizes the inputs used in the valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable significant inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows.

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the Group can negotiate at the measurement date.
- Level 2 — Inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly.
- Level 3 — Unobservable inputs for the asset or liability.

The fair value of assets held for sale as well as unobservable inputs are determined by external valuers.

iii) *Fair value measurement of derivative financial instruments*

The fair values of derivative financial instruments traded on recognized markets are determined by reference to price quotations published in these markets. For financial instruments traded on over-the-counter markets, the fair value is measured using valuation techniques applied in the financial sector, which primarily include the discounted cash flow (DCF) model and based on market information available at the measurement date.

In determining the fair value, the Group uses conditions and assumptions that are primarily based on the 28-day Mexican Weighted Interbank Interest rate (28-day TIIE) model, the Mexican Weighted Interbank Interest rate (TIIE) and the prevailing Mexican peso/U.S. dollar exchange rate at the measurement date.

The Group has conducted the effectiveness testing required to maintain a hedge ratio that complies with the hedge accounting requirement under IFRS.

iv) *Useful lives of property, machinery and equipment*

The Group determines the useful lives of its assets based on its best estimate of the periods during which it expects to receive the economic benefits derived from such assets.

v) *Impairment in the value of goodwill and other intangible assets with indefinite useful lives*

Goodwill and intangible assets with indefinite useful lives are tested for impairment at each reporting date. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For impairment tests, those assets that cannot be tested individually are put into smaller groups of cash generating assets from continuous use and that are mostly independent from cash inflows from other assets or groups of assets (the "CGU"). For purposes of impairment testing, goodwill is assigned to the Group's operating divisions and is monitored at the operating segment level (operating division), which represents the lowest level at which goodwill is monitored for internal reporting purposes. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed.

vi) *Employee benefits*

Employee benefits are recognized in profit or loss as services are provided and the corresponding liabilities are recorded at their nominal values since they are short-term. The Group's net defined benefit obligation is calculated estimating the future defined benefit accrued for workers in exchange for their services (current and past service costs). These benefits are discounted to their present value and deducted from unrecognized past service costs and the fair value of plan assets. The discount rate is determined based on zero-coupon government bonds that have maturity dates approximating the maturity dates of the Group's obligations and that are denominated in the currency that the pension benefits are expected to be paid out in. The calculation is performed annually by a qualified actuary using the projected unit credit method.

vii) *Impairment in the value of accounts receivable*

According to its business model, the Group uses two variables for its accounts receivable portfolio. These variables are the type of channel and the collection period. The Group's policy is to consider all accounts receivable less than 30 days old as not past due. The data used to determine the expected credit loss percentage are the delinquency ratio and the actual credit loss experience for the last two years, including macroeconomic factors for the last five years. As at 31 December 2020 and 2019, the factors applied to the Group's accounts receivable are as follows:

31 December 2020	0-30 days	31-60 days	61-90 days	More than 90 days
Weighted average factor	1.80%	5.50%	8.20%	15.11%
Weighted average factor including macroeconomic factors	1.79%	5.47%	8.16%	15.04%

31 December 2019	31-60 days	61-90 days	More than 90 days
Weighted average factor	90 days	2.63%	4.58%
Weighted average factor including macroeconomic factors	1.52%	2.44%	4.25%

viii) *Leases*

Future lease payments are determined over the shorter of the lease term and the remaining useful life of the lease if the Group is reasonably certain to exercise an extension option. The extension options considered by the Group are as follows:

- For transportation equipment, no renewal simulation was performed for expired lease contracts.
- Renewal simulations for contracts in the process of being signed, covered the same number of periods as the most recent contract in force and considered how certain it is for the Group to stay in the leased property.

The discount rate is defined whenever a new contract is signed or an expired contract is renewed.

Future lease payments made at or before the commencement date should be considered in the calculation.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently by the Group entities in all of the periods presented in the consolidated financial statements, except where otherwise indicated:

a) Basis of consolidation

i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see (a)(iii)).

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see (h)(iii)). Any gain on a bargain purchase is recognized immediately in profit or loss.

Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities (see (v)).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

ii) Non-controlling interests

For each business combination, the Group measures any non-controlling interest in the investee at:

– Fair value, or
– The proportionate share of the acquiree's identifiable net assets at the date of acquisition, which are generally at fair value.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as non-controlling interest transactions, therefore any effect is recognized in equity.

iii) Subsidiaries

The subsidiaries are entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect the investee's returns through its power over the investee.The financial statements of subsidiaries are included in the Group's consolidated financial statements as of the date the Group obtains control over the investee and consolidation is suspended when that control ceases.

An analysis of the Group's material subsidiaries and joint ventures, as well the percentage of equity interest it holds in each of them, is as follows:

	Country of incorporation	December 2020	December 2019	Note
Food:				
Herdez Del Fuerte and subsidiaries (HDF) – Subsidiary	Mexico	50%	50%	1
Herdez Del Fuerte:				
Manufacturing and sales:				
Herdez, S.A. de C.V. – Subsidiary	Mexico	100%	100%	1
Hersea, S.A. de C.V. – Subsidiary	Mexico	-	100%	1, 7
Compañía Comercial Herdez, S.A. de C.V. – Subsidiary	Mexico	100%	100%	1
Alimentos Del Fuerte, S.A. de C.V. (Alimentos Del Fuerte) – Subsidiary	Mexico	99.95%	99.95%	1
Herdez Botanas, S.A.P.I. de C.V. – Subsidiary	Mexico	100%	100%	1, 5
Intercafé, S.A. de C.V. - (Intercafé) – Joint venture	Mexico	50%	50%	2
Aires de Campo, S.A. de C.V. – Subsidiary	Mexico	89.98%	92.62%	1
Buenos de Origen Services, S.A. de C.V. – Subsidiary	Mexico	89.98%	92.62%	1
Incubadora Orgánica, S.A. de C.V. - Joint venture	Mexico	89.98%	50%	2,8
Authentic Acquisition Corporation (AAC) – Subsidiary	USA	100%	100%	1, 3
Authentic Speciality Foods (ASF) – Subsidiary	USA	100%	100%	1, 3
Megamex Foods, LLC – Joint venture	USA	50%	50%	2, 3
Megamex Holding Inc. – Joint venture	USA	50%	50%	2, 3
Don Miguel Foods Corp. – Joint venture	USA	50%	50%	2, 3
Avomex Inc. – Joint venture	USA	50%	50%	2, 3
Avomex Internacional, S.A. de C.V. -Joint venture	Mexico	50%	50%	2, 3
Avomex Service, S. de R.L. de C.V. -	Mexico	50%	50%	2, 3
Avomex Importación y Exportación Limitada -Joint Venture	Chile	50%	50%	2, 3
Service providers:				
Campomar, S.A. de C.V. (Campomar) – Subsidiary	Mexico	100%	100%	1
Hersail, S.A. de C.V. (Hersail) – Subsidiary	Mexico	-	100%	1, 7
Herventa, S.A. de C.V. (Herventa) – Subsidiary	Mexico	100%	100%	1
Manufacturing and sales:				
McCormick de México, S.A. de C.V. (McCormick) – Subsidiary	Mexico	50%	50%	1
Barilla México, S.A. de C.V. (Barilla México) - Subsidiary	Mexico	50%	50%	1
Serpasta, S.A. de C.V. (Serpasta) – Subsidiary	Mexico	50%	50%	1
Herpons Continental, S.A. de C.V. (Herpons Co.) – Subsidiary	Mexico	100%	100%	1

	Country of incorporation	December 2020	December 2019	Note
Grupo Nutrisa and subsidiaries – Subsidiary	Mexico	99.84%	99.84%	1
Grupo Nutrisa				
Sales:				
Nutrisa, S.A. de C.V. (Nutrisa) – Subsidiary	Mexico	100%	100%	1
Ki'tal Snacks, S.A. de C.V. – Subsidiary	Mexico	100%	-	1,9
Ubongo, S.A.P.I. de C.V. – Subsidiary	Mexico	100%	100%	1
Alimentos Benefits, S.A. de C.V. – Subsidiary	Mexico	100%	100%	1
Olyen Coffee, S.A. de C.V. – Subsidiary	Mexico	100%	100%	1
Coordinadora RC, S.A. de C.V. – Subsidiary	Mexico	100%	100%	1, 4
RC Operadora de Cafeterías, S.A. de C.V. – Subsidiary	Mexico	100%	100%	1, 4
Services:				
Servinutrisa, S.A. de C.V. (Servinutrisa) – Subsidiary	Mexico	100%	100%	1
Servibenefits, S.A. de C.V. – Subsidiary	Mexico	100%	100%	1
Helado de Yogurt, S.A. de C.V. – Subsidiary	Mexico	100%	100%	1
Nutriservicios la Colmena, S.A. de C.V. – Subsidiary	Mexico	100%	100%	1
Prestadora de Servicios de Grupo Café Caffe, S.A. de C.V. – Subsidiary	Mexico	100%	100%	1, 4
Real estate:				
Promociones Inmobiliarias Naturistas, S.A. de C.V. (Promociones) – Subsidiary	Mexico	100%	100%	1
Services:				
Corporativo Cinco, S.A. de C.V. (Corporativo) – Subsidiary	Mexico	100%	100%	1
Seramano, S.A. de C.V. (Seramano) – Subsidiary	Mexico	100%	100%	1
Fábrica de Envases del Pacífico, S.A. de C.V. - Joint Venture	Mexico	50%	50%	2
Real estate:				
Herport, S.A. de C.V. (Herport) – Subsidiary	Mexico	-	50%	1, 6
Alimentos HP, S.A. de C.V. (Alimentos) –Subsidiary	Mexico	100%	100%	1
Comercial de Finanzas Netesa, S.A. de C.V. (Netesa) – Subsidiary	Mexico	100%	100%	1
Energía Para Conservas, S.A. de C.V. – Subsidiary	Mexico	89.75%	89.75%	1
Quicolor de México, S.A. de C.V. (Quicolor) – Subsidiary	Mexico	100%	100%	1
Promotora Hercal, S.A. de C.V. (Hercal) – Subsidiary	Mexico	100%	100%	1

(1) *Consolidated entity*

(2) *Investee accounted for using the equity method*

(3) *Financial statements for the period from 2 December 2019 to 29 November 2020*

(4) *Pursuant to the second amending agreement dated 28 November 2019, Progreso de Oriente, S.A. de C.V. and Administra, S.A. de C.V. (as the sellers) entered into an agreement with Olyen Coffee, S.A. de C.V. and Grupo Nutrisa, S.A. de C.V. (as the buyers) for the purchase and sale of the stake in the following companies: Coordinadora RC, S.A. de C.V., RC Operadora de Cafeterías, S.A. de C.V. and Prestadora de Servicios de Grupo Café Caffe, S.A. de C.V.*

(5) *On 1 October 2019, Operadora Comercial de Desarrollo, S.A. de C.V. (as the seller) entered into an agreement with Herdez Del Fuerte, S.A. de C.V. and Herdez, S.A. de C.V. (as the buyers) for the purchase and sale of the remaining 50% of its stake in Saben a Cine, S.A.P.I. de C.V.*
On 7 August 2020, Saben a Cine, S.A.P.I. de C.V. changed its name to Herdez Botanas, S.A.P.I. de C.V.

(6) *At a regular shareholders' meeting held on 26 March 2020, the shareholders of Herport, S.A. de C.V. agreed to increase the variable portion of the company's share capital by increasing the equity interest of the parent company to 99.99%.*
On 17 December 2020, the Group entered into an agreement for the purchase and sale of 100% of its shares in Herport, S.A. de C.V.

(7) *On 28 May 2020, the Group entered into an agreement for the purchase and sale of 100% of its shares in Hersea, S.A. de C.V. and Hersail, S.A. de C.V.*

(8) *At a regular shareholders' meeting held on 20 November 2020, the shareholders of Aires de Campo, S.A. de C.V. agreed to increase the variable portion of the company's share capital by increasing the equity interest of the parent company to 89.98%.*

(9) *On 1 September 2020, Ki'tal Snacks, S.A. de C.V. was incorporated and will start up operations in 2021.*

iv) Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

v) Interests in equity-accounted investees

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when all financial and strategic decisions require the unanimous consent of the parties sharing control.

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs.

Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

If the Group's share of losses of an equity-accounted investment exceeds its interest in the investee, the carrying value of that interest, including any long-term investment, is reduced to zero and the Group should discontinue recognizing its share of further losses, only to the extent that the Group has incurred obligations or made payments on behalf of the investee.

vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

vii) *Discontinued operations*

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is restated as if the operation had been discontinued from the start of the comparative period.

b) Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies using the prevailing exchange rates on the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the prevailing exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

However, foreign currency differences arising from the translation of the following items are recognized in other comprehensive income:

- Available-for-sale equity investments (except on impairment, in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss);
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedges are effective.

ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into Mexican pesos at the exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated into Mexican pesos at the prevailing exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income and accumulated in the translation reserve, except to the extent that the translation difference is allocated to a non-controlling interest.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to the non-controlling interest.

When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

c) Financial instruments

IFRS 9 *Financial Instruments - Hedging derivatives.*

As at 1 January 2019, the Group adopted the criteria and requirements under Chapter 6 of IFRS 9. As at 1 January 2018, the macro hedging component of IFRS 9 is yet to be published; accordingly, the Company did not recognize any effects on its hedging relationships.

IFRS 9 sets out the requirements for recognizing, classifying and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The standard supersedes IAS 39 *Financial Instruments: Recognition and Measurement.*

As a result of the adoption of IFRS 9, the Group did not identify a significant impact on the classification derived from the impairment losses on trade receivables recognized under IAS 39.

IFRS 9 sets out three financial instrument measurement categories:

- Financial assets at amortized cost
- Financial assets at fair value through OCI
- Financial assets at fair value through profit or loss (FVTPL)

The classification of financial assets under IFRS 9 is determined by both the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. IFRS 9 replaces the categories used by IAS 39. An analysis is as follows.

	Classification under IFRS 9
Financial assets	
Cash and cash equivalents	Financial assets at FVTPL
Trade receivables	Amortized cost
AUA Private Equity Parallel Fund, LP*	Financial assets at fair value through OCI
RE BANUC, S.A.P.I. de C.V	Financial assets at fair value through OCI
Anteris Capital Venture Lending Fund I, LP	Financial assets at fair value through OCI
Yaax Capital Private Equity	Financial assets at fair value through OCI
Financial assets/(liabilities) designated as hedged items*	
Hedging relationships involving derivative financial instruments are recognized under IFRS 9.	
Foreign currency forwards hedges	FV - Cash-flow hedges
Interest rate swap hedges	FV - Cash-flow hedges
Commodity futures hedges	FV - Cash-flow hedges
Financial liabilities:	
Bank loans in Mexican pesos	Amortized cost
Debt issuance:	
Herdez 13 Structured Notes	Amortized cost
Herdez 17 Structured Notes	Amortized cost
Herdez 20 Structured Notes	Amortized cost
Herdez 20-2 Structured Notes	Amortized cost

i) Non-derivative financial assets and liabilities – Recognition and derecognition

Loans and receivables are initially recognized when they are originated. Other financial assets (including assets designated at FVTPL) are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which either: substantially all of the risks and rewards of ownership of the financial asset are transferred; or the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such derecognized asset or liability that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

ii) Non-derivative financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded on an active market.

Such assets are initially measured at their fair value plus costs directly attributable to the transaction. Loans and receivables are measured at amortized cost, less impairment losses in the case of receivables. Loans and receivables include trade receivables and other accounts receivable.

