2020
ANNUAL REPORT

alpek

TABLE OF CONTENTS

CORPORATE PROFILE

Who we are

One of the largest petrochemical companies in The Americas

Divided into two main segments: Polyester and Plastics & Chemicals

Public company listed in the Mexican Stock Exchange

Our Leadership Positions

PTA
#1 The Americas

PET
#1 The Americas
#2 Worldwide

rPET
#1 The Americas

EPS
#1 The Americas
#3 Worldwide

PP Sole producer in Mexico

CPL Sole producer in Mexico

2020 Highlights

Posted record annual volume (4.8 million tons)

Resilient performance in spite of COVID-19

Strong free cash flow generation from solid business fundamentals

Acquired 2nd largest EPS producer in The Americas

FINANCIAL HIGHLIGHTS

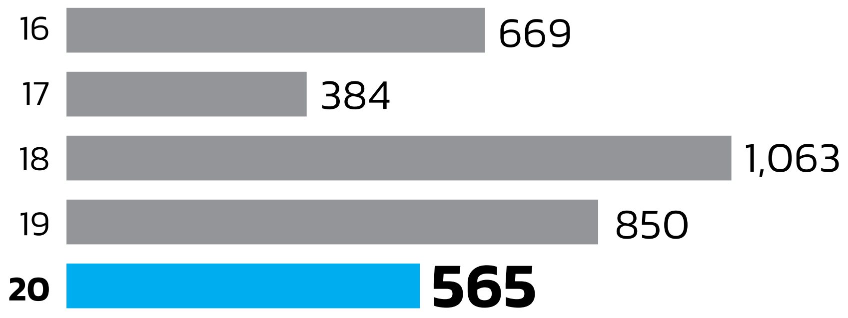
	Millions of dollars			Millions of pesos		
Income Statement	**2020**	**2019**	**% var.**	**2020**	**2019**	**% var.**
Total Revenues	**5,326**	6,216	(14)	**113,989**	119,685	(5)
Operating Income	**355**	641	(45)	**7,493**	12,361	(39)
Reported EBITDA[1]	**565**	850	(34)	**11,993**	16,395	(27)
Comparable EBITDA excl. RMCF[2]	**601**	789	(24)	**13,009**	15,196	(14)
Net Income (Controlling Interest)	**150**	342	(56)	**3,123**	6,605	(53)
Net Income per share[3][5]	**0.07**	0.16		**1.48**	3.12	
Balance Sheet						
Assets	**5,331**	5,455	(2)	**106,353**	102,794	3
Liabilities	**3,050**	3,064	–	**60,841**	57,736	5
Stockholders' equity	**2,281**	2,391	(5)	**45,512**	45,058	1
Controlling interest	**2,024**	2,148	(6)	**40,386**	40,480	–
Book value per share[4][5]	**0.96**	1.01		**19.07**	19.11	

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

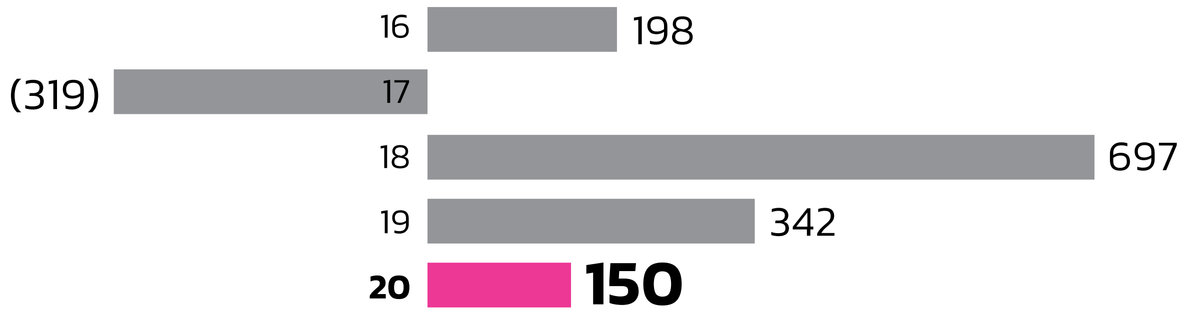
The financial information for 2020 to 2016 was prepared in accordance with IFRS, in effect in Mexico since January 2012. Conversions from pesos to dollars were made using the weighted average exchange rate of the period in which the transactions were carried out. The percentage variations between 2020 and 2019 are expressed in nominal terms.

(1) *EBITDA = Operating income plus depreciation, amortization and impairment of non-current assets.*
(2) *Raw material carry-forward*
(3) *Based on the weighted average number of outstanding shares (2,113 million shares in 2020; and 2,117 in 2019).*
(4) *Based on the number of outstanding shares (2,118 million shares in 2020; and 2,118 in 2019).*
(5) *Dollars or pesos per share, accordingly.*

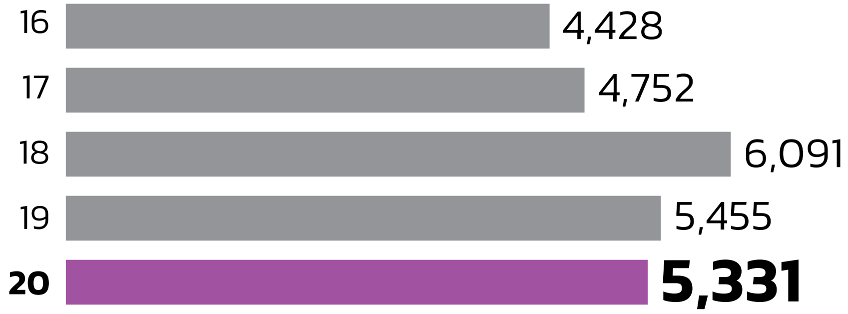
EBITDA[1]
Millions of dollars



Net Income
(Controlling interest)
Millions of dollars

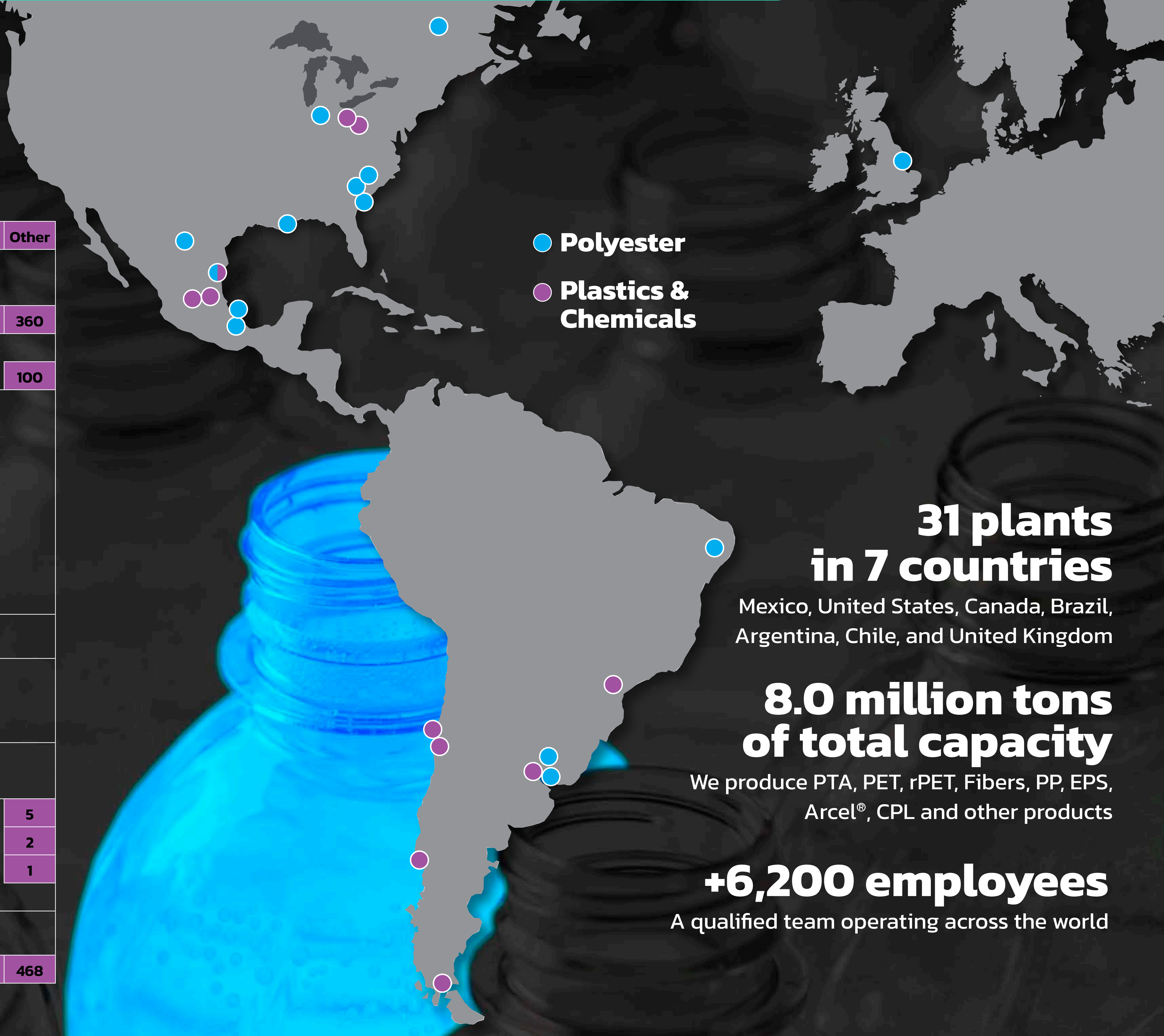


Assets
Millions of dollars



FOOTPRINT

				rPET								
Country	**Site**	**PTA**	**PET**	**Flake**	**Pellet**	**SPT**	**Fibers**	**PP**	**EPS**	**ARCEL**	**CPL**	**Other**
Mexico (3,395 Kta)	Monterrey						160					
	Altamira	1,000						640	240			
	Salamanca										85	360
	Cosoleacaque	610	185			15						
	Lerma											100
USA (2,644 Kta)	Fayetteville		170	55								
	Charleston		170			15	150					
	Columbia	640	725									
	Bay St. Louis		430									
	Richmond			55								
	Darlington				30							
	Monaca								123	36		
	Painesville								45			
Canada (144 Kta)	Montreal		144									
Argentina (246 Kta)	Zárate		190									
	Pacheco			22	15							
	General Lagos								19			
Brazil (1,226 Kta)	Guaratinguetá								46			
	Ipojuca	640	450				90					
Chile (28 Kta)	Santiago											5
	Puerto Montt											2
	Punta Arenas											1
	Concon								20			
UK (350 Kta)	Wilton		350									
TOTAL CAPACITY: 8,033 Kta		2,890	2,814	132	45	30	400	640	493	36	85	468



31 plants in 7 countries

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

8.0 million tons of total capacity

We produce PTA, PET, rPET, Fibers, PP, EPS, Arcel®, CPL and other products

+6,200 employees

A qualified team operating across the world

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDER

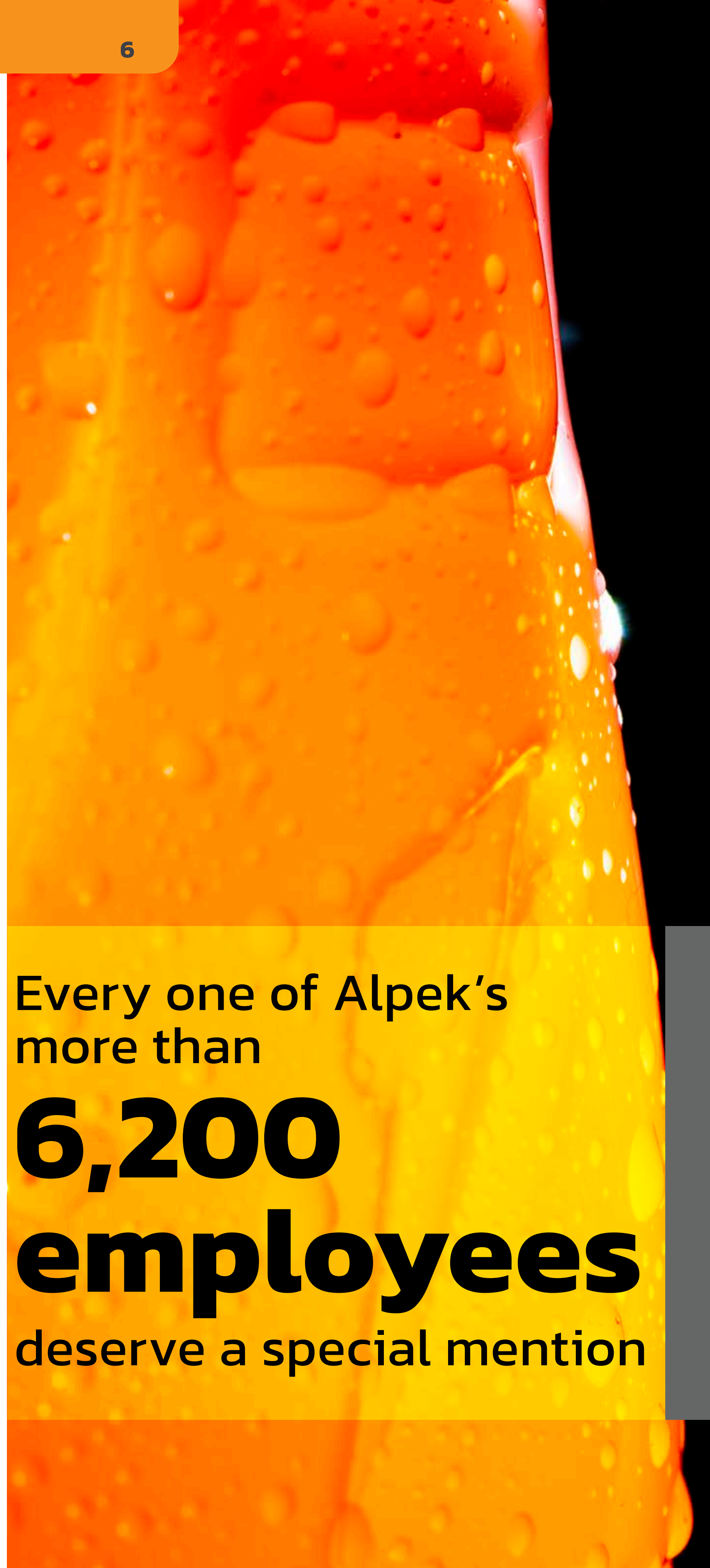
In an unprecedented year such as 2020, Alpek and its employees encountered challenges and opportunities that they were able to not just overcome, but capitalize upon, thus culminating in a year that vastly exceeded expectations, both in results as well as in strategic growth opportunities. We would like to focus this year's letter on four key takeaways we discovered or reaffirmed throughout the COVID-19 pandemic.

1. OUR EMPLOYEES ARE OUR STRONGEST ASSET

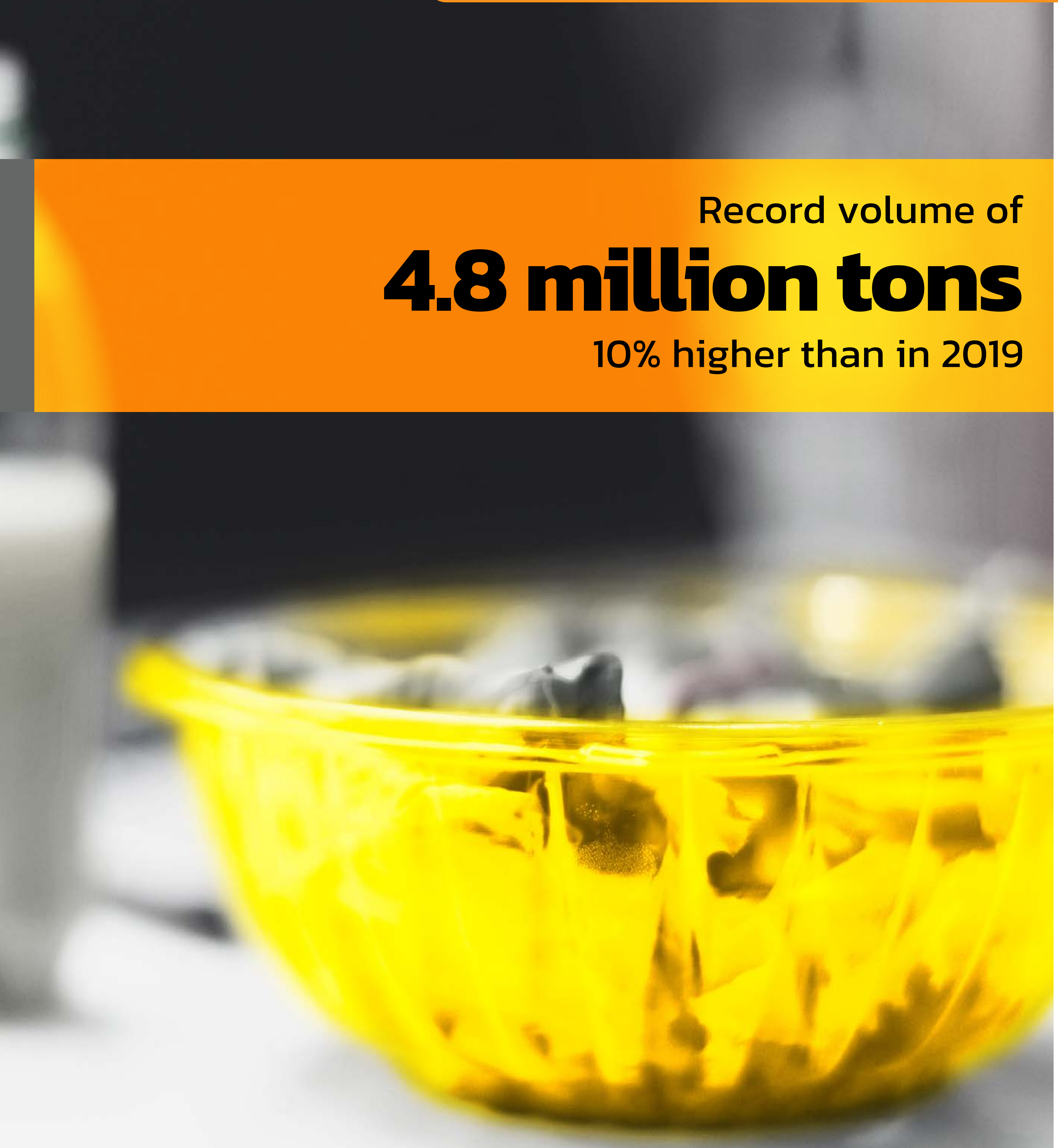
Alpek's top priority is the safety and well-being of our employees. In 2020, we were able to operate without interruptions, thus supporting our customers in making products such as clothes; bottles for water, juice, and milk; and packaging for fruit, vegetables, and eggs. More importantly this year, our products were used for face masks and shields; antibacterial gel bottles, and COVID-19 test and vaccine transportation cases.

We did this by relying on preventive actions such as health checkpoints and the use of protective gear at all our sites. Quickly adapting to the new conditions, we embraced different working measures such as home-office for many of our employees, the elimination of all work-related travel, and an increased use of technology for communication and collaboration, which, ironically, has brought us closer than ever before.

For these reasons, every one of Alpek's more than 6,200 employees deserves a special mention. They kept the same level of commitment, discipline and hard work during these trying times and we want to sincerely thank them for their unwavering dedication, without which this year's results would not have been possible.



Every one of Alpek's more than
6,200 employees
deserve a special mention



Record volume of
4.8 million tons
10% higher than in 2019

2. THE COMPANY'S OUTSTANDING PERFORMANCE IS UNDERPINNED BY ITS SOLID FUNDAMENTALS

Alpek has always stated that demand for its product portfolio is highly resilient. Never has this been more evident than in 2020, as COVID-19 shut down entire industries globally. It also emphasized the importance of safety and hygiene, driving a rise in the use of PET and polypropylene in food and beverage packaging over alternatives involving more person-to-person contact, such as open-beverage containers like soda fountains. Moreover, we also saw a significant increase in the penetration of e-commerce, which positively affected demand for expandable polystyrene (EPS) to protect high-value or temperature-sensitive goods, such as TVs or computers, during transport.

The result was a new annual record volume of 4.8 million tons, 10% higher than the previous year. We believe the factors driving this performance are based on favorable change in consumer behavior, with the potential to have a lasting impact on Alpek's demand.

Margins for all our key products were also better than expected throughout the year. Integrated Asian PET margins of US $269 per ton exceeded our guidance figure as demand outpaced supply and significant PTA/PET production capacity in Asia was offline during the first half of the year. EPS margins continued to be strong as demand increased while no new capacity was brought online. Finally, polypropylene margins were higher than expected, as the entry of new capacity in North America occurred much later than anticipated and was accompanied by production outages late in the year, due to natural disasters in the Gulf Coast that reduced market inventory levels.

As a result of these sound business fundamentals, Alpek's 2020 EBITDA was considerably stronger than guidance projections for the year. Comparable EBITDA excluding RMCF reached US $601 million, 16% stronger than expected EBITDA of US $517 million, largely due to better-than-projected volume and margins.

Alpek also executed forward-looking initiatives in full alignment with its long-term strategic growth plan. These include the acquisition of NOVA Chemicals' Styrenics business, which further consolidated the Americas EPS industry, is expected to result in significant cost savings, and incorporates higher value-added products like ARCEL® to our portfolio; as well as investments to grow Alpek's recycled PET (rPET) footprint, that move us closer to our goal of reaching 300,000 tons of rPET by 2025. These actions have further strengthened the Company's competitive position and set the stage for EBITDA growth in the years to come.

Alpek generated free cash flow of US $350 million, paid out dividend of US $143 million, reduced debt to US $1.19 billion and finished year with net leverage ratio of 2.1x

3. OUR COMMITMENT TO FINANCIAL STABILITY IS A CORE STRENGTH

At the onset of the COVID-19 pandemic and facing a high level of uncertainty at the time, the Company decided to focus on its financial stability. As such, during 2020 Alpek drew upon committed credit lines to increase its cash position, improved its Net Working Capital in part by reducing its inventory levels, efficiently executed its strategy through lower-than-expected CAPEX, and revoked its planned dividend for the year.

Additionally, as we anticipated, the Mexican bankruptcy court approved the financial restructuring agreement between M&G Mexico and most of its creditors in September. Under the agreement, Alpek has begun recovering the US $160 million in guaranteed debt plus interest over the next five years, with US $40 million already being recovered in December. The Company will also continue providing the PTA needed by M&G Mexico's PET facility, thus favoring stable operations at M&G while Alpek recovers its debt, as well as a steady offtake for our PTA site in Altamira.

The combination of these actions with a strong EBITDA allowed Alpek to generate a free cash flow of US$350 million, pay out a dividend of US $143 million for shareholders, and reduce its debt to US $1.185 billion, finishing the year with a net leverage ratio of 2.1 times.

4. ESG IS HERE TO STAY AND WE ARE ON THE RIGHT TRACK

During 2020, Alpek saw a marked increase in the number of investors who expressed that a company's Environmental, Social and Governance-related performance mattered in their decision-making processes. Alpek has always taken its responsibility towards its stakeholders and key issues very seriously, achieving continuous improvement on CO_2 emissions, water usage, and energy consumption, among other performance indicators over the past years. However, this year we launched a holistic effort aimed at improving our ESG grades among the top rating agencies such as CDP, S&P Global CSA, MSCI and Sustainalytics across all their measured categories. As a result, we were able to better showcase our work to date and improvements throughout 2020, reaching levels as high as the 72nd percentile with Sustainalytics.

We plan to undertake further actions that would continue improving our results over the following years. In 2021 these will include joining global pacts, measuring additional indicators, setting demanding targets for ourselves, and reviewing our internal processes to identify opportunity areas across our ESG practices.

This year we launched a holistic effort aimed at improving our ESG grades among the top rating agencies such as CDP, S&P Global CSA, MSCI, and Sustainalytics across all their measured categories

OUTLOOK

Through the review of our key learnings for 2020, we hope to have provided some valuable insight into the aspects Alpek deems important and has cultivated over time, in order to deliver solid results every year. As we look forward to 2021, we continue to have a positive outlook, as we expect demand to be persistent, margins to remain at strong mid-cycle levels, and economic activity to further pick up globally as the COVID-19 crisis slows down and vaccination becomes more widely available worldwide.

In addition to our employees, we would like to take the opportunity to thank our customers, suppliers, creditors, and the community in general for another year of outstanding performance. Moreover, we would like to thank you, our shareholders, for placing your trust in this Board of Directors.

