CPA. Edison Guamán Gómez
Matrícula profesional No. 173410
Quito: Av. 6 de diciembre N33-32 y Bossano,
Edif. Torres Bossano, 4to piso
Telf.: 593-2-6014212   0998160 995

COMMISAR'S REPORT

COHECO S.A.

Quito, March, 2020

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COMMISAR'S REPORT

To the shareholders of:
COHECO S.A.
Quito, 23 de marzo de 2019

As commissar of COHECO S.A., an Ecuadorian corporation subsidiary of Mitsubishi Electric of Colombia Ltda., in accordance with the provisions set by numeral 4 of article 279 of the Companies Law, I have reviewed the documents detailed in the following paragraph.

REVIEWED DOCUMENTS

a) Statement of Financial Position at December 31, 2019,
b) Statement of Profit and Loss and Other Comprehensive Income for the year ended December 31, 2019,
c) Statement of changes in equity for the year ended December 31, 2019,
d) Statement of Cash Flows for the year ended December 31, 2019,
e) Notes to Financial Statements.

I have carried out this revision in conformity with the International Standard on Review Engagements 2400, that requires to plan and execute the revision in order to obtain moderate security regarding whether the financial statements are free of material misstatement. A revision is limited mainly to carry out inquiries before the staff of the entity and to apply analytical procedures over the financial data, so, consequently, it provides less

En mi carácter de Comisario de COHECO S.A., subsidiaria de Mitsubishi Electric de Colombia Ltda., de acuerdo con lo dispuesto por el numeral 4 del artículo 279 de la Ley de Compañías, he revisado los documentos detallados en el párrafo siguiente.

DOCUMENTOS REVISADOS

a) Estado de situación financiera al 31 de diciembre de 2019,
b) Estado de resultados y otros resultados integrales por el año finalizado el 31 de diciembre de 2019,
c) Estado de cambios en el patrimonio por el año finalizado el 31 de diciembre de 2019,
d) Estado de flujo de efectivo por el por el año finalizado el 31 de diciembre de 2019,
e) Notas a los estados contables.

He llevado a cabo esta revisión de conformidad con la Norma Internacional de Encargos de Revisión 2400, que requiere planificar y ejecutar la revisión con la finalidad de obtener una seguridad moderada sobre si los estados financieros están libres de incorrección material Una revisión se limita principalmente a realizar indagaciones ante el personal de la entidad y aplicar procedimientos analíticos sobre los datos financieros por lo que, en security than an audit. Because we have not performed an audit, we do not express an opinion.

Based on the results of my revision, I have not found any issue that could make me think that the attached financial statements are not presented faithfully, in all their material aspects in conformity with the International Financial Reporting Standards IFRS.

consecuencia, proporciona menos seguridad que una auditoría. Debido a que no hemos realizado una auditoría, no expresamos una opinión.

Basándome en los resultados de mi revisión, no ha llegado a mi conocimiento ninguna cuestión que me lleve a pensar que los estados financieros adjuntos no se presentan fielmente, en todos sus aspectos materiales de conformidad con las Normas Internacionales de Información Financiera NIIF.

Responsibilities of the company's management on the financial statements

Management is responsible for the preparation and reasonable presentation of the attached financial statements in conformity with the International Financial Reporting Standards IFRS, and of the internal control that Management considers necessary to permit the preparation of financial statements free of significant misstatements.

Responsabilidades de la Gerencia de la Compañía sobre los estados financieros

La Gerencia es responsable de la preparación y presentación razonable de los estados contables adjuntos de conformidad con las Normas Internacionales de Información Financiera NIIF, y del control interno que la Gerencia considere necesario para permitir la preparación de estados contables libres de incorrecciones significativas.

Another issue

The financial statements corresponding to the year ended December 31, 2018 were reviewed by my predecessor, whose report of date March 14, 2019 does not express observations in this regard.

Otra cuestión

Los estados financieros correspondientes al año terminado al 31 de diciembre de 2018 fueron revisados por mi predecesor, cuyo informe de fecha 14 de marzo de 2019 no expresa observaciones al respecto.