Cash and cash equivalents

Cash and cash equivalents are represented cash balances and bank deposits with maturities of less than three months from their acquisition date, and which are subject to exchange differences in their fair values, and are used by the Group to manage its short-term obligations.

Cash and cash equivalents include restricted cash and investment, represented by margin account deposits used to secure some of the Group's debt obligations to the extent that this restriction will be lifted within three months of the reporting date. When the restriction period is more than three months, these restricted cash and cash equivalent balances are not considered cash and cash equivalents and are instead are recognized as part of Short-term or Long-term Debtors, as the case may be.

iii) Non-derivative financial liabilities

The Group initially recognizes debt securities issued at their dates of origination. All other financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

A financial liability is derecognized when the associated obligation is discharged or cancelled, or has expired.

The Group classifies its non-derivative financial liabilities as part of other financial liabilities.

Non-derivative financial liabilities are initially recognized at fair value, net of directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the EIR method.

Other financial liabilities comprise notes payable, suppliers and other payables and structured notes issued.

iv) Derivative financial instruments and hedge accounting

The Group contracts derivative financial instruments to mitigate its exposure to foreign currency risk and interest rate risk.

The Group acquires derivatives to hedge raw material (commodities) prices, which are designated in formal hedging relationships.

At the inception of a hedge relationship, the Group formally documents the hedge relationship between the hedging instrument and the hedged items, including the risk management objective and strategy for undertaking the hedge, and the methods to be used to assess the effectiveness of the hedging instrument.

On 1 January 2019, the Group adopted Chapter 6 *Hedge Accounting* of IFRS 9, since it previously observed the provisions of IAS 39 relating to Hedge Accounting.

IFRS 9 establishes that the objective of hedge accounting is to represent, in the financial statements, the effect of risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss or other comprehensive income.

As at 31 December 2020 and 2019, Group management has assessed the effectiveness of the Group's hedging relationships and concluded that they are highly effective and meet the requirements of IFRS 9 related to hedging relationships.

Derivative financial instruments are initially recognized at fair value, with directly attributable transaction costs recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss or in OCI, when the instrument has been designated in a cash flow hedging relationship.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in OCI and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

When a hedging item is a non-financial asset, the amount accumulated in OCI is reclassified to profit or loss in the period in which the hedged cash flows affect profit or loss. For all other hedged forecast transactions, the amount accumulated in equity is reclassified to profit or loss in the same period or periods during which the hedged expected future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in equity are immediately reclassified to profit or loss.

Embedded derivatives

An embedded derivative is separated from its host contract and accounted for separately as a stand-alone derivative if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic risks and characteristics of the host contract
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss

Derivative financial instruments not designated as hedged items

If a derivative financial instrument is not designated in a hedging relationship, changes in fair value are immediately recognized in profit or loss.

v) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of the related tax effects.

Repurchase and reissue of ordinary shares (treasury shares)

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, net of the related tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity and the resulting surplus or deficit on the transaction is presented within share premium.

Share capital, the share repurchase reserve, the legal reserve, share premium and retained earnings are expressed as follows: i) changes made as of 1 January 1998, at historical cost, and ii) changes made prior to 1 January 1998, at restated historical cost determined by applying the National Consumer Price Index (NCPI) factors to the historical value of the assets through 31 December 1997.

d) Property, machinery and equipment

i) Recognition and measurement

Property, machinery and equipment is recognized at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Costs include all expenditures directly attributable to the acquisition of the asset. The cost of assets built by the Group includes the following:

- The cost of materials and direct labor costs
- Any other directly attributable costs to prepare the asset for its intended use
- When the Group has an obligation to remove the asset or restore the site, the estimate of costs to dismantle and remove the asset or restore the site on which it is located
- Capitalized borrowing costs

As at 31 December 2020 and 2019, the Group has no qualifying assets with capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If significant parts of an item of property, machinery and equipment have different useful lives, they are accounted as separate items (major components) of property, machinery and equipment.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in profit or loss when the asset is derecognized.

ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Repair and maintenance costs are expensed as incurred.

iii) Depreciation

Depreciation of property, machinery and equipment begins when the asset is in the location and is available for use or, while for assets internally generated, when the asset is completed and in the condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated to write off the cost of items of property, machinery and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and the estimated useful lives of the assets, unless it is reasonably certain that the Group will obtain ownership of the asset by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, machinery and equipment for current and comparative periods are as follows:

	Years
Buildings	20 - 33
Machinery and tools	10 - 14
Fishing equipment (1)	14 - 17
Office furniture and equipment	12
Stowing equipment and transportation equipment	4 - 10
Electronic data equipment	4

The residual values, useful lives and methods of depreciation of property, machinery and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

(1) *During March and May 2020, the Group derecognized its fishing equipment*

e) Intangible assets and goodwill

i) Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

ii) *Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses. For equity investments accounted for using the equity method, the carrying amount of goodwill is included in the carrying amount of the investment, with any impairment loss allocated to reduce the carrying amount of the equity method investment as a whole.

iii) Intangible assets with finite useful lives

Intangible assets acquired by the Group, which consist of non-competition agreements, licenses, developed technologies and customer relationships with finite useful lives, are valued at cost less accumulated amortization and impairment losses. The above-mentioned intangible assets do not include internally generated assets, since these intangibles have been obtained from the Group's acquisitions.

iv) Intangible assets with indefinite useful lives

No legal, regulatory, contractual, economic or other factors may limit the useful lives of intangible assets with indefinite useful lives consisting of patents and trademarks. The Group considers that these intangible assets will continue generating cash flows in the future, which are not restricted to a specific period of time. These assets are tested for impairment at each reporting date in accordance with IFRS.

v) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

vi) Amortization

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Goodwill is not amortized.

An analysis of useful lives is as follows:

	Years
Non-competition agreements	2 - 3
Developed technology	8 - 20
Customer relationships	13 - 20
Leasing rights and software	3

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

f) IFRS 16 *Leases*

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model. At the commencement date of a lease, a lessee will recognize an asset representing the right to use the underlying asset during the lease term and a liability to make lease payments during the lease term. The standard includes two recognition exemptions for lessees – leases of "low-value" assets and short-term leases. Lessor accounting is substantially unchanged from today's accounting (i.e., lessors will continue to classify all leases as either operating or finance leases).

Accounting policy effective as of 1 January 2019

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. Under IFRS 16, the cost of a right-of-use asset also includes an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset or restoring the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

– Fixed payments, including in-substance fixed payments;
– Variable lease payments that depend on an index or a rate and that are initially measured using the index or rate ruling at the commencement date;
– Amounts expected to be paid by the lessee under residual value guarantees;
– the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease (see Note 3(h)). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16, except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

Lease payments

Lease payments made under lease agreements that are not within the scope of IFRS 16 Leases are recognized in profit or loss on a straight-line basis over the lease term.

iii) Initial adoption

The Company adopted IFRS 16 as of 1 January 2019 using the modified retrospective approach. Accordingly, the Company recognized the cumulative effect of adopting IFRS 16 as an adjustment to the beginning balance of retained earnings as at 1 January 2019, without restating the comparative information.

The Group applied the practical expedient to grandfather the definition of a lease on transition. This means that the Group will apply IFRS 16 to all its contracts entered into before 1 January 2019 and identified as containing a lease under IAS 17 and IFRIC 4.

g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in, first-out principle, and includes all purchase costs incurred in bringing each product to its present location and condition.

In the case of manufactured inventories and production in process, cost includes an appropriate share of production overheads based on normal operating capacity.

The costs of inventories may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventory.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

h) Impairment

i) Non-derivative financial assets

Financial assets not classified as at FVTPL, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- Restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; and
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Group considers a decline of 20% to be significant and a period of nine months to be prolonged.

ii) Financial assets measured at amortized cost

The Group considers evidence of impairment for these assets (loans and receivables and held-to-maturity financial assets) at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

iii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than employee benefits, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets with indefinite useful lives are tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows. If there are indicators that a corporate asset may be impaired, the Company determines the recoverable amount of the CGU to which the asset belongs.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU (or group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

i) Employee benefits

i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

Any previously unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is determined by reference to market yields at the date of the statement of financial position on zero-coupon government bonds that have maturity dates approximating the maturity dates of the Group's obligations and that are denominated in the currency that the pension benefits are expected to be paid out in.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements. Service costs comprising increases in the benefit obligation and employee expenses during the year are recognized as operating expenses.

Interest costs associated with an increase in liabilities due to the passage time, as well as the expected return on plan assets, are recognized as part net financing cost. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan obligations. When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees costs is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. The expense is recognized in profit or loss to the extent that benefits are vested immediately.

The Group recognizes all actuarial gains and losses resulting from defined benefit plans immediately in other comprehensive income and recognizes all expenses related to defined benefit plans in profit or loss as part of employee benefits.

The Company recognizes the gains or losses on curtailments and settlements. These gains or losses include changes in the present value of the defined benefit obligations contracted by the entity, changes in the fair value of the plan assets, and any unrecognized actuarial gains or losses and past service costs.

j) Provisions

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

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Restructurings

A provision for restructuring is recognized when Management has approved a detailed and formal restructuring plan, and the restructuring has been announced to any affected third parties and/or stakeholders prior to the reporting date.

Contingencies and commitments

Contingent liabilities and losses are recognized when the Group has a present obligation as a result of a past event, it is probable that the obligation will give rise to a cash disbursement, and the amount of the obligation can be reasonably estimated. Otherwise, the Group includes qualitative disclosures in the notes to the consolidated financial statements. The effects of long-term commitments established with third parties (such as supply contracts with vendors or customers) are recognized in the financial statements considering the substance of the agreement on an incurred or accrued basis. Relevant commitments are disclosed in the notes to the financial statements. The Group has not recognized contingent revenue, profits or assets.

k) Revenue

Revenue recognition. The Group earns its revenue primarily from the sale of canned and frozen food products. Revenue is recognized when control of the goods is transferred to the customer, which is when the performance obligation is satisfied and the Group is entitled to collect the consideration from the customer in exchange for these products. In determining the transaction price, the Group considers the effects of variable consideration (e.g. fixed and/or variable discounts). Payments made to customers for commercial services are recognized as distribution and selling expenses. The Group offers discounts to customers when certain conditions are met under the agreements. Such discounts are deducted from the amounts payable by the customer.

l) Donations

Donations to social programs are recognized in profit or loss as incurred to the extent that they benefit the community in general.

m) Finance income and finance costs

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at FVTPL, and exchange gains. Interest income es recognized in profit or loss at amortized cost using the effective interest method.

Finance costs comprise interest expense on loans and borrowings, exchange losses, changes in the fair value of financial liabilities measured at FVTPL and lease liabilities.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest rate method.

Foreign exchange gains and losses arising on financial assets and financial liabilities are presented in profit or loss.

n) Income Tax

The Company's income tax expense consists of current income tax and deferred income tax. Income tax expense is generally recognized in profit or loss, except for income tax related to business combinations, items recognized directly in equity, and other comprehensive income.

i) Current income tax

Current income tax is measured at the amount expected to be paid to or recovered from the tax authority on the Group's taxable profit or tax loss, plus any income tax adjustments from prior years. The tax rates used to calculate income tax are those that are enacted or substantively enacted at the reporting date. Current income tax also includes any tax arising from dividends.

ii) Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

The tax effects of uncertain tax positions are recognized when it is more likely than not that the position will be upheld due to its technical merit, and assuming that the tax authorities will review every uncertain tax position and have full knowledge about relevant information. These tax positions are measured using an cumulative-probability model.

Each position is considered individually, regardless of its relationship with other tax proceedings. The 'more likely than not' indicator represents an assertion from management that the Group is entitled to receive the economic benefits of the tax position. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements.

The Group recognizes interest and penalties related to unrecognized tax benefits on the income tax expense line in the accompanying consolidated statement of profit or loss.

o) Earnings per share

The Group presents basic and diluted EPS attributable to ordinary shareholders.

Basic EPS is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, adjusted by shares owned by the Group (see Note 26). Since there are no dilutive effects, basic EPS is the same as diluted EPS.

p) Segment information

Operating segment results reported to the Group's General Director (the highest decision-making authority) include items directly attributable to a segment, as well as items that can be allocated on a reasonable basis. Unallocated items primarily comprise primarily corporate assets (the Group's head offices), head office expenses, and income tax assets and liabilities.

q) Comprehensive income

Comprehensive income represents the increase or decrease in earned capital from net profit or loss for the year, unrealized gains and losses on valuation of derivative financial instruments and equity investments, net of income tax, foreign currency translation reserve and actuarial gains and losses on employee benefits, net of income tax, which are recognized in equity and do not constitute capital contributions, capital redemptions and/or distributions.

r) Changes in significant accounting policies

a) IFRS 9 *Financial Instruments - Hedging derivatives*

As at 1 January 2019, the Group adopted the criteria and requirements under Chapter 6 of IFRS 9. As at 1 January 2018, the macro hedging component of IFRS 9 is yet to be published; accordingly, the Group did not recognize any effects on its hedging relationships.

The Group opted to adopt the criteria and requirements under Chapter 6 of IFRS 9.

b) IFRS 16 *Leases*

Prior to 31 December 2018 - Leases

i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separated payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concluded for a finance lease that it was impracticable to separate the payments reliably, then an asset and a liability were recognized at an amount equal to the fair value of the underlying asset; subsequently, the liability was reduced as payments were made and an imputed finance cost on the liability was recognized using the Group's incremental borrowing rate.

ii) Leased assets

Leases of property, plant and equipment that transferred to the Group substantially all of the risks and rewards of ownership were classified as finance leases. The leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the Group's statement of financial position.

iii) Lease payments

Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases were apportioned between the finance expense and the reduction of the outstanding liability. The finance expense was allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

As of 1 January 2019 - Leases

The Group initially applied IFRS 16 *Leases* from 1 January 2019.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

i) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease.* The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in its accounting policy. On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases.

Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

ii) As a lessee

As a lessee, the Group leases many assets including property, production equipment and IT equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

a. *Leases classified as operating leases under IAS 17*

Previously, the Group classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019 (see Note 16). Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Group applied this approach to all other leases.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognize right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment, stands);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

b. *Leases classified as finance leases under IAS 17*

The Group leases a number of items of equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

iii) As a lessor

The Group leases out its investment property, including own property and right-of-use assets. The Group has classified these leases as operating leases.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease.

The Group has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

iv) Impact on financial statements

Impact on transition

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. On transition to IFRS 16, the Group recognized additional right-of-use assets and additional lease liabilities, recognizing the difference in retained earnings.

At the date of transition to IFRS 16, the Group recognized lease liabilities totaling Ps. 806,000 and right-of-use assets totaling Ps. 807,000, with no effect on its equity. The impact on transition is summarized below:

		1 January 2019
Operating lease commitments at 1 January 2019 as disclosed under IAS 17 in the Group's consolidated financial statements	Ps.	3,111,449
Service commitments		(844,943)
Discounted using the incremental borrowing rate at 1 January 2019		2,877,178
Finance lease liabilities recognized as at 1 January 2019		27,860
– Recognition exemption for leases of low-value assets		(465,078)
– Recognition exemption for leases with less than 12 months of lease term at transition		(788,069)
Lease liabilities recognized at 1 January 2019	Ps.	806,948

i) IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*

IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

Under IFRIC 23, uncertain tax assets or liabilities are recognized using the definition of current or deferred tax assets or liabilities of IAS 12. Accordingly, these tax balances are presented as current or deferred tax assets or liabilities. These balances are not presented as provisions or as part of other captions such as accounts receivable or other receivables.