Sincerely,

José de Jesús Valdez Simancas
Chief Executive Officer

Armando Garza Sada
Chairman of the Board

POLYESTER

Favorable changes to consumer behavior worldwide as the COVID-19 pandemic emphasized the importance of safety and hygiene

Record annual volume of 3.92 million tons in 2020, 12% higher than previous year

OVERVIEW

Polyester is Alpek's largest segment, with 18 plants across the United States, Mexico, Brazil, Argentina, Canada, and the United Kingdom, totaling 6,311 thousand tons in capacity and operated by 4,302 employees. During 2020, the Polyester business accounted for 75% of the company's Consolidated revenues.

Through its various subsidiaries, Alpek is the leading PTA, PET and PSF producer across the Americas, as well as the second largest PET producer worldwide. Most recently, in line with its long-term strategy, it also became the largest recycled PET (rPET) producer in the Americas.

RESULTS

Alpek has historically served large, stable and mature geographic markets like North America, as well as industries with resilient demand, like food, beverages, and consumer goods.

Furthermore, during 2020 we witnessed a favorable change in consumer behavior worldwide: as the COVID-19 pandemic emphasized the importance of safety and hygiene, and the utilization of PET packaging for food and beverages increased, as it involves less person-to-person contact.

These factors allowed the Polyester segment to reach a record annual volume of 3.92 million tons in 2020, 12% higher than the previous year. We believe the mentioned shift in consumer habits represents a long-term trend that will continue driving PET demand after the current health crisis is over.

Integrated Asian PET margins for the year also exceeded our expectations, as considerable production capacity was offline during the first semester. Likewise, after early drops in feedstock prices, crude oil, paraxylene and propylene all closed the year at annual averages similar to those of 2019.

Comparable EBITDA excluding RMCF for the segment was US $372 million, higher than Guidance figures, a performance driven by record volumes, better-than-expected margins, and the successful integration of the recently acquired Wilton PET site.

During 2020, Alpek moved closer to its stated goal of helping its clients reach 25% of recycled PET content by focusing not just on bottle-to-flake recycling, but pelletization, which increases the amount of rPET that is used in recyclable bottles and food containers.

The growing availability of vaccination for Coronavirus suggests the worst of the pandemic may already be behind us. Looking ahead, our expectations for the Polyester segment remain positive, as we anticipate global economic activity to further speed up, demand for our products to continue being resilient, and margins to remain at strong mid-cycle levels.

During 2020, Alpek moved closer to its stated goal of helping its clients reach

25% recycled PET content

PLASTICS & CHEMICALS

Increased PP demand for food & beverage packaging and medical applications like syringes and face masks. Rise of e-commerce underscored the need for EPS to protect valuable goods during transportation

P&C volume remained strong

at 883 thousand tons, only 1% lower than 2019

OVERVIEW

The Plastics & Chemicals (P&C) segment produces polypropylene (PP), expandable styrenics (EPS & ARCEL®), caprolactam (CPL), and specialty chemicals in 13 plants across the United States, Mexico, Brazil, Argentina and Chile with a total annual capacity of 1,722 thousand tons and a slate of 1,981 employees. The P&C segment accounted for 22% of Alpek's consolidated revenues in 2020.

Alpek is the leading EPS producer in the Americas, becoming the third largest worldwide in 2020, and is the sole PP and CPL producer in Mexico, where it holds strategic market positions. Moreover, its PP site is among the newest and largest in the continent, while its CPL plant is among the most cost-efficient in the world.

RESULTS

The aforementioned critical change in consumer behavior brought about by COVID-19 also had a positive effect on this segment's performance. Higher concern for health and safety issues increased PP demand for food and beverage packaging, as well as medical applications like syringes and face masks. Additionally, the rise of e-commerce underscored the need for EPS to protect valuable goods during transportation. These effects, in turn, maintained P&C segment's volume strong at 883 thousand tons, only 1% lower than 2019, reaching record numbers in some quarters for several of our products.

In terms of profitability, EPS margins continued to be solid as demand grew stronger and global capacity remained at 2019 levels. Likewise, PP margins were better than original estimations, mainly due to two reasons: on the one hand, the entry of new capacity in North America took longer than anticipated; on the other, natural disasters in the Gulf Coast late in the year resulted in production outages, which reduced PP inventory levels.

In this context, Comparable EBITDA for the P&C business was US $218 million. Although the partial shutdown of the Construction and Automotive sectors caused a drop off in demand during the first half of the year, record annual volumes and a better-than-anticipated margin environment drove the segment's strong results.

During the year, Alpek acquired NOVA Chemicals Corporation's ("NOVA Chemicals") Styrenics business, which operates two facilities in the United States: one in Monaca, Pennsylvania, with an annual capacity of 123,000 tons of EPS, 36,000 tons of ARCEL®, and a world-class Research and Development (R&D) pilot plant; and the other in Painesville, Ohio, with a capacity of 45,000 tons of EPS per year.

This transaction further solidified the Company's position as the top EPS producer in the Americas and the third largest globally. Furthermore, it incorporated a new product to our portfolio: ARCEL®, a PE-EPS copolymer that reduces packaging volume while maintaining the protective properties of EPS, adding to our presence in higher value-added application markets.

For 2021 we expect PP margins to decrease, as the newly added capacity is fully integrated into the market and the low inventory levels from year-end normalize. However, our long-term projections for the P&C segment remain optimistic, bolstered by a strong, resilient demand for both PP and EPS, as well as the full integration of our newly acquired expandable Styrenics operations in the United States.

LONG-TERM GROWTH STRATEGY

STRENGTHEN CORE BUSINESS

GROWTH CATALYSTS

Global Cost Improvement
Zero-Based Budgeting & process innovation (Mainly Operations, Logistics & SG&A)

Value-added Products
Shift to products with higher margins & barriers to entry (Copolymers - PP & EPS)

FCF Generation
Reductions to CAPEX & NWC / Recover M&G Mexico debt

Footprint Optimization
Ensure global production is performed in optimal sites & logistic networks

FOSTER CIRCULAR ECONOMY

GROWTH CATALYSTS

rPET Leadership
Lead rPET supply in Americas through capital-effective investment
Secure PET Bale & Flake supply / Equip vPET plants with Single-Pellet Technology™

Recycling Promotion
Active lobbying for circular economy via associations & The Recycling Partnership

Sustainable Product Portfolio
Develop sustainable alternatives for all our products (Biodegradable EPS & PP, etc.)

STRATEGIC & FOCUSED GROWTH

GROWTH CATALYSTS

Value Chain Integration
Grow capacity selectively & integrate into value chain (Px, EPS)

Product Innovation
New products & business lines (Biovento, Natural Gas Commercialization, CO_2 & PLA)

Maximize CCP Value
Optimize project timing & minimize CAPEX

ESG

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

During 2020, Alpek made significant advances regarding its approach to ESG, as well as its performance among the top ESG rating agencies

At Alpek we strive to make people's everyday lives better by producing the materials and chemicals needed by the food and beverage, construction, automotive, and health industries, among others, while making the necessary investments in infrastructure and research to safeguard the availability of the resources we use for future generations.

We aim to do this in a way that supports sustainable business practices and strong governance. We know we cannot do this by ourselves nor do we have all the answers, so we listen, learn from experience, and work with our entire value chain to make a positive difference.

OUR APPROACH TO REPORTING

We are increasingly transparent about our way of managing environmental, social and governance issues across our business, and since 2015 we have provided information about our actions in sustainability through the Annual Report. In 2020 we refined this approach, appropriately renaming it ESG reporting, as it aims to inform all our stakeholders about our progress and impact regarding Environmental, Social and Governance issues.

This report presents relevant management approaches, measurements, indicators, and data about Alpek's sustainable business practices, based on the GRI Standards[6] in its "Core" option, and for the first time, also the Chemicals SASB standards[7] for 2020.

Furthermore, it outlines the ways in which we contribute to the United Nations' Sustainable Development Goals (SDGs), and our performance within the framework laid out by the Task Force for Climate-related Financial Disclosures (TCFD)[8] as it applies to every area of our report. For additional information, we developed an ESG Booklet available on our website.

The structure in which we will continue to report our ESG Strategy is an adapted version of the TCFD framework, including the following elements:

ESG RISK IDENTIFICATION & ANALYSIS

- **Identify ESG Risks and Opportunities (R&O)**
- **Implement a dynamic materiality analysis**
- **Embed ESG R&O into our business risk management strategy**

STRATEGY & EXECUTION

- **Identify the level of change needed to establish best-in-class standards**
- **Build/Improve internal capabilities to react**
- **Implement the right initiatives to address R&O**
- **Identify partnerships that support improvement**

TARGETS & METRICS

- **Define key performance indicators (KPIs) and set targets to measure success for each initiative**
- **Measure the impact obtained**
- **Establish proper incentives for targets to be achieved**

COMMITMENT & OVERSIGHT

- **Place the right people in charge**
- **Set mechanisms to ensure the achievement of targets**
- **Communicate and report progress at the right organizational level**
- **Review and improve**

(6) *Global Reporting Initiative Standards: https://www.globalreporting.org/standards*
(7) *Chemicals Sustainability Accounting Standard: https://www.sasb.org/wp-content/uploads/2018/11/Chemicals_Standard_2018.pdf*
(8) *TCFD Task Force for Climate-Related Financial Disclosure: https://www.tcfdhub.org/recommendations/*

REVISITING OUR PURPOSE IN ESG

ESG RISK IDENTIFICATION & ANALYSIS

While we have always embraced change and innovation and have made significant advances in our ESG Strategy, the unprecedented circumstances created by COVID-19 have been vital for us to review and appreciate what we do, and why it matters.

We provide simple, innocuous, and lasting solutions that people need in their everyday lives. While this has always been our core purpose, it takes on a whole new meaning now that our materials are used in products that safeguard our health and safety, such as face masks, face shields, antibacterial gel bottles, and COVID-19 vaccine and test transportation cases, among others. A key challenge remains doing it without compromising our planet's resources.

Priority Issue Addressed:
11. Active ESG Risk Management

WHY IT MATTERS

Overall risk identification and management is a fundamental enabler of innovation and thus, adaptation and growth. Regarding ESG, risks and opportunities identification and management are crucial, since this topic will lead the business conversation needed to achieve a sustainable future.

WHAT WE WANT TO DO

Identify ESG R&O in a constant manner so that our business model is a resilient one.

STRATEGIC PRIORITIES TO WORK ON

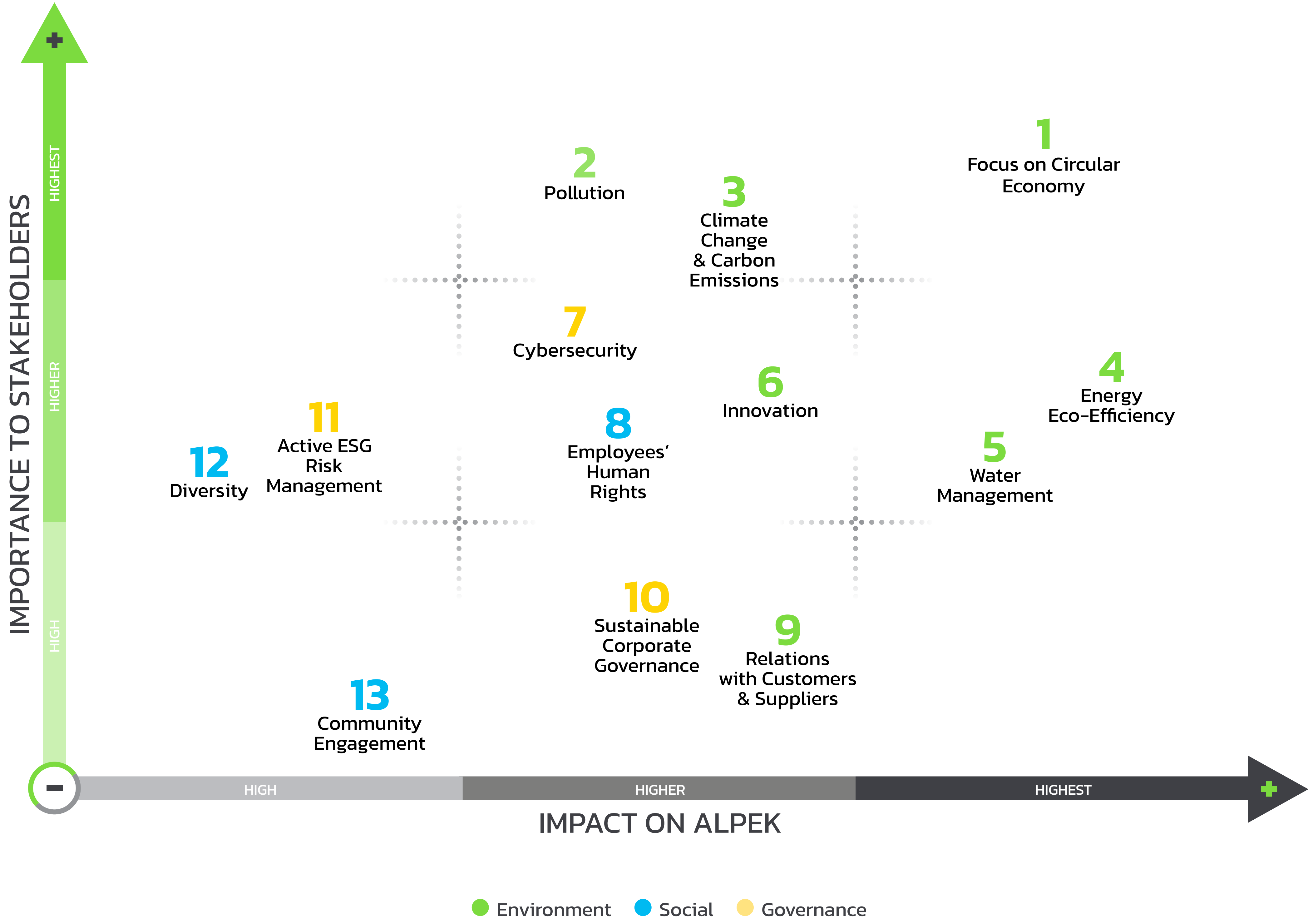
- Risks and Opportunities Governance
- Identification and mitigation of externalities

OUR MATERIALITY PROCESS AND PRIORITY ISSUES

GRI Standards: 102-11, 102-27, 102-29, 102-46, 102-47.

With this in mind, we took 2020 as an opportunity to revisit the topics that matter most to our key stakeholders. As such, we carried out a Dynamic Materiality Approach that allowed us to identify the most pressing issues that our industry, and as a consequence, our Company must address if we want to contribute towards positive change now and in the coming years. We structured our process this way since we understand that we live in a constantly evolving world, and as such ESG topics are fluid, moving across a materiality spectrum over time, and that our stakeholders have a say on it now more than ever.

ALPEK'S DYNAMIC MATERIALITY APPROACH



MATERIALITY MATRIX

Our ESG risks and opportunities (R&O) identification process is coordinated by our ESG Champion who reports directly to the CFO and indirectly to the CEO. R&O management activities include identifying risks, undertaking risk assessments, determining mitigating actions and complying with applicable laws. In exploring risks and opportunities, we prioritize the interests and safety of our customers and employees, and we seek to protect the long-term value and reputation of the Company, maximizing commercial benefits to support responsible and sustainable global growth.

As a result of the analysis, we defined Alpek's 2020 Materiality Matrix[9].

(9) *To know more about our current and previous Priority Issues, please refer to page 4 of our ESG booklet.*

OUR ESG MODEL

GRI Standards: 102-26, 102-31, 102-32.

STRATEGY & EXECUTION

As part of our efforts to improve our internal and external communication efforts regarding our key ESG priorities we also developed Alpek's ESG Model, which simplifies and encompasses the 13 priority issues identified in our Dynamic Materiality Analysis into four strategic pillars that we will address and are committed to continue improving on. We will ensure full support for all of these initiatives through our strong Corporate Governance bodies.

TARGETS & METRICS

For each of the pillars in Alpek's ESG Model, we must carry out an identification of additional targets and metrics that are aggressive but achievable. As such, we are currently working with all our Business Units in order to get a better understanding of their individual ESG priorities and sustainable performance needs to set overall corporate targets.

TARGET	METRIC	PERFORMANCE	YEAR BASIS	GOAL YEAR	SDG TARGET ADDRESSED	PRIORITY ISSUE ADDRESSED
Develop the necessary policies	• Identify the areas and departments that need policies (either improved or developed) • At least 70% of policies developed	We have identified the policies needed and developed a corporate template	2020	2021	SDG 17 Partnerships for the Goals, Target 17.14: Enhance policy coherence for sustainable development	Active ESG Risk Management Sustainable Corporate Governance
Identify the main risks in every ESG area	Identify at least one risk and one opportunity for every ESG area	We identified two emerging risks in the environmental area, and will continue with the social and governance areas	2020	2021		Active ESG Risk Management
Develop Targets and Metrics	To have at least one target per ESG Strategy dimension	We are in the process of completing our gap analysis, in order to establish adequate targets	2020	2021	SDG 17 Partnerships for the Goals, Target 17.14: Enhance policy coherence for sustainable development	Active ESG Risk Management

COMMITMENT & OVERSIGHT

In 2020 we also strengthened our sustainable management by appointing an ESG Champion at Alpek, who has the responsibility of overseeing the company's entire ESG strategy, as well as the achievement of the Targets and Metrics described in this section, in order for said strategy to be successful. We are in the development of additional policies and structures to further strengthen the role.

We are keen to develop multi-stakeholder and cross-border partnerships and to collaborate with downstream partners, communities, government and regulators towards sustainable development.

2020 PERFORMANCE **ACROSS OUR FOUR PILLARS**

1. LEAD WITH EMPATHY

We empower our people to create value for our company and communities

8 DECENT WORK AND ECONOMIC GROWTH
11 SUSTAINABLE CITIES AND COMMUNITIES
17 PARTNERSHIPS FOR THE GOALS

8. EMPLOYEES' HUMAN RIGHTS

ESG RISK IDENTIFICATION & ANALYSIS

GRI Standards: 103-1, 102-2, 103-3.
SASB RT-CH-320a.2.

A global pandemic was not included in our risk scenario. However, our employees' well-being was. By the end of 2020, our most implemented risk assessment regarding our employees was that of health and safety which determines the criteria for the identification of hazards and risks, and the determination of the respective control measures to minimize or eliminate them. This procedure meets the requirements of OHSAS 18001 and NBR-ISO 45001 in the majority of our plants.

Priority Issues addressed in this pillar:
8. Employees' Human Rights
12. Diversity
13. Community Engagement

WHY IT MATTERS

Our people are our primary asset. Their well-being is our driving force, because having people who bring a diverse range of talents and perspectives, and who feel engaged in their roles is of paramount importance to our success.

WHAT WE WANT TO DO

To increase our efforts for respecting and advocating not only for their labor rights and offering fair labor practices, but for their fundamental human rights. Our employees have been instrumental in making Alpek a leader in its market. They will also be key to driving the Company forward and ensuring it remains relevant in the future.

STRATEGIC PRIORITIES TO WORK ON

- Sustainability in our Governance
- Human rights advocacy
- Attracting and retaining the right employees
- Safety, Health and Well-being
- Diversity and inclusion

We became signatories of the United Nations Global Compact

"Since 2021 Alpek has been committed to the UN Global Compact corporate responsibility initiative and its principles in the areas of human rights, labor, the environment and anti-corruption."

STRATEGY & EXECUTION

OUR PATH TO SAFETY

GRI Standards: 403-1, 403-2, 403-3, 403-5, 403-6 to 10.
SASB RT-CH-320a.1.

As part of our human rights commitment, our priority is to keep our employees safe and alert to potential hazards. Moreover, we were committed to maintain the same head count even in the midst of the COVID-19 crisis. In 2020, our personnel operated both in our facilities and through home office schemes, thus minimizing the risk of contagion.

Everyone working at Alpek has the responsibility and authority to stop unsafe activities or ask for more detail about things they find unclear. Our leaders are accountable for helping to build a safety-first culture in their teams, and all employees are responsible for keeping themselves and each other safe at work.

The accidentality rates in 2020 were the following:

	2020	2019	2018
Total recordable incident rate (TRIR)	15.99	156.20	32.07
No. of Accidents	37	21	74
Frequency Rate	0.56	1.73	8.83
Days Lost	1,058	1,891	1,544
Number of transport incidents	12	-	-

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

In addition to COVID-related actions, we continued providing health services such as annual check-ups, medical attention inside the plant, nutritional consulting, chronic disease care and prevention campaigns. In Mexico, we started the NOM-035 implementation process, a standard that assures the proper management systems are in place to aid our employees with mental health concerns or needs.

More than US $15.3 million were invested in our employees' health and safety.

HIRING THE RIGHT PEOPLE, AND RETAINING THE RIGHT PEOPLE

GRI Standards: 404-1, 404-2, 404-3.

We want to build a global workforce that represents the communities we serve and be recognized as a great company to work for: one where people feel valued and can succeed by contributing their skills towards their personal and professional development. We're doing this by:

- Recruiting and retaining talented people from diverse backgrounds
- Investing in excellent training, development and competitive rewards for all our people

In 2020, our main training and development programs were aimed at safety, flexible hours and working schemes, and innovation. Providing the right balance between work and family is one of our core benefits, and never was it more evident than in 2020. We invested over US $1.1 million in professional development and talent retention initiatives. Also, we granted 19 scholarships for our employees to continue improving their skills in external institutions, and we invested more than US $1.2 million in recreation and family well-being programs and activities whenever possible throughout the year.

The average training hours in 2020 were:

	2020	2019	2018
All employees	13	55	38
Women	16	37	35
Men	15	90	50
Unionized	9	40	32
Non-unionized	18	55	40

We also carry out regular performance evaluations, as what you cannot measure, cannot be improved. In 2020, 79% of our employees were assessed in these evaluations.

Regarding their personal development, in 2020 we had to minimize recreational activities, but we continued to implement some activities respecting all the safety restrictions. We granted 1,187 scholarships and economic support for our employees' children, as well as our Program of Employee Assistance, through which we provide legal, health, psychological and other kind of support for free, was used by 1,961 employees and their families.

12. DIVERSITY

GRI Standards: 405-2, 406-1.

Diversity is our strength, and we consider it a basic human right. We see it as an opportunity to consolidate our global positioning.

In 2020 we completed the acquisition of a new plant in the United Kingdom, that added to our staff in Argentina, Mexico, Brazil, Chile, Canada and the United States, which has improved the expertise and wide range of cultural backgrounds, ethnicities and profiles that compile our workforce.

In 2020, 9 employees with some form of disability worked in our operations. We also confirmed that the salary gap between men and women is zero, because we hire people based on their competencies and abilities, not the gender they associate with.

As part of our commitment to safeguard our employees' human rights, Diversity is one of our Priority Issues included in this effort

TARGETS & METRICS

TARGET	METRIC	PERFORMANCE	YEAR BASIS	GOAL YEAR	SDG TARGET ADDRESSED	PRIORITY ISSUE ADDRESSED
Employees' Human Rights and Diversity						
Create the ESG Committee	Formal establishment of an ESG committee with our Business Units' leaders	We reached out to our BU leaders to inform the advances of the ESG Strategy	2020	2021	SDG 17 Partnerships for the Goals, Target 17.14: Enhance policy coherence for sustainable development	Sustainable Corporate Governance Active ESG risk management
Ensure diversity in our workplace	To perform a diversity R&O assessment in our operations	Not applicable in 2020	2021	2022	SDG 8 Decent work and economic growth, Target 8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value	Employees' Human Rights Diversity

COMMITMENT & OVERSIGHT

GRI Standards: 102-20, 102-26, 102-29, 102-31, 102-32.

We cannot talk about our ESG performance, human rights, and employees' well-being commitment without including our Governance Bodies. 2020 was a pivotal year to show our leadership, discipline and commitment to lead with empathy. Our Top Management team was the basis which held it all together. This sends the right signal to all our employees. We want our people to know we are working towards the enhancement of the benefits we provide them, that we are ahead of international trends with regards to being a more responsible corporate citizen, and that all of this is spearheaded by our top governing bodies.

Also, in 2020 we started the process of adhering to the UN Global Compact and the respect and fight for its Ten Principles. This is a huge step towards the advocacy for our employees and communities' Human Rights respect and protection. In early 2021 we were accepted as part of the UN Global Compact, which strengthens our commitment towards sustainable development. We also developed our Human Rights Policy, through which we firmly commit to continue providing training efforts in the areas of Health and Safety, Ethics and Compliance to our employees globally, and to continue developing programs to keep them prepared.