Other information

I have complied, from the date of my hiring and as an integral part of my revision of the aforementioned financial statements, to what is established in article 279 of the Companies Law and, in accordance with what is required by the current legal regulations, I inform that:

a) The company's bylaws and other related regulations, do not require the constitution

Otra información

He dado cumplimiento, desde la fecha de mi contratación y como parte integrante de mi revisión de los referidos estados contables, a lo establecido en el artículo 279 de la Ley de Compañías y, de acuerdo con lo requerido por las normas legales vigentes, informo que:

a) Los estatutos de la Sociedad y demás normativa relacionada, no requieren la and subsistence of guarantees from the administrators and managers.

b) In what is matter of my competence, the results of the tests carried out did not reveal situations that are considered significant breaches of legal, regulatory, statutory norms, and of the resolutions of the General Board of Shareholders, by the Administration.

c) In relation to the annual report of the Administrator corresponding to the exercise ended December 31, 2019, I have verified that it contains the information required by the Regulation for the Presentation of the Annual Reports of the Administrators to the Shareholders´ meeting and, in what is matter of my competence, that their numerical data match the accounting records of the Company and other relevant documentation. I have no observations to make.

Given that it is not responsibility of the Commissar to carry out a management control, the exam did not extend to the criteria and business decisions of the several areas of the Company, issues that are exclusive responsibility of the Administration.

Compliance with legal, regulatory and statutory regulations, as well as the criteria of application of these norms, are responsibility of the Company's Administration. Such criteria could eventually not be shared by the competent authorities.

This Commissar's report is for the exclusive use of the Company's Administration and its shareholders and has been prepared to comply

constitución y subsistencia de garantías por parte de los administradores y gerentes.

b) En lo que es materia de mi competencia, los resultados de las pruebas efectuadas no revelaron situaciones que se consideren incumplimientos significativos de normas legales, reglamentarias, estatutarias, y de las resoluciones de la junta General de Accionistas, por parte de la Administración.

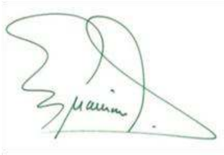
c) En relación con la memoria del Administrador correspondiente al ejercicio terminado el 31 de diciembre de 2019, he verificado que contiene la información requerida por el Reglamento para la Presentación de los Informes Anuales de los Administradores a las Juntas Generales y, en lo que es materia de mi competencia, que sus datos numéricos concuerdan con los registros contables de la Sociedad y otra documentación pertinente. No tengo observaciones que formular.

Dado que no es responsabilidad del Comisario efectuar un control de gestión, el examen no se extendió a los criterios y decisiones empresarias de las diversas áreas de la Sociedad, cuestiones que son de responsabilidad exclusiva de la Administración.

El cumplimiento de las normas legales, reglamentarias y estatutarias, así como los criterios de aplicación de dichas normas, son responsabilidad de la Administración de la Compañía. Tales criterios podrían eventualmente no ser compartidos por las autoridades competentes.

Este informe de Comisario es de uso exclusivo de la Administración de la Compañía y de sus accionistas y ha sido preparado para cumplir with current legal provisions. Therefore, it cannot be used for other purposes.

con las disposiciones legales vigentes; por lo tanto, no puede ser utilizado para otros propósitos.



CPA. Edison Guamán Gómez

Comisario

COHECO S.A.
STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2019
(In U. S. dollars – US$)

	December 31, 2019 … 2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	5,723,141	4,716,950
Trade debtors	4,582,850	4,922,615
Others receivables	236,377	139,415
Inventories	3,664,034	5,164,573
Other assets	794,799	921,994
Prepayments	405,369	288,481
Total current assets	**15,406,570**	**16,154,029**
NON CURRENT ASSETS		
Otrher receivables	17,900	28,275
Property and equipment	2,030,185	2,527,030
Investments in shares	155,787	155,787
Deferred tax assets	131,808	148,811
Right-of-use assets	3,238,398	-
Total non-current assets	**5,574,078**	**2,859,903**
TOTAL ASSETS	**20,980,648**	**19,013,932**
LIBIALITIES AND EQUITY		
CURRENT LIABILITIES		
Trade creditors	910,520	772,629
Other payables	5,417,808	4,184,617
Employe Benefits	1,335,142	1,411,706
Income tax	467,708	907,130
Accumulated expenses payables	755,661	677,063
Total current liabilities	**8,886,839**	**7,953,145**
NON CURRENT LIABILITIES		
Defined benefit obligations	5,902,546	5,585,195
Lease liability	3,344,689	-
Total non-current liabilities	**9,247,235**	**5,585,195**
TOTAL LIABILITIES	**18,134,074**	**13,538,340**
EQUITY		
Share Capital	135,000	135,000
Reserves	1,724,500	1,724,500
Retained earnings	987,074	3,616,092
Total equity	**2,846,574**	**5,475,592**
TOTAL LIABILITIES AND EQUITY	**20,980,648**	**19,013,932**