The adoption of this Interpretation had no material effect on the Group's consolidated financial statements as at and for the year ended 31 December 2019.

4. Standards and Interpretations Issued but Not Yet Adopted

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

– Amendments to IFRS 3: *Definition of a Business*

The amendment to IFRS 3 *Business Combinations* clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group enter into any business combinations.

– Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Group as it does not have any interest rate hedge relationships.

– Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

– Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued *Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases.* The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

a) Standards issued but not yet effective

The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

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

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

– Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations - Reference to the Conceptual Framework.* The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements,* issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the *Framework for the Preparation and Presentation of Financial Statements.*

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

– Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss applying the measurement requirements of IAS 2.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

– Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

– IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards.* The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

– IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

5. Financial Instruments

The Group is exposed to a variety of financial risks from its operating activities: market risk (including currency risk, interest rate risk and the risk of fluctuation in the prices of commodities), credit risk, liquidity risk and operational risk. The overall risk management program considers the volatility of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivatives financial instruments to hedge certain risk exposures.

Financial risk management is carried out by the Management and Finance Office, in accordance with policies approved by the Board of Directors. The entity identifies, evaluates and hedges its financial risks in close cooperation with its subsidiaries. The Board of Directors has approved general written policies regarding financial risk management, including the risk of fluctuations in the prices for certain commodities, exchange rate risk and interest rate risk.

All derivative financial instruments contracted by the Group are formally designated as hedges on their date of acquisition under the cash flow model.

Derivative financial commodities (Commodities)

As part of its commodity hedging strategy during 2020 and 2019, the Group used derivative financial instruments to mitigate the risk of price fluctuations.

The total amounts of the Group's commodity hedges in effect as at 31 December 2020 and 2019 are as follows:

31 December 2020

Instrument	Counterparty	Notional amount (USD)	Notional amount (MXN)	Expiration date	Position	Fair value (USD)	Fair value (MXP)
Futures	CME Clearing*	USD 15,420	Ps. 307,396 [1]	Sundry	Call (long)	USD 4,860	Ps. 96,874)

31 December 2019

Instrument	Counterparty	Notional amount (USD)	Notional amount (MXN)	Expiration date	Position	Fair value (USD)	Fair value (MXP)
Futures	CME Clearing*	USD 53,324	Ps.1,006,365 [1]	Sundry	Call (long)	USD 8,757	Ps. 165,260

** Clearing Member authorized by Chicago Mercantile Exchange.*

[1] *Pounds of commodities covered at agreed price.*

Foreign currency derivatives

With respect to its raw material purchases and export sales of various products, both in foreign currency, the Group is exposed to fluctuations in the peso-U.S. dollar exchange rate, and for this reason the Board of Directors has approved a risk management strategy in order to mitigate the currency risk arising from such transactions.

As at 31 December 2020 and 2019, the principal characteristics of the Group's hedging contracts are as follows:

31 December 2020

Instrument	Counterparty	Notional amount (USD)	Notional amount (MXN)	Expiration date	Position	Fair value (MXN)
Forwards	National bank*	1,300	28,989	Sundry	Call (long)	(2,894)
	National bank*	38,400	826,764	Sundry	Call (long)	(52,374)
	National bank*	9,500	207,778	Sundry	Call (long)	(16,506)
	National bank*	9,250	188,643	Sundry	Call (long)	(935)
		USD 58,450	Ps. 1,252,174			Ps. (72,709)

31 December 2019

Instrument	Counterparty	Notional amount (USD)	Notional amount (MXN)	Expiration date	Position	Fair value (MXN)
Forwards	National bank*	2,500	48,342	Sundry	Call (long)	(641)
	National bank*	31,000	602,743	Sundry	Call (long)	(10,525)
	National bank*	10,750	209,614	Sundry	Call (long)	(4,191)
		USD 44,250	Ps. 860,699			Ps. (15,357)

** AAA rated financial institutions, according to the national grading scale for issuers of long-term debt.*

As at 31 December 2020 and 2019, Group management has assessed the effectiveness of the Group's hedging relationships, and concluded that they are highly effective, and that the hedge ratio meets the risk management criteria established from the business standpoint.

Interest rate derivatives

In order to mitigate the risk of adverse movements attributable to the interest rate on long-term debt with financial institutions, bearing interest at variable rates and which are recognized in the consolidated statement of financial position, Group management contracts interest rate swaps to convert variable interest rates into fixed interest rates.

The derivative financial instruments acquired in June 2017 were designated in hedge relationships under the cash flow model. On 17 September 2020, the Group repaid in advance its financial liability hedged by two swaps. As a result, at the end of September, the Group settled in advance its interest rate swaps held in cash flow hedging relationships, and reclassified these amounts from comprehensive income to profit or loss.

The settled swaps had the following characteristics:

Instrument	Counterparty	Notional amount (MXN)	Expiration date	Rate paid	Rate received
Swap	National banks *	Ps. 500,000	26-may-22	6.75%	TIIE 28
Swap	National banks *	500,000	26-may-22	6.90%	TIIE 28
		Ps. 1,000,000			

As a result, a charge to interest paid of Ps. 48,200 was recognized in profit or loss. This amount is comprised of the Mark-to-Market (MtM) of Ps. 39,700 at the reporting date, plus the initially recognized value of the swaps of $8,500.

As at 31 December 2019, the Group had the following interest-rate swaps.

As at 31 December 2019

Instrument	Counterparty	Notional amount (MXN)	Expiration date	Rate paid	Rate received	Fair value (MXN)
Swap	National banks *	Ps. 500,000	26-may-22	6.75%	TIIE 28	Ps. (1,056)
Swap	National banks *	500,000	26-may-22	6.90%	TIIE 28	(2,832)
		Ps. 1,000,000				Ps. (3,888)

** AAA rated financial institutions, according to the national grading scale for issuers of long-term debt.*

As at 31 December 2020 and 2019, Group management has assessed the effectiveness of the Group's hedging relationships, and concluded that they are highly effective.

As at 31 December 2020 and 2019, the net effect for the Group's hedging relationships under the cash flow model recorded in equity, including the deferred income tax effect of Ps. (74,355) and Ps. 142,219, respectively. The amount included in equity as a component of other comprehensive income will be recognized simultaneously in profit or loss when the item being hedged affects earnings; such amount is subject to changes due to prevailing market conditions.

The tables below show the periods in which the expected cash flows associated with the cash flow hedging relationships are expected to occur and expected to affect the statement of profit or loss, as well as the carrying amount of derivative financial instruments designated in these hedging relationships in effect as at 31 December 2020 and 2019:

31 December 2020

	Carrying amount	Total	1 year	2 years	3 years	More than 3 years
Foreign exchange forwards						
Liabilities	Ps. (72,709)	Ps. (72,709)	Ps. (72,709)	Ps. -	Ps. -	Ps. -
Commodities futures						
Assets	Ps. 96,874	Ps. 96,874	Ps. 96,874	Ps. -	Ps. -	Ps. -

31 December 2019

	Carrying amount	Total	1 year	2 years	3 years	More than 3 years
Interest rate swaps						
Liabilities	Ps. (3,888)	Ps. (12,250)	Ps. 7,054	Ps. (13,983)	Ps. (5,321)	Ps. -
Foreign exchange forwards						
Liabilities	Ps. (15,357)	Ps. (6,824)	Ps. (6,824)	Ps. -	Ps. -	Ps. -
Commodities futures						
Assets	Ps. 165,260	Ps. 165,260	Ps. 161,542	Ps. 3,718	Ps. -	Ps. -

Fair value vs. carrying amount

The following table shows the carrying amounts and fair values of the Group's derivative and non-derivative assets and liabilities, including the hierarchy of the assets and liabilities. The exclusion of the fair values of certain financial assets and liabilities not measured at fair value is due to the fact that the carrying amount is an approximation of the fair value.

As at 31 December 2020

	Carrying amount		Fair value			
	Hedging instruments	Other financial instruments	Level 1	Level 2	Level 3	Total
Non-derivative financial assets measured at fair value						
Cash and cash equivalents	Ps. -	Ps. 3,680,580	Ps. 3,680,580	Ps. -	Ps. -	Ps. 3,680,580
Non-derivative financial assets not measured at fair value						
Trade receivables	Ps. -	2,997,265	-	-	-	-
Non-derivative financial assets measured at fair value						
AUA Private Equity Parallel Fund, LP*	Ps. -	67,980	-	-	67,980	67,980
RE BANUC, S.A.P.I. de C.V.	-	21,493	-	-	21,493	21,493
Anteris Capital Venture Lending Fund I, LP	-	23,553	-	-	23,553	23,553
Yaax Capital Private Equity	-	4,256	-	-	4,256	4,256
Total non-derivative financial assets measured at fair value	Ps. -	117,282	-	-	117,282	117,282
Derivative financial assets / liabilities measured at fair value						
Foreign currency forward hedges	(72,709)	-	-	(72,709)	-	(72,709)
Commodity futures hedges	96,874	-	96,874	-	-	96,874
Total derivatives measured at fair value	Ps. 24,165	Ps. -	Ps. 96,874	Ps. (72,709)	Ps. -	Ps. 24,165
Non-derivative financial liabilities not measured at fair value						
Bank loans in Mexican pesos	Ps. -	Ps. (1,984,112)	Ps. -	Ps. (2,667,130)	Ps. -	Ps. (2,667,130)
Total non-derivative financial liabilities not measured at fair value	Ps. -	Ps. (1,984,112)	Ps. -	Ps. (2,667,130)	Ps. -	Ps. (2,667,130)
Debt issuances						
CEBURES HERDEZ 13	Ps. -	(1,996,378)	-	(2,148,004)	-	(2,148,004)
CEBURES HERDEZ 17	-	(1,992,826)	-	(2,279,918)	-	(2,279,918)
CEBURES HERDEZ 20	-	(2,487,956)	-	(2,644,363)	-	(2,644,363)
CEBURES HERDEZ 20-2	-	(994,840)	-	(1,000,154)	-	(1,000,154)
Total debt issuances	Ps. -	Ps. (7,472,000)	Ps. -	Ps. (8,072,439)	Ps. -	Ps. (8,072,439)

As at 31 December 2019

	Carrying amount		Fair value			
	Hedging instruments	Other financial instruments	Level 1	Level 2	Level 3	Total
Non-derivative financial assets measured at fair value						
Cash and cash equivalents	Ps. -	2,309,507	2,309,507	-	-	2,309,507
Non-derivative financial assets not measured at fair value						
Trade receivables	Ps. -	3,173,045	-	-	-	-
Non-derivative financial assets measured at fair value						
AUA Private Equity Parallel Fund, LP*	Ps. -	Ps. 105,536	Ps. -	Ps. -	Ps. 105,536	Ps. 105,536
AUA Indulge Corp	-	161,344	-	-	161,344	161,344
Anteris Capital Venture Lending Fund I, LP	-	18,004	-	-	18,004	18,004
Yaax Capital Private Equity	-	1,972	-	-	1,972	1,972
Total non-derivative financial assets measured at fair value	Ps. -	Ps. 286,856	Ps. -	Ps. -	Ps. 286,856	Ps. 286,856
Derivative financial assets / liabilities measured at fair value						
Foreign currency forward hedges	Ps. (15,357)	Ps. -	Ps. -	Ps. (15,357)	Ps. -	Ps. (15,357)
Interest rate swaps	(3,888)	-	-	(3,888)	-	(3,888)
Commodity futures hedges (1)	52,860	-	165,260	-	-	165,260
Total derivatives measured at fair value	Ps. 33,615	Ps. -	Ps. 165,260	Ps. (19,245)	Ps. -	Ps. 146,015
Non-derivative financial liabilities not measured at fair value						
Bank loans in Mexican pesos	Ps. -	Ps. (1,978,449)	Ps. -	Ps. (3,036,204)	Ps. -	Ps. (3,036,204)
Total non-derivative financial liabilities not measured at fair value	Ps. -	Ps. (1,978,449)	Ps. -	Ps. (3,036,204)	Ps. -	Ps. (3,036,204)
Debt issuances						
CEBURES HERDEZ 13	Ps. -	Ps. (1,995,285)	Ps. -	Ps. (2,016,559)	Ps. -	Ps. (2,016,559)
CEBURES HERDEZ 17	-	(1,992,035)	-	(2,092,972)	-	(2,092,972)
CEBURES HERDEZ 17-2	-	(996,920)	-	(1,009,595)	-	(1,009,595)
CEBURES HERDEZ 18	-	(997,684)	-	(1,008,991)	-	(1,008,991)
Total debt issuances	Ps. -	Ps. (5,981,924)	Ps. -	Ps. (6,128,117)	Ps. -	Ps. (6,128,117)

(1) *Fair value of the future positions in an amount of Ps. 165,260 discounting cash movements in the margin account, associated with a gain in futures contracts equal to Ps. (112,400).*

6. Financial Risk Management

General

The Group is exposed to the following risks associated with its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Commodity price risk
- Capital management

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group audit committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. In the case of the Group, the positions that are exposed to credit risk are: trade receivables and OTC derivative positions with positive market value.

The allowance for doubtful accounts is calculated using an expected loss model that considers the recognition of impairment losses over the life of the financial instrument. Since the Group's accounts receivable are generally for terms of less than 12 months, the Group established an impairment assessment model using a simplified expected loss approach.

Impairment losses arising on accounts receivable are measured at the amount of the expected credit loss over the life of the financial instrument, regardless of the existence of a significant financing component. The Group applies this criterion to all of its accounts receivable.

Loss rates are based on actual credit losses from the previous year. These rates are multiplied by scalar factors to reflect different economic conditions between the period when the historical data was obtained, current economic conditions and the Group's forecasted economic conditions over the life of the accounts receivable. In addition, the Group categorizes its accounts receivable into "buckets" based on the terms and channels of the borrowers, which reflects its business model.

To determine whether the credit risk of a financial asset has increased significantly since the initial recognition of the asset and to estimate the expected credit loss, the Group uses the relevant reasonable and supportable information that is available to it without undue cost or effort. This includes both qualitative and quantitative information and analysis based on the Group's historical experience and an informed credit assessment.

A financial asset impairment loss is a weighted estimate of the likelihood of expected loss. The amount of the expected impairment loss is measured as the present value of any lack of liquidity (difference between the contractual cash flows corresponding to the Group and the cash flows the Group expects to receive). The expected credit loss is discounted using the financial asset's original effective interest rate.

The Company performs an annual assessment to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes :

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of debtors or customers;
- observable data indicating that there is a measurable decrease in the expected cash flows

Accounts receivable

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises primarily from the Group's accounts receivable.

The risk management committee has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, and in some cases bank references. Customers who fail to meet the Group's creditworthiness requirements can only carry out transactions if such transactions are paid in advance to the Group.

94% of the Group's customers have been transacting with the Group for over four years, and none of these customers' balances have been written off or are credit-impaired at the reporting date. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, whether they are a wholesale, retail or end-user customer, their geographical location, industry, trading history with the Group and existence of previous financial difficulties.

		2020		2019
Wholesale	Ps.	2,609,389	Ps.	3,004,266
Retail		334,007		78,946
End-user		13,733		14,252
Other		40,136		75,581
Total	Ps.	2,997,265	Ps.	3,173,045

As at 31 December 2020, the maximum exposure to credit risk for trade and other receivables by type of customer was as follows:

- As at 31 December 2020, the Group's most significant customer accounted for 41% of the carrying amount of trade and other receivables (33% in 2019).
- Customers classified as "high risk" identified with delinquencies greater than 90 days are included in a list of restricted customers within the legal portfolio and are monitored by the risk management committee.