13. COMMUNITY ENGAGEMENT

ESG RISK IDENTIFICATION & ANALYSIS

GRI Standards: 413-1, 413-2.

At Alpek we see ourselves as part of a society. Our goal is to be a good corporate citizen and promote sustainable development. We can make the most valuable contributions to issues that relate to our core business areas by connecting, understanding and boosting our communities' wellbeing.

We have always worked hand in hand with our communities and authorities, which has driven the implementation of our safety risk analysis. Our facilities are equipped with all necessary measures and comply with every safety regulation, so that our operations do not represent a risk in our neighbors' daily lives. However, we know we can still do more. To start with, in 2021 we will work on performing a comprehensive risk assessment regarding our communities, and the opportunities that we can seize in order to boost their development, strengthening our position as a responsible Company.

STRATEGY & EXECUTION

GRI Standards: 203-1, 203-2.

In 2020, our Business Units worked on aiding communities during the COVID-19 response effort. More than 370,000[10] people were benefitted with donations of N95 and PET masks, antibacterial gels, overalls, EPS coolers for the transportation of medicines, donation of medical equipment such as hospital beds, supplies, oxygen tanks and ventilators, as well as cash and food donations to associations that provided supplies to unemployed people during the pandemic.

Our typical activities within communities were suspended due to the safe distance and quarantine measures. Still, we held 8 agreements with universities that benefitted 78 total students. Other 39 students carried out internships in our facilities, and through the support to 3 schools, we were able to benefit a total of 404 students. The activities included giving lunch boxes and other support. But as schools were also closed, we focused our efforts on helping the entire community and hospitals in such unprecedented situation. In the US, representatives of our sites actively participated in community advisory panels (CPAs) to discuss plant activities. The goal is to open lines of communication with leaders in the community and local neighbors, so should there be any concerns with plant operations, we can answer/address them effectively. These meetings were either suspended or held remotely.

(10) *The benefitted people were a lot more than the reported, since many of the equipment and donations were given to hospitals, families and communities and it is impossible to have the exact number.*

WHY IT MATTERS

Our local communities grant us license to operate. It is our responsibility to give them something back. Should we fail to deliver economic and social benefits to the communities in which we operate and reach, could lead to operational costs and reputational crises.

WHAT WE WANT TO DO

We aim to maximize our social impact through an effective engagement with them, by combining Alpek employees' expertise, access to education and philanthropic activities.

STRATEGIC PRIORITIES TO WORK ON

- Social engagement programs
- Community investments
- Educational support through ALFA Foundation
- Communities' safety

TARGETS & METRICS

TARGET	METRIC	PERFORMANCE IN 2020	YEAR BASIS	GOAL YEAR	SDG TARGET ADDRESSED	PRIORITY ISSUES ADDRESSED
Develop our Community Engagement Policy and Framework	Developing and deployment of the policy to all employees	We defined the areas we will work on regarding our community engagement policy	2020	2021	SDG 17 Partnerships for the Goals, Target 17.14: Enhance policy coherence for sustainable development	Community engagement

COMMITMENT & OVERSIGHT

As one of our Priority Issues, this will be part of the focus activities of our ESG Strategy. In 2020, we started the development of our Community Engagement Policy, that contains the guidelines for proper and successful work with and within our communities.

The key tenets of this policy are:
- Mutual respect and cooperation
- Non-discrimination and the pursuit of equity
- Building educational platforms for the youth
- Spreading environmental care awareness
- Working on our communities' safety

2. EMBRACE CHANGE

We actively monitor our changing environment and find new ways to tackle emerging problems

6. INNOVATION

ESG RISK IDENTIFICATION & ANALYSIS

SASB RT-CH-410b.2.

Innovation risks and opportunities are one of the most important elements to consider in our business strategy. Investing in cutting-edge technology, as well as developing it, is a priority. For us, one of the greatest challenges is to reduce the impact that products made with our materials might generate when they are not disposed properly. This is why we conduct Life Cycle Assessments for all our products.

Priority Issues addressed in this pillar:
6. Innovation

WHY IT MATTERS

As part of the chemical industry, we know that everything is changing constantly, it is the basis for life. Inevitably, this must lead to innovation. And so, innovation is part of our core beliefs and business values.

WHAT WE WANT TO DO

Integrate ESG risks and opportunities into our business strategy so that innovation occurs with a focus on sustainability.

STRATEGIC PRIORITIES TO WORK ON

- Integration of ESG criteria into innovation schemes
- Identification and mitigation of externalities
- Conducting Life Cycle Assessments for our products

STRATEGY & EXECUTION

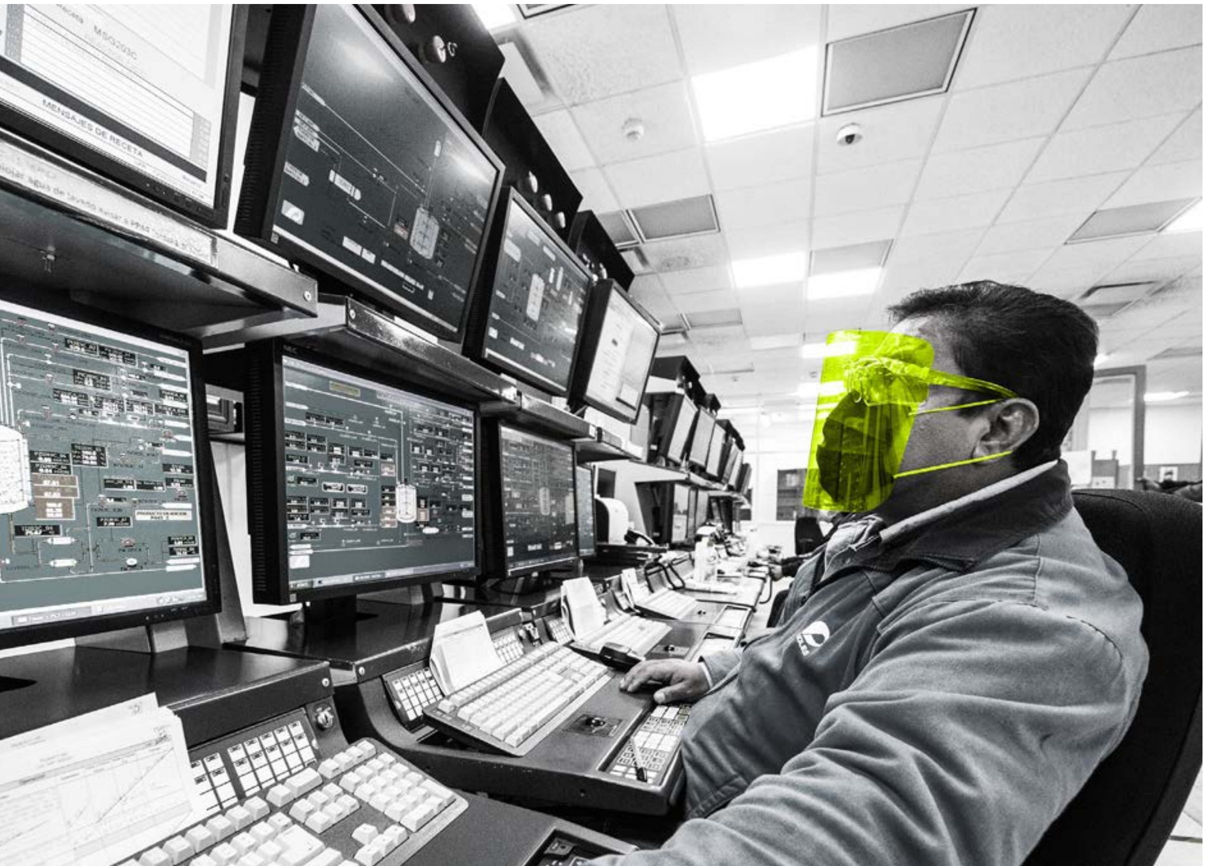
By exploring, developing, and scaling up ideas, we aim to keep ourselves and our customers competitive long into the future by developing sustainable solutions for their needs.

We started our "Open Innovation Program", which aims to find external technologies and possible collaboration opportunities which could help Alpek reach its objectives by accelerating the development of new ideas and bring value creation within the organization.

TARGETS & METRICS

We will continue to boost these programs in order to strengthen and better measure our efforts in ESG innovation.

TYPE OF APPROACH	DEFINITION OF APPROACH	EFFICIENCY GAINS	COST REDUCTION/ REVENUE GENERATION	ACCESS TO HUMAN CAPITAL, TECHNOLOGIES, ETC	OTHER IMPACTS
R&D Collaboration with Externals	Working in collaboration with a research center in Europe to develop a new biodegradable barrier polymer	Time to market, better allocation of human resources	Potential Sales Market of US $38 million per year	Access to R&D capital and analytical equipment	Faster development of new product
Spin-off / Start-ups	Working in collaboration with a start-up in order to recycle PET for rBHET production (used in Virgin PET)	Time to market, better allocation of economic resources	Possible Pilot Plant construction Up to 15 thousand tons a year capacity	Access to proven technology for PET recycling. Strengthening rPET portfolio	Access to lower costs in PET waste streams
Suppliers	Working with external rPET suppliers for a new more sustainable product (rPET yarns)	Time to market, better allocation of economic resources	Potential Sales Market of US $29 million per year	Access to proven technology for PET recycling	Access to lower certified rPET costs and access to the necessary volume



COMMITMENT & OVERSIGHT

Our growth as a Company partly depends on us taking an innovative approach to our business. Since 2018 we have been investing in our Innovation Department and worked on the creation of an Innovation Committee integrated by representatives from all the Business Units, with Alpek's CEO and Business Unit Presidents as part of the Steering Committee. Our approach to innovation is to permeate a culture which promotes and boosts initiatives throughout all of Alpek.

We developed the "Vision" and "Innovation" roles within every BU, and created the "Innovation Platform", in order to register and keep track of all initiatives and projects developed by said roles.

We collaborate with local authorities, start-ups, the academy, research institutes, suppliers and other external actors to boost our innovation and ESG strategy

3. GROW RESPONSIBLY

We rely increasingly on sustainable business practices across our entire value chain to create value for our shareholders

1 , 2. FOCUS ON CIRCULAR ECONOMY AND FIGHTING POLLUTION

ESG RISK IDENTIFICATION & ANALYSIS

GRI Standards: 416-1.
SASB RT-CH-150a.1.

We are committed to deliver solutions that make people's lives easier. This does not spare us from the responsibility of caring for the planet's resources and future generations well-being while doing so. We are aware of the risks that manufacturing non-biodegradable materials carry for the environment should the handling of their waste be poorly executed.

Priority Issues addressed in this pillar:

1. **Focus on Circular Economy**
2. **Pollution**
9. **Relationship with Customers and Suppliers**
7. **Cybersecurity**

WHY IT MATTERS

Our planet's resources are finite. The linear economy system must evolve. As a plastics and chemicals Company, it is our responsibility to fully understand the lifecycle of our products and develop ways to make it even more sustainable.

WHAT WE WANT TO DO

We are encouraged to aid in the transition from a linear economy to a circular one, as part of our business growth strategy.

STRATEGIC PRIORITIES TO WORK ON

- Design out waste and pollution
- Keep products and materials in use
- Recycle and reuse

STRATEGY & EXECUTION

Spearheaded by our Innovation Department, we have enhanced our efforts in exploring process technologies to make better use of PET after consumers have finished using it, mainly from plastic bottles. Products like PET have been proved to have a lower carbon footprint than its packaging alternatives, like aluminum and glass. Our PET recycling infrastructure is growing at a rapid pace since we want to continue our leadership as the largest rPET producer of the Americas. These facilities highlight the business' commitment to sustainability and recycling and the opportunity for our PET and rPET products to participate and lead in true circular economies. Furthermore, these initiatives continue to remove millions of bottles a year from landfills and redirect them back into valued consumer products, reducing the carbon footprint of these consumer-based needs and reducing climate change impact.

By the end of 2020, important capital projects and investment in various sites were approved and initiated. These investments expanded the capabilities of the sites with the installation of solid-state polymerization and pelletization processes. This allows for these rPET pellets to enable the materials to be used in bottle-to-bottle recycling fostering a true circular economy. These projects are a key step in growing Alpek's sustainability.

Now, the challenge still relies on the correct disposal and recollection of PET and other products. One of our main goals in this matter is to work hand in hand with authorities, organizations and other stakeholders to make PET recycling a regulatory issue. So far, in the USA, DAK Americas participates as silver founder of The Recycling Partnership, a non-profit organization that seeks to promote changes in the recycling culture throughout the United States. It also belongs to the GAPC, a movement to spur the development of public policies to integrate the synergy of the circular economy. Indelpro joined the ANIPAC initiative to reduce pellet waste and made a voluntary commitment in favor of the circular economy in the plastic resins sector with the ANIQ.

Regarding our hazardous waste management, in 2020 we reduced our disposal by 53% vs 2019. This is a great highlight regarding our efforts to end pollution, not only from our products in their end-use phase, but in our operations.

The percentage of non-hazardous waste recycled, reused or sold also increased by 39% vs 2019.

5.5 billion PET bottles
Recycled in 2020

TARGETS & METRICS

TARGET	METRIC	PERFORMANCE IN 2020	YEAR BASIS	GOAL YEAR	SDG TARGET ADDRESSED	PRIORITY ISSUES ADDRESSED
To establish the guidelines for a circular business model	To be identified	We set Circular Economy as one of our Core Business Values	2021	2025	SDG 12 Responsible Production and Consumption, Target 12.5: By 2030, reduce waste generation substantially through prevention, reduction, recycling and reuse	Circular Economy Pollution

COMMITMENT & OVERSIGHT

In 2020 we established the Fostering a Circular Economy pillar as one of our 3 long-term growth pillars. Our success as a Company depends on us following this initiative fully. Every facility has a person responsible for the correct handling and management of waste. We are committed to strictly comply with every regulation in the countries we operate, which has resulted in zero fines nor sanctions in the matter.

Through our Environmental Policy, we are committed to manage all of our waste in a responsible way, and to reduce it consistently.

7. CYBERSECURITY

ESG RISK IDENTIFICATION & ANALYSIS

IT risk management is a priority of ours. At Alpek we categorize the level of severity should any of those might come to happen. The categories go from negligible, marginal, critical or catastrophic. According to the resulting matrix, we assess the risks that our Company may or may not be exposed to, and act accordingly.

In 2020, we performed a significant part of the Company's activities remotely without incidents

STRATEGY & EXECUTION

This issue has become a priority in our Materiality Analysis, since we know every system is susceptible to failures. Our robust IT infrastructure allowed the majority of our employees to work from home in 2020 when applicable, without any contingencies. We provided continuous training to our employees, designed and executed by our IT Security Committee with representatives from the Business Units. We also gave training on phishing or social engineering tests, the results of which we provide as feedback to users and managers to reinforce the program. Additionally, hacking tests are carried out at least annually, and there are business continuity / contingency plans and incident response procedures in place.

COMMITMENT & OVERSIGHT

Through our parent company's Global IT Security Policy we make sure to comply with every regulation, and describe the guidelines that our employees must follow and comply with in order to avoid any IT incident. We plan to continue improving our security measures in 2021.

WHY IT MATTERS

Increasing cybersecurity efforts is critical to protecting against theft, data loss, economic & political incidents, and public health risks. For us at Alpek it is all about protecting our customers and suppliers' data, as well as sensitive information related to our operations.

WHAT WE WANT TO DO

Now more than ever, we must test our systems vulnerability and strengthen them so we can keep abreast of the technological advances, and the threats these might represent.

STRATEGIC PRIORITIES TO WORK ON

- Have a robust governance on IT
- Continuously test and ensure the security of our IT infrastructure

9. RELATIONS WITH CUSTOMERS AND SUPPLIERS

ESG RISK IDENTIFICATION & ANALYSIS

GRI Standards: 407-1, 408-1, 409-1

We are working towards implementing an R&O framework that allows us to properly identify the ESG risks we have within our supply chain. For now, we understand and act on consequence, knowing that one of the main risks we have is that our raw materials are derived from fossil fuels. However, we aim to have a broader perspective on their sustainability practices in order to establish a relationship that boosts their and our responsible development.

In 2020, 58% of our suppliers were from the same countries we operate in

STRATEGY & EXECUTION

In line with the increased expectations of our stakeholders, we are providing more transparency in our corporate reporting, as well as disclosing a number of Environmental, Social and Governance (ESG) investor indices. This is a major commitment we made since 2015.

In 2020 we established the goal to improve our reporting process by engaging in a deeper way with our Business Units in order to gather more of the information possible regarding their Companies' sustainability performance.

This, in addition to helping us strengthen our work on our ESG Strategy, allowed us to enhance our transparency towards our customers as well as reaching out to our suppliers, by responding in a more thorough way to diverse platforms and thus, improving our ESG ratings.

	2020	2019	2018
CDP Climate Change (Carbon Disclosure Project)	C	D	D
CDP Water Security	B-	-	-
S&P Global CSA	44	30	28
MCSI	BB	BB	-

WHY IT MATTERS

To transition to a more circular economy, we'll need new business models and effective collaboration across the value chain. Collaborating in strategic partnerships with our suppliers and customers can help us all find solutions to these challenges faster.

WHAT WE WANT TO DO

We want to engage with our value chain in ways that boost, develop, and strengthen sustainable development strategies.

STRATEGIC PRIORITIES TO WORK ON

- Enhance transparency of our processes
- Boost joint efforts with our value chain

TARGETS & METRICS

TARGET	METRIC	PERFORMANCE IN 2020	YEAR BASIS	GOAL YEAR	SDG TARGET ADDRESSED	PRIORITY ISSUES ADDRESSED
To develop the Sustainable Procurement Policy	To be identified	We defined the target for 2021	2021	2021	SDG 9 Industry, Innovation and Infrastructure, Target 9.4: By 2030, upgrade our infrastructure to make it sustainable, with increased resource-efficiency and greater adoption of clean and environmentally sound technologies and infrastructure processes	Relations with Customers and Suppliers

COMMITMENT & OVERSIGHT

We commit to continue increasing our transparency processes, as well as the quality of information provided. Also, we will work on an integral engagement strategy with our Value Chain, including sustainability assessments to our suppliers and working with customers to enhance our strategy in responsible growth. Our customer satisfaction rate during 2020 was 95%.

4. MAXIMIZE RESOURCE EFFICIENCY

We strive to minimize any adverse effects from our products and processes

This entire pillar is based on our environmental care performance. The three priority issues addressed here, matter because the success of our business over the long term depends on the environmental sustainability of our operations, the resources we acquire from nature, and the overall wellbeing of the planet.

We aim to establish ambitious science-based targets to reduce our usage and consumption of energy and water and reduce our carbon footprint in order to contribute to the Sustainable Development Goals.

In 2020, our environmental investments were distributed like this:

Millions of dollars	2020	2019	2018
Waste reduction	3.07	2.20	2.40
Waste disposal	3.19		
Emissions reduction	12.33	16.00	11.20
Prevention costs	13.70	0.60	0.30
Remediation costs	0.21	-	2.90
Environmental management costs	9.27	1.50	0.50
Other	-	3.20	-
Total	**41.76**	**23.50**	**17.30**

Priority Issues addressed in this pillar:

3. **Climate Change and Carbon Emissions**
4. **Energy Eco-Efficiency**
5. **Water Management**

ESG RISK IDENTIFICATION & ANALYSIS

We are fully aware of the risks climate change poses to our operations and also the opportunities of growth this represents.

In 2020 we identified climate-related risks based on the TCFD recommendations:

TYPE	CLIMATE-RELATED RISKS	RISK DESCRIPTION
Transition	Current regulation	Environmental institutions require disclosure of our annual water and energy consumption, and emissions generation, failure to disclose could result in the imposition of sanctions, third party actions and investigation by authorities. The Health, Safety and Environmental department in each facility monitors and reports its water and energy consumption, emissions and waste generation.
	Emerging regulation	Implementation of economic instruments such as CO_2 taxation in countries where the company operates, ban of single-use plastics, among others.
	Market	Some consumers perceive PET as another plastic, though increasingly the mindset is changing. This could have adverse effect on demand.
	Reputation	In recent years, society has placed greater concern over the impact that products have on the environment from their production process until they are discarded. One of the key solutions to reducing their impact is to ensure a circular economy by recycling them and making them infinitely recyclable.
Physical	Acute	Alpek's operations are highly dependent on the availability and costs of its main raw materials, as well as its energy sources. The availability and prices of raw materials and energy can be negatively affected by various factors, including interruptions in production by suppliers; natural disasters (such as hurricanes in the Gulf of Mexico) or other climate events.
	Chronic	The chronic physical risks identified are very similar to the acute physical risks, as well as the regulatory changes in our industry. Further analysis is being made in order to prepare our facilities to better withstand climate related events.

3. CLIMATE CHANGE AND CARBON EMISSIONS

STRATEGY & EXECUTION

GRI Standards: 305-1 to 7.
SASB RT-CH-110a.1., RT-CH-110a.2.

In 2020 we worked on complying with our ISO 14001 certification programs, as well as with other initiatives, such as the Clean Industry in Mexico. Our facilities carried out several activities such as equipment maintenance for optimal performance, to installing new CO_2 sequestering system. We also minimized the emissions for processes vents to flare to produce polypropylene, and the installation of new furnaces to reduce NOx emissions.

With an investment of more than US $12.3 million, we avoided the launching of 228,007 ton CO_2eq into the atmosphere, which represents the emissions of approximately 50,000 passenger vehicles driven for one year.

Our emissions in 2020 were:

TON CO_2 EQ x 10^6	2020	2019	2018
Direct emissions	0.77	0.80	1.29
Indirect emissions	1.44	1.62	1.13
Total	**2.21**	**2.42**	**2.42**

We also work increasingly in the development of more sustainable solutions, such as our low-carbon products that bring the following benefits to third-parties:

TYPE	DESCRIPTION OF PRODUCTS	LEVEL OF AGGREGATION	ESTIMATED TOTAL AVOIDED EMISSIONS PER YEAR (THOUSAND TONS CO_2) 2020	COMMENT
Avoided emissions for third parties	rPET	Product	173.3	Each ton of Recycled PET avoids ~2.72 thousand tons of CO_2 emissions
Avoided emissions for third parties	Construction EPS	Product	1,417.6	Each ton of EPS used in construction to isolate avoided ~11.11 tons of CO_2 emissions

WHY IT MATTERS

This is one of our Priority Issues as we align with the international effort to maintain the planet's temperature rising no more than 1.5 °C by 2030. We are fully aware that running our operations inevitably generates emissions, but we also know that we can always be more process efficient.

WHAT WE WANT TO DO

We commit to use cutting-edge technologies in order to make our operations more environmentally friendly, as well as acquiring equipment that reduces the emissions sent to the atmosphere.

STRATEGIC PRIORITIES TO WORK ON

- Development of low carbon products
- Investing in state-of-the-art technologies

4. ENERGY ECO-EFFICIENCY

STRATEGY & EXECUTION

GRI Standards: 302-1 to 4.
SASB RT-CH-130a.1.

In 2020 our facilities implemented initiatives and programs such as the replacing of power cooling tower, refrigeration system controls optimization, cooling towers pump upgrade, reducing of steam temperature, reducing acid wash, tuning vaporizer burners and fans, among others. This led to the reduction of 131,572 GJ in the year, equivalent to the energy used by 2,982 homes for one year.

Our energy consumption in 2020 was:

ENERGY CONSUMPTION (GJ X 10^6)	2020	2019	2018
Indirect consumption	27.44	26.47	22.80
Direct consumption	7.80	7.44	8.04
Total	**35.24**	**33.91**	**30.84**
Energy produced with natural gas	13.65	11.86	9.89
Steam and electricity	21.45	18.92	17.93

CONSUMPTION BY FUEL TYPE (GJ X 10^6)	2020	2019	2018
Natural gas	27.310	26.110	20.620
LP gas	–	–	–
Gasoline	0.000	0.003	–
Diesel	0.020	0.003	0.020
Wind	0.000	0.000	0.000
Coal	0.010	0.000	0.070
Fuel oil	0.000	0.001	0.070
Ethanol	0.100	0.105	–
Others	0.000	0.248	2.020
Total	**27.440**	**26.470**	**22.800**

COMMITMENT & OVERSIGHT

Every facility works constantly in reducing their energy usage, and strives to make processes more efficient so that our operations run on less energy.

WHY IT MATTERS

The world is not on a sustainable path and needs a rapid transition to lower carbon energy, use of renewable energies and maximize the usage of resources if we want to ensure our permanence over time.

WHAT WE WANT TO DO

We want to implement corporate targets of energy consumption reduction and increase the use of renewable energy in the long term.