An analysis of the aging of the Group's accounts receivable as at 31 December 2020 and 2019 is as follows:

		2020		2019
Current	Ps.	1,447,468	Ps.	879,139
1-30 days past due		970,401		1,141,439
31-60 days past due		145,736		561,039
61-90 days past due		85,589		326,040
More than 90 days past due		348,071		265,388
Total portfolio provision		149,416		90,923
Total portfolio		3,146,681		3,263,968
Impairment loss on trade receivables (*)		(149,416)		(90,923)
Total trade receivables	Ps.	2,997,265	Ps.	3,173,045

(*) Includes allowance for impairment losses on trade receivables and legal customer portfolio.

As at 31 December 2020 and 2019, the Group had certain accounts receivable that were neither past due nor impaired. The credit quality for these accounts receivable shows no signs of impairment, as income is obtained from a broad variety of customers ranging from supermarkets, marketers and stores. The Group's customer portfolio is mainly comprised of wholesalers and self-service stores, which entails similar credit risk conditions and account for 87% and 95% of the total portfolio in 2020 and 2019, respectively.

As at 31 December 2020 and 2019, Group management has recognized an allowance for impairment losses on trade receivables for accounts in legal process that could give rise to impairment.

Cash and cash equivalents

The Group held cash and cash equivalents totaling Ps. 3,680,580 and Ps. 2,309,507 as at 31 December 2020 and 2019, respectively. Cash and cash equivalents are held with banks and financial institutions, which are AA and AAA rated.

Guarantees

Cash and cash equivalents include restricted cash for the following:

Trust account of Ps. 74,439 and Ps. 69,335 as at 31 December 2020 and 2019, respectively.

Derivatives

Derivatives are entered into with banks and financial institutions, which are AA and AAA rated, according to various rating agencies.

The carrying amount of derivative and non-derivative financial assets represents the Group's maximum credit risk exposure. The maximum loss associated with credit risk identified by the Group is as follows:

As at 31 December 2020

	Carrying amount
Derivatives measured at fair value	
Commodity futures	Ps. 96,874

As at 31 December 2019

	Carrying amount
Derivatives measured at fair value	
Commodity futures [1]	Ps. 52,860

[1] *Fair value of the future positions in an amount of Ps. 165,260 discounting cash movements in the margin account, associated with a gain in futures contracts equal to Ps. (112,400).*

ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's objective when managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimizing its cash return on investments.

Typically, the Group ensures that it has sufficient cash on demand to meet expected working capital requirements and operational expenses, including the servicing of financial obligations, over a period of 60 days. This excludes the possible impact of extreme circumstances that are not reasonably predictable, such as natural disasters.

Exposure to liquidity risk

An analysis of the Group's remaining contractual maturities of financial liabilities, including interest payable in the future, as at 31 December 2020 and 2019 is as follows:

As at 31 December 2020

		Contractual cash flows					
	Carrying amount	Total	2 months or less	2–12 months	1–2 years	2-3 years	More than 3 years
Foreign exchange forwards	Ps. (72,709)	Ps. (73,426)	Ps. -	Ps. (73,426)	Ps. -	Ps. -	Ps. -
	Ps. (72,709)	Ps. (73,426)	Ps. -	Ps. (73,426)	Ps. -	Ps. -	Ps. -
Bank loans in Mexican pesos	(1,984,112)	(2,667,130)	-	(117,389)	(363,271)	(351,778)	(1,834,692)
	Ps. (1,984,112)	Ps. (2,667,130)	Ps. -	Ps. (117,389)	Ps. (363,271)	Ps. (351,778)	Ps. (1,834,692)
Debt issuance:							
CEBURES HERDEZ 13	(1,996,378)	(2,486,547)	-	(162,182)	(162,182)	(2,162,183)	-
CEBURES HERDEZ 17	(1,992,826)	(3,211,918)	-	(186,449)	(186,449)	(186,449)	(2,652,571)
CEBURES HERDEZ 20	(2,487,956)	(4,466,611)	(98,331)	(98,331)	(196,661)	(196,661)	(3,876,627)
CEBURES HERDEZ 20-2	(994,840)	(1,256,848)	(8,351)	(44,851)	(53,261)	(55,371)	(1,095,014)
Total debt issuances	Ps. (7,472,000)	Ps. (11,421,924)	Ps. (106,682)	Ps. (491,813)	Ps. (598,553)	Ps. (2,600,664)	Ps. (7,624,212)

As at 31 December 2019

		Contractual cash flows					
	Carrying amount	Total	2 months or less	2–12 months	1–2 years	2-3 years	More than 3 years
Foreign exchange forwards	Ps. (15,357)	Ps. (15,592)	Ps. -	Ps. (15,592)	Ps. -	Ps. -	Ps. -
Interest rate swaps	(3,888)	(4,659)	-	2,244	(4,945)	(1,958)	-
	Ps. (19,245)	Ps. (20,251)	Ps. -	Ps. (13,348)	Ps. (4,945)	Ps. (1,958)	Ps. -
Bank loans in Mexican pesos	(1,978,449)	(3,036,204)	-	(178,454)	(169,348)	(407,786)	(2,280,616)
	Ps. (1,978,449)	Ps. (3,036,204)	Ps. -	Ps. (178,454)	Ps. (169,348)	Ps. (407,786)	Ps. (2,280,616)
Debt issuance:							
CEBURES HERDEZ 13	Ps. (1,995,285)	Ps. (2,648,729)	Ps. -	Ps. (162,182)	Ps. (162,182)	Ps. (162,182)	Ps. (2,162,183)
CEBURES HERDEZ 17	(1,992,035)	(3,398,367)	-	(186,449)	(186,449)	(186,449)	(2,839,020)
CEBURES HERDEZ 17-2	(996,920)	(1,245,162)	(14,554)	(82,250)	(100,604)	(1,047,754)	-
CEBURES HERDEZ 18	(997,684)	(1,120,140)	(18,540)	(60,321)	(1,041,279)	-	-
Total debt issuances	Ps. (5,981,924)	Ps. (8,412,398)	Ps. (33,094)	Ps. (491,202)	Ps. (1,490,514)	Ps. (1,396,385)	Ps. (5,001,203)

The Group's account payable balance includes Ps. 432,037 and Ps. 335,464 as at 31 December 2020 and 2019, respectively, for discount of notes payable to suppliers with Fideicomiso AAA Herfin, which is primarily engaged in promoting the economic development of these suppliers.

An analysis of the days to expire of these accounts payable is as follows:

31 December 2020	Total	0-30 days	31-60 days	61-90 days	More than 90 days
Account payable	432,037	238,918	115,466	75,728	1,925

31 December 2019	Total	0-30 days	31-60 days	61-90 days	More than 90 days
Account payable	335,464	182,048	89,825	63,591	-

iii) Market risk

Market risk is the risk that changes in market prices – e.g. foreign exchange rates, interest rates and commodities prices – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group uses derivatives and assumes financial liabilities to manage market risks. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally, the Group seeks to apply hedge accounting to manage volatility in profit or loss.

Grupo Herdez is also exposed to risks of commodity price fluctuations, and therefore, the Group uses futures derivatives to mitigate this risk.

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowings are denominated and the functional currency of the Group, which is the Mexican peso. The foreign currency in which these transactions are mainly denominated is the U.S. dollar (USD).

The Group hedges its exposure to exchange rate fluctuations in respect of forecast purchases from suppliers denominated in foreign currencies. The Group uses forward exchange contracts to hedge its currency risk, most with a maturity of less than one year from the reporting date.

With regard to other monetary assets and liabilities denominated in foreign currencies, the Group maintains its net exposure at an acceptable level by buying and selling foreign currencies in cash or at spot rates to address short-term imbalances.

Exposure to currency risk

The summary quantitative data about the Group's exposure to currency risk as reported to the management of the Group is as follows:

	As at 31 December 2020				As at 31 December 2019			
	MXN		USD		MXN		USD	
Cash, trade receivables and derivative financial instruments	Ps.	967,336	USD	48,524	Ps.	527,813	USD	27,967
Accounts payable and notes payable		(978,479)		(49,083)		(757,569)		(40,141)
Net exposure	Ps.	(11,143)	USD	(559)	Ps.	(229,756)	USD	(12,174)

The following significant exchange rates have been applied:

	Average exchange rate				Exchange rate as at 31 December			
	2020		2019		**2020**		2019	
U.S. dollar	Ps.	21.4925	Ps.	19.2605	Ps.	19.9352	Ps.	18.8727

Sensitivity analysis

A reasonably possible strengthening (weakening) of the US dollar against all other currencies at 31 December 2020 and 2019, would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

	Profit or loss		Equity, net of tax	
	Strengthening	Weakening	Strengthening	Weakening
31 December 2020	20.9320	18.9384		
USD (5% movement)	(11,701)	10,586	390	(390)
31 December 2019	19.8163	17.9291		
USD (5% movement)	(241,244)	218,268	8,042	(8,042)

Exposure to currency risk in financial liabilities

As at 31 December 2020 and 2019, the Group had no current position of financial liabilities denominated in foreign currency.

Exposure to exchange rate risk in derivatives

	Carrying amount	
	2020	2019
Derivative financial instruments:		
Exchange rate forwards	Ps. (72,709)	Ps. (15,357)
Commodity futures	96,874	165,260
Total	Ps. 24,165	Ps. 149,903

The table below shows a sensitivity analysis of derivative and non-derivative assets and liabilities denominated in foreign currencies as at 31 December 2020 and 2019, if the USD-Mexican peso exchange rate increased or decreased +/- $2.00, +/- $3.50, showing the changes applicable to the exposure to this risk:

31 December 2020

	Increase		Decrease	
	Ps. 3.50	Ps. 2.00	Ps. (2.00)	Ps. (3.50)
Derivative financial instruments				
Exchange rate forwards	204,443	116,825	(116,825)	(204,443)
Commodity futures	33,614	19,208	(19,208)	(33,614)
Total	Ps. 238,057	Ps. 136,033	Ps. (136,033)	Ps. (238,057)

31 December 2019

	Increase		Decrease	
	Ps. 3.50	Ps. 2.00	Ps. (2.00)	Ps. (3.50)
Derivative financial instruments				
Exchange rate forwards	154,206	88,117	(88,117)	(154,206)
Commodity futures	116,388	66,508	(66,508)	(116,388)
Total	Ps. 270,594	Ps. 154,625	Ps. (154,625)	Ps. (270,594)

Interest rate risk

The Group has adopted a policy of ensuring that its exposure to interest rate fluctuations on borrowings is at a fixed rate and not at a variable rate. This is achieved by using interest rate swaps.

In addition, the Group is exposed to interest rate fluctuations in financial liabilities: bank debt and debt issuances.

Exposure to interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group, without accounting for hedging transactions, is as follows:

	Nominal amount			
	2020		2019	
Fixed-rate instruments				
Financial liabilities in Mexican pesos	Ps.	(6,500,000)	Ps.	(4,000,000)

	Nominal amount			
	2020		2019	
Variable-rate instruments				
Financial liabilities in Mexican pesos	Ps.	(3,000,000)	Ps.	(4,000,000)

Amortized cost sensitivity analysis for financial instruments

In the case of financial liabilities, which amount to Ps. 6,500,000 and bear interest at a fixed rate, the amortized cost sensitivity to changes in the levels of interest rates is deemed to be nonexistent, since there is no contingency that contractually modifies the agreed interest rate (fixed) and that, therefore, affects the amortizable cost of these liabilities.

With regard to liabilities whose interest payments are subject to fluctuations in market interest rates, the sensitivity was estimated by reference to parallel changes in the market reference rates (TIIE) on the interest paid during the reporting period. The sensitivity exercise consisted of determining the impact on the amount of interest that would have been paid during 2020 for interest-bearing financial liabilities at the reporting date, with scenarios of parallel changes of: +/- 50 basis points and +/- 100 basis points. [1]

31 December 2020

	Increase				Decrease			
	+100 pb		+ 50 pb		- 50 pb		-100 pb	
Financial liabilities								
Bank loans	Ps.	20,333	Ps.	10,167	Ps.	(10,167)	Ps.	20,333
CEBURES HERDEZ 20-2		3,111		1,556		(1,556)		3,111
Total	Ps.	23,444	Ps.	11,723	Ps.	(11,723)	Ps.	23,444

31 December 2019

	Increase				Decrease			
	+100 pb		+ 50 pb		- 50 pb		-100 pb	
Financial liabilities								
CEBURES HERDEZ 17-2	Ps.	10,139	Ps.	5,069	Ps.	(5,069)	Ps.	(10,139)
CEBURES HERDEZ 18		10,111		5,056		(5,056)		(10,111)
Total	Ps.	20,250	Ps.	10,125	Ps.	(10,125)	Ps.	(20,250)

(1) *The Increase/Decrease is in respect of the carrying amount of the financial liability, whereby an increase will mean a higher liability.*

As at 31 December 2020 and 2019, the Group did not have a current position of derivative financial instruments exposed to the London Interbank Offered Rate (LIBOR).

Fair value sensitivity analysis for derivative financial instruments

The Group is exposed to the interest rate risk of the different financial instruments held. A sensitivity analysis for each of them is shown below:

Interest rate swaps

Local rate

31 December 2019

	Increase				Decrease			
	+100 pb		+ 50 pb		- 50 pb		-100 pb	
Derivative financial instruments								
Interest rate swaps in Mexican pesos	Ps.	19,593	Ps.	9,842	Ps.	(9,936)	Ps.	(19,969)

Foreign currency forwards

In accordance with the valuation model on foreign currency forwards, part of the inputs are the local rate and foreign rate which subject these instruments to fluctuations in those rates; therefore, the table below shows a sensitivity analysis for each rate (local or implicit rate and foreign rate):

Local rate

31 December 2020

	Increase				Decrease			
	+ 100 pb		+ 50 pb		- 50 pb		- 100 pb	
Derivative financial instruments								
Exchange rate forwards	Ps.	3,655	Ps.	1,831	Ps.	(1,839)	Ps.	(3,686)

31 December 2019

	Increase				Decrease			
	+ 100 pb		+ 50 pb		- 50 pb		- 100 pb	
Derivative financial instruments								
Exchange rate forwards	Ps.	1,913	Ps.	958	Ps.	(961)	Ps.	(1,926)

Foreign rate (LIBOR)

31 December 2020

	Increase		Decrease	
	+10 pb	+ 5 pb	- 5 pb	-10 pb
Derivative financial instruments				
Exchange rate forwards	Ps. (357)	Ps. (179)	Ps. 179	Ps. 357

31 December 2019

	Increase		Decrease	
	+10 pb	+ 5 pb	- 5 pb	-10 pb
Derivative financial instruments				
Exchange rate forwards	Ps. (192)	Ps. (96)	Ps. 96	Ps. 192

Risk of commodity price risk fluctuations

The Group is exposed to risks from fluctuations in the prices of its commodities; therefore, a sensitivity analysis was performed on the instruments that are affected by this risk considering scenarios of +/- 10% and +/-15%.

31 December 2020

	Increase		Decrease	
	+15%	+10%	-10%	-15%
Derivative financial instruments				
Commodity futures	Ps. 60,560	Ps. 40,373	Ps. (40,373)	Ps. (60,560)

31 December 2019

	Increase		Decrease	
	+15%	+10%	-10%	-15%
Derivative financial instruments				
Commodity futures	Ps. 175,665	Ps. 117,110	Ps. (117,110)	Ps. (175,665)

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, as well as the level of dividends to ordinary shareholders.