STRATEGIC PRIORITIES TO WORK ON

- Reducing energy intensity
- Energy efficiency strategy

5. WATER MANAGEMENT

ESG RISK IDENTIFICATION & ANALYSIS

GRI Standards: 303-1 to 5.
SASB RT-CH-140a.1., RT-CH-140a.3.

Water scarcity and availability is one of the greatest risks for our industry and the society in general. Since 2018 we begun the identification of our water withdrawal, discharges and consumption, as well as if it came from water-stressed areas, in order to understand our impacts better.

To identify our water risks, since 2018 we have used the WRI Aqueduct Tool, a non-profit organization that provides tools to map water risks such as floods, droughts, and stress, using open-source, peer-reviewed data.

We found that 2 of our facilities are located in water-stressed areas, that represent 1.4% of our total withdrawals.

STRATEGY & EXECUTION

In 2020 there were several initiatives that we implemented in order to be more efficient in the consumption of water. Some of them included the water recovery by biofilter, reuse of pre-treated wastewater to feed the cooling tower and decrease the amount of well water fed, recovery of water from the demineralization plant for use in the cooling tower, as well as established targets of reduction. This led to a reduction in our withdrawals of 1,139 megaliters, equivalent to what approximately 2,000 homes consume in a year.

In 2020 our water withdrawal by source was distributed as follows:

WATER WITHDRAWALS (ML) [11]	2020	2019	2018
Fresh surface water, including rainwater, rivers, and lakes	100,686	107,812	88,300
Wells	1,371	3,525	3,700
Others	2,402	3,248	950
Total	**104,459**	**114,585**	**92,950**

COMMITMENT & OVERSIGHT

In 2020 we developed our Environmental Policy, which will be available to all our employees and suppliers, as well as the consequential Water Policy. In this last one, which will be developed in early 2021, we will outline the guidelines to establish a successful water strategy that allows us to move forward on our path to sustainable and responsible development.

WHY IT MATTERS

Water is crucial for the successful execution of our operations. Also, it is a universal right to have access to it, and our commitment is to safeguard as much as possible the planet resources for the present and future generations.

WHAT WE WANT TO DO

We want to develop a strategy that allows us to reuse as much water as we can in our processes, as well as making them more efficient.

STRATEGIC PRIORITIES TO WORK ON

- Reduce the water intensity
- Invest in water treatment processes
- Water risks analysis

(11) *The reported numbers for 2019 vary from the reported in previous reports, given that, in our constant effort to be more transparent and more accurate regarding our information, in 2020 we dug deeper in our processes and recalculated our discharges, which affects our consumption results.*

BOARD OF DIRECTORS

ARMANDO GARZA SADA 3
Chairman of the Board of Alpek, S.A.B. de C.V.
Alpek Board Member since April 2011.
Chairman of the Board of ALFA, S.A.B. de C.V. and Nemak. Member of the Boards of Axtel, BBVA México, CEMEX, Grupo Lamosa and Liverpool.

ÁLVARO FERNÁNDEZ GARZA 3
President of ALFA, S.A.B. de C.V.
Alpek Board Member since April 2011.
Chairman of the Board of Universidad de Monterrey (UDEM). Member of the Board of Grupo Citibanamex, Cydsa, Grupo Aeroportuario del Pacífico, and Vitro.

FRANCISCO JOSÉ CALDERÓN ROJAS 2A
Chief Financial Officer of Grupo Franca Industrias, S.A. de C.V.
Alpek Board Member since April 2012.
Board Member of Franca Industrias, Universidad de Monterrey (UDEM) and Regional Advisor of BBVA México and Citibanamex. Alternate member of the Board of FEMSA.

PIERRE FRANCIS HAAS GARCÍA 1
Advisory Services Director of Hartree Partners LP
Alpek Board Member since April 2012.

CARLOS JIMÉNEZ BARRERA
Secretary of the Board

ANDRÉS E. GARZA HERRERA 1A
Chief Executive Officer of Qualtia Alimentos Operaciones, S. de R.L. de C.V.
Alpek Board Member since April 2012.
Board Member of Xignux, ConMéxico, Universidad de Monterrey (UDEM) and Ciudad de los Niños.

RODRIGO FERNÁNDEZ MARTÍNEZ 4
President of Sigma Alimentos, S.A. de C.V.
Alpek Board Member since April 2012.
Previously served as Chief Operations Officer and Chief Executive Officer of Sigma Americas. Member of the Board of Cámara de la Industria de Transformación de Nuevo León (CAINTRA).

MERICI GARZA SADA 4
Investor
Alpek Board Member since April 2012.

FRANCISCO GARZA EGLOFF 1
President of Proval Consultores
Alpek Board Member since February 2019.
Former CEO of Arca Continental. Member of the Boards of Arca Continental, Alen, Axtel, Banregio, Ovniver, Ragasa, Grupo Industrial Saltillo and Proeza.

JOSÉ ANTONIO RIVERO LARREA 1
Chairman of the Board of Compañía Minera Autlán, S.A.B. de C.V.
Alpek Board Member since April 2018.
Member of the Executive Board of Cámara Minera de México (Camimex) and Cámara Nacional de la Industria del Hierro y del Acero (Canacero). Member of the Boards of Museo del Acero en Monterrey, Fundación de Empresarios por la Educación Básica, Universidad de Monterrey (UDEM) and Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM).

ENRIQUE ZAMBRANO BENÍTEZ 1A
Chairman of the Board of Grupo Proeza, S.A. de C.V.
Alpek Board Member since April 2012.
Member of the Boards of Areya, Grupo Coppel, BBVA México and Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM).

JAIME ZABLUDOVSKY KUPER 1
Executive President of Consejo Mexicano de la Industria de Productos de Consumo, A.C. (ConMéxico)
Alpek Board Member since February 2019.
Vice President of IQOM Inteligencia Comercial, S.A. de C.V. Member of the Technical Committee of FibraHotel and member of the Boards of Baja Ferries, Xignux, and Ex-president of the Consejo Mexicano de Asuntos Internacionales (COMEXI).

1. Independent board member | 2. Independent proprietary board member | 3. Related proprietary board member | 4. Patrimonial | A. Audit and Corporate Practices Committee

MANAGEMENT TEAM

JOSÉ LUIS ZEPEDA PEÑA 1
President of the EPS and Chemicals Business Unit

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

ALEJANDRO LLOVERA ZAMBRANO 2
President of the Polypropylene Business Unit

President of Polypropylene Business Unit of Alpek since 2008. He joined ALFA in 1985 and served as Director of Human Resources at ALFA. He held various management positions in the Synthetic Fibers Business Unit at Alpek and is a former Chairman of ANIQ. Holds an undergraduate and master's degree from ITESM. He also completed the Executive Management Program (D-1) at IPADE.

JORGE P. YOUNG CERECEDO 3
Co-President, Alpek Polyester

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

JOSÉ DE JESÚS VALDEZ SIMANCAS 4
Chief Executive Officer

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

1 2 3 4 5 6 7 8

FELIPE GARZA MEDINA 5
Co-President, Alpek Polyester

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

JOSÉ CARLOS PONS DE LA GARZA 6
Chief Financial Officer

CFO of Alpek since 2018. Former Vice President of Business Development of Nemak, where he also held several executive positions. Holds an undergraduate and an MBA from ITESM, and completed the Executive Management Program (D-1) at IPADE.

GUSTAVO TALANCÓN GÓMEZ 7
President of the Caprolactam, Fertilizer and Polyester Filament Business Unit

President of the Caprolactam and Fertilizer Business Unit since 2013 and as of in 2018, also of Polyester Filaments. Joined ALFA in 1989, served as CEO of Terza, and held management positions in various Business Units of Alpek. Holds an undergraduate degree from ITESM and completed the Executive Management Program (D-1) at IPADE.

ARMANDO RAMOS CANTÚ 8
Senior Vice President, Human Capital

Human Capital Senior VP of Alpek since 2017. Previously, was the Compensations Vice President at ALFA. During his 20 years tenure with ALFA, he held other Human Resources positions. Holds a bachelor's degree from UDEM and an MBA from ITESM, and completed the Executive Management Program (D-1) at IPADE.

CORPORATE GOVERNANCE

Once a year, all companies that are listed on the Bolsa Mexicana de Valores, S.A.B. de C.V. (BMV) must disclose the extent to which they adhere to the Corporate Governance Code of Principles and Best Practices (CMPC) by answering a questionnaire. The Code has been in effect in Mexico since 2000, and companies respond to a questionnaire that is available to the investing public on the BMV website. We have presented a summary of Alpek's corporate governance principles below, reflecting the answers the company gave to the questionnaire in May 2020 and updated where necessary:

- The Board of Directors is comprised of eleven proprietary members, with no alternates. Of these, six are independent board members, two are proprietary board members, two are related proprietary board members and one is an independent proprietary board member. This annual report provides information about each member of the Board, identifying those who are independent and their participation in the Audit and Corporate Practices Committee.

- In carrying out their duties, the Board of Directors receives support from the Audit and Corporate Practices Committee. The Committee Chairman is an independent board member.

- The Board of Directors meets four times per year. Meetings of the Board may be called by the Chairman of the Board, by the President of the Audit and Corporate Practices Committee, by the Secretary, or by at least 25% of its members. At least one meeting per year is dedicated to defining the Company 's medium- and long-term strategies.

- Members must inform the Chairman of the Board regarding any conflict of interest that may arise and abstain from participating in any related deliberations. There was an 100% attendance rate at the Board and Committee meetings in 2020.

- During the majority of 2020, the meetings of the Board of Directors and the Audit and Corporate Practices Committee were held through videoconferences, as consequence of the pandemic caused by the COVID-19 pandemic. Video conferencing allowed the Board of Directors to interact effectively given the availability of audio and video features.

- The Audit and Corporate Practices Committee studies and issues recommendations to the Board on audit-related matters such as: selecting and determining the fees to be paid to the external auditor, coordinating with the Company's internal audit committee and studying accounting policies, among others.

- In addition, the Audit and Corporate Practices Committee issues recommendations to the Board on matters related to corporate practices, such as employment terms and severance payments for senior executives, and compensation policies.

- The company has internal control systems with general guidelines that are submitted to the Audit and Corporate Practices Committee for its opinion. In addition, the external auditor validates the effectiveness of the internal control system and issues the corresponding reports.

- The Board of Directors is advised by the planning and finance department when evaluating matters related to the feasibility of investments, strategic positioning of the company, alignment of investing and financing policies, and reviewing investment projects. This is carried out in coordination with the finance and planning department of the holding company, Alfa, S.A.B. de C.V.

- Alpek has a department that is specifically responsible for maintaining open communication with its shareholders and investors. This ensures that they have the financial and general information required to assess the Company's progress in developing its activities. This function makes use of press releases, notifications of relevant events, conference calls for quarterly reports, investor meetings, its website, and other communication channels.

- Alpek promotes good corporate citizenship and adheres to the recommendations issued by its holding company, Alfa, S.A.B. de C.V. It has a mission, vision, values and a code of ethics that are promoted within the organization.

GLOSSARY

ADMINISTRATIVE COUNCIL FOR ECONOMIC DEFENSE
Brazilian agency responsible for investigating and deciding on issues of competence.

ARCEL®
A Polystyrene (EPS) & Polyethylene (PE) copolymer used in protective packaging for high-end products like electronics. Due to its resistance to tearing, puncturing, cracking and flaking, it absorbs shocks without decreasing its protection.

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

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

COGENERATION
Process that produces both electricity and steam.

COMPREHENSIVE RESPONSIBILITY ADMINISTRATIVE SYSTEM (NATIONAL ASSOCIATION OF THE CHEMICAL INDUSTRY, ANIQ)
Certification given to companies that comply with the six comprehensive responsibility requirements established by the ANIQ, covering Process safety, Health and safety in the workplace, Product safety, Transportation and distribution, Prevention and control of environmental pollution and Community protection.

CO2 EMISSIONS
Unit to measure the carbon dioxide produced by the burning of solid, liquid and gaseous fuels, including natural gas.

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

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

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

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

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

GREENHOUSE GASES (GHG)
Components of the atmosphere that absorb and emit radiation within the infrared range, causing the Earth's surface temperature to increase.

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

ISO 9001 CERTIFICATION
Certification issued by rating agencies to those companies that operate with proven procedures for assuring the quality of their products, in accordance with the standard defined by the International Organization for Standardization (ISO).

ISO 14001 CERTIFICATION
Internationally accepted standard for establishing an efficient Environmental Management System (EMS). The standard is designed to support companies' profitability and at the same time minimize environmental impact.

MEGAWATT (MW)
Unit of power, equal to 1 million watts.

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

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

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

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

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

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

PROPYLENE OXIDE
Compound produced from propylene and used to manufacture commercial and industrial products, including polyols, glycols and glycol-ethers.

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

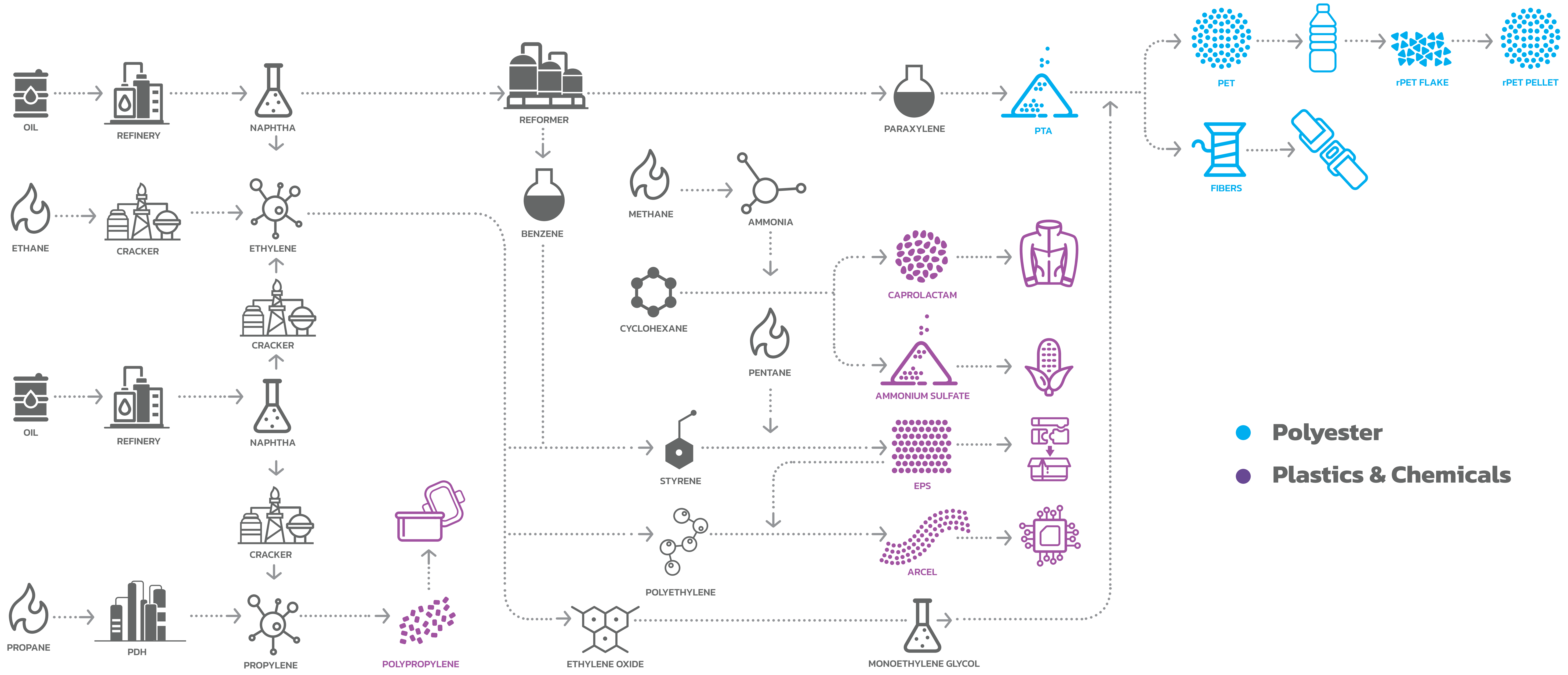
STYRENE MONOMER
Unsaturated hydrocarbon used to make a variety of plastics, synthetic rubber, protective coatings and resins. It is the main raw material in EPS production and used as a solvent and chemical intermediate.

SINGLE-PELLET TECHNOLOGY ™
Single Pellet Technology™(SPT) creates a pellet where mechanically Recycled PET (rPET) flake is used as a raw material feedstock in the virgin PET production process. Once injected into the PET manufacturing process, the rPET flake melts and the polymer is chemically integrated allowing the rebuilding of polymer chains to create a new PET resin pellet with an integrated recycle content of up to 25% with performance equal to that of virgin PET.

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

PETROCHEMICAL VALUE CHAINS

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



MANAGEMENT'S ANALYSIS

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

The global economic environment was pressured by the COVID-19 health crisis, during the year risks persisted for financial markets coupled with pandemic control, advanced countries' economic policy decisions, geopolitical environment and trade tensions. During the first half of the year, the world faced an overall standstill of economic activity and in the second half showed a gradual recovery. Countries such as the U.S. implemented fiscal stimulus to support economic activity during the crisis. According to the IMF, the countries most affected by this crisis were Argentina, Peru, Spain, Mexico and South Africa. In Mexico, GDP suffered historic contractions in April and May, and as of June started to present a gradual recovery. The Mexican currency showed strong volatility throughout the year, to end with depreciation from the previous year, however, it is one of the currencies that presented the greatest recovery against COVID-19.

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

In the United States, Gross Domestic Product (GDP) decreased 3.5%[b] in 2020, compared with an increase of 2.2%[b] reported in 2019. Consumer inflation was 1.4%[b] in 2020, lower than the 1.5%[b] recorded in 2019.

Mexico's Gross Domestic Product (GDP) decreased 8.5%[a] in 2020, compared to the decrease of 0.1%[a] in 2019. Consumer inflation was 3.2%[c] in 2020, higher than the 2.8%[c] recorded in 2019. The Mexican peso experienced an annual nominal depreciation of 5.5%[d] in 2020, compared with an appreciation of 4.0%[d] in 2019. Additionally, in real terms the annual average valuation of the Mexican peso against the dollar decreased from -0.5%[e] in 2019 to -2.7%[e] at the close of 2020.

In Mexico, the average Interbank Equilibrium Interest Rate (TIIE) was 5.7%[c] in nominal terms, as compared to 8.3%[c] in 2019. In real terms, there was a decrease in the annual aggregate from 4.8%[c] in 2019 to 2.4%[c] in 2020. Regarding interest rates, the annual average nominal 3-month US dollar LIBOR rate, was 0.7%[c] in 2020, compared to 2.3%[c] in 2019. If the peso's nominal appreciation against the dollar is included, the LIBOR rate in constant pesos went from -1.2%[c] in 2019 to 8.7% [c] in 2020.

Sources:

(a) *National Institute of Statistics and Geography (INEGI).*

(b) *Bureau of Economic Analysis (BEA)*

(c) *Bank of Mexico (Banxico)*

(d) *Banxico: Exchange rate for settling liabilities denominated in foreign currency payable in Mexico*

(e) *Internal calculation based on INEGI, Bureau of Economic Analysis (BEA), and Bureau of Labor Statistics (BLS)*

Volume (thousands of tons)	2020	2019	2018	'20 vs '19 (%)	'19 vs '18 (%)
Polyester	3,918	3,490	3,490	12	–
Plastics and Chemicals	883	895	912	(1)	(2)
Total Volume	4,802	4,384	4,402	10	–

Revenues	2020	2019	2018	'20 vs '19 (%)	'19 vs '18 (%)
Polyester					
Millions of Pesos	85,280	90,857	99,559	(6)	(9)
Millions of Dollars	3,976	4,718	5,174	(16)	(9)
Plastics and Chemicals					
Millions of Pesos	25,349	27,097	32,925	(6)	(18)
Millions of Dollars	1,192	1,407	1,713	(15)	(18)
Total Revenues					
Millions of Pesos	113,989	119,685	134,523	(5)	(11)
Millions of Dollars	5,326	6,216	6,991	(14)	(11)

Price Index	2020	2019	2018	'20 vs '19 (%)	'19 vs '18 (%)
Polyester					
Millions of Pesos	76	91	100	(16)	(9)
Millions of Dollars	68	91	100	(25)	(9)
Plastics and Chemicals					
Millions of Pesos	80	85	100	(5)	(15)
Millions of Dollars	73	85	100	(14)	(15)
Total Revenues					
Millions of Pesos	78	89	100	(13)	(11)
Millions of Dollars	70	89	100	(22)	(11)

Revenues

Alpek's revenue in 2020 was $113,989 million (US $5.326 billion), 5% lower than the $119,685 million (US $6.216 billion) in 2019. This decrease was caused by a drop in average prices of 13% and 22% in pesos and dollars, respectively, driven by lower feedstock prices.

Revenues by Business Segment

Polyester's net revenues in 2020 were $85,280 million (US $3.976 billion), 6% less than the $90,857 million (US $4.718 billion) in 2019. This segment posted a decrease of 16% and 25% in average sale prices in pesos and dollars, respectively. Volume increased 12% when compared to 2019, setting a new record. This increase was largely due to favorable changes to consumer behavior, which placed a heightened importance on safety and hygiene, thus strengthening demand for PET.

Plastics and Chemicals posted revenues of $25,349 million (US $1.192 billion) in 2020, in comparison to the $27,097 million (US $1.407 billion) in 2019. The 6% decrease in revenues was mainly due to the 5% and 14% drop in the average sale price in pesos and in dollars, respectively, reflecting lower feedstock prices. The segment's volume posted a drop of 1% compared to 2019, mainly due to lower sales of caprolactam and industrial chemical products.

Operating Income and EBITDA

In 2020, the operating income was $7,493 million (US $355 million), 39% lower than the $12,361 million (US $641 million) in 2019. In 2020, operating profit includes an extraordinary gain of $657 million (US $35 million) from the business combination on the acquisition of the Wilton PET site.The operating income in 2019 includes an extraordinary gain of $3,634 million (US $188 million) from the finalization of the cogeneration plants' sale.

As of December 31, 2020, consolidated EBITDA was $11,993 million (US $565 million), a decrease of 27% compared to the $16,395 million (US $850 million) of 2019. The consolidated EBITDA includes a net charge from extraordinary items of $1,016 million (US $36 million), resulting in a Comparable EBITDA excluding raw material carry-forward of $13,009 million (US $601 million), 14% lower than in 2019.

In 2020, the EBITDA for the Polyester segment decreased by 17% to $6,842 million (US $324 million), including a net charge from extraordinary items of $1,258 million (US $48 million). Adjusting for these items, the Comparable EBITDA excluding raw material carry-forward for the Polyester segment was $8,100 million (US $372 million), a decrease of 22% year-over-year, resulting from lower margins compared to the previous year.

The EBITDA for the Plastics and Chemicals segment increased 17% to $4,920 million (US $229 million), compared to $4,198 million (US $218 million) in 2019. Excluding non-cash inventory losses and other extraordinary items, the Comparable EBITDA for Plastics and Chemicals increased 5% in comparison to the $4,447 million (US $231 million) in 2019, due to better than expected PP margins.

EBITDA (Millions of pesos)	2020	2019	2018	'20 vs '19 (%)	'19 vs '18 (%)
Polyester	6,842	8,236	15,318	(17)	(46)
Plastics and Chemicals	4,920	4,198	5,292	17	(21)
Others	231	3,961	(3)	(94)	N/A
Total EBITDA	11,993	16,395	20,607	(27)	(20)

EBITDA (Millions of dollars)	2020	2019	2018	'20 vs '19 (%)	'19 vs '18 (%)
Polyester	324	428	788	(24)	(46)
Plastics and Chemicals	229	218	276	5	(21)
Others	12	205	(1)	(95)	N/A
Total EBITDA	565	850	1,063	(34)	(20)

Net Financial Result

In 2020, the net financial cost was -$2,085 million (US -$98 million), 21% lower than in 2019. The net financing expenses that comprise this item decreased from -$2,048 million (US -$106 million) in 2019, to -$1,972 million (US -$92 million) in 2020, mainly reflecting the reduction in average debt during the year. In addition, variations in exchange rates resulted in the recognition of a non-cash foreign exchange loss of -$113 million (US -$7 million) in 2020, versus -$587 million (US -$30 million) in 2019.

Financial result, net (Millions of pesos)	2020	2019	2018	'20 vs '19 (%)	'19 vs '18 (%)
Financial expense	(2,497)	(2,822)	(2,183)	11	(29)
Financial income	525	774	442	(32)	75
Financial expenses, net	(1,972)	(2,048)	(1,741)	4	(18)
Loss due to exchange fluctuation, net	(113)	(587)	(1,042)	81	44
Financial expenses, net	(2,085)	(2,635)	(2,783)	21	5

Taxes

In 2020, an income tax was posted for -$1,202 million (US -$57 million) as a result of the decreased pre-tax income, while 2019 posted an income tax of -$1,889 million (US -$98 million).

Taxes (Millions of pesos)	**2020**	**2019**	**2018**	**'20 vs '19 (%)**	**'19 vs '18 (%)**
Income before taxes	**5,323**	9,413	18,389	(43)	(49)
Income tax rate	**30%**	30%	30%		
Statutory income tax rate expenses	**(1,597)**	(2,824)	(5,517)	43	49
Taxes for permanent differences between accounting-taxable income	**395**	935	2,062	(58)	(55)
Total income tax	**(1,202)**	(1,889)	(3,455)	36	45
Effective tax rate	**23%**	20%	19%		
Comprised as follows:					
Current income tax	**(1,933)**	(2,463)	(2,075)	22	(19)
Deferred income tax	**731**	574	(1,380)	27	142
Total income tax	**(1,202)**	(1,889)	(3,455)	36	45

Net Income Attributable to the Controlling Interest

In 2020, consolidated net income attributable to the controlling interest was $3,123 million (US $150 million) including a net benefit of $657 million (US $35 million) from the gain in the business combination (Wilton PET site). In 2019, the consolidated net income attributable to the controlling interest was $6,605 million (US $342 million), including an extraordinary gain related to the sale of the cogeneration plants.

Statement of income (Millions of pesos)	**2020**	**2019**	**2018**	**'20 vs '19 (%)**	**'19 vs '18 (%)**
Operating income	**7,493**	12,361	21,202	(39)	(42)
Financial result, net	**(2,085)**	(2,635)	(2,783)	21	5
Equity in loss of associates and joint ventures	**(85)**	(313)	(30)	73	(945)
Income taxes	**(1,202)**	(1,889)	(3,455)	36	45
Consolidated net income	**4,121**	7,524	14,934	(45)	(50)
Income attributable to Controlling interest	**3,123**	6,605	13,633	(53)	(52)

Investments in Fixed and Intangible Assets

In 2020, investments in fixed and intangible assets totaled $3,477 million (US $162 million), 33% lower than the $5,182 million (US $270 million) posted in 2019. The resources were used for the acquisition of NOVA Chemicals' Styrenics business, strategic projects and maintenance and minor asset replacements.

Net debt[1]

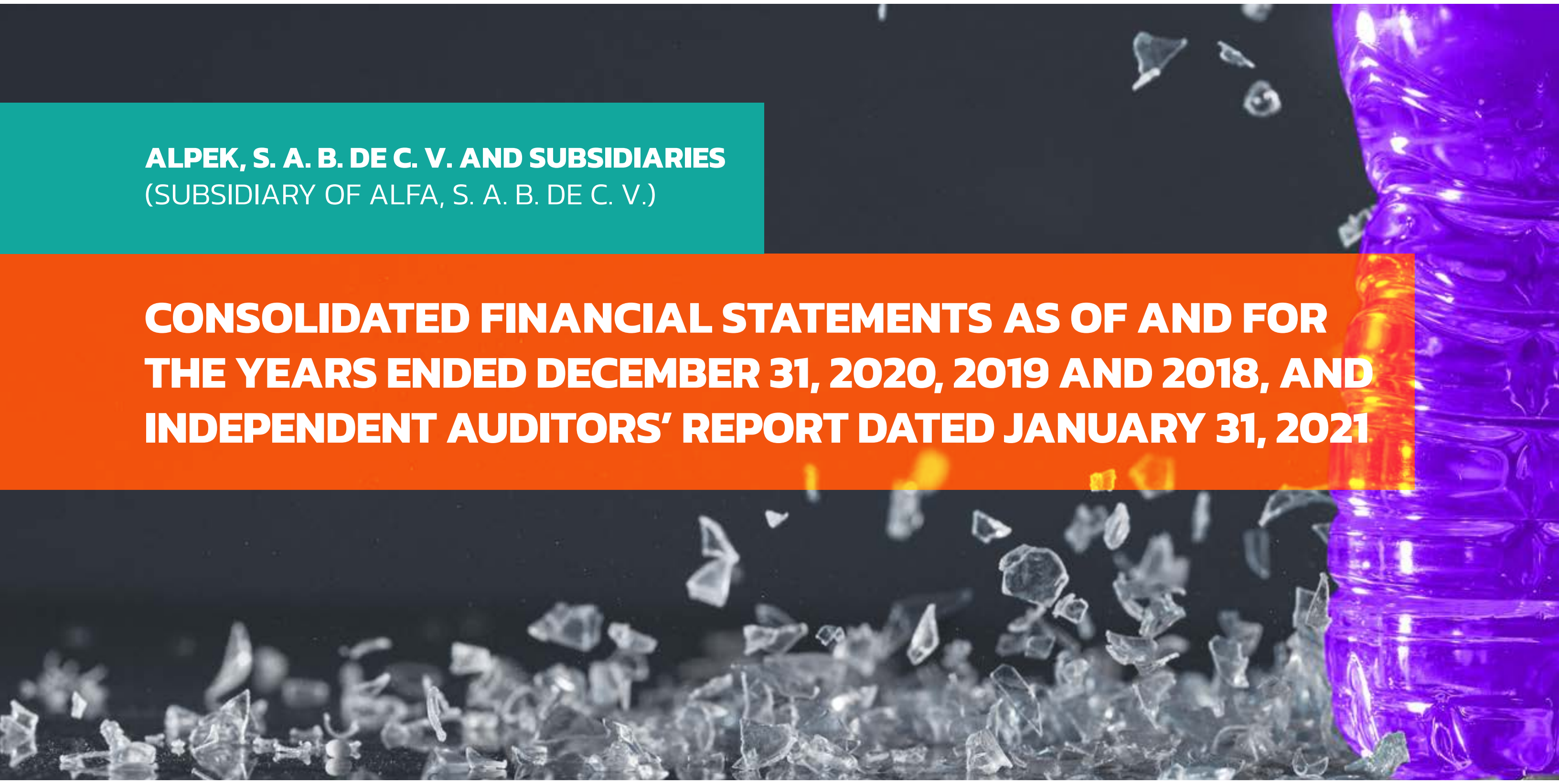
Net debt was $23,645 million (US $1.185 billion) as of December 31, 2020, 6% below the $25,057 million (US $1.330 billion) as of December 31, 2019. The cash balance and cash equivalents totaled $10,156 million (US $509 million) at year-end 2020.

Short and long-term debt[2] (Millions of dollars)	**2020**	**2019**	**'20 vs '19 (%)**	**Integrated '20 (%)**	**Integrated '19 (%)**
Short-term debt	**23**	38	(40)	1	2
Long-term 1 year	**649**	19	N/A	42	1
2 years	**300**	674	(55)	19	44
3 years	**65**	300	(78)	4	20
4 years	**-**	-	-	-	-
5 years	**-**	-	-	-	-
9+ years	**506**	506	-	33	33
Total	**1,543**	1,537	-	100	100
Avg. Maturity long-term debt (years)	**4.5**	5.5			
Avg. Maturity total debt (years)	**4.5**	5.4			

Financial Indicators (Times)	**2020**	**2019**	**2018**
Net Debt / EBITDA	**2.1**	1.6	1.7
Interest Coverage	**6.0**	7.2	9.9
Total liabilities / Stockholders' equity	**1.3**	1.3	1.8

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

(2) *Excludes leases and lease interests*



ALPEK, S. A. B. DE C. V. AND SUBSIDIARIES
(SUBSIDIARY OF ALFA, S. A. B. DE C. V.)

CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018, AND INDEPENDENT AUDITORS' REPORT DATED JANUARY 31, 2021

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF ALPEK, S. A. B. DE C. V. AND SUBSIDIARIES

Opinion

We have audited the consolidated financial statements of Alpek, S. A. B. de C. V. and Subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2020, 2019 and 2018, and the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Alpek, S. A. B. de C. V. and Subsidiaries as of December 31, 2020, 2019 and 2018, and their consolidated financial performance and their consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the 2020 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.

Business combination- Lotte Chemical UK Limited (Lotte UK)

As mentioned in Note 2a. to the consolidated financial statements, on January 1, 2020, a subsidiary of Alpek, S. A. B. de C. V. ("Alpek") acquired all of the shares representing the capital stock of Lotte Chemical UK Limited, which operates a PET production plant located in Wilton, United Kingdom with a capacity of 350,000 tons per year. The total consideration amounted to US$68 million. The fair value of the net assets acquired amounted to US$103 and the Company recognized a gain on the acquisition of US$35 million.

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

- We evaluated the capacity and independence of the independent expert.
- We verified that the models and assumptions used by management to determine fair values were those used and recognized for valuing assets of similar characteristics in the industry.
- We challenged management's financial projections and compared them to historical business and industry performance and trends.
- We reviewed the most relevant valuation assumptions and compared them with independent market sources.

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

Emphasis of matter paragraph – Significant event

As mentioned in Note 2b. to the accompanying consolidated financial statements, on March 11, 2020, the World Health Organization declared the SARS-COV2 virus (COVID-19) a global pandemic. The spread of the disease had a differentiated impact on companies and industries, in addition to generating significant volatility in money and capital markets. The Company's financial position and results of operations as of December 31, 2020 were not materially affected by the pandemic; however, our audit planning and procedures were adapted to the circumstances for the verification of the above and the assertions included by the Company in Note 2b. to the consolidated financial statements.

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

Management is responsible for the other information presented. Additional information includes; (i) the Annual Report, (ii) the information to be incorporated into the Annual Report that the Company is required to prepare in accordance with Article 33, fraction I, paragraph b) of Title Four, Chapter One of the Provisions of a General Nature Applicable to the Issuers of Securities and to Participants in the Securities Market and with the Instructions accompanying those provisions (the "Provisions").Is expected the Annual Report to be available for our reading after the date of this audit report; and (iii) other additional information, which is a measure that is not required by IFRS, and has been incorporated for the purpose of providing additional explanation to its investors and principal readers of its consolidated financial statements to assess the performance of each of the operating segments and other indicators on the ability to meet obligations with respect to the Company's earnings before income, taxes, depreciation, amortization and assets impairment ("adjusted EBITDA") of the Company; this information is presented in Notes 16 and 29.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion.

- Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

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

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

C. P. C. César Adrián Garza Tamez
Monterrey, Nuevo León, México
January 31, 2021

ALPEK, S. A. B. DE C. V. AND SUBSIDIARIES (SUBSIDIARY OF ALFA, S. A. B. DE C. V.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2020, 2019 and 2018
In millions of Mexican pesos

	Note	2020	2019	2018
Assets				
Current assets:				
Cash and cash equivalents	6	$ 10,144	$ 7,059	$ 4,168
Restricted cash	6	12	216	3
Trade and other accounts receivable, net	7	17,050	16,508	21,934
Inventories	8	17,447	17,966	24,511
Derivative financial instruments	4	454	41	30
Prepayments	9	442	1,785	469
Total current assets		45,549	43,575	51,115
Non-current assets:				
Property, plant and equipment, net	10	38,579	37,082	47,033
Right of use asset, net	11	2,991	3,437	–
Goodwill and intangible assets, net	12	3,637	3,783	4,368
Deferred income taxes	20	1,506	1,104	1,384
Derivative financial instruments	4	70	36	–
Prepayments	9	15	16	38
Other non-current assets	13	14,006	13,761	15,959
Total non-current assets		60,804	59,219	68,782
Total assets		$ 106,353	$ 102,794	$ 119,897
Liabilities and Stockholders' Equity				
Current liabilities:				
Debt	16	$ 456	$ 707	$ 10,118
Lease liability	17	704	912	–
Trade and other accounts payable	15	19,545	16,455	26,051
Income taxes payable	20	531	1,143	1,279
Derivative financial instruments	4	66	528	1,047
Provisions	18	50	576	81
Total current liabilities		21,352	20,321	38,576
Non-current liabilities:				
Debt	16	30,196	28,103	30,012
Lease liability	17	2,306	2,456	–
Derivative financial instruments	4	–	4	283
Provisions	18	1,120	1,078	1,107
Deferred income taxes	20	4,092	3,926	4,752
Income taxes payable	20	170	400	469
Employee benefits	19	1,316	1,092	1,099
Other non-current liabilities	21	289	356	436
Total non-current liabilities		39,489	37,415	38,158
Total liabilities		60,841	57,736	76,734
Stockholders' equity				
Controlling interest:				
Capital stock	22	6,035	6,045	6,052
Share premium		9,025	9,059	9,106
Retained earnings		21,035	20,625	17,235
Other reserves		4,291	4,751	5,734
Total controlling interest		40,386	40,480	38,127
Non-controlling interest	14	5,126	4,578	5,036
Total stockholders' equity		45,512	45,058	43,163
Total liabilities and stockholders' equity		$ 106,353	$ 102,794	$ 119,897

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

ALPEK, S. A. B. DE C. V. AND SUBSIDIARIES (SUBSIDIARY OF ALFA, S. A. B. DE C. V.)

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2020, 2019 and 2018
In millions of Mexican pesos, except for earnings per share amounts

	Note		2020		2019		2018
Revenues	29	$	113,989	$	119,685	$	134,523
Cost of sales	24		(102,283)		(106,669)		(116,519)
Gross profit			11,706		13,016		18,004
Selling expenses	24		(2,136)		(2,088)		(2,136)
Administrative expenses	24		(3,260)		(2,831)		(3,166)
Other income, net	25		1,183		4,264		4,564
Income before reversal of impairment of intangible assets			7,493		12,361		17,266
Reversal of impairment of intangible assets	2j		–		–		3,936
Operating income			7,493		12,361		21,202
Financial income	26		525		774		442
Financial expenses	26		(2,497)		(2,822)		(2,183)
Loss due to exchange fluctuation, net	26		(113)		(587)		(1,042)
Financial result, net			(2,085)		(2,635)		(2,783)
Equity in loss of associates and joint ventures recognized using the equity method			(85)		(313)		(30)
Income before taxes			5,323		9,413		18,389
Income taxes	20		(1,202)		(1,889)		(3,455)
Net consolidated income		$	4,121	$	7,524	$	14,934
Income attributable to:							
Controlling interest		$	3,123	$	6,605	$	13,633
Non-controlling interest			998		919		1,301
		$	4,121	$	7,524	$	14,934
Earnings per basic and diluted share, in Mexican pesos		$	1.48	$	3.12	$	6.44
Weighted average outstanding shares (millions of shares)			2,113		2,117		2,118

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

ALPEK, S. A. B. DE C. V. AND SUBSIDIARIES (SUBSIDIARY OF ALFA, S. A. B. DE C. V.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2020, 2019 and 2018
In millions of Mexican pesos

	Note	2020	2019	2018
Net consolidated income		$ 4,121	$ 7,524	$ 14,934
Other comprehensive loss for the year:				
Equity in other comprehensive income of associates and joint ventures recognized through the equity method		3	–	–
Items that will not be reclassified to the statement of income:				
Remeasurement of employee benefit obligations, net of taxes	19, 20	(30)	22	(55)
Items that will be reclassified to the statement of income:				
Effect of derivative financial instruments designated as cash flow hedges, net of taxes	4, 20	614	765	(560)
Translation effect of foreign entities	4, 20	(767)	(1,954)	(1,814)
Total other comprehensive loss for the year		(180)	(1,167)	(2,429)
Consolidated comprehensive income		$ 3,941	$ 6,357	$ 12,505
Attributable to:				
Controlling interest		$ 2,663	$ 5,622	$ 11,241
Non-controlling interest		1,278	735	1,264
Comprehensive income for the year		$ 3,941	$ 6,357	$ 12,505

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

ALPEK, S. A. B. DE C. V. AND SUBSIDIARIES (SUBSIDIARY OF ALFA, S. A. B. DE C. V.)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2020, 2019 and 2018
In millions of Mexican pesos

	Capital stock	Share premium	Retained earnings	Other reserves	Total controlling interest	Non-controlling interest	Total stockholders' equity
Balance as of January 1, 2018	$ 6,048	$ 9,071	$ 3,671	$ 8,126	$ 26,916	$ 4,748	$ 31,664
Net income	–	–	13,633	–	13,633	1,301	14,934
Total other comprehensive loss for the year	–	–	–	(2,392)	(2,392)	(37)	(2,429)
Comprehensive income	–	–	13,633	(2,392)	11,241	1,264	12,505
Dividends declared	–	–	–	–	–	(981)	(981)
Reissuance of shares	4	35	–	–	39	–	39
Effect of initial adoption of IFRS	–	–	(14)	–	(14)	–	(14)
Other	–	–	(55)	–	(55)	5	(50)
Balance as of January 1, 2019	6,052	9,106	17,235	5,734	38,127	5,036	43,163
Net income	–	–	6,605	–	6,605	919	7,524
Total other comprehensive loss for the year	–	–	–	(983)	(983)	(184)	(1,167)
Comprehensive income	–	–	6,605	(983)	5,622	735	6,357
Dividends declared	–	–	(2,778)	–	(2,778)	(1,182)	(3,960)
Reissuance of shares	51	338	–	–	389	–	389
Repurchase of shares	(58)	(385)	–	–	(443)	–	(443)
Acquisition of non-controlling interest in subsidiary	–	–	(190)	–	(190)	(4)	(194)
Other	–	–	(247)	–	(247)	(7)	(254)
Balance as of December 31, 2019	6,045	9,059	20,625	4,751	40,480	4,578	45,058
Net income	–	–	3,123	–	3,123	998	4,121
Total other comprehensive loss for the year	–	–	–	(460)	(460)	280	(180)
Comprehensive income	–	–	3,123	(460)	2,663	1,278	3,941
Dividends declared	–	–	(2,713)	–	(2,713)	(730)	(3,443)
Reissuance of shares	1	1	–	–	2	–	2
Repurchase of shares	(11)	(35)	–	–	(46)	–	(46)
Balance as of December 31, 2020	$ 6,035	$ 9,025	$ 21,035	$ 4,291	$ 40,386	$ 5,126	$ 45,512

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

ALPEK, S. A. B. DE C. V. AND SUBSIDIARIES (SUBSIDIARY OF ALFA, S. A. B. DE C. V.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2020, 2019 and 2018
In millions of Mexican pesos

	2020	2019	2018
Cash flows from operating activities			
Income before income taxes	$ 5,323	$ 9,413	$ 18,389
Depreciation and amortization	4,486	4,005	2,885
Impairment (reversal of impairment) of long-lived assets	14	29	(3,480)
Allowance for doubtful accounts	77	40	102
Financial result, net	1,772	2,220	2,359
Gain on business combination	(657)	–	(4,597)
Gain on business sale	(89)	(3,634)	–
Statutory employee profit sharing, provisions and other items	(426)	228	(60)
Subtotal	10,500	12,301	15,598
Movements in working capital			
Decrease (increase) in trade receivables and other assets	894	4,465	(4,373)
Decrease (increase) in inventories	2,522	5,523	(6,977)
Increase (decrease) in trade and other accounts payable	659	(9,523)	5,772
Income taxes paid	(2,641)	(2,765)	(1,759)
Net cash flows generated from operating activities	11,934	10,001	8,261
Cash flows from investing activities			
Interest collected	197	231	353
Cash flows in acquisition of property, plant and equipment	(2,543)	(3,123)	(2,249)
Cash flows in sale of property, plant and equipment	18	96	270
Cash flows in acquisition of intangible assets	(45)	(35)	(26)
Cash flows in business acquisition, net of cash acquired	(921)	(661)	(7,120)
Prepayment for business acquisition	–	(1,312)	–
Cash flows in business sale, net of cash transferred	108	15,400	–
Cash flows collected (paid) in investment in associates and joint ventures	15	(147)	(5,805)
Loans collected from related parties	10	188	195
Notes receivable	–	(1)	(1,124)
Collection of notes	845	531	17
Restricted cash	228	(219)	–
Net cash flows (used in) generated from investing activities	(2,088)	10,948	(15,489)
Cash flows from financing activities			
Proceeds from debt	13,044	22,000	9,137
Payments of debt	(12,550)	(32,005)	(3,153)
Lease payments	(1,083)	(1,108)	–
Interest paid	(1,954)	(2,379)	(2,038)
Derivative financial instruments	–	–	(12)
Dividends paid by Alpek, S. A. B. de C. V.	(2,713)	(2,778)	–
Dividends paid from subsidiaries to non-controlling interest	(730)	(1,182)	(981)
Acquisition of non-controlling interest in subsidiary	–	(194)	–
Repurchase of shares	(46)	(443)	–
Reissuance of shares	2	389	39
Loan payments to related parties	–	(1)	(2)
Net cash flows (used in) generated from financing activities	(6,030)	(17,701)	2,990
Net increase (decrease) in cash and cash equivalents	3,816	3,248	(4,238)
Effect of changes in exchange rates	(731)	(357)	(389)
Cash and cash equivalents at the beginning of the year	7,059	4,168	8,795
Cash and cash equivalents at the end of the year	$ 10,144	$ 7,059	$ 4,168

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

ALPEK, S. A. B. DE C. V. AND SUBSIDIARIES (SUBSIDIARY OF ALFA, S. A. B. DE C. V.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of and for the years ended December 31, 2020, 2019 and 2018
Millions of Mexican pesos, except where otherwise indicated

1. GENERAL INFORMATION

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

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

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

The shares of Alpek SAB are traded on the Mexican Stock Exchange ("MSE") and has Alfa, S. A. B. de C. V. ("Alfa") as its main holding company. As of December 31, 2020, 2019 and 2018, the percentage of shares that traded on the MSE was 17.63%, 17.79% and 17.91%, respectively (Note 22).

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

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

2. SIGNIFICANT EVENTS

2020

a. **Acquisition of Lotte Chemical PET business in UK**

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

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

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

The acquisition of Alpek Polyester UK met the criteria of a business combination in accordance with the requirements of IFRS 3, *Business Combinations*; therefore, the Company applied the acquisition method to measure the assets acquired and the liabilities assumed in the transaction.

The purchase price allocation was determined in 2020, and the adjustments derived from acquisition method accounting were recognized from the date of acquisition. The fair values of the assets acquired and liabilities assumed as a result of this acquisition are as follows:

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

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

(2) Current liabilities consist of suppliers and other accounts payable of US$47 and provisions of US$4.

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

b. Impacts of COVID-19

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

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

As of the date of issuance of the consolidated financial statements, management of the Company continues to take actions to face the economic conditions of the market, as part of its risk-management strategy.

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

On September 4, 2020, the Company announced the final approval of the financial restructuring agreement between M&G Polímeros México S.A. de C.V. ("M&G México") and the majority of its creditors, including certain subsidiaries of Alpek. In accordance with the agreement, as of the end of 2020, the Company started the recovery of US$160 of debt guaranteed by a first and second degree lien on M&G México's PET plant in Altamira by receiving a payment of US$40 in December. The Company expects to recover all of its guaranteed debt with its respective interests in the next 5 years.

d. Agreement to acquire NOVA Chemicals' styrenics business

On October 19, 2020, the Company announced that one of its subsidiaries has signed an agreement with NOVA Chemicals Corporation ("NOVA Chemicals") to acquire their expandable styrenics business by purchasing a 100% stake in BVPV Styrenics LLC, which owns and operates two facilities in the United States. The first facility, located in Monaca, Pennsylvania, has an annual capacity of 123,000 tons of EPS and 36,000 tons of ARCEL®, and a world-class research and development (R&D) pilot plant; and a second facility located in Painesville, Ohio, with an annual capacity of 45,000 tons of EPS.

The value of the consideration amounted to US$50, which was paid in cash by transfer on the closing date of the transaction, which occurred on October 30, 2020, and corresponds to the date the Company acquired control of the business.

The Company is in the process of determining the fair value of the net identifiable assets, which is expected to be completed within 12 months from the acquisition date.

The consolidated statement of cash flows in 2020 presents the incorporation of BVPV Styrenics LLC's operations into a single line within the investment activity, net of cash acquired.

2019

e. Acquisition of a PET recycling plant with Perpetual Recycling Solutions

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

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

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

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

f. Sale of two electric power cogeneration plants

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

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

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

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

g. Debt issuance

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

h. Credit Agreement with Export Development Canada ("EDC")

On May 10, 2019, Alpek and certain of its subsidiaries entered into a credit agreement to obtain an unsecured credit for up to US$250 with Export Development Canada. This facility has a maturity of 6 years and an availability period that expires in May 2021. The loan accrues interest at a variable rate of LIBOR plus a spread that depends on leverage levels and can be prepaid at any time, in whole or in part, without penalty. As of December 31, 2020, the total amount of the credit facility was available.