The Group monitors performance by using key financial indicators that measure the margins of the statement of profit or loss, net leverage, interest rate hedging, returns on capital and returns on equity investments.

During the reporting periods, there were no changes in the approach to the Group's policies on capital management.

The Group and its subsidiaries are not subject to external capital requirements, except as described in Note 14.

Periodically, the Group purchases its own shares on the Mexican Stock Exchange; the timing of such purchases depends on market conditions. Buying and selling decisions are made by Management. The Group does not have a defined specific plan for the repurchase of shares.

Group management has established the following rules for managing its financial and capital risks:

- Minimum consolidated share capital of Ps. 10,000,000.
- Debt and its cash cost, net(2) must not exceed 3.5 times the EBITDA(1) as at 31 December 2020.
- Interest hedges (EBITDA/net financing cost) must not be reduced to less than 3x.

(1) *EBITDA – Operating profit plus depreciation, amortization and other virtual items.*

(2) *Equal to the sum of bank loans and long-term debt less cash and cash equivalents.*

7. Related Parties

Related party receivables and payables have the following conditions:

Payment and collection terms extended to customers and suppliers range from 30 to 90 days; accordingly, the amount of the consideration is not adjusted to recognize the effects of a significant financing component. These balances correspond to unsecured balances on leases, interest, royalties, sales commissions, administrative services, fuel, purchase of finished products and raw materials.

Parent and ultimate controlling party

As mentioned in Note 1, the Group is a subsidiary of Hechos con Amor, S.A. de C.V., which belongs to a group of shareholders that exercises control over it and with which there is a relationship. It is the Group's principal holding company with 56.4% stake in the Group shares. The remaining 43.6% of the shares is owned by various shareholders.

Related party transactions

An analysis of balances due from and to related parties as at 31 December 2020 and 2019 is as follows:

	2020		2019	
	Debtor	Creditor	Debtor	Creditor
Holding company:				
Hechos Con Amor, S. A. de C. V. (2)	Ps. 244	Ps. -	Ps. 1,104	Ps. -
Joint ventures:				
Megamex Foods LLC (3)	214,899	-	154,526	-
Intercafé, S. A. de C. V. (3)	-	(18,820)	-	(9,735)
Avomex Inc. (1)	1,403	-	1,000	-
Associates:				
Incubadora Orgánica, S. A. de C. V. (3)	83,581	-	68,331	-
Other related parties:				
McCormick and Company, Inc. (3)	-	(20,247)	-	(22,176)
Barilla G. e. R. Fratelli, S. p. A. (3)	-	(38,598)	-	(31,544)
Barilla America Inc. (1)	-	(452)	-	(719)
Suministradora de Combustibles y Lubricantes de Puerto Madero, S. A. de C. V. (3)	2	-	4,860	-
Desc Corporativo, S. A. de C. V. (3)	-	(2,618)	-	(2,680)
Fideicomiso AAA Herfin Nacional Financiera SNC (3)	-	-	317	-
Herflot, S. A. de C. V. (2)	-	(47)	-	(890)
Fábrica de Envases del Pacífico, S. A. de C. V. (3)	-	-	145	-
Blemer, S. A. de C. V. (3)	21,431	-	16,484	-
Ubongo, S. A. P. I. de C. V. (3)	-	-	8	-
El Lado Suave, S. A. de C. V. (3)	-	(3,458)	-	(4,939)
Others, net (2)	4,648	(455)	530	(4,749)
	Ps. 326,208	Ps. (84,695)	Ps. 247,305	Ps. (77,432)

(1) *Balance less than 30 days past due*

(2) *Balance between 30 and 90 days past due*

(3) *Balance more than 90 days past due*

The aging of these balances does not include joint ventures

During the years ended 31 December 2020 and 2019, the Group had the following arm's length transactions with its related parties:

		2020		2019
Holding company:				
Lease expenses	Ps.	(53,364)	Ps.	(48,426)
Other (expenses)/income		(4)		290
Joint ventures:				
Sales commissions	Ps.	17,485	Ps.	14,757
Interest income		38		1,009
Purchase of materials and finished products		1,253,547		1,153,484
Other income		6,377		-
Associates:				
Purchase of materials	Ps.	(636,511)	Ps.	(614,906)
Lease income		750		1,500
Other income		-		988
Other related parties:				
Lease expenses	Ps.	(70,897)	Ps.	(72,509)
Freight		(55,410)		-
Interest (expense)/income		(4)		604
Royalty payments [1]		(386,945)		(348,278)
Sales commissions		595		802
Administrative services paid		(39,595)		(38,721)
Fuel purchases [2]		(10,346)		(97,219)
Payments for product imports		(197,568)		(203,961)
Sale of finished products and materials		651,288		443,663
Other income/(expenses), net		6,872		(1,777)

(1) *Payment for the use of trademarks: McCormick and Barilla to McCormick and Company, Inc. and Barilla G.e.R. Fratelli, S.p.A.*
(2) *Purchases from fuel terminal, mainly for the tuna fishing fleet to Suministradora de Combustibles y Lubricantes de Puerto Madero, S.A. de C.V*

Key management personnel compensation

The key management members received the following compensation, which is included in personnel costs as part of the general expenses caption in the consolidated statement of profit or loss. An analysis is as follows.

		2020		2019
Short and long-term direct benefits	Ps.	40,350	Ps.	31,049
Termination benefits		21,808		13,842
	Ps.	62,158	Ps.	44,891

8. Inventories

An analysis of the Group's inventories as at 31 December 2020 and 2019 is as follows:

		2020		2019
Finished goods, net [(1)]	Ps.	2,094,842	Ps.	2,498,055
Semi-finished goods		1,131		610
Raw materials and packaging materials, net [(2)]		736,904		939,999
Materials held by contract manufacturers (maquiladoras) or consignees and goods in transit		373,532		374,058
Spare parts warehouse		163,618		178,250
Total	Ps.	3,370,027	Ps.	3,990,972

Turnover of spare parts inventory is below 365 days (average of 292 days), therefore, allocation to cost of goods sold is recognized based on inventory consumption.

(1) *As at 31 December 2020 and 2019, the Group has recognized an allowance for obsolete inventory and a valuation allowance for finished goods in the amount of Ps. 86,849 and Ps. 39,444, respectively.*

(2) *As at 31 December 2020 and 2019, the Group has recognized an allowance for obsolete inventory of raw and packaging materials in the amount of Ps. 18,078 and Ps. 11,491, respectively.*

9. Accounts Receivable

An analysis of accounts receivable is as follows:

		2020		2019
Trade receivables	Ps.	3,146,681	Ps.	3,263,968
Impairment loss on trade receivables		(149,416)		(90,923)
		2,997,265		3,173,045
Debtors		144,834		141,493
Total	Ps.	3,142,099	Ps.	3,314,538

Changes in impairment provisions for the years ended 31 December 2020 and 2019 are as follows:

		2020		2019
As at 1 January	Ps.	90,923	Ps.	25,020
Additions		58,947		65,903
Less amounts utilized and reversals		(454)		-
Provision as at 31 December	Ps.	149,416	Ps.	90,923

10. Property, Machinery and Equipment

An analysis of property, machinery and equipment as at 31 December 2020 and 2019 is as follows:

	Balance as at 31 December 2019	Additions	Disposals	Transfers	Reserve	Charges to the reserve	Disposal of Hersea and Hersail	Other	Balance as at 31 December 2020
Building	Ps. 2,788,528	Ps. 9,081	Ps. (173,853)	Ps. 19,117	Ps. 1,032	Ps. (91,534)	Ps. -	Ps. 138,441	Ps. 2,690,812
Machinery and tools	4,550,412	111,974	(328,562)	194,305	16,059	(122,716)	-	83,385	4,504,857
Fishing equipment	1,505,637	22,765	(767,278)	-	-	-	(639,700)	-	121,424
Office furniture and equipment	205,291	12,734	(7,268)	4,697	53	(4,877)	(1,566)	50,870	259,934
Stowing equipment and transportation equipment	627,693	6,085	(16,670)	2,860	177	(13,514)	(259)	4,255	610,627
Electronic data equipment	338,401	9,946	(587)	2,212	159	(243)	(119)	22,785	372,554
Original investment	10,015,962	172,585	(1,294,218)	223,191	17,480	(232,884)	(641,644)	299,736	8,560,208
Accumulated depreciation	(5,035,150)	(527,089)	603,363	-	(2,063)	213,034	509,893	(197,754)	(4,435,766)
Original investment less depreciation	4,980,812	(354,504)	(690,855)	223,191	15,417	(19,850)	(131,751)	101,982	4,124,442
Land	390,874	683	(3,739)	-	-	(6,731)	-	(2,679)	378,408
Impairment allowance	(78,875)	-	-	-	-	19,850	-	-	(59,025)
Impairment loss	(10,667)	-	-	-	-	-	-	-	(10,667)
Construction in process	258,146	376,326	(44,516)	(223,191)	-	(5,000)	(5,029)	5,815	362,551
Total fixed assets	Ps.5,540,290	Ps. 22,505	Ps. (739,110)	Ps. -	Ps. 15,417	Ps. (11,731)	Ps. (136,780)	Ps. 105,118	Ps. 4,795,709

	Balance as at 31 December 2018	Additions	Disposals	Transfers	Charges to the reserve	Other	Balance as at 31 December 2019
Building	Ps. 2,763,021	Ps. 10,184	Ps. (6,412)	Ps. 62,609	Ps. (44,514)	Ps. 3,640	Ps. 2,788,528
Machinery and tools	4,269,496	250,442	(53,910)	166,121	(51,387)	(30,350)	4,550,412
Fishing equipment	1,538,768	131,773	(164,904)	-	-	-	1,505,637
Office furniture and equipment	187,028	12,398	(2,838)	8,997	(294)	-	205,291
Stowing equipment and transportation equipment	647,551	4,277	(20,666)	4,477	(1,066)	(6,880)	627,693
Electronic data equipment	280,490	14,232	(3,420)	47,155	(56)	-	338,401
Original investment	9,686,354	423,306	(252,150)	289,359	(97,317)	(33,590)	10,015,962
Accumulated depreciation	(4,743,271)	(480,698)	107,893	-	86,379	(5,453)	(5,035,150)
Original investment less depreciation	4,943,083	(57,392)	(144,257)	289,359	(10,938)	(39,043)	4,980,812
Land	379,074	10,138	-	-	-	1,662	390,874
Impairment allowance	(89,813)	-	-	-	10,938	-	(78,875)
Impairment loss	(10,667)	-	-	-	-	-	(10,667)
Construction in process	226,915	346,045	(25,455)	(289,359)	-	-	258,146
Total fixed assets	Ps.5,448,592	Ps. 298,791	Ps. (169,712)	Ps. -	Ps. -	Ps. (37,381)	Ps.5,540,290

During 2020 depreciation expense totaled 527,089, of which Ps. 287,184 was included in cost of sales, Ps. 227,759 in selling expenses and Ps. 12,146 in administrative expenses.

During 2019 depreciation expense totaled 480,698, of which Ps. 291,310 was included in cost of sales, Ps. 177,033 in selling expenses and Ps. 12,355 in administrative expenses.

Allowance for unused fixed assets

During 2014, as a result of the replacement of the plant "La Corona", located in Los Mochis, Sinaloa, an allowance for unused fixed assets of Ps. 142,338 was recognized by the Group in relation with plant and equipment. The effect was charged to other expenses. During 2019, Ps. 10,938 was applied to the reserve, leaving an amount of Ps. 78,875 as at 31 December 2019. During 2020, Ps. 19,850 was applied to the reserve, leaving an amount of Ps. 59,025 as at 31 December 2020.

Construction in process

During 2020, the Group developed projects that will increase its production capacity totaling Ps. 376,326, which are expected to be completed in 2021; in addition, the outstanding estimated investment related to such constructions in process amounts to Ps. 508,290.

11. Intangible Assets and Goodwill

An analysis of intangible assets as at 31 December 2020 and 2019 is as follows:

	Goodwill	Patents and trademarks	Licenses	Software	Intangibles with definite useful lives [1]	Intangibles with definite useful lives (Transfers) [*]	Total intangible assets
Balance as at 31 December 2018	Ps. 4,259,263	Ps. 1,923,735	Ps. 295,657	Ps. 156,031	Ps. 117,781	Ps. (47,231)	Ps. 6,705,236
Additions [2]	-	200,000	7,003.	29,284	147,451	(119,289)	264,449
Business combinations [3]	296,439	-	-	-	-	-	296,439
Amortization for the year	-	-	(19,535)	(20,242)	(20,162)	23,654	(36,285)
Balance as at 31 December 2019	Ps. 4,555,702	Ps. 2,123,735	Ps. 283,125	Ps. 165,073	Ps. 245,070	Ps. (142,866)	Ps. 7,229,839
Additions	19,111	-	-	63,230	31,920	(54,537)	59,724
MOI business combinations	-	-	-	-	46,647	-	46,647
Amortization of business combinations	-	-	-	-	(23,240)	-	(23,240)
Disposals	(186,946)	-	(7,003)	(672)	(911)	263	(195,269)
Transfers	(87,487)	58,691	-	-	28,796	-	-
Amortization for the year	-	-	(17,102)	(23,667)	(57,084)	42,297	(55,556)
Balance as at 31 December 2020	Ps. 4,300,380	Ps. 2,182,426	Ps. 259,020	Ps. 203,964	Ps. 271,198	Ps. (154,843)	Ps. 7,062,145

[*] *As of 1 January 2019, the Group reclassified initial costs paid to a lessor for a right-of-use asset in accordance with IFRS 16 Leases.*

[1] *Corresponds to non-competition agreements, developed technology, customer relationships and lease rights.*

[2] *Corresponds to the acquisition of the Moyo brand on 29 November 2019 (see Note 15).*

[3] *Corresponds primarily to the acquisition of Cielito Querido Café on 29 November 2019 (see Note 15).*

Amortization

The amortization of intangible assets for the years ended 31 December 2020 and 2019 is recognized as part of 'cost of sales, administrative and selling expenses' in the statement of profit or loss.

Impairment testing for CGUs containing goodwill

For the purposes of impairment testing, goodwill has been allocated to the Group's CGUs (operating divisions) and monitored at the Group's operating segment level.

A summary of goodwill allocated to each operating segment is as follows:

	2020	2019
Goodwill related to preserves segment	Ps. 3,003,880	Ps. 2,883,575
Goodwill related to frozen segment [1]	1,296,500	1,672,127
	Ps. 4,300,380	Ps. 4,555,702

[1] *Includes Ps. 1,274,495 of Grupo Nutrisa.*

The cash flows after this period are extrapolated using the estimated growth rates indicated below, which do not exceed the average long-term growth rate for the business in which each CGU and/or operating segment operates.

The key assumptions used in the estimation of the value in use in 2020 are as follows:

	Preserves segment	Frozen segment
Gross margin	37%	56%
Long-term growth rate	3.50%	3.50%
Discount rate	11.67% [1] , 10.41% [2] and 9.76% [3]	9.80%

[1] *Rate applied for HDF CGU*
[2] *Rate applied for McMx CGUs*
[3] *Rate applied for Pasta CGUs*

The key assumptions used in the estimation of the value in use in 2019 are as follows:

	Preserves segment	Frozen segment
Gross margin	36%	64%
Long-term growth rate	3.65%	3.65%
Discount rate	9.94% [1] and 11.30% [2]	11.28%

[1] *Rate applied for tuna fish CGU*
[2] *Rate applied for the rest of preserves CGUs*

These assumptions have been used for each CGU.