2018

i. Secured financing to M&G México

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

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

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

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

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

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

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

k. Acquisition of Petroquímica SUAPE and CITEPE

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

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

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

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

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

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

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

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

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

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

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

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

l. Credit Agreement with JP Morgan

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

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

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

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

b) Consolidation

i. Subsidiaries

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

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

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

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

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

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

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

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

As of December 31, 2020, 2019 and 2018, the main companies that comprise the consolidated financial statements of the Company are as follows:

		Shareholding (%) (2)			
	Country (1)	2020	2019	2018	Functional currency
Alpek, S. A. B. de C. V. (Holding Company)					Mexican peso
Grupo Petrotemex, S. A. de C. V. (Holding Company)		100	100	100	US dollar
DAK Americas, LLC	USA	100	100	100	US dollar
Dak Resinas Américas México, S. A. de C. V.		100	100	100	US dollar
DAK Américas Exterior, S. L. (Holding Company)	Spain	100	100	100	US dollar
DAK Americas Argentina, S. A.	Argentina	100	100	100	Argentine peso
Compagnie Selenis Canada (Selenis) (3)	Canada	50	50	50	US dollar
Tereftalatos Mexicanos, S. A. de C. V. (Temex)		91	91	91	US dollar
Akra Polyester, S. A. de C. V.		93	93	93	US dollar
Companhia Petroquímica de Pernambuco (7)	Brazil	100	100	100	Brazilian real
Companhia Integrada Textil de Pernambuco (7)	Brazil	100	100	100	Brazilian real
Indelpro, S. A. de C. V. (Indelpro)		51	51	51	US dollar
Polioles, S. A. de C. V. (Polioles)		50	50	50	US dollar
Grupo Styropek, S. A. de C. V. (Holding Company)		100	100	100	Mexican peso
Styropek México, S. A. de C. V.		100	100	100	US dollar
Styropek, S. A.	Argentina	100	100	100	Argentine peso
Aislapol, S. A.	Chile	100	100	100	Chilean peso
Styropek do Brasil, LTD	Brazil	100	100	100	Brazilian real
Unimor, S. A. de C. V. (Holding Company)		100	100	100	Mexican peso
Univex, S. A.		100	100	100	Mexican peso
Alpek Polyester UK LTD (4)	United Kingdom	100	-	-	Pound sterling
BVPV Styrenics LLC (5)	USA	100	-	-	US dollar
Cogeneración de Energía Limpia de Cosoleacaque, S. A. de C. V. (6)		-	-	100	Mexican peso
Cogeneración de Altamira, S. A. de C. V. (6)		-	-	100	Mexican peso

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

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

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

(4) Previously known as Lotte Chemical UK Limited ("Lotte UK").

(5) Entity acquired in 2020. See Note 2d.

(6) Entities sold in 2019. See Note 2f.

(7) Entities acquired in 2018. See Note 2k.

As of December 31, 2020, 2019 and 2018, there are no significant restrictions for investment in shares of subsidiary companies mentioned above.

ii. Absorption (dilution) of control in subsidiaries

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

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

iii. Sale or disposal of subsidiaries

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

iv. Associates

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

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

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

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

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

v. Joint ventures

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

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

c) Foreign currency translation

i. Functional and presentation currency

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

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

ii. Transactions and balances

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

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

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

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

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

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

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

Non-hyperinflationary environment

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

Hyperinflationary environment

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

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

		Local currency to Mexican pesos					
		Closing exchange rate at December 31,			Average annual exchange rate		
Country	**Local Currency**	**2020**	**2019**	**2018**	**2020**	**2019**	**2018**
United States	U.S. dollar	19.95	18.85	19.68	21.59	19.30	20.15
Argentina	Argentine peso	0.24	0.31	0.52	0.30	0.40	0.53
Brazil	Brazilian real	3.84	4.69	5.07	4.12	4.90	5.18
Chile	Chilean peso	0.03	0.03	0.03	0.03	0.03	0.03
United Kingdom	Pound sterling	27.26	24.95	25.09	27.87	24.68	25.53

d) Hyperinflationary effects

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

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

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

The Company reflects the effects of hyperinflation on the financial information of its subsidiaries in Argentina using price indexes that are considered appropriate in accordance with Resolution 539/19 JG (the "Resolution") of the Argentine Federation of Professional Councils of Economic Sciences. This resolution establishes that a combination of price indices should be used in the calculation of the effects of restatement of financial statements. Therefore, the Company has decided to use the Consumer Price Index ("CPI") to restate balances and transactions that have been generated from January 2017; and the IPIM (domestic wholesale price index) for balances and transactions generated for all months prior to 2017, except for the months of November and December 2015, due to the fact that such index was not available. For these months, the Company used the IPCBA (consumer price index of the city of Buenos Aires).

The effects of the restatement of the financial statements of the subsidiaries located in Argentina were not material; therefore, they were included in the "Financial result, net" line item of the year ended December 31, 2020.

e) Cash and cash equivalents

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

f) Restricted cash

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

g) Financial instruments

Financial assets

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

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

Classes of financial assets

i. Financial assets at amortized cost

Financial assets at amortized cost are those that i) are held within a business model whose objective is to hold said assets in order to collect contractual cash flows; and ii) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal.

ii. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are those whose business model is based on both collecting contractual cash flows and selling the financial assets; and their contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal. As of December 31, 2020, 2019 and 2018, the Company does not hold financial assets to be measured at fair value through other comprehensive income.

iii. Financial assets at fair value through profit or loss

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

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

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

As of December 31, 2020, 2019 and 2018, the Company has not made any of the irrevocable designations described above.

Impairment of financial assets

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

a. Trade receivables

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

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

In its impairment assessment, the Company may include indications that the debtors or a group of debtors are experiencing significant financial difficulties, and also observable data indicating that there is a significant decrease in the estimated cash flows to be received, including arrears.

For purposes of the historical estimate, the Company considers that the following constitutes an event of default, since historical experience indicates that financial assets are not recoverable when they meet any of the following criteria:

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

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

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

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

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

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

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

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

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

Offsetting financial assets and liabilities

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

h) Derivative financial instruments and hedging activities

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

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

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

Fair value hedges

Changes in the fair value of derivative financial instruments are recorded in the consolidated statement of income. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the consolidated statement of income in the same line item as the hedged position. As of December 31, 2020, 2019 and 2018, the Company does not hold derivative financial instruments classified as fair value hedges.

Cash flow hedges

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

Net investment hedge in a foreign transaction

Beginning March 1, 2018, the Company applies the hedge accounting to currency risk arising from its investments in foreign transactions for variations in exchange rates arising between the functional currency of such transaction and the functional currency of the holding entity, regardless of whether the investment is maintained directly or through a sub-holding entity. Variation in exchange rates is recognized in the other items of comprehensive income as part of the translation effect, when the foreign transaction is consolidated.

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

Suspension of hedge accounting

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

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

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

i) Inventories

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

j) Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

k) Leases

The Company as lessee

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

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

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

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

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

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

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

The Company as lessor

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

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

l) Intangible assets

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

Intangible assets are classified as follows:

i. Indefinite useful life

These intangible assets are not amortized and are subject to annual impairment assessment. As of December 31, 2020, 2019 and 2018, no factors have been identified limiting the life of these intangible assets.

ii. Finite useful life

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

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

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

Development costs

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

Licenses

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

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

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

Software development

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

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

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

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

m) Goodwill

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

n) Impairment of non-financial assets

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

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

o) Income tax

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

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

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

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

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

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

p) Employee benefits

i. Pension plans

Defined contribution plans:

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

Defined benefit plans:

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

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

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

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

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

ii. Post-employment medical benefits

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

iii. Termination benefits

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

iv. Short-term benefits

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

v. Employee participation in profit and bonuses

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

q) Provisions

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

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

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

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

r) Share based payment

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

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

s) Treasury shares

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

t) Capital stock

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

u) Comprehensive income

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

v) Segment reporting

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

w) Revenue recognition

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

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

i. Revenue from the sale of goods and products

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

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

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

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

x) Earnings per share

Earnings per share are calculated by dividing the profit attributable to the stockholders of the controlling interest by the weighted average number of common shares outstanding during the year. As of December 31, 2020, 2019 and 2018, there are no dilutive effects from financial instruments potentially convertible into shares.

y) Changes in accounting policies and disclosures

i. New standards and changes adopted by the Company.

In the current year, the Company has applied a number of new and amended IFRS and interpretations issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2020. The conclusions related to their adoption are described as follows:

Amendments to IFRS 16, Rent Concessions Related to COVID-19

The amendments introduce a practical expedient that provides lessees the option not to assess whether a rent concession that meets certain conditions is a lease modification. The practical expedient is applicable to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

a) The change in the lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
b) Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
c) There is no substantive change to other terms and conditions of the lease.

The Company determined that the impacts due to the implementation of these amendments in its consolidated financial statements were not significant, as only one of its subsidiaries received rental concessions related to COVID-19. Its accounting treatment was aligned with the practical expedient previously described.

Additionally, the Company adopted the following amendments, which did not have any effects on the consolidated financial statements in the current year:

- Amendments to IAS 1 and IAS 8, Definition of Materiality
- Amendments to IFRS 3, Definition of a Business
- Amendments to IFRS 4, Insurance Contracts in the application of IFRS 9, Financial Instruments
- Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform
- Amendments to the IFRS's conceptual framework

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

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

- Amendments to IAS 1, Classification of Liabilities as Current or Non-current (2)
- Amendments to IAS 16, Property, Plant and Equipment Proceeds before Intended Use (1)
- Amendments to IAS 37, Cost of Fulfilling an Onerous Contract (1)
- Amendments to IFRS 9, Financial Instruments (1)
- IFRS 17, Insurance Contracts (2)

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

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

Additionally, the Company is continuously monitoring the progress of the reference interest rate reform project that modifies the regulations as mentioned below:

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

Interbank benchmark rates such as LIBOR, EURIBOR and TIBOR, which represent the cost of obtaining unsecured funds, have been questioned about their viability as long-term financing benchmarks. The changes in the reform to the reference interest rates in its phase 2 refer to the modifications of financial assets, financial liabilities and lease liabilities, requirements for accounting coverage and disclosure of financial instruments. These improvements are effective as of January 1, 2021 with retrospective application, without the need to redo the comparative periods.

Regarding the modification of financial assets, financial liabilities and lease liabilities, the IASB introduced a practical expedient that involves updating the effective interest rate.

On the other hand, regarding hedge accounting, the hedge relationships and documentation must reflect the modifications to the hedged item, the hedging instrument and the risk to be hedged. Hedging relationships must meet all criteria for applying hedge accounting, including effectiveness requirements.

Finally, regarding disclosures, entities should disclose how they are managing the transition to alternative reference rates and the risks that may arise from the transition; in addition, they must include quantitative information on financial assets and non-derivative financial liabilities, as well as non-derivative financial instruments, that continue under the reference rates subject to the reform and the changes that have arisen to the risk management strategy.

The Company is in the process of evaluating the impacts arising from the application of these amendments.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

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

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

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

Maximum coverage (as a percentage of the projected exposure)

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

Capital management

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

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

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

The financial ratio of total liabilities/total equity was 1.34, 1.28 and 1.77 as of December 31, 2020, 2019 and 2018, respectively, resulting in a leverage ratio that meets the Company's management and risk policies.

Financial instruments by category

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

As of December 31, 2020, 2019 and 2018, financial assets and liabilities consist of the following:

	As of December 31,		
	2020	2019	2018
Cash and cash equivalents	$ 10,144	$ 7,059	$ 4,168
Restricted cash	12	216	3
Financial assets measured at amortized cost:			
Trade and other accounts receivable	12,726	12,046	17,287
Other non-current assets	4,518	4,806	5,372
Financial assets measured at fair value through profit or loss			
Derivate financial instruments(1)	524	77	30
	$ 27,924	$ 24,204	$ 26,860
Financial liabilities measured at amortized cost:			
Debt	$ 30,652	$ 28,810	$ 40,130
Trade and other accounts payable	17,991	14,955	24,217
Lease liability	3,010	3,368	-
Financial liabilities measured at fair value:			
Derivative financial instruments(1)	66	532	1,330
	$ 51,719	$ 47,665	$ 65,677

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

Fair value of financial assets and liabilities valued at amortized cost

The amount of cash and cash equivalents, restricted cash, trade and other accounts receivable, other current assets, trade and other accounts payable, current debt and other current liabilities approximate their fair value, due to their short maturity. The net carrying amount of these accounts represents the expected cash flows to be received as of December 31, 2020, 2019 and 2018.

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

	As of December 31, 2020		As of December 31, 2019		As of December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:						
Non-current accounts receivable	$ 3,942	$ 3,941	$ 4,127	$ 4,121	$ 4,756	$ 4,745
Financial liabilities:						
Non-current debt	30,335	32,701	28,261	29,529	30,317	30,211

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

The estimated fair values as of December 31, 2020, 2019 and 2018 were determined based on discounted cash flows and with reference to the yields at the closing of the debt securities, using rates reflecting a similar credit risk, depending on the currency, maturity period and country where the debt was acquired. The primary rates used are the Interbank Equilibrium Interest Rate ("TIIE" for its acronym in Spanish) for instruments in Mexican pesos and London Interbank Offer Rate ("LIBOR") for instruments in U.S. dollars. Measurement at fair value for non-current accounts receivable is deemed within Level 3 of the fair value hierarchy, while, for the financial debt, the measurement at fair value is deemed within Levels 1 and 2 of the hierarchy, as described herein below.

Market risks

(i) Exchange rate risk

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

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

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

The Company has the following assets and liabilities in foreign currency in relation to the functional currency of the subsidiary entities, translated to millions of Mexican pesos at the closing exchange rate as of December 31, 2020:

	MXN	USD	EUR
Financial assets	$ 13,045	$ 26,960	$ 906
Financial liabilities	13,197	34,840	260
Foreign exchange financial position	$ (152)	$ (7,880)	$ 646

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

Based on the financial positions in foreign currency maintained by the Company, a hypothetical variation of 10% in the MXN/USD and MXN/EUR exchange rate and keeping all other variables constant, would result in an effect of $739 on the consolidated statement of income and stockholders' equity.

Financial instruments to hedge net investments in foreign transactions

Beginning March 1, 2018, the Company designated certain non-current debt instruments as hedging instruments to net investments in foreign transactions, in order to mitigate the variations in exchange rates arising between the functional currency for such transactions and the functional currency of the holding or sub-holding company that maintains these investments.

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

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

As of December 31, 2020, 2019 and 2018, Alpek maintains the following hedging relationships:

As of December 31, 2020

Holding	Functional Currency	Hedging Instrument	Notional Value	Hedged Item	Net assets of the hedged item
Alpek SAB	MXN	Senior Notes 144A fixed rate	US$ 72	Indelpro	US$ 232
		Senior Notes 144A fixed rate	267	Temex	69
		Senior Notes 144A fixed rate	22	Dak Americas Ms	223
				Dak Resinas Americas	98
				Akra Polyester	159
			US$ 361		US$ 781

As of December 31, 2019

Holding	Functional Currency	Hedging Instrument	Notional Value	Hedged Item	Net assets of the hedged item
Alpek SAB	MXN	Senior Notes 144A fixed rate	US$ 72	Indelpro	US$ 215
		Senior Notes 144A fixed rate	210	Temex	78
		Senior Notes 144A fixed rate	22	Dak Americas Ms	196
				Dak Resinas Americas	129
				Akra Polyester	203
			US$ 304		US$ 821

As of December 31, 2018

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

For the years ended December 31, 2020 and 2019, and from the date of designation until December 31, 2018, the Company's average hedging ratio amounted to 49.5%, 59.3% and 55.2%, respectively. Therefore, the exchange rate fluctuation generated by the hedging instruments for the years ended December 31, 2020 and 2019 and from the date of designation until December 31, 2018 amounted to a net (loss) income of $(403), $264, and $(324), respectively, which was recognized in other comprehensive income, offsetting the translation effect generated by each foreign investment. The hedging effectiveness results confirm that the hedging relationships are highly effective due to the economic relationship between the hedging instrument and the hedged items.

Derivative financial instruments to hedge exchange rate risks

As of December 31, 2020, 2019 and 2018, the Company holds forwards (EUR/USD) to hedge different needs. For 2018, the Company also held forwards (USD/MXN). In the case of the USD/MXN ratio, the Company sought to cover short-term needs, which correspond to the sale of U.S. dollars for the purchase of raw materials in Mexican pesos. In 2019, the EUR/USD forwards were used to hedge revenues received in Euros in an entity with a functional currency of USD, for which a highly probable transaction related to income received in foreign currency (euros) was documented. For 2020, a similar strategy was carried out with these instruments, but now these forwards are mirrored to an entity with the functional currency of pound sterling (GBP), because part of its revenue is received in euros and part of its purchases are made in US dollars. Therefore, a highly probable forecasted transaction related to budgeted sales and purchases in each corresponding currency has been documented as a hedged item.

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

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

As of December 31, 2020

Characteristics	**Forwards EUR/USD**
Currency	EUR
Notional amount	39.9
Strike (average)	1.2169 EUR/USD
Maturity	Monthly through December 30, 2022
Carrying amount	$ (11.9)
Change in the fair value to measure ineffectiveness	(11.9)
Reclassification from OCI to profit or loss	–
Recognized in OCI, net of reclassifications	(11.9)
Change in the fair value of the hedged item to measure ineffectiveness	11.9
Change in the fair value of the forward	(13.3)

As of December 31, 2019

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

As of December 31, 2018

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

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

As of December 31, 2019, the prospective effectiveness test for the EUR/USD exchange rate resulted in 100%, confirming that there is an economic relationship between the hedging instruments and the hedged items. The effectiveness result for the USD/MXN exchange rate in 2018 was 100%. The method used by the Company to evaluate effectiveness is a qualitative evaluation comparing the key terms of the hedging instrument and the hedged item.

In accordance with the reference amounts described and the way in which the flows of the derivatives are exchanged, the average coverage ratio for the EUR/USD exchange rate for 2020, 2019 and 2018 is 100%, 86% and 86%, respectively. If necessary, a rebalancing will be done to maintain this relationship for the strategy. As of December 31, 2018, the average coverage ratio was 77% for the USD/MXN exchange ratio.

The source of ineffectiveness may be caused by the difference in the settlement date of the derivative and the hedged item, and that the expected amount becomes a lower amount than the hedging instruments, as well as the credit risk. For the years ended December 31, 2020, 2019 and 2018, no ineffectiveness was recognized in profit or loss.

(ii) Price risk

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

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

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

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

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

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

The Company entered into various derivative agreements with various counterparties to protect it against increases in prices of natural gas and other raw materials. In the case of natural gas derivatives, hedging strategies for products were designed to mitigate the impact of potential increases in prices. The purpose is to protect the price from volatility by taking positions that provide stable cash flow expectations, and thus avoid price uncertainty. The reference market price for natural gas is the Henry Hub New York Mercantile Exchange (NYMEX). The average price per MMBTU for 2020, 2019 and 2018 was $2.0, $2.6 and $3.2 US dollars, respectively.

As of December 31, 2020, 2019 and 2018, the Company had hedges of natural gas prices for a portion expected of consumption needs in Mexico and the United States.

Derivative contracts to hedge adverse changes in commodity prices

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

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

As of December 31, 2020

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

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

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

As of December 31, 2019

Characteristics	Natural Gas Swaps	Paraxylene Swaps	PTA Swaps	Ethylene Swaps	MEG Swaps	Ethane Swaps
Total notional	7,800,000	327,250	22,500	110,000,000	58,000	9,400,000
Units	MMBtu	MT	MT	Lb	MT	gal
Price received	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value
Price paid (average)	$4.35/MMBtu	$856/MT	$627/MT	$0.17/lb	$564/MT	$0.22/gal
Maturity (monthly)	December 2020	December 2020	December 2020	December 2020	December 2020	December 2020
Net position of the swap (1)	$(302.2)	$(154.6)	$8.3	$(4.1)	$4.5	$(9.0)
Ineffectiveness recognized in the statement of income	-	-	-	-	-	-
Change in the fair value to measure ineffectiveness	(302)	(181)	38	(14)	2	(8)
Reclassification from OCI to profit or loss	-	(120)	-	(6)	(3)	(2)
Balance recognized in OCI, net of reclassifications	(302)	(34)	8	(2)	8	(7)
Effectiveness test results	99.98%	99.97%	99.97%	99.93%	99.96%	99.95%

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

As of December 31, 2018

Characteristics	Natural Gas Swaps	Paraxylene Swaps	Naphtha Swaps	Ethylene Swaps	MEG Swaps	Ethane Swaps
Total notional	17,288,760	297,200	10,500	118,000,000	33,500	10,200,000
Units	MMBtu	MT	MT	Lb	MT	gal
Price received	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value
Price paid (average)	$4.35 USD/MMBtu	$1,057/MT	$459/MT	$0.21/lb	$741/MT	$0.32/gal
Maturity (monthly)	December 2024	December 2019	September 2019	December 2019	December 2019	December 2019
Net position of the swap (1)	$ (478)	$ (710)	$ (3)	$ (12)	$ (70)	$ (2)
Ineffectiveness recognized in the statement of income	-	-	-	-	-	-
Change in the fair value to measure ineffectiveness	200	(803)	(3)	(28)	(70)	(2)
Balance recognized in OCI, net of reclassifications	(478)	(710)	(3)	(12)	(70)	(2)
Effectiveness test results	99.00%	99.82%	99.82%	99.60%	99.59%	99.59%

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

The change in the fair value of the derivative financial instruments recognized in OCI for the year ended December 31, 2020, 2019 and 2018 is $885, $998 and $(721), respectively.

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

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

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

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

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

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

As of December 31, 2020, according to the reference amounts described and the way in which the flows of the derivatives are exchanged, the average coverage ratio for the natural gas, paraxylene, ethylene and ethane, pta and pet for 2020, 2019 and 2018 are shown below and, if necessary, a rebalancing will be done to maintain this relationship for the strategy.

Average coverage ratio	2020	2019	2018
Natural gas	6%	40%	30%
Paraxylene	54%	79%	72%
Ethylene	58%	54%	44%
Ethane	2%	2%	33%
Terephthalic acid (PTA)	5%	5%	–
PET	0.2%	–	–

The source of ineffectiveness can be caused mainly by the difference in the settlement date of the hedging instruments and the hedged items, and that the budget becomes less than the hedging instruments. For the years ended December 31, 2020, 2019 and 2018, there was no ineffectiveness recognized in profit or loss.

(iii) Interest rate risk

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

As of December 31, 2020, 95% of the financing is denominated at a fixed rate, and 5% at a variable rate.

As of December 31, 2020, if interest rates on variable rate loans are increased or decreased by 100 basis points in relation to the rate in effect, the income and stockholders' equity of the Company would change by $14.

Derivative financial instruments to hedge interest rate risks

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

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

As of December 31, 2018

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

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

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

Credit risk

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

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

Individual risk limits are determined based on internal and external ratings in accordance with limits set by the Board of Directors. The use of credit risk is monitored regularly. Sales to retail customers are in cash or by credit card. During the years ended December 31, 2020, 2019 and 2018, credit limits were not exceeded.

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

During the year ended December 31, 2020, there have been no changes in the techniques of estimation or assumption.

Liquidity risk

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

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

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

	Less than a year	From 1 to 5 years	More than 5 years
As of December 31, 2020			
Suppliers and other accounts payable	$ 17,991	$ –	$ –
Current and non-current debt (excluding debt issuance costs)	1,508	23,252	11,796
Derivative financial instruments	66	–	–
As of December 31, 2019			
Suppliers and other accounts payable	$ 14,955	$ –	$ –
Current and non-current debt (excluding debt issuance costs)	1,700	22,370	11,541
Derivative financial instruments	528	4	–
As of December 31, 2018			
Suppliers and other accounts payable	$ 24,217	$ –	$ –
Current and non-current debt (excluding debt issuance costs)	11,333	34,082	–
Derivative financial instruments	1,047	283	–

Fair value hierarchy

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

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

The derivative financial instruments of the Company that are measured at fair value as of December 31, 2020, 2019 and 2018, are located within level 2 of the fair value hierarchy.