The gross margin is budgeted based on past experience and the expected development of each market.

As at 31 December 2020, the discount rate was a pre-tax measure determined on past experience and the weighted average cost of capital in the industry that is based on a possible debt leveraging ratio of 18.54% (1), 36.31% (2) and 38.10% (3) at a market interest rate of 7.58%. The discount rate for the frozen CGU is based on a possible debt leveraging ratio of 26.71% at a market interest rate of 5.23%.

Five to seven years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity has been determined as the long-term annual growth rate estimated by management, which it believes is consistent with the assumption that a market participant would use.

Budgeted EBITDA was based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth. Revenue growth was projected taking into account the average growth levels experienced over the past five to seven years and the estimated sales volume and price growth for the next five to seven years. It was assumed that sales prices would grow at a constant margin above forecast inflation over the next five to seven years, in line with information obtained from external brokers who publish a statistical analysis of market trends.

12. Equity-accounted Investees

As at 31 December 2020 and 2019, equity investments in associates of Ps. 7,258,169 and Ps. 7,186,573, respectively, correspond to an investment in Megamex of Ps. 6,858,138 and Ps. 6,618,802, respectively, and other investments totaling Ps. 400,031 and Ps. 567,771, respectively (see Note 13).

The Group's share of profit of its equity-accounted investees for the years ended 31 December 2020 and 2019 totaled Ps. 756,978 and Ps. 775,933, respectively.

13. Investments in Associates and Other Equity Investments

Megamex Foods, LLC (Megamex) was incorporated on 21 October 2009 in the United States of America. Megamex is a joint venture between Hormel Foods Corporation and Authentic Specialty Foods Inc. (ASF), which is a subsidiary of Herdez Del Fuerte. This investment is accounted for using the equity method in the statement of profit or loss of Authentic Specialty Foods Inc.

Megamex is engaged in producing, distributing and selling a variety of Mexican products, primarily to supermarkets, food services, distributors, retailers and convenience stores. Some of the products marketed by Megamex are produced by Herdez Del Fuerte in Mexico.

Highlights of the consolidated financial information of Megamex included in its consolidated financial statements are included below. The following table reconciles the summary financial information with the carrying amount of ASF's investment:

		2020		2019
Non-current assets	Ps.	11,116,773	Ps.	10,895,906
Current assets:		4,314,319		3,913,047
Non-current liabilities		585,123		549,574
Current liabilities		1,129,967		1,022,040
Net assets (100%)		13,716,002		13,237,339
Group's share of net assets (50%)		6,858,138		6,618,802
Net sales		14,670,882		13,792,681
Interest income		1,455		1,237
Total profit and comprehensive income (100%)		1,483,283		1,512,205
Group's share of profit and other comprehensive income (50%)		741,656		756,118
Dividends collected from MegaMex Foods	Ps.	811,196	Ps.	426,837

As at 31 December 2020 and 2019, the Group collected dividends from its associate, Megamex Foods, LLC in the amounts of USD 37.5 million and USD 22.5 million, respectively.

A summary of the financial information pertaining to the main equity-accounted associates, including in the Group's share of equity, is as follows:

As at 31 December 2020

	% equity interest		Investment
Incubadora Orgánica, S. A. de C. V.	50%	Ps.	(32,444)
Intercafé, S. A. de C. V.	50%		70,228
Fábrica de Envases del Pacífico, S. A. de C. V.	50%		244,965
		Ps.	282,749

As at 31 December 2019

	% equity interest		Investment
Incubadora Orgánica, S. A. de C. V.	50%	Ps.	(7,045)
Intercafé, S. A. de C. V.	50%		67,268
Fábrica de Envases del Pacífico, S. A. de C. V.	50%		220,692
		Ps.	280,915

A summary of other investments is as follows:

As at 31 December 2020

		Investment
AUA Private Equity Parallel Fund, LP *	Ps.	67,980
RE BANUC, S.A.P.I. de C.V.		21,493
Anteris Capital Venture Lending Fund I, LP		23,553
Yaax Capital, LP		4,256
	Ps.	117,282

As at 31 December 2019

		Investment
AUA Private Equity Parallel Fund, LP	Ps.	105,536
AUA Indulge Corp		161,344
Anteris Capital Venture Lending Fund I, LP		18,004
Yaax Capital, LP		1,972
	Ps.	286,856

** The Group has capital committed for investment totaling Ps. 9,600 through 2022.*

14. Loans and Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortized cost in order to provide more information about the Group's exposure to interest rate risk, foreign currency risk and liquidity risk (see Note 6 ii)).

An analysis of notes payable, as well as short-term and long-term debt is as follows:

		2020		2019
Bank loan in Mexican pesos with Bancomext, maturing on 29 October 2029, bearing-interest (payable semi-annually) at the 91-day TIIE rate + 1.40%. Principal will be repaid as of 2022.	Ps.	2,000,000	Ps.	2,000,000
Structured notes in Mexican pesos, maturing on 17 June 2021, bearing interest (payable monthly) at the 28-day TIIE rate + 0.40%. This loan was repaid in full on 10 September 2020.		-		1,000,000
Structured notes in Mexican pesos, maturing on 26 May 2022, bearing interest (payable monthly) at the 28-day TIIE rate + 0.77%. This loan was repaid in full on 17 September 2020.		-		1,000,000
Structured notes in Mexican pesos, maturing on 20 May 2027, bearing interest (payable semi-annually) at a rate of 9.22%.		2,000,000		2,000,000
Structured notes in Mexican pesos, maturing on 3 November 2023, bearing interest (payable semi-annually) at a rate of 8.02%.		2,000,000		2,000,000

	2020		2019	
Structured notes in Mexican pesos, maturing on 19 August 2025, bearing interest (payable monthly) at the 28-day TIIE rate + 0.89%.		1,000,000		-
Structured notes in Mexican pesos, maturing on 13 August 2030, bearing interest (payable semi-annually) at a rate of 7.78%.		2,500,000		-
Total notes payable and short- and long-term loans	Ps.	9,500,000	Ps.	8,000,0000
Less current portion:				
Long-term notes payable, excluding current maturities		9,500,000		8,000,0000
Cost of issuance of unamortized structured notes and bank loans		(43,888)		(39,627)
Long-term maturity, net, excluding current maturities	Ps.	9,456,112	Ps.	7,960,373

Loan covenants

The main covenants are as follows:

- Minimum consolidated share capital of Ps. 10,000,000.
- Debt and its cash cost, net, must not exceed 3.5 times EBITDA as at 31 December 2020.
- Interest hedges (EBITDA/net financing cost) must not be reduced to less than 3x.

As at 31 December 2020, the Group has committed lines of credit totaling Ps. 3,000,000 entered into with AAA-rated financial institutions. Interest is payable monthly at the TIIE interest rate plus an applicable margin.

Long-term debt

An analysis of long-term debt as at 31 December 2020 and 2019 is as follows:

	2020		2019	
Franchise rights [1]	Ps.	5,925	Ps.	7,644
	Ps.	5,925	Ps.	7,644

[1] *Unamortized franchise rights of Nutrisa and Alimentos Benefits with amortization periods of more than one year.*

15. Acquisition of Businesses and Intangible Assets

On 29 November 2019, Grupo Herdez acquired Cielito Querido Café and the Moyo brand for a combined amount of $ 505,000. These acquisitions are part of the Group's brand portfolio growth and strengthening strategy. Together with Nutrisa and Lavazza, the Group now has 642 points of sale throughout the country.

For the month ended 31 December 2019, Cielito Querido Café contributed revenue of Ps. 33,327 to the Group's results. Had the acquisition occurred on 1 January 2019, management estimates that consolidated revenue would have been Ps. 22,796,879.

A summary of the valuation analysis of Cielito Querido Café is as follows:

Classification of assets	Carrying amount	Adjustments	Fair value
Assets acquired	Ps. 191,992	Ps. 22,160	Ps. 214,152
Liabilities assumed	51,161	-	51,161
Total net assets	140,831	22,160	162,991
Transfer of leased properties	23,776	28,976	52,752
"Cielito" trademark	-	58,691	58,691
Identified intangible assets	23,776	87,667	111,443
Residual value of goodwill	Ps. -	Ps. -	Ps. 5,566

16. Leases

Impact on financial statements

As at 31 December 2019, at the date of transition to IFRS 16, the Group recognized lease liabilities totaling Ps. 806,000 and right-of-use assets totaling Ps. 807,000, with no effect on its equity.

Leases as lessee

The Group primarily leases real estate and motor vehicles. Information about leases for which the Group is a lessee is presented below.

a) Right-of-use assets

	Balance as at 1 January 2020	Additions	Disposals	Depreciation	Other	As at 31 December 2020
Buildings	Ps. 1,002,664	Ps. 14,123	Ps. (26,548)	Ps. -	Ps. 179,514	Ps. 1,169,753
Transportation equipment	148,833	9,892	(7,172)	-	95,594	247,147
Right-of-use assets	1,151,497	24,015	(33,720)	-	275,108	1,416,900
Buildings	(236,303)	1,928	(3,445)	(262,961)	(5,261)	(506,042)
Transportation equipment	(50,685)	1,008	(1,059)	(56,355)	(3,254)	(110,345)
Accumulated depreciation	(286,988)	2,936	(4,504)	(319,316)	(8,515)	(616,387)
Right-of-use assets	864,509	26,951	(38,224)	(319,316)	266,593	800,513
Leasing rights	142,866	54,537	(263)	(42,297)	-	154,843
Right-of-use asset, net	Ps. 1,007,375	Ps. 81,488	Ps. (38,487)	Ps. (361,613)	Ps. 266,593	Ps. 955,356

	Balance as at 1 January 2019	Additions	Disposals	Depreciation	Other	As at 31 December 2019
Buildings	Ps. 684,223	Ps. 360,283	Ps. (320,477)	Ps. -	Ps. 278,635	Ps. 1,002,664
Transportation equipment	122,725	49,272	(23,175)	-	11	148,833
Right-of-use assets	806,948	409,555	(343,652)	-	278,646	1,151,497
Buildings	-	(19,640)	17,232	(258,668)	24,773	(236,303)
Transportation equipment	-	(3,655)	6,236	(53,265)	(1)	(50,685)
Accumulated depreciation	-	(23,295)	23,468	(311,933)	24,772	(286,988)
Right-of-use assets	806,948	386,260	(320,184)	(311,933)	303,418	864,509
Leasing rights	47,231	119,289	-	(23,654)	-	142,866
Right-of-use asset, net	Ps. 854,179	Ps. 505,549	Ps. (320,184)	Ps. (335,587)	Ps. 303,418	Ps. 1,007,375

Initial costs paid to a lessor

These represent leasehold rights in commercial establishments paid to a lessor. Amortization is determined on a straight-line basis. As at 31 December 2019, the Group reclassified the initial costs paid to a lessor into right-of-use assets.

b) Amounts recognized in profit or loss

Upon initial adoption of IFRS 16, the Group recognized depreciation and interest expense instead of rental expense, together with a tax provision and, where applicable, the corresponding non-controlling interest. As at 31 December 2020 and 2019, the Group recognized the following amounts in its statement of profit or loss:

	Amounts as at 31 December 2020	Amounts as at 31 December 2019
Recognition of depreciation expense	Ps. 317,768	Ps. 286,988
Total lease payments	(381,638)	(467,030)
Recognition of other income	(18,908)	-
Recognition of interest expense	80,513	89,013
Expenses relating to short-term leases	706,150	524,474
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	180,682	151,509
Recognition of foreign exchange gain/(loss)	8,506	(839)
Tax provision	(1,763)	11,265
Other	(794)	542

c) Lease liabilities

An analysis of lease liabilities and unaccrued lease interest as at 31 December 2020 and 2019 is as follows:

	Lease liability	Unaccrued interest	Lease liabilities, net
Balance as at 1 January 2020	Ps. (1,078,994)	Ps. 187,968	Ps. (891,026)
Additions	(42,016)	(383)	(42,399)
Disposals	40,328	(4,692)	35,636
Other	(388,755)	156,670	(232,085)
Exchange differences	(12,611)	4,424	(8,187)
Payments	380,686	(74,225)	306,461
Balance as at 31 December 2020	Ps. (1,101,362)	Ps. 269,762	Ps. (831,600)
Current	Ps. (397,328)	Ps. 36,824	Ps. (360,504)
Non-current	(704,034)	232,938	(471,096)
Balance as at 31 December 2020	Ps. (1,101,362)	Ps. 269,762	Ps. (831,600)

	Lease liability	Unaccrued interest	Lease liabilities, net
Balance as at 1 January 2019	Ps. (1,176,561)	Ps. 369,16	Ps. (807,397)
Additions	(705,592)	298,587	(407,005)
Disposals	635,693	(292,028)	343,665
Other	(173,101)	(99,743)	(272,844)
Exchange differences	2,194	1,001	3,195
Payments	338,373	(89,013)	249,360
Balance as at 31 December 2019	Ps. (1,078,994)	Ps. 187,968	Ps. (891,026)
Current	Ps. (381,647)	Ps. 77,829	Ps. (303,818)
Non-current	(697,347)	110,139	(587,208)
Balance as at 31 December 2019	Ps. (1,078,994)	Ps. 187,968	Ps. (891,026)

17. Employee Benefits

	2020	2019
Obligations in the consolidated statement of financial position arising from:		
Pension plan and seniority premiums	Ps. (558,585)	Ps. (453,826)
Net defined benefit obligation	(371,184)	(263,824)
Pension plan and seniority premiums		
Net cost of the period	45,159	33,706
Actuarial loss recognized in the statement of comprehensive income before income tax	78,322	69,143
Accumulated actuarial loss from prior years recognized in the statement of comprehensive income	Ps. 150,770	Ps. 72,448

a) Employee benefits

Some entities of the Group offer their employees a defined benefit pension plan in Mexico, on the basis of pensionable compensation and years of service of the employees. The Plan Assets (PA) that support these plans are held in trusts, foundations or similar institutions regulated under local laws and by each country's accepted practices, which also regulate the nature of the relationship between the Group and trustees (or equivalent) and the composition thereof.

An analysis of the defined benefit plan assets is as follows:

	2020	2019
Variable yield	Ps. 54,517	Ps. 44,573
Debt instruments	138,893	145,275
Fair value of plan assets	Ps. 193,410	Ps. 189,848

The amounts recognized in the consolidated statement of financial position as at 31 December 2020 and 2019 are as follows:

	2020	2019
Defined benefit obligation	Ps. (558,585)	Ps. (453,826)
Fair value of plan assets	193,410	189,848
Variations in assumptions and adjustments	(6,009)	154
Net defined benefit obligation	Ps. (371,184)	Ps. (263,824)

An analysis of changes in the Group's net defined benefit obligation is as follows:

		2020		2019
As at 1 January	Ps.	453,826	Ps.	350,847
Current-year service cost		25,916		18,121
Interest cost		30,068		28,772
Actuarial losses		78,322		60,159
Personnel transfers		348		-
Benefits paid		(29,895)		(4,073)
As at 31 December	Ps.	558,585	Ps.	453,826

An analysis of changes in the fair value of plan assets is as follows:

		2020		2019
As at 1 January	Ps.	189,848	Ps.	184,408
Actual return on plan assets		15,605		16,420
Benefits paid on plan assets		(12,043)		(10,980)
As at 31 December	Ps.	193,410	Ps.	189,848

The amounts recognized in the consolidated statement of profit or loss are as follows:

		2020		2019
Current-year service cost	Ps.	25,916	Ps.	18,120
Interest cost (a)		30,068		28,772
Expected return on plan assets (b)		(11,094)		(13,186)
Net interest income (a+b)		18,974		15,586
Plan improvements		269		-
Total included in personnel costs and expenses	Ps.	45,159	Ps.	33,706

The charge for the 2020 period of Ps. 45,159 was included in cost of sales of Ps. 16,625, administrative expenses of Ps. 11,090 and selling expenses of Ps. 17,444.

The charge for the 2019 period of Ps. 33,706 was included in cost of sales of Ps. 12,761, administrative expenses of Ps. 8,597 and selling expenses of Ps. 12,348.

b) Defined benefit obligation

i) Actuarial

The main variables used in the actuarial calculations were the following:

Discount rate

To determine the discount rate the actuary used a methodology with a zero-coupon government bond curve, where each payment flow is discounted at the zero-coupon rate, and converted using “Bootstrapping” to zero-coupon bonds (“spot” rates) over periods ranging from 6 months to 30 years. Each payment flow is discounted using the applicable “spot” zero-coupon rate according to the timing of payment. Therefore, the discount rate represents the single rate whose present value of cash flows is equal to that obtained with the zero-coupon rates. In this way, the recommended discount rate to determine the obligations as at 31 December 2020 and 2019 is 6.50% and 7.50%, respectively.

Long-term inflation rate

Banco de México established a long-term inflation goal of 3.50%, which is the rate used for the valuation of labor obligations.

Salary increase rate

Based on the Group’s experience, it has been observed that salary increases are based on annual inflation, thus a nominal rate of 4.50% was used (the same as in 2019).

Expected return on plan assets

The expected return rate on plan assets is consistent with the discount rate reported by the actuary and it was determined in accordance with IAS 19.

The main actuarial assumptions used were as follows:

	2020	2019
Discount rate	6.50%	7.50%
Expected salary increase rate	4.50%	4.50%
Minimum salary increase rate	3.50%	3.50%
Long-term inflation rate	3.50%	3.50%

ii) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

31 December 2020

	Total			
Seniority premiums:	Increase		Decrease	
Defined benefit obligation				
Discount rate (1% movement)	Ps.	6,748	Ps.	(7,707)
Future salary growth rate (1% movement)		-		-
Future mortality (change of 1 year)		34		(36)
Pension plan:	Increase		Decrease	
Defined benefit obligation				
Discount rate (1% movement)	Ps.	25,193	Ps.	(28,144)
Future salary growth rate (1% movement)		(28,440)		25,855
Future mortality (change of 1 year)		(1,017)		1,201

31 December 2019

	Total			
Seniority premiums:	Increase		Decrease	
Defined benefit obligation				
Discount rate (1% movement)	Ps.	5,744	Ps.	(6,599)
Future salary growth rate (1% movement)		-		-
Future mortality (change of 1 year)		40		-
Pension plan:	Increase		Decrease	
Defined benefit obligation				
Discount rate (1% movement)	Ps.	21,423	Ps.	(24,777)
Future salary growth rate (1% movement)		(25,285)		22,187
Future mortality (change of 1 year)		635		(691)

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

18. Income Tax

Income Tax

The Mexican Income Tax (MITL) Law in effect as of 1 January 2014 establishes an income tax rate of 30% for 2014 and thereafter.

The Group's tax results differ from its book results primarily due to timing differences for items of revenue or expense that are recognized in one period for tax purposes, but in a different period for book purposes, differences in the recognition of the effects of inflation for tax purposes, and differences for items that are recognized for book or tax purposes only.

As a result of the 2014 Tax Reform, the Group began a tax deconsolidation process. The table below shows a reconciliation of the tax balances relating to the tax deconsolidation.

	Income tax liability			
		2020		2019
Beginning balance	Ps.	113,013	Ps.	146,407
Increases:				
Income tax for loss on disposal of shares of investees		3,498		4,275
Decreases:				
Transfer to current liabilities [1]		(39,024)		(37,669)
Ending balance	Ps.	77,487	Ps.	113,013

[1] *These amounts are recognized as part of income tax payable.*

Amounts recognized in profit or loss

An analysis of income tax recognized in profit or loss for the years ended 31 December 2020 and 2019 is as follows:

		2020		2019
Current income tax	Ps.	1,358,751	Ps.	1,134,618
Deferred income tax		(385,093)		(204,953)
Total income tax	Ps.	973,658	Ps.	929,665

Amounts recognized in OCI

	2020			2019		
	Before tax	Income tax effect	Net of tax	Before tax	Income tax effect	Net of tax
Remeasurements of defined benefit (asset)/liability	Ps. (75,832)	Ps. 10,941	Ps. (64,891)	Ps. (49,930)	Ps. (7,621)	Ps. (57,551)
Foreign operations – foreign currency translation differences	297,802	-	297,802	(184,215)	-	(184,215)
Derivative financial instruments	(108,340)	33,985	(74,355)	200,426	(58,207)	142,219
Unrealized (loss)/gain on investment funds	(139,293)	41,788	(97,505)	72,336	(21,701)	50,635
	Ps. (25,663)	Ps. 86,714	Ps. 61,051	Ps. 38,617	Ps. (87,529)	Ps. (48,912)

Reconciliation of effective tax rate

A reconciliation of the statutory income tax rate to the effective income tax rate recognized by the Group for financial reporting purposes is as follows:

	2020	2019
Profit before income tax	Ps. 3,342,114	Ps. 3,153,708
Statutory income tax rate	30%	30%
Income tax	1,002,634	946,112
Plus/(less) permanent items:		
Effects of inflation	(37,308)	(6,471)
Share of profit of equity-accounted investees reported, net of tax	(38,656)	(70,989)
Other permanent items, net	44,881	48,641
Recognition of taxes from prior years	(1,391)	8,097
	970,160	925,390
Income tax for loss on disposal of shares of investees	3,498	4,275
Income tax recognized in profit or loss	Ps. 973,658	Ps. 929,665
Effective income tax rate	29%	29%

An analysis of the major items that gave rise to temporary differences on which the deferred income tax was recognized as at 31 December 2020 and 2019 is as follows:

Movement in deferred tax balances

	2020						2019					
	Assets		Liabilities		Net		Assets		Liabilities		Net	
Deferred tax assets:												
Allowances and provisions	Ps.	701,608	Ps.	-	Ps.	701,608	Ps.	448,695	Ps.	73,516	Ps.	375,179
Tax losses		194,772		-		194,772		187,550		-		187,550
Employee benefits		56,442		-		56,442		35,477		-		35,477
Lease liability		249,480		-		249,480		267,308		-		267,308
Deferred tax asset	Ps.	1,202,302	Ps.	-	Ps.	1,202,302	Ps.	939,030	Ps.	73,516	Ps.	865,514

	2020						2019					
	Assets		Liabilities		Net		Assets		Liabilities		Net	
Deferred tax liabilities:												
Inventories	Ps.	28,907	Ps.	-	Ps.	28,907	Ps.	14,321	Ps.	80,177	Ps.	(65,856)
Derivative financial instruments [(1)]		-		17,782		(17,782)		-		93,554		(93,554)
Prepaid expenses		-		50,288		(50,288)		-		31,073		(31,073)
Other assets		-		174,216		(174,216)		-		134,375		(134,375)
Property, machinery and equipment, net		197,473		15,235		182,238		124,212		48,853		75,359
Right-of-use assets		-		240,154		(240,154)		-		259,353		(259,353)
Nutrisa trademark intangible		-		297,840		(297,840)		-		300,360		(300,360)
Other trademarks		-		253,522		(253,522)		-		252,534		(252,534)
Deferred tax liability		226,380		1,049,037		(822,657)		138,533		1,200,279		(1,061,746)
Deferred tax asset/(liability), net	Ps.	1,428,682	Ps.	1,049,037	Ps.	379,645	Ps.	1,077,563	Ps.	1,273,795	Ps.	(196,232)

(1) *These effects are recognized as part of OCI.*

An analysis of the Group's deferred taxes as at 31 December 2020 and 2019 is as follows:

	2020		2019	
Beginning balance	Ps.	(196,232)	Ps.	(313,657)
Derivative financial instruments valuation		75,772		(79,907)
Debit for components of other comprehensive income		10,941		(7,621)
Company spin-offs		104,071		-
Recognized in profit or loss		385,093		204,953
	Ps.	379,645	Ps.	(196,232)

An analysis of gross movements on the deferred tax asset/(liability) during the year is as follows:

Deferred tax assets	Allowances and provisions	Tax cost of shares of joint ventures	Employee benefits	Tax losses and tax incentives	Lease liabilities	Total
Balance as at 31 December 2018 (1)	Ps. 184,431	Ps. 51,580	Ps. 25,175	Ps. 74,463	Ps. -	Ps. 335,649
Credit for components of other comprehensive income	-	-	(7,621)	-	-	(7,621)
Debit/(credit) to profit or loss	190,748	(51,580)	17,923	113,087	267,308	537,486
Balance as at 31 December 2019	375,179	-	35,477	187,550	267,308	865,514
Credit for components of other comprehensive income	-	-	10,941	-	-	10,941
Debit/(credit) to profit or loss	326,429	-	10,024	7,222	(17,828)	325,847
Balance as at 31 December 2020	Ps. 701,608	Ps. -	Ps. 56,442	Ps. 194,772	Ps. 249,480	Ps. 1,202,302

Deferred tax liabilities	Inventories	Derivative financial instruments	Prepaid expenses	Property, machinery and equipment, net	Intangible assets	Other assets	Right-of-use assets	Total
Balance as at 31 December 2018	Ps. (32,853)	Ps. (13,647)	Ps. (24,944)	Ps. 83,935	Ps. (552,629)	Ps. (109,168)	Ps. -	Ps. (649,306)
Debit for components of other comprehensive income	-	(79,907)	-	-	-	-	-	(79,907)
Credit to profit or loss	(33,003)	-	(6,129)	(8,576)	(265)	(25,207)	(259,353)	(332,533)
Balance as at 31 December 2019	(65,856)	(93,554)	(31,073)	75,359	(552,894)	(134,375)	(259,353)	(1,061,746)
Debit for components of other comprehensive income	-	75,772	-	-	-	-	-	75,772
Debit/(credit) to profit or loss	94,763	-	(19,215)	106,879	1,532	(39,841)	19,199	163,317
Balance as at 31 December 2020	Ps. 28,907	Ps. (17,782)	Ps. (50,288)	Ps. 182,238	Ps. (551,362)	Ps. (174,216)	Ps. (240,154)	Ps. (822,657)

(1) *Tax losses carried forward*

	2020	Expiry date	2019	Expiry date
Accumulated tax losses expire as follows	Ps. 649,240	2026-2030	Ps. 625,167	2026-2029

Unrecognized deferred tax assets

As at 31 December 2019, the Group has not recognized deferred tax assets of Ps. 51,580 for temporary differences of Ps. 171,933 related to intangible assets.

Unrecognized deferred tax liabilities

As at 31 December 2020, there was a deferred tax liability of Ps. 1,061,817 (Ps. 1,033,688 in 2019) for temporary differences of Ps. 4,053,959 (Ps. 3,949,597 in 2019) related to investments in subsidiaries and joint ventures that were not recognized because the Group controls the timing of reversal of the related taxable temporary differences and management is satisfied that they will not reverse in the foreseeable future.

19. Capital and Reserves

a) Ordinary shares

As at 31 December 2020 and 2019, the Group's subscribed and paid-in share capital totaled Ps. 432,275 plus an inflation restatement increment of Ps. 143,350 (to express it in modified historical Mexican pesos), and is represented by 390,761,484 common registered shares with no par value.

For capital redemptions, the MITL establishes that any amounts reimbursed to shareholders in excess of the balance of the contributed capital accounts shall be subject to the tax treatment applicable to dividends.

The Group decided to take the following measures in relation with its outstanding shares:

i) At the April 2020 shareholders' meeting, the shareholders agreed on a maximum amount of Ps. 3,500,000 of resources that the Group can set aside to repurchase own shares.

An analysis of movements in the share repurchase fund is as follows:

	As at 31 December 2020		As at 31 December 2019	
	No. of shares	Amount	No. of shares	Amount
Purchases	(31,598,931)	Ps. (1,132,437)	(22,221,473)	Ps. (900,779)
Sales	-	-	-	-
Net	(31,598,931)	Ps. (1,132,437)	(22,221,473)	Ps. (900,779)

As at 31 December 2020 and 2019, the Group held 22,970,856 and 32,610,441 treasury shares, respectively.

b) Nature and purpose of reserves

Reserve for repurchase shares

The Group may acquire shares representing its share capital through the stock market in which it operates at current market prices, without being subject to the restrictions set forth in the 1st paragraph of Article 134 of the Mexican Corporations Act (Ley General de Sociedades Mercantiles), and must comply with the requirements of the Mexican Securities Act, the general rules to that effect issued by the National Banking and Securities Commission (CNBV, by its acronym in Spanish) and other applicable laws.

Legal reserve

The Company is required to appropriate at least 5% of the net profit of each year to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of the value of the Company's share capital. As at 31 December 2020 and 2019, the legal reserve is Ps. 141,862 and has reached the required minimum.

c) Capital redemptions

On 1 October 2019, the Group entered into an agreement for the remaining 50% of the share capital owned by Saben a Cine, S.A.P.I. de C.V.; Operadora Comercial de Desarrollo, S.A. de C.V. was the selling party and Herdez del Fuerte, S.A. de C.V. and Herdez, S.A. de C.V. were the purchasing parties, decreasing the minority interest in the amount of Ps. 13,068 that was owned by Operadora Comercial de Desarrollo, S.A. de C.V

d) Dividends

At a subsidiary's ordinary shareholders' meeting held on 31 December 2020, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 102,674.

At a subsidiary's ordinary shareholders' meeting held on 30 September 2020, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 186,000.

At a subsidiary's ordinary shareholders' meeting held on 28 September 2020, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 150,000.

At a subsidiary's ordinary shareholders' meeting held on 31 August 2020, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 65,760.

At a subsidiary's ordinary shareholders' meeting held on 30 July 2020, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 100,000.

At a subsidiary's ordinary shareholders' meeting held on 30 June 2020, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 216,000.

At a subsidiary's ordinary shareholders' meeting held on 31 May 2020, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 118,403.

At a subsidiary's ordinary shareholders' meeting held on 28 May 2020, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 100,000.

At a subsidiary's ordinary shareholders' meeting held on 30 April 2020, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 100,000.

At an ordinary shareholders' meeting held on 23 April 2020, the shareholders declared dividends of $ 1.10 Mexican pesos per share to be paid from retained earnings. The total dividend paid was Ps. 418,055.

At a subsidiary's ordinary shareholders' meeting held on 27 March 2020, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 382,455.

At a subsidiary's ordinary shareholders' meeting held on 25 February 2020, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 200,000.

At a subsidiary's ordinary shareholders' meeting held on 14 February 2020, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 74,583.

At a subsidiary's ordinary shareholders' meeting held on 23 December 2019, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 65,000.

At a subsidiary's ordinary shareholders' meeting held on 14 November 2019, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 20,000.

At a subsidiary's ordinary shareholders' meeting held on 21 October 2019, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 100,000.

At a subsidiary's ordinary shareholders' meeting held on 17 September 2019, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 30,000.

At a subsidiary's ordinary shareholders' meeting held on 29 August 2019, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 100,000.