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

The specific valuation techniques used to value financial instruments include:

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

5.1 Critical accounting estimates and assumptions.

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

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

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

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

b) Recoverability of deferred tax assets

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

c) Long-lived assets

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

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

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

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

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

e) Business combinations

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

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

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

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

The Company uses a three-tier model, with which it determines the three elements that make up the discount rate: (i) reference rate, (ii) credit risk component and (iii) adjustment for characteristics of the underlying asset. In this model, management also considers its policies and practices to obtain financing, distinguishing between that obtained at the corporate level (that is, by the parent), or at the level of each subsidiary. Finally, for real estate leases, or, in which there is significant and observable evidence of the residual value, the Company estimates and evaluates an adjustment for characteristics of the underlying asset, taking into account the possibility that said asset is granted as collateral or guarantee against the risk of default.

g) Estimation of the lease term

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

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

5.2 Critical judgments in applying the entity's accounting policies

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

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

b) Acquisitions of assets and business combinations

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

6. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

The cash and cash equivalents are comprised as follows:

	As of December 31,		
	2020	**2019**	**2018**
Cash on hand and in banks	$ 7,016	$ 5,413	$ 1,559
Short-term bank deposits	3,128	1,646	2,609
Total cash and cash equivalents	$ 10,144	$ 7,059	$ 4,168

Restricted cash

At December 31, 2020, 2019 and 2018, the Company has restricted cash of approximately $12, $216 and $3, respectively. As of December 31, 2020, the decrease in the balance as compared to the prior year is due to the fact that during 2019, the Company entered into an agreement in which it committed to hold restricted cash for the acquisition of machinery and equipment; during 2020 such machinery and equipment were acquired and the majority of the funds subject of this agreement were released. The restricted cash balance is classified as a current asset in the consolidated statement of financial position based on the maturity date of the restriction.

7. TRADE AND OTHER RECEIVABLES, NET

Trade and other accounts receivable are comprised as follows:

	As of December 31,		
	2020	**2019**	**2018**
Trade accounts receivable	$ 13,985	$ 12,751	$ 18,139
Trade and other accounts receivable from related parties (Note 28)	588	585	712
Recoverable taxes	4,324	4,462	4,647
Notes receivable	532	485	506
Interest receivable	1	200	16
Sundry debtors	334	511	473
Allowance for impairment of trade and other accounts receivable	(2,714)	(2,486)	(2,559)
Current portion	$ 17,050	$ 16,508	$ 21,934

The changes in the impairment allowance for trade and other receivables in 2020, 2019 and 2018, with the new expected losses model used by the Company, are as follows:

For the year ended December 31, 2020

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

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

For the year ended December 31, 2019

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

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

For the year ended December 31, 2018

Customers or customer groups	Default probability range	Loss given default range	Opening balance – Impairment allowance[1]	Increases in the allowance	Cancellations in the allowance	Translation effect	Ending balance – Impairment allowance
Grupo Petrotemex [1]	0% – 0.24%	10.30% – 35.00%	$ (2,352)	$ (107)	$ 39	$ (3)	$ (2,423)
Grupo Unimor	3.15%	50.00%	–	–	–	–	–
Grupo Styropek [1]	0% – 100%	0% – 92.05%	–	(36)	–	(1)	(37)
Polioles	0.01% – 0.14%	0% – 10.00%	(24)	(1)	–	–	(25)
Indelpro and other	1.68%	1.92%	(61)	(14)	1	–	(74)
Total			$ (2,437)	$ (158)	$ 40	$ (4)	$ (2,559)

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

As of December 31, 2020, 2019 and 2018, the Company has guaranteed accounts receivable of $2,184, $1,635 and $2,158, respectively.

The net change in the allowance for impairment of trade and other receivables for $228 for the year ended December 31, 2020, was mainly due to the increase in the default probability in some customer groups, as well as the translation effect. For its part, the variation in the allowance for impairment of trade and other receivables of $(73) for the year ended December 31, 2019, was mainly due to the decrease in the probability of default allocated to certain customers with respect to the beginning of the year. The variation in the allowance for impairment of trade and other receivables of $102 for the year ended December 31, 2018, was mainly due to the increase in the probability of default allocated to certain customers with respect to the beginning of the year in which the new methodology for impairment of financial assets was applied.

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

8. INVENTORIES

	As of December 31,		
	2020	2019	2018
Finished good	$ 8,189	$ 10,203	$ 13,632
Raw material and other consumables	6,896	5,606	8,916
Materials and tools	1,912	1,637	1,423
Production in progress	450	520	540
	$ 17,447	$ 17,966	$ 24,511

For the years ended December 31, 2020, 2019 and 2018, a provision amounting to $72, $17 and $15, respectively, related to damaged, slow-moving and obsolete inventory was recognized in the consolidated statement of income.

At December 31, 2020, 2019 and 2018, there were no inventories pledged as collateral.

9. PREPAYMENTS

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

	As of December 31,		
	2020	2019	2018
Current portion [1]	$ 442	$ 1,785	$ 469
Non-current portion	15	16	38
Total prepayments	$ 457	$ 1,801	$ 507

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

ALPEK, S. A. B. DE C. V. AND SUBSIDIARIES (SUBSIDIARY OF ALFA, S. A. B. DE C. V.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT, NET

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Furniture, lab and information technology equipment	Construction in progress	Other fixed assets	Total
For the year ended December 31, 2018								
Opening balance	$ 3,494	$ 4,616	$ 23,998	$ 62	$ 273	$ 8,114	$ 978	$ 41,535
Additions	–	2	71	2	4	2,584	26	2,689
Additions for business acquisitions	369	2,592	3,249	–	64	386	–	6,660
Disposals	(11)	–	(35)	(3)	–	(339)	(4)	(392)
Impairment	–	(1)	(16)	–	–	(318)	–	(335)
Restatement and translation effect	(14)	(203)	(160)	(3)	1	(50)	1	(428)
Depreciation charges recognized in the year	–	(390)	(2,052)	(15)	(85)	–	–	(2,542)
Transfers	–	268	1,177	16	93	(1,708)	–	(154)
Ending balance as of December 31, 2018	3,838	6,884	26,232	59	350	8,669	1,001	47,033
As of December 31, 2018								
Cost	3,838	18,003	73,914	328	1,914	8,669	1,001	107,667
Accumulated depreciation	–	(11,119)	(47,682)	(269)	(1,564)	–	–	(60,634)
Net carrying amount as of December 31, 2018	$ 3,838	$ 6,884	$ 26,232	$ 59	$ 350	$ 8,669	$ 1,001	$ 47,033
For the year ended December 31, 2019								
Opening balance	$ 3,838	$ 6,884	$ 26,232	$ 59	$ 350	$ 8,669	$ 1,001	$ 47,033
Additions	–	–	9	–	1	3,234	121	3,365
Additions for business acquisitions	3	122	444	1	4	6	–	580
Disposals	–	(1)	(59)	–	(1)	(4)	(6)	(71)
Disposals for sale of subsidiary	(18)	(1,083)	(7,736)	–	(3)	(250)	–	(9,090)
Impairment	–	(23)	(6)	–	–	–	–	(29)
Restatement and translation effect	(91)	(318)	(1,105)	(4)	(23)	(148)	(51)	(1,740)
Depreciation charges recognized in the year	–	(279)	(2,440)	(13)	(84)	–	–	(2,816)
Transfers	–	508	7,752	15	87	(8,670)	158	(150)
Ending balance as of December 31, 2019	$ 3,732	$ 5,810	$ 23,091	$ 58	$ 331	$ 2,837	$ 1,223	$ 37,082
As of December 31, 2019								
Cost	3,732	16,724	70,632	323	1,881	2,837	1,223	97,352
Accumulated depreciation	–	(10,914)	(47,541)	(265)	(1,550)	–	–	(60,270)
Net carrying amount as of December 31, 2019	$ 3,732	$ 5,810	$ 23,091	$ 58	$ 331	$ 2,837	$ 1,223	$ 37,082
For the year ended December 31, 2020								
Opening balance	$ 3,732	$ 5,810	$ 23,091	$ 58	$ 331	$ 2,837	$ 1,223	$ 37,082
Additions	4	1	8	1	2	2,506	143	2,665
Additions for business acquisitions	159	5	1,039	–	3	158	–	1,364
Disposals	–	(1)	(52)	(1)	(1)	(29)	(23)	(107)
Impairment	–	(11)	(2)	–	–	(2)	–	(15)
Restatement and translation effect	61	(138)	897	7	32	(123)	24	760
Depreciation charges recognized in the year	–	(315)	(2,710)	(17)	(92)	–	–	(3,134)
Transfers	–	93	1,617	64	118	(1,933)	5	(36)
Ending balance as of December 31, 2020	$ 3,956	$ 5,444	$ 23,888	$ 112	$ 393	$ 3,414	$ 1,372	$ 38,579
As of December 31, 2020								
Cost	3,956	16,854	78,944	379	2,103	3,414	1,372	107,022
Accumulated depreciation	–	(11,410)	(55,056)	(267)	(1,710)	–	–	(68,443)
Net carrying amount as of December 31, 2020	$ 3,956	$ 5,444	$ 23,888	$ 112	$ 393	$ 3,414	$ 1,372	$ 38,579

Depreciation expenses of $3,075, $2,742 and $2,483 were recorded in cost of sales, $16, $31 and $13, in selling expenses and $43, $43 and $46, in administrative expenses in 2020, 2019 and 2018, respectively. The Company has capitalized costs of loans on qualified assets for $182 and $314 for the years ended December 31, 2019 and 2018, respectively. Costs from loans were capitalized at the weighted average borrowing rate of approximately 4.8% and 5.4%, respectively.

11. RIGHT-OF-USE ASSET, NET

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

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

	Land	Buildings	Machinery and equipment	Rail cars	Ships and other leased assets	Total
Net book value:						
Balance as of December 31, 2019	$ 104	$ 176	$ 1,011	$ 1,975	$ 171	$ 3,437
Balance as of December 31, 2020	$ 110	$ 124	$ 790	$ 1,924	$ 43	$ 2,991
Depreciation for the year 2019	$ (6)	$ (46)	$ (260)	$ (409)	$ (113)	$ (834)
Depreciation for the year 2020	$ (8)	$ (46)	$ (303)	$ (470)	$ (151)	$ (978)

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

Additions derived from new contracts and modifications to the lease liability, reflected in the net book value of the right of use asset as of December 31, 2020 and 2019 amounted to $486 (of which $39 are related to business acquisitions) and $1,226, respectively.

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

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

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

12. GOODWILL AND INTANGIBLE ASSETS, NET

	Definite life						Indefinite life		
Cost	**Development costs**	**Non-competence agreements**	**Customer relationships**	**Software and licenses**	**Trademarks with definite life**	**Intellectual property, and others**	**Goodwill**	**Other**	**Total**
As of January 1, 2018	$ 910	$ 106	$ 751	$ 263	$ –	$ 3,765	$ 339	$ 14	$ 6,148
Additions	11	–	–	19	–	239	–	14	283
Additions for business acquisitions	–		384	289	–	–	–	–	673
Translation effect	(3)	(18)	(15)	(16)	–	(8)	(1)	2	(59)
As of December 31, 2018	$ 918	$ 88	$ 1,120	$ 555	$ –	$ 3,996	$ 338	$ 30	$ 7,045
Additions	8	–	–	69	–	4	–	3	84
Additions for business acquisitions	–	–	–	–	69	–	53	–	122
Disposals for sale of subsidiary	–	–	–	–	–	(296)	–	–	(296)
Transfers	–	–	–	7	–	22	–	(22)	7
Translation effect	(39)	(7)	(61)	(27)	(1)	(158)	(14)	(2)	(309)
As of December 31, 2019	$ 887	$ 81	$ 1,059	$ 604	$ 68	$ 3,568	$ 377	$ 9	$ 6,653
Additions	12	–	–	70	–	4	–	–	86
Additions for business acquisitions	–	–	–	6	–	–	–	–	6
Disposals	–	–	–	–	–	(1)	–	–	(1)
Transfers	1	–	–	(157)	160	–	–	–	4
Translation effect	50	(2)	(27)	(22)	(13)	188	22	1	197
As of December 31, 2020	$ 950	$ 79	$ 1,032	$ 501	$ 215	$ 3,759	$ 399	$ 10	$ 6,945
Amortization									
As of January 1, 2019	$ (531)	$ (82)	$ (444)	$ (418)	$ –	$ (1,202)	$ –	$ –	$ (2,677)
Amortization	(23)	(6)	(62)	(42)	(4)	(218)	–	–	(355)
Disposals for sale of subsidiary	–	–	–	–	–	31	–	–	31
Translation effect	23	7	22	25	–	54	–	–	131
As of December 31, 2019	$ (531)	$ (81)	$ (484)	$ (435)	$ (4)	$ (1,335)	$ –	$ –	$ (2,870)
Amortization	(26)	–	(63)	(49)	(5)	(231)	–	–	(374)
Additions for business acquisitions	–	–	–	(6)	–	–	–	–	(6)
Transfers	–	–	–	160	(160)	–	–	–	–
Translation effect	(29)	2	(14)	25	17	(59)	–	–	(58)
As of December 31, 2020	$ (586)	$ (79)	$ (561)	$ (305)	$ (152)	$ (1,625)	$ –	$ –	$ (3,308)
Net carrying amount									
Cost	$ 918	$ 88	$ 1,120	$ 555	$ –	$ 3,996	$ 338	$ 30	$ 7,045
Amortization	(531)	(82)	(444)	(418)	–	(1,202)	–	–	(2,677)
As of December 31, 2018	$ 387	$ 6	$ 676	$ 137	$ –	$ 2,794	$ 338	$ 30	$ 4,368
Cost	$ 887	$ 81	$ 1,059	$ 604	$ 68	$ 3,568	$ 377	$ 9	$ 6,653
Amortization	(531)	(81)	(484)	(435)	(4)	(1,335)	–	–	(2,870)
As of December 31, 2019	$ 356	$ –	$ 575	$ 169	$ 64	$ 2,233	$ 377	$ 9	$ 3,783
Cost	950	79	1,032	501	215	3,759	399	10	6,945
Amortization	(586)	(79)	(561)	(305)	(152)	(1,625)	–	–	(3,308)
As of December 31, 2020	$ 364	$ –	$ 471	$ 196	$ 63	$ 2,134	$ 399	$ 10	$ 3,637

Of the total amortization expense, $363, $345 and $326 have been recorded in cost of sales and $11, $9 and $17 in administrative expenses in 2020, 2019 and 2018, respectively.

Incurred research and development expenses that have been recorded in the 2020, 2019 and 2018 consolidated statements of income were $74, $40 and $53, respectively.

Impairment testing of goodwill and indefinite lived intangible assets
As mentioned in note 5, goodwill is allocated to operating segments that are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units or groups of units. As of December 31, 2020, 2019 and 2018, goodwill of $399, $377 and $338, respectively, arises primarily from the Polyester segment.

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

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

The Company performed a sensitivity analysis considering a possible increase of 100 basis points in the discount rate and a possible decrease in the long-term growth rate at a similar level. As a result of this analysis, the Company concluded that there are no significant variations compared to the impairment calculation prepared as of December 31, 2020.

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

	2020	2019	2018
Estimated gross margin	5.0%	5.2%	5.7%
Growth rate	2.0%	1.8%	1.0%
Discount rate	8.4%	8.9%	8.9%

13. OTHER NON-CURRENT ASSETS

	As of December 31,		
	2020	2019	2018
Notes receivable [1]	$ 3,119	$ 3,365	$ 3,995
Due from related parties (Note 28)	823	762	761
Trade receivables related with business acquisitions	576	679	616
Total other non-current financial assets	$ 4,518	$ 4,806	$ 5,372
Investment in associates and joint ventures [2]	8,586	8,197	8,746
Recoverable taxes	724	582	1,736
Other	178	176	105
Total other assets	$ 14,006	$ 13,761	$ 15,959

(1) As of December 31, 2020, 2019 and 2018, this item mainly consisted of the financing provided to M&G Polímeros México, S.A. de C.V.

(2) Investment in associates and joint ventures

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

	Shareholding %	2020	2019	2018
Clear Path Recycling, LLC	49.90%	$ 246	$ 257	$ 305
Terminal Petroquímica Altamira, S.A. de C.V.	42.04%	42	40	35
Agua Industrial del Poniente, S.A. de C.V.	47.59%	76	71	66
Corpus Christi Polymers LLC	33.33%	8,222	7,774	8,104
Investment in associates and joint ventures as of December 31		$ 8,586	$ 8,142	$ 8,510

Additionally, as of December 31, 2019 and 2018, the Company held a 50% interest in Galpek, LDA with a book value of $55 and $236, respectively.

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

	2020	2019	2018
Net comprehensive loss	$ (12)	$ (740)	$ (61)

There are neither commitments nor contingencies liabilities regarding the Company's investment in associates and joint ventures as of December 31, 2020, 2019 or 2018.

14. SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTEREST

The significant non-controlling interest is integrated as follows:

	Non-controlling ownership percentage	Non-controlling interest income for the period			Non-controlling interest as of December 31,		
		2020	2019	2018	2020	2019	2018
Indelpro, S. A. de C. V. and subsidiary	49%	$ 981	$ 890	$ 1,138	$ 4,453	$ 3,902	$ 4,135
Polioles, S. A. de C. V. and subsidiary	50%	30	49	38	319	279	294
Other		(13)	(20)	125	354	397	607
		$ 998	$ 919	$ 1,301	$ 5,126	$ 4,578	$ 5,036

The summarized consolidated financial information as of December 31, 2020, 2019 and 2018, and for the years then ended, corresponding to each subsidiary with a significant non-controlling interest is shown below:

	Indelpro, S. A. de C. V. and subsidiary			Polioles, S. A. de C. V. and subsidiary		
	2020	**2019**	**2018**	**2020**	**2019**	**2018**
Statement of financial position						
Current assets	$ 5,238	$ 4,114	$ 5,076	$ 1,325	$ 1,317	$ 1,775
Non-current assets	8,055	7,536	7,458	959	974	1,005
Current liabilities	2,223	1,723	2,230	521	538	824
Non-current liabilities	1,982	1,965	1,865	1,124	1,195	1,369
Stockholders' equity	9,088	7,962	8,439	639	558	587
Statements of income						
Revenues	11,841	12,019	14,494	2,409	3,087	3,736
Consolidated net income	2,003	1,817	2,323	59	97	76
Total comprehensive income of the year	2,493	1,472	2,239	81	46	63
Comprehensive income attributable to non-controlling interest	1,222	721	1,097	40	23	32
Dividends paid to non-controlling interest	670	955	902	-	38	79
Statements of cash flows						
Net cash flows generated by operating activities	2,423	2,100	3,232	196	74	129
Net cash flows (used in) generated by investing activities	(572)	(259)	(286)	(26)	200	363
Net cash flows used in financing activities	(1,645)	(2,187)	(2,273)	(123)	(268)	(418)
Net increase (decrease) in cash and cash equivalents	365	(351)	611	28	1	89

15. TRADE AND OTHER ACCOUNTS PAYABLE

	As of December 31,		
	2020	**2019**	**2018**
Trade accounts payable	$ 16,173	$ 13,064	$ 22,330
Short-term employee benefits	984	554	889
Advances from customers	117	17	18
Taxes other than income taxes	453	929	927
Due to related parties (Note 28)	286	247	392
Other accrued accounts and expenses payable	1,532	1,644	1,495
	$ 19,545	$ 16,455	$ 26,051

ALPEK, S. A. B. DE C. V. AND SUBSIDIARIES (SUBSIDIARY OF ALFA, S. A. B. DE C. V.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. DEBT

	As of December 31, 2020	2019	2018
Current:			
Bank loans [1]	$ 98	$ 375	$ 9,588
Current portion of non-current debt	–	5	213
Notes payable [1]	42	27	43
Interest payable	316	300	274
Current debt [2]	$ 456	$ 707	$ 10,118
Non-current:			
Senior Notes	$ 29,061	$ 27,426	$ 18,777
Unsecured bank loans	1,300	836	11,707
Other loans	150	142	–
Total	30,511	28,404	30,484
Less: current portion of non-current debt	–	(5)	(213)
Less: interest generated by non-current debt	(315)	(296)	(259)
Non-current debt [2]	$ 30,196	$ 28,103	$ 30,012

(1) As of December 31, 2020, 2019 and 2018, short-term bank loans and notes payable incurred interest at an average rate of 1.87%, 4.19% and 3.55%, respectively.

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

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

Description	Currency	Value in MXN	Debt issuance costs	Interest payable	Balance as of December 31, 2020	Balance as of December 31, de 2019[1]	Balance as of December 31, de 2018[1]	Maturity date	Interest rate
Senior Notes 144A/Reg. S / fixed rate	USD	$ 12,953	$ (41)	$ 65	$ 12,977	$ 12,247	$ 12,778	20-nov-22	4.50%
Senior Notes 144A/Reg. S / fixed rate	USD	5,985	(22)	127	6,090	5,748	5,999	08-aug-23	5.38%
Senior Notes 144A/Reg. S / fixed rate	USD	9,950	(76)	120	9,994	9,431	–	18-sep-29	4.25%
Total Senior Notes		28,888	(139)	312	29,061	27,426	18,777		
Bank loan, BADLAR + 1.00%	ARS	–	–	–	–	2	20	01-apr-20	45.69%
Bank loan, fixed 25.00%	ARS	–	–	–	–	3	5	08-dec-20	25.00%
Bank loan, LIBOR +1.45%	USD	–	–	–	–	831	986	15-dec-22	3.34%
Bank loan, LIBOR +2.60%	USD	798	–	2	800	–	–	3-dec-24	2.83%
Bank loan, LIBOR +2.05%	USD	499	–	1	500	–	–	11-dec-24	2.27%
Bank loan, LIBOR +1.10% [2]	USD	–	–	–	–	–	1,982	30-nov-20	3.62%
Bank loan, LIBOR +1.10% [2]	USD	–	–	–	–	–	989	30-nov-20	3.55%
Bank loan, LIBOR +3.25% [2]	USD	–	–	–	–	–	1,989	25-oct-22	5.75%
Bank loan, LIBOR +1.25% [2]	USD	–	–	–	–	–	2,169	28-mar-21	4.03%
Bank loan, LIBOR +1.25% [2]	USD	–	–	–	–	–	3,567	28-mar-21	3.76%
Total unsecured bank loans		1,297	–	3	1,300	836	11,707		
Other loans	USD	150	–	–	150	142	–	Various	Various
Total		$ 30,335	$ (139)	$ 315	$ 30,511	$ 28,404	$30,484		
Less: current portion and interest of non-current debt		–	–	(315)	(315)	(301)	(472)		
Non-current debt		$ 30,335	$ (139)	$ –	$ 30,196	$ 28,103	$ 30,012		

(1) As of December 31, 2019 and 2018, issuance costs of the debt pending amortization were $153 and $92, respectively.

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

As of December 31, 2020, the annual maturities of non-current debt, gross from issuance costs are as follows:

	2021(1)	2022	2023	2024	2025 and thereafter	Total
Senior Notes	$ 312	$ 12,953	$ 5,985	$ –	$ 9,950	$ 29,200
Bank loans	3	–	–	1,297	–	1,300
Other loans	–	–	–	–	150	150
	$ 315	$ 12,953	$ 5,985	$ 1,297	$ 10,100	$ 30,650

(1) This amount corresponds to interest payable generated by non-current debt.

As of December 31, 2020, 2019 and 2018, the Company has committed unused lines of credit totaling US$680, US$740 and US$728, respectively.

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

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

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

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

17. LEASE LIABILITY

	As of December 31, 2020	2019
Current portion:		
USD	$ 454	$ 531
MXN	123	214
Other currencies	127	167
Current lease liability	$ 704	$ 912
Non-current portion:		
USD	$ 2,280	$ 2,387
MXN	288	405
Other currencies	442	576
	3,010	3,368
Less: Current portion of lease liability	(704)	(912)
Non-current lease liability	$ 2,306	$ 2,456

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

	2020	2019
Beginning balance	$ 3,368	$ 3,242
New contracts	420	1,226
Write-offs	(45)	(165)
Adjustment to liability balance	40	74
Interest expense from lease liability	193	205
Lease payments	(1,083)	(1,108)
Exchange (loss) gain	117	(106)
Ending balance	$ 3,010	$ 3,368

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

	December 31,	
	2020	2019
Less than a year	$ 704	$ 912
Over 1 year and less than 5 years	1,701	1,885
Over 5 years	605	571
Total	$ 3,010	$ 3,368

18. PROVISIONS

	Dismantling, demolition and environmental remediation	Legal contingencies	Warranties	Other	Total
As of January 1, 2018	$ 13	$ –	$ –	$ 167	$ 180
Increases	–	639	–	485	1,124
Payments	(4)	–	–	(56)	(60)
Write-offs	–	(18)	–	–	(18)
Translation effect	–	(1)	–	(37)	(38)
As of December 31, 2018	$ 9	$ 620	$ –	$ 559	$ 1,188
Increases	–	105	544	12	661
Payments	(3)	–	–	(28)	(31)
Write-offs	–	(13)	–	(27)	(40)
Translation effect	–	(50)	–	(74)	(124)
As of December 31, 2019	$ 6	$ 662	$ 544	$ 442	$ 1,654
Increases	183	12	–	15	210
Payments	(3)	–	(563)	(2)	(568)
Write-offs	–	–	(67)	(39)	(106)
Translation effect	1	(100)	124	(45)	(20)
As of December 31, 2020	$ 187	$ 574	$ 38	$ 371	$ 1,170

	2020	2019	2018
Short-term provisions	$ 50	$ 576	$ 81
Long-term provisions	1,120	1,078	1,107
As of December 31	$ 1,170	$ 1,654	$ 1,188

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

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

19. EMPLOYEE BENEFITS

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

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

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

	As of December 31,		
	2020	2019	2018
Employee benefit obligations:			
Pension benefits	$ 956	$ 766	$ 797
Post-employment medical benefits	105	106	120
	1,061	872	917
Defined contribution plans	255	220	182
Employee benefits in the consolidated statement of financial position	$ 1,316	$ 1,092	$ 1,099
Charge to the consolidated statement of income for:			
Pension benefits	$ (62)	$ (59)	$ (64)
Post-employment medical benefits	(5)	(6)	(6)
	$ (67)	$ (65)	$ (70)
Remeasurements of employee benefit obligations recognized in other comprehensive income of the year	$ (39)	$ 19	$ (73)
Remeasurements of accrued employee benefit obligations recognized in other comprehensive income	$ (124)	$ (85)	$ (104)

Pension and post-employment medical benefits

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

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

	As of December 31,		
	2020	**2019**	**2018**
Present value of defined benefit obligations	$ 4,455	$ 3,813	$ 3,672
Fair value of plan assets	(3,394)	(2,941)	(2,755)
Liability in the statement of financial position	$ 1,061	$ 872	$ 917

The movements of defined benefit obligations are as follows:

	2020	**2019**	**2018**
As of January 1,	$ 3,813	$ 3,672	$ 3,998
Service cost	50	45	45
Interest cost	107	127	145
Contributions from plan participants	6	10	11
Remeasurements:			
Losses (gains) from changes in financial assumptions	329	310	(191)
Losses (gains) from changes in demographic assumptions and experience adjustments	42	(89)	(7)
Translation effect	198	12	-
Benefits paid	(284)	(265)	(328)
Liability acquired in business combination	195	-	-
Plan curtailments	(1)	(9)	(1)
As of December 31,	$ 4,455	$ 3,813	$ 3,672

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

	2020	**2019**	**2018**
As of January 1	$ (2,940)	$ (2,755)	$ (3,097)
Interest income	(89)	(146)	(119)
Remeasurements – return on plan assets, excluding interest income	(332)	(239)	261
Translation effect	(153)	(1)	7
Contributions	(96)	(46)	(47)
Benefits paid	216	247	240
As of December 31	$ (3,394)	$ (2,940)	$ (2,755)

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

	2020	2019	2018
Service cost	$ (50)	$ (45)	$ (45)
Interest cost, net	(18)	(29)	(26)
Effect of plan curtailments and/or settlements	1	9	1
Total included in personnel cost	$ (67)	$ (65)	$ (70)

The principal actuarial assumptions are as follows:

	As of December 31,		
	2020	2019	2018
Discount rate Mexico	6.75%	7.00%	9.50%
Discount rate United States	1.99%-2.30%	2.92%-3.12%	3.89%-4.03%
Inflation rate	3.50%	4.50%	3.50%
Wage increase rate	4.50%	4.50%	4.50%
Medical inflation rate Mexico	6.50%	6.50%	6.50%

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

	Effect in defined benefit obligations		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	MX 1%	Decrease by $132	Increase by $141

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

Defined benefit plan assets

Plan assets are comprised as follows:

	As of December 31,		
	2020	2019	2018
Equity instruments	$ 2,290	$ 1,932	$ 1,797
Fixed income	1,104	1,008	958
Fair value of plan assets	$ 3,394	$ 2,940	$ 2,755

20. INCOME TAXES

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

	2020	2019	2018
United States	21%	21%	21%
Brazil	34%	34%	34%
Argentina	30%	30%	30%
Chile	27%	27%	27%
Canada	25%	25%	25%
Spain	25%	25%	25%
United Kingdom	17%	19%	19%

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

	2020	2019	2018
Current income tax	$ (1,933)	$ (2,463)	$ (2,075)
Deferred income taxes	731	574	(1,380)
Income taxes	$ (1,202)	$ (1,889)	$ (3,455)

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

	2020	2019	2018
Income before income taxes	$ 5,323	$ 9,413	$ 18,389
Income tax rate	30%	30%	30%
Statutory income tax rate expense	(1,597)	(2,824)	(5,517)
(Less) add income tax effect on:			
Annual adjustment for inflation	(186)	(268)	(388)
Non-deductible expenses	(13)	(24)	(12)
Non-taxable income	642	1,095	1,362
Effect of different tax rates of other countries other than Mexico	(33)	94	504
True up with respect to prior years' current income tax	(35)	94	474
Translation effect from the functional currency	45	38	131
Investments in associates and joint ventures	(25)	(94)	(9)
Total income taxes	$ (1,202)	$ (1,889)	$ (3,455)
Effective tax rate	23%	20%	19%

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

	Asset (liability) December 31,		
	2020	**2019**	**2018**
Property, plant and equipment	$ (155)	$ (118)	$ (1,221)
Intangible assets	(137)	(163)	(246)
Debt issuance costs	(16)	(15)	(17)
Provisions	275	212	123
Derivative financial instruments	2	–	334
Tax loss carryforwards	889	558	1,019
Tax credits, impairment allowance and other	669	633	1,489
Effect of tax rates of other countries and changes in tax rates	(21)	(3)	(97)
Deferred tax asset	$ 1,506	$ 1,104	$ 1,384
Inventories	(121)	(126)	$ (106)
Property, plant and equipment, net	(5,999)	(5,766)	(5,757)
Intangible assets	(280)	(304)	(48)
Tax loss carryforwards	752	582	177
Other items	1,414	1,634	981
Effect of tax rates of other countries and changes in tax rates	142	54	1
Deferred tax liability	$ (4,092)	$ (3,926)	$ (4,752)

Deferred income tax assets are recognized on tax loss carryforwards to the extent the realization of the related tax benefit through future tax income is probable. Tax losses amount to $29,312, $32,320 and $9,328 in 2020, 2019 and 2018, respectively.

Tax losses as of December 31, 2020 expire in the following years:

Loss for the year incurred	Tax-loss carryforwards	Expiration year
2011	$ 15	2021
2013	57	2023
2014	292	2024
2015	193	2025
2016	234	2026
2017	30	2027
2018	321	2028
2019	2,665	2029
2020	1,663	2030 and thereafter
Other	23,842	No maturity
	$ 29,312	

As of December 31, 2020, the Company holds tax losses to be amortized in Brazil, through Petroquímica Suape and Citepe, for an amount of $23,842, which have no expiration date. The Company has decided to reserve the total amount of the tax losses, according to management's estimate of future reversals of temporary differences; thus, as of December 31, 2020, they do not generate deferred tax assets.

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

	2020			2019			2018		
	Before taxes	Tax charged	After taxes	Before taxes	Tax charged	After taxes	Before taxes	Tax charged	After taxes
Equity in other comprehensive income of associates and joint ventures recognized through the equity method	$ 3	$ –	$ 3	$ –	$ –	$ –	$ –	$ –	$ –
Foreign currency translation effect	(767)	–	(767)	(1,954)	–	(1,954)	(1,814)	–	(1,814)
Remeasurement of employee benefit obligations	(39)	9	(30)	18	4	22	(73)	18	(55)
Effect of derivative financial instruments designated as cash flow hedges	885	(271)	614	998	(233)	765	(721)	161	(560)
Other comprehensive loss	$ 82	$ (262)	$ (180)	$ (938)	$ (229)	$ (1,167)	$(2,608)	$ 179	$ (2,429)

e. Income tax payable consists of the following:

	As of December 31,		
	2020	2019	2018
Current portion	$ 531	$ 1,143	$ 1,279
Non-current portion	170	400	469
Total income tax payable	$ 701	$ 1,543	$ 1,748

21. OTHER NON-CURRENT LIABILITIES

	As of December 31,		
	2020	2019	2018
Advances from customers [1]	$ 249	$ 290	$ 361
Other	40	66	75
Total other liabilities	$ 289	$ 356	$ 436

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

22. STOCKHOLDERS' EQUITY

As of December 31, 2020, capital stock is variable, with a fixed minimum of $6,052 represented by 2,118,163,635 ordinary, nominative shares, "Class I" Series "A", with no par value, fully subscribed and paid in. The variable capital entitled to withdrawal will be represented, if issued, by registered "Class II" Series "A" shares without par value.

As of December 31, 2020, Alpek SAB had 5,866,763 treasury shares. As of such date, the market value per share was $17.42 Mexican pesos.

From January to March 2020, the Company purchased 3,544,763 shares in the amount of $46 and sold 175,000 shares in the amount of $2 in connection to a repurchase program that approved by the Company's stockholders and exercised discretionally by Management. From May to December 2019, the Company purchased 20,190,080 shares in the amount of $443, and sold 17,693,539 shares in the amount of $389, in relation to the same program. During 2018, the Company sold 1,485,884 shares in the amount of $39, in connection with the abovementioned repurchase program.

The net income of the year is subject to decisions made by the General Stockholders' Meeting, the Company's by-laws and the General Law of Mercantile Corporations. In accordance with the General Law of Mercantile Corporations, the legal reserve should be increased annually by 5% of the net annual income until it reaches 20% of the fully paid in capital stock. As of December 31, 2020, 2019 and 2018, the legal reserve amounts to $1,200, $854 and $804, respectively.

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

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

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

Dividends paid are not subject to income tax if they derived from the Net Tax Profit Account (CUFIN Spanish acronym). Any dividends paid in excess of this account will cause an income tax charge based on the tax rate valid in the period in which they are paid. This tax is payable by the Company and may be credited against its income tax in the same year or the following two years. Dividends paid from profits which have previously paid income tax are not subject to tax withholding or to any additional tax payment. As of December 31, 2020, the tax value of the consolidated CUFIN and value of the Capital Contribution Account (CUCA Spanish acronym) amounted to $3,415 and $21,479, respectively.

23. SHARED-BASED PAYMENTS

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

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

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

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

	2020	2019	2018
Alfa, S. A. B. de C. V.	15.39	15.72	22.11
Alpek, S. A. B. de C. V.	17.60	20.94	24.13

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

	As of December 31,		
	2020	2019	2018
Short term	$ 8	$ 8	$ 8
Long term	20	18	20
Total carrying amount	$ 28	$ 26	$ 28

24. EXPENSES CLASSIFIED BY THEIR NATURE

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

	2020	2019	2018
Raw material and other	$ (79,743)	$ (85,823)	$ (95,750)
Employee benefit expenses (Note 27)	(6,319)	(5,365)	(5,128)
Human resource expenses	(40)	(86)	(48)
Maintenance	(1,991)	(2,003)	(1,746)
Depreciation and amortization	(4,486)	(4,005)	(2,887)
Advertising expenses	(2)	(2)	(3)
Freight expenses	(5,949)	(4,987)	(5,305)
Consumption of energy and fuel (gas, electricity, etc.)	(4,544)	(4,637)	(5,380)
Travel expenses	(71)	(203)	(171)
Lease expenses (1)	(810)	(664)	(966)
Technical assistance, professional fees and administrative services	(1,694)	(1,599)	(1,481)
Other (insurance and bonds, water, containers and packing, etc.)	(2,030)	(2,214)	(2,956)
Total	$ (107,679)	$ (111,588)	$ (121,821)

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

25. OTHER INCOME, NET

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

	2020	2019	2018
Gain on business acquisition	$ 657	$ –	$ 4,597
Gain on business sale	89	3,634	–
Other income	451	659	423
Impairment of property, plant and equipment and others	(14)	(29)	(456)
Total	$ 1,183	$ 4,264	$ 4,564

26. FINANCE INCOME AND COSTS

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

	2020	2019	2018
Financial income:			
Interest income on short-term bank deposits	$ 105	$ 152	$ 98
Interest income on loans from related parties	28	26	27
Other financial income	392	596	317
Total financial income	$ 525	$ 774	$ 442
Financial expenses:			
Interest expense on loans to related parties	$ (1)	$ (3)	$ (2)
Interest expense on bank loans	(183)	(1,035)	(893)
Non-bank interest expense	(1,588)	(1,075)	(966)
Lease interest expense	(193)	(205)	-
Interest cost on employee benefits, net	(44)	(42)	(21)
Other financial expenses	(488)	(462)	(301)
Total financial expense	$ (2,497)	$ (2,822)	$ (2,183)
Loss in exchange fluctuation, net			
Foreign exchange gain	4,653	4,637	3,302
Foreign exchange loss	(4,766)	(5,224)	(4,344)
Loss in exchange fluctuation, net	$ (113)	$ (587)	$ (1,042)
Financial result, net	$ (2,085)	$ (2,635)	$ (2,783)

27. EMPLOYEE BENEFIT EXPENSES

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

	2020	2019	2018
Salaries, wages and benefits	$ (4,780)	$ (3,896)	$ (3,869)
Social security fees	(380)	(419)	(351)
Employee benefits	(49)	(36)	(44)
Other fees	(1,110)	(1,014)	(864)
Total	$ (6,319)	$ (5,365)	$ (5,128)

28. RELATED PARTY TRANSACTIONS

Transactions with related parties during the years ended December 31, 2020, 2019 and 2018 were as follows:

	2020	2019	2018
Income			
Income from sale of goods:			
Associates and joint ventures	$ –	$ 3	$ –
Stockholders with significant influence over subsidiaries	1,155	1,445	1,486
Income from services:			
Affiliates	60	78	263
Stockholders with significant influence over subsidiaries	197	181	220
Income from financial interest:			
Alfa	28	25	25
Affiliates	–	1	–
Stockholders with significant influence over subsidiaries	–	–	2
Income from leases:			
Stockholders with significant influence over subsidiaries	28	25	–
Income from sale of energetic:			
Affiliates	408	354	–
Stockholders with significant influence over subsidiaries	28	29	–
Affiliates outside Alfa (Nemak)	36	–	–
Income from technical assistance:			
Stockholders with significant influence over subsidiaries	–	3	–
Other income:			
Affiliates	3	1	–
Associates and joint ventures	–	–	3
Costs / expenses			
Purchase of finished goods and raw materials:			
Stockholders with significant influence over subsidiaries	(1,454)	(824)	(992)
Expenses from services:			
Affiliates	(315)	(344)	(394)
Associates and joint ventures	–	(18)	–
Stockholders with significant influence over subsidiaries	(13)	(22)	(24)
Affiliates outside Alfa (Nemak)	(1)	–	–
Financial interest expenses:			
Associates and joint ventures	(1)	(2)	(2)
Commission expenses:			
Stockholders with significant influence over subsidiaries	(1)	(1)	–
Other expenses:			
Affiliates	(22)	(16)	(18)
Associates and joint ventures	(38)	(63)	(38)
Stockholders with significant influence over subsidiaries	(6)	(3)	–
Affiliates outside Alfa	(36)	–	–
Dividends paid to Alfa	(2,230)	(2,280)	–
Dividends of subsidiaries to shareholders with significant influence	(670)	(993)	(981)

For the year ended December 31, 2020, the remunerations and benefits received by the top officers of the Company amounted to $347 ($413 in 2019 and $281 in 2018), comprising of base salary and social security benefits, and supplemented by a variable consideration program based on the Company's results and the market value of the shares thereof and of its holding company.

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

	Nature of the transaction	As of December 31, 2020	2019	2018
Short-term accounts receivable:				
Holding company				
Alfa, S. A. B. de C. V.	Administrative services	$ 190	$ 190	$ 190
Affiliates				
Innovación y Desarrollo de Energía				
Alfa Sustentable, S. A. de C. V.	Administrative services	115	115	115
Newpek, LLC	Administrative services	–	14	4
Newpek, S.A. de C.V.	Administrative services	1	–	–
Terza, S. A. de C. V.	Sale of goods	1	1	1
Sigma Alimentos Lácteos, S.A. de C.V.	Energetic	2	–	4
Sigma Alimentos Centro, S.A. de C.V.	Energetic	3	2	–
Alimentos Finos Occidente, S.A. de C.V	Energetic	1	–	–
Affiliates outside Alfa				
Nemak México, S. A. de C. V.	Energetic	35	31	9
Stockholders with significant influence on subsidiaries				
BASF	Sale of goods	193	196	132
BASF	Sale of business	–	–	203
Basell	Sale of goods	44	30	54
Basell	Energetic	3	6	–
		$ 588	$ 585	$ 712
Long-term accounts receivable:				
Holding company				
Alfa, S. A. B. de C. V. (1)	Financing and interest	$ 823	$ 753	$ 761
Affiliates				
Colombin Bel, S.A. de C.V.	Financing and interest	–	9	–
		$ 823	$ 762	$ 761
Short-term accounts payable:				
Affiliates				
Alliax, S. A. de C. V.	Administrative services	$ 3	$ 13	$ 21
Alfa Corporativo, S. A. de C. V.	Administrative services	10	25	23
Axtel S.A.B. de C.V.	Administrative services	3	4	3
Proyectos Ejecutivos Profesionales, S.A. de C.V.	Administrative services	12	–	–
Servicios Eficientes de R.H., S.A. de C.V.	Administrative services	2	–	–
Servicios Empresariales del Norte, S.A. de C.V.				2
Affiliates outside Alfa				
Nemak Exterior, LTD	Administrative services	4	3	2
Associates				
Clear Path Recycling, LLC	Financing and interest	50	48	69
Stockholders with significant influence over subsidiaries				
BASF	Purchase of raw material	202	140	–
BASF	Purchase of goods	–	14	259
Basell	Other	–	–	12
Terminal Petroquímica Altamira, S.A. de C.V.		–	–	1
		$ 286	$ 247	$ 392
Long-term accounts payable:				
Affiliates				
Alfa Corporativo, S. A. de C. V.	Administrative services	$ –	$ –	$ 4
		$ –	$ –	$ 4

(1) As of December 31, 2020, 2019 and 2018, the loans granted bore interest at average fixed interest rate of 5.34%, 5.32% and 5.34%, respectively.

29. SEGMENT REPORTING

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

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

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

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

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

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

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

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

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

ALPEK, S. A. B. DE C. V. AND SUBSIDIARIES (SUBSIDIARY OF ALFA, S. A. B. DE C. V.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018:	Polyester	Plastics and Chemicals	Other	Total
Statement of income:				
Income by segment	$ 99,664	$ 33,204	$ 1,655	$ 134,523
Inter-segment income	(105)	(279)	384	-
Income from external customers	$ 99,559	$ 32,925	$ 2,039	$ 134,523
Operating income	$ 16,470	$ 4,735	$ (3)	$ 21,202
Depreciation and amortization	2,329	556	-	2,885
Impairment of long-lived assets	(3,481)	1	-	(3,480)
Adjusted EBITDA	$ 15,318	$ 5,292	$ (3)	$ 20,607
Investments in fixed and intangible assets	$ 1,509	$ 491	$ 5	$ 2,005

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

	2020	2019	2018
Adjusted EBITDA	$ 11,993	$ 16,395	$ 20,607
Depreciation and amortization	(4,486)	(4,005)	(2,885)
(Impairment) reversal of impairment of long-lived assets	(14)	(29)	3,480
Operating income	7,493	12,361	21,202
Financial result, net	(2,085)	(2,635)	(2,783)
Equity in loss of associates and joint ventures	(85)	(313)	(30)
Income before income taxes	$ 5,323	$ 9,413	$ 18,389

The Company's main customer generated revenue amounting to $10,426 and $11,455 for the years ended December 31, 2020 and 2019. This revenue is obtained from the polyester reporting segment and represents 9.1% and 9.6% of the consolidated revenue with external costumers for the years ended December 31, 2020 and 2019.

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

	2020	2019	2018
Mexico	$ 44,189	$ 47,702	$ 54,282
United States	45,113	47,563	57,894
Argentina	4,303	5,545	6,784
Brazil	12,649	15,413	11,291
Chile	936	947	1,094
Canada	1,966	2,515	3,178
United Kingdom	4,833	-	-
Total revenues	$ 113,989	$ 119,685	$ 134,523

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

	As of December 31,		
	2020	2019	2018
Mexico	$ 1,741	$ 1,789	$ 2,243
United States	1,616	1,638	1,712
Canada	22	24	29
Brazil	258	332	384
Total intangible assets	$ 3,637	$ 3,783	$ 4,368
Mexico	$ 23,737	$ 23,040	$ 32,520
United States	8,090	7,077	6,773
Canada	865	932	1,068
Argentina	111	110	140
Chile	316	240	273
Brazil	4,538	5,683	6,259
United Kingdom	922	–	–
Total property, plant and equipment	$ 38,579	$ 37,082	$ 47,033

30. COMMITMENTS AND CONTINGENCIES

At December 31, 2020, the Company has the following commitments:

a. At December 31, 2020, 2019 and 2018, the Company's subsidiaries had entered into various agreements with suppliers and customers for purchases of raw materials used for production and the sale of finished goods, respectively. The term of these agreements varies between one and five years and generally contain price adjustment clauses.

b. A subsidiary of the Company entered into agreements to cover the supply of propylene, which establish the obligation to purchase the product at a priced referenced to market values for a determinate period.

As of December 31, 2020, the Company has the following contingencies:

a. During the normal course of the business, the Company may be involved in disputes and litigations. While the results of these can't be predicted, the Company does not believe that there are actions pending to apply, claims or legal proceedings against or affecting the Company which, if it will result in an adverse resolution to the Company, would negatively impact the results of its operations or its financial position.

b. Some of the Company's subsidiaries use hazardous materials to manufacture polyester filaments and staple fibers, polyethylene terephthalate (PET) and terephthalic acid (PTA) resin, polypropylene (PP) resin, expandable polystyrene (EPS), caprolactam (CPL), chemical specialties and they generate and dispose of waste, such as catalysts and glycols. These and other activities of the subsidiaries are subject to various federal, state and local laws and regulations governing the generation, handling, storage, treatment and disposal of hazardous substances and wastes. According to such laws, the owner or lessor of real estate property may be liable for, among other things, (i) the costs of removal or remediation of certain hazardous or toxic substances located on, in, or emanating from, such property, as well as the related cost of investigation and property damage and substantial penalties for violations of such law, and (ii) environmental contamination of facilities where its waste is or has been disposed of. Such laws impose such liability without regard to whether the owner or lessee knew of, or was responsible for, the presence of such hazardous or toxic substances.

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

c. As of December 31, 2020, the Company is in a process of fiscal litigation in one of its subsidiaries in Brazil, in relation to the demand for payment of the Tax on the Circulation of Goods and Services ("ICMS") that the Ministry of Finance of the State of Sao Paulo ("SFSP", for its initials in Portuguese) has raised against the Company, due to differences in the criteria for the calculation and crediting of said tax. Considering all the circumstances and precedents of jurisprudence available at that date, management and its advisors have determined that it is probable that the Superior Court of Justice of Brazil will issue a judgment in favor of the Company for the amount related to differences in the calculation, which would exempt it from paying $364 in taxes, fines and interest that the SFSP demands; therefore, as of December 31, 2020, the Company has not recognized any provision related to this concept.

   On the other hand, for the concept of ICMS crediting, the amount demanded amounts to $73, and management and its advisors consider that it is not probable that the authorities will issue an unfavorable resolution for the Company; thus, it has not recognized any provision related to this concept as of December 31, 2020.

31. SUBSEQUENT EVENTS

In preparing the financial statements the Company has evaluated the events and transactions for their recognition or disclosure subsequent to December 31, 2020 and through January 31, 2021 (date of issuance of the consolidated financial statements), and has not identified subsequent events.

32. AUTHORIZATION TO ISSUE THE CONSOLIDATED FINANCIAL STATEMENTS

On January 31, 2021, the issuance of the accompanying consolidated financial statements was authorized by José de Jesús Valdez Simancas, General Director and José Carlos Pons de la Garza, Administration and Finance Director.

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

cotiza en Bolsa Mexicana
ALPEK

INVESTOR RELATIONS

Alejandro Elizondo
Alejandra Bustamante
IR@alpek.com

Alpek, S.A.B. de C.V.

Av. Gómez Morín 1111 Sur
Col. Carrizalejo, San Pedro Garza García
Nuevo León, CP. 66254, Mexico
www.alpek.com

alpek

DESIGN: 33 VISUAL