At a subsidiary's ordinary shareholders' meeting held on 30 July 2019, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 66,815.

At a subsidiary's ordinary shareholders' meeting held on 27 June 2019, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 30,000.

At a subsidiary's ordinary shareholders' meeting held on 15 April 2019, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 71,603.

At a subsidiary's ordinary shareholders' meeting held on 25 April 2019, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 100,000.

At an ordinary shareholders' meeting held on 25 April 2019, the shareholders declared dividends of $ 1.10 Mexican pesos per share to be paid from retained earnings. The total dividend paid was Ps. 449,856.

At a subsidiary's ordinary shareholders' meeting held on 29 March 2019, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 30,000.

At a subsidiary's ordinary shareholders' meeting held on 28 February 2019, the shareholders declared dividends payable to minority shareholders in the amount of Ps. 200,000.

The payment of income tax may be credited against the Company's current income tax and income tax payable for the two subsequent years. Dividends paid on which income tax has already been paid are not subject to any additional tax withholdings or tax payments.

Dividends paid to individuals and foreign corporations from earnings generated as of 1 January 2014 shall be subject to an additional 10% withholding tax. In these cases, the companies that distribute or pay dividends to individuals residing in Mexico or residing abroad must withhold 10%. The 10% tax applies only to profits generated as of 2014; therefore, entities shall carry two separate accounts to identify the profits generated before and after 2014.

20. Revenue from Ordinary Activities

For the years ended 31 December 2020 and 2019, the Group earned all its revenue from the sale of products.

Seasonality of the Group's operations

Most of the products manufactured and sold by the Group are somewhat seasonal in nature, as the Group's sales of preserves increase during the last four months of the year. Additionally, the sales of certain products such as mayonnaise, mole and paste increase during Lent, while the demand for teas and marmalades goes up in winter. Sales of frozen products increase during the summer. Since seasonality also affects the harvest cycle of some raw materials used by the Group, the Group increases its safety stock during the harvest season.

Nature of the goods sold by the Group

Below is a description of the different types of products that the Group sells by business segment.

Frozen products

The main products in this segment are ice cream and commercial products. The Company recognizes revenue from the sale of frozen products as the corresponding performance obligations are satisfied. The performance obligations are satisfied when control of the sold goods is transferred to the buyer, which occurs when the customer receives the goods at their warehouse and, for general public sales, immediately upon delivery of the product.

The Group does not grant a general right of return to its customers. However, customers may occasionally return goods with damaged packaging.

Customers are offered different payment terms depending on the distribution channel to which they belong.

- Payment terms granted to customers of the convenience and self-service channel range from 30 to 60 days, therefore, the amount of the consideration is not adjusted for the effects of a significant financing component. Payment conditions with wholesale customers usually include discounts for temporary price reductions and contributions to the brand.

- In the traditional channel, most of the sales are to the general public and are paid in cash or with bank cards.

Preserves

The products that the Group sells in the preserves segment consist primarily of the following jarred, packed and canned foods: pasta, tomato puree, ketchup, tuna, mayonnaise, marmalade, mustard, tea, salad dressings, spices, honey, sauces, homemade sauces, peppers, mole and canned vegetables. The Group recognizes revenue from the sale of canned and packed food as the corresponding performance obligations are satisfied. The performance obligations are satisfied when control of the sold goods is transferred to the buyer, which occurs when the customer receives the goods at their warehouse.

The Group does not grant a general right of return to its customers. However, customers may occasionally return goods with damaged packaging.

Customers are offered different payment terms depending on the distribution channel to which they belong.

Payment terms granted to customers of the wholesale and self-service channel range from 30 to 60 days, therefore, the amount of the consideration is not adjusted for the effects of a significant financing component. Payment conditions with wholesale customers usually include discounts for temporary price reductions and contributions to the brand.

Exports

The products that the Group sells in this segment consist primarily of the following canned and jarred foods: mayonnaise, peppers, mole, homemade sauces and nopalitos, primarily The Group recognizes revenue from the sale of jarred, canned and packed food as the corresponding performance obligations are satisfied. The performance obligations are satisfied when control of the sold goods is transferred to the buyer, which occurs when the customer receives the goods at their warehouse.

The Group does not grant a general right of return to its customers. However, customers may occasionally return goods with damaged packaging.

Customers are offered different payment terms depending on the distribution channel to which they belong.

– Payment terms granted to customers of the convenience and self-service channel range from 30 to 60 days, therefore, the amount of the consideration is not adjusted for the effects of a significant financing component. Payment conditions with wholesale customers usually include discounts for temporary price reductions and contributions to the brand.

Contract balances

Contract balances as at 31 December 2020 and 2019 are primarily represented by trade receivables totaling Ps. 3,146,681 and Ps. 3,263,968, respectively (see Note 9).

Revenue segmentation

A disaggregated revenue analysis for the years ended 31 December 2020 and 2019 is as follows:

2020

		Preserves		Frozen		Exports		Total
Main categories								
Jarred products	Ps.	10,628,593	Ps.	83,326	Ps.	1,687,382	Ps.	12,399,301
Packed products		5,796,297		196,040		45,385		6,037,722
Ice cream		-		2,234,101		1,219		2,235,320
Canned food		2,360,227		-		271,311		2,631,538
Frozen food		245,143		-		-		245,143
Drinks		-		94,045		-		94,045
Services		7,431		-		-		7,431
Other (primarily labels)		385,779		-		-		385,779
Total	Ps.	19,423,470	Ps.	2,607,512	Ps.	2,005,297	Ps.	24,036,279

2019

		Preserves		Frozen		Exports		Total
Main categories								
Jarred products	Ps.	9,652,597	Ps.	143,187	Ps.	1,302,478	Ps.	11,098,262
Packed products		4,959,018		151,034		61,243		5,171,295
Ice cream		-		2,934,421		3,437		2,937,858
Canned foods		2,401,100		-		262,921		2,664,021
Frozen food		220,409		-		-		220,409
Services		21,368		-		-		21,368
Other (primarily labels)		307,156		-		-		307,156
Total	Ps.	17,561,648	Ps.	3,228,642	Ps.	1,630,079	Ps.	22,420,369

Contract costs

The Group does not incur any significant contract costs requiring capitalization.

21. Cost of Sales

An analysis of cost of sales for the years ended 31 December 2020 and 2019 is as follows:

		2019		2019
Direct cost of sales	Ps.	13,994,941	Ps.	12,850,599
Maintenance and repair		576,558		444,376
Electricity		153,278		167,195
Expenses related to post-employment defined benefit plans		16,376		12,761
Depreciation and amortization		306,929		312,554
Total cost of sales	Ps.	15,048,082	Ps.	13,787,485

22. General Expenses

An analysis of general expenses for the years ended 31 December 2020 and 2019 is as follows:

		2020		2019
Employee benefits	Ps.	2,740,938	Ps.	2,555,454
Distribution and associated expenses		2,303,063		2,206,734
Conservation and fuels		461,403		508,680
Depreciation and amortization		635,781		515,071
	Ps.	6,141,185	Ps.	5,785,939

23. Other Income and Expenses

An analysis of other income for the years ended 31 December 2020 and 2019 is as follows:

		2020		2019
Other income				
True up in equity investment	Ps.	-	Ps.	12,886
Restatement of recoverable taxes		21,669		11,354
Insurance claim recovery		1,283		3,115
Gain on sale of fixed assets		183,852		88,401
Revenue from distribution alliances		29,651		31,648
Sale of materials and scrap		-		19,918
Franchises		25,890		6,024
Revenue from realized investment funds		168,140		-
IFRS 16		18,908		-
Gain on sale of brands		68,053		-
Other		5,757		39,808
Total other income	Ps.	523,203	Ps.	213,154
Other expenses				
Bad debts	Ps.	-	Ps.	58,939
Loss on sale of shares		2,750		-
True up in equity investment		4,554		-
Idle plants		5,245		10,334
Franchises		27,762		-
COVID-related expenses		42,261		-
Other		32,923		924
Total other expenses		115,495		70,197
	Ps.	407,708	Ps.	142,957

24. Finance Income and Finance Costs

An analysis of finance income and finance costs for the years ended 31 December 2020 and 2019 is as follows:

		2020		2019
Interest income:				
Bank interest	Ps.	172,345	Ps.	144,946
Related party interest		2,325		1,009
Total interest income		174,670		145,955
Foreign exchange gain		593,907		162,435
Finance income		768,577		308,390
Interest paid:				
Bank interest paid		826,298		635,301
Total interest paid		826,298		635,301
Interest under IFRS 16		80,599		89,013
Foreign exchange loss		531,264		196,204
Finance costs		1,438,161		920,518
Net financing cost	Ps.	669,584	Ps.	612,128

25. Operating Segments

Basis for segmentation

The Group has three reporting segments, which are described below, corresponding to the Group's strategic divisions. These divisions offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic divisions, the Group's CEO (responsible for making operational decisions) reviews the management reports prepared internally at least on a quarterly basis. The following summary describes the operations of each reportable segment.

	2020							
	Frozen		Preserves		Exports		Total	
Net sales	Ps.	2,607,512	Ps.	19,423,470	Ps.	2,005,297	Ps.	24,036,279
Cost of sales		1,150,184		12,326,185		1,571,713		15,048,082
Gross profit		1,457,328		7,097,285		433,584		8,988,197
General expenses		2,162,182		3,846,366		132,637		6,141,185
Profit before other income		(704,854)		3,250,919		300,947		2,847,012
Other income, net		(30,047)		437,755		-		407,708
Operating profit		(734,901)		3,688,674		300,947		3,254,720
Depreciation and amortization		529,700		355,628		57,382		942,710
Net financing cost		70,781		598,803		-		669,584
Share of profit of associates		-		756,978		-		756,978
Profit before income tax		(805,682)		3,846,849		300,947		3,342,114
Income tax		(234,013)		1,117,388		90,283		973,658
Consolidated net profit for the year		(571,669)		2,729,461		210,664		2,368,456
Net profit attributable to non-controlling interests		(897)		1,436,168		105,225		1,540,496
Net profit attributable to equity holders of the parent		(570,772)		1,293,293		105,439		827,960
Total assets		4,467,839		26,659,795		2,447,019		33,574,653
Total liabilities	Ps.	2,428,705	Ps.	13,035,970	Ps.	773,515	Ps.	16,238,190

	2019							
	Frozen		Preserves		Exports		Total	
Net sales	Ps.	3,228,642	Ps.	17,561,648	Ps.	1,630,079	Ps.	22,420,369
Cost of sales		1,160,373		11,220,977		1,406,135		13,787,485
Gross profit		2,068,269		6,340,671		223,944		8,632,884
General expenses		1,952,253		3,719,484		114,202		5,785,939
Profit before other income		116,016		2,621,187		109,742		2,846,945
Other income, net		(26,912)		169,869		-		142,957
Operating profit		89,104		2,791,056		109,742		2,989,902
Depreciation and amortization		417,285		350,997		59,343		827,625
Net financing cost		56,067		556,061		-		612,128
Share of profit of associates		-		775,933		-		775,933
Profit before income tax		33,037		3,010,928		109,742		3,153,707
Income tax		11,369		885,411		32,885		929,665
Consolidated net profit for the year		21,668		2,125,517		76,857		2,224,042
Net profit attributable to non-controlling interests		40		1,171,304		38,201		1,209,545
Net profit attributable to equity holders of the parent		21,628		954,213		38,656		1,014,497
Total assets		4,286,615		26,195,153		2,599,666		33,081,434
Total liabilities	Ps.	1,737,900	Ps.	12,346,794	Ps.	749,084	Ps.	14,833,778

Significant customer

As at 31 December 2020 and 2019, the Group sold products to a large number of customers. Revenue from one customer (Wal-Mart de México, S.A.B. de C.V.) represented approximately 27% and 24%, respectively, of the Group's total revenue.

26. Earnings per Share

The calculation of basic EPS and diluted EPS at 31 December 2020 has been based on the profit of Ps. 827,960 attributable to the equity holders of the parent (Ps. 1,014,497 in 2019) and a weighted-average number of ordinary shares outstanding of 381,813,000 shares (409,759,000 shares in 2019).

27. Contingencies

a) The Group is party to various labor lawsuits and claims arising in its normal course of operations. Group management does not believe that the outcome of these lawsuits will have a material effect on its financial position or future operating results.

b) In accordance with the MITL, the Group's income tax returns are open to review by the tax authorities for a period of five years from the date they are filed.

c) In accordance with the MITL, companies that carry out transactions with related parties are subject to tax restrictions and obligations with respect to the determination of the prices charged, since such prices should be similar to the prices that would have been used with or between independent parties in comparable transactions.

d) The Group's subsidiaries are contingently liable for any omitted taxes that might be determined by the authorities in the event of a review, as well as penalties, restatements and surcharges.

e) The Group has several ongoing legal processes to challenge resolutions issued by the tax authorities, who denied requests for refund of tax balances relating to value added tax (VAT). To date, there is no definitive ruling on the situation, determination of omitted taxes, or related contingencies. As at 31 December 2020, the accumulated amount of this contingency is Ps. 360,000, corresponding to VAT balances from various months from 2016 to 2020.

The tax authorities have exercised their powers of review on VAT balances of the subsidiaries for 2014-2018. At the date of issue of these consolidated financial statements, the Group has repaid three tax credits corresponding to fiscal years 2014, 2015 and 2016.

This controversy arose as a result of changes to the interpretation of the Law by the tax authorities relating to the application of a 0% rate for the sale of ice cream and yoghurt popsicles.

The Group is currently preparing its defense against these resolutions to demonstrate that these settlements are not valid and that it therefore has fully complied with its tax obligations related to VAT balances.

28. Commitments

a) In the ordinary course of business, certain subsidiaries have undertaken commitments resulting from sales agreements, and for the purchase of machinery and equipment, which in certain cases, establish penalties for cases of non-compliance.

b) The Group has entered into contracts for the payment of royalties under which it is required to pay different percentages on sales of certain brands and in different terms. These royalty agreements have been entered into with McCormick and Company Inc., Barilla G.e.R. Fratelli, S.p.A. and Société des Produits Nestlé, S.A.

29. Subsequent Events

i) On 15 January 2021, Megamex Foods, LLC declared dividends payable to shareholders in the amount of USD 22.5 million, which were paid out on that same date.

ii) At an ordinary shareholders' meeting of McCormick de México, S.A. de C.V. held on 28 January 2021, the shareholders declared dividends payable to shareholders totaling Ps. 250,000, which were paid out on that same date.

iii) Impact from the COVID-19 health contingency

On 30 March 2020, the Mexico City government declared a public health emergency due to the SARS-CoV2 (COVID-19) pandemic. On 31 March, the government ordered the immediate suspension of all non-essential activities in public, private and social sectors.

During 2020, the preserves and exports segments did not identify adverse impacts from the COVID-19 pandemic. The frozen segment reported a 19% drop in sales, because of the ordered closure of many points of sale across of Mexico to prevent the spread of the COVID-19 outbreak during 2020 and 2021.

Impacts:

a. Directly caused by the COVID-19 pandemic in the frozen segment. Resulting from the aforementioned closures and mobility restrictions, this segment decreased by Ps. 235,000.

b. Directly related to the effects of COVID-19 in Group companies corresponding to additional unusual expenses related to sanitization and consumables totaling Ps. 56,000. The Group has not identified any material or adverse effects related to labor force reductions, going concern, lease concessions, penalties due to contract delays or breaches, or expected impairment losses on accounts receivable as a result of the COVID-19 pandemic.

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