COHECO S.A.
STATEMENT OF PROFIT OR LOSS AND OTHERS COMPREHENSIVE INCOME
AT DECEMBER 31, 2019
(In U. S. dollars – US$)

	December 31, 2019 … 2019	2018
Revenue	27,233,606	27,517,262
Cost of sales	(17,786,908)	(17,536,903)
Gross gain	**9,446,698**	**9,980,359**
Sale expenses	(3,454,708)	(2,414,025)
Administrative expenses	(4,569,231)	(3,461,149)
Operating profit	**1,422,759**	**4,105,185**
Other income	35,921	122,314
Other expenses	(152,417)	(194,433)
Profit become income taxes	**1,306,263**	**4,033,066**
Income tax	(1,017,876)	(1,063,086)
Ganancia del Periodo	**288,387**	**2,969,980**
Other comprehensive income - items that would not be subsequently reclassified to profit or loss of the year		
Actuarial gain (loss) for Defined benefit plans	52,575	91,471
Revaluation of property and equipment	(6,407)	(6,407)
Comprehensive income of the year	**334,555**	**3,055,044**

COHECO S.A.
CHANGES IN EQUITY
AT DECEMBER 31, 2019
(In U. S. dollars US$)

		Reserves			Retained earnings				
						Other comprehensive income			
	Share capital	**Legal reserve**	**Special reserve**	**Total reserve**	**Retained earnings**	**Reserve of revaluation of property**	**Remeasurent of defined benefits**	**Total**	**Equity, net**
Balance at january 1, 2018	135,000	67,500	1,257,000	1,324,500	3,552,277	620,978	(144,455)	4,028,800	5,488,300
Net income of the year	-	-	-	-	2,969,980	-	-	2,969,980	2,969,980
Other comprehensive income of the year	-	-	-	-	-	-	91,471	91,471	91,471
Transfer to non-distributable profit	-	-	400,000	400,000	(400,000)	-	-	(400,000)	-
Distributions of dividends	-	-	-	-	(3,074,159)	-	-	(3,074,159)	(3,074,159)
Distributions of dividends	-	-	-	-	6,407	(6,407)	-	-	-
Balance at december 31, 2018	135,000	67,500	1,657,000	1,724,500	3,054,505	614,571	(52,984)	3,616,092	5,475,592
Net income of the year	-	-	-	-	288,387	-	-	288,387	288,387
Other comprehensive income of the year	-	-	-	-	-	-	52,575	52,575	52,575
Distributions of dividends	-	-	-	-	(2,969,980)	-	-	(2,969,980)	(2,969,980)
Distributions of dividends	-	-	-	-	6,407	(6,407)	-	-	
Balance at december 31, 2019	**135,000**	**67,500**	**1,657,000**	**1,724,500**	**379,319**	**608,164**	**(409)**	**987,074**	**2,846,574**

COHECO S.A.
STATEMENT OF CASH FLOWS
AT DECEMBER 31, 2019
(In U. S. dollars US$)

	December 31, 2019 …	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from clientes	27,451,282	26,906,401
Payment to suppliers, employees and others	(22,286,179)	(22,209,355)
Cash form operating activities	5,165,103	4,697,046
Interest paid for leasing	(302,840)	-
Income tax paid	(1,440,295)	(1,043,751)
Net cash provided by operating activities	3,421,968	3,653,295
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	-	36,597
Proceeds from other assets	106,290	412,380
Additions to property and equipment	512,064	(82,825)
Net cash provided by investing activities	618,354	366,152
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to shareholders	(2,969,980)	(3,074,159)
Lease liabilities paid	(64,151)	-
Net cash used in financing activities	(3,034,131)	(3,074,159)
NET INCREASE OF CASH AND CASH EQUIVALENTS	1,006,191	945,288
Cash and cash equivalents at the beginning of the year	4,716,950	3,771,662
Cash and cash equivalents at the end of the year	5,723,141	4,716,950

1.- INFORMACIÓN GENERAL

1.1. Report Entity

COHECO S.A. was established in Quito on March 7, 1972. The main domicile of the Company is in the Metropolitan District of Quito, on Calle de los Naranjos 44 - 421 and Av. Los Granados; additionally, it has offices located in Guayaquil (Blanca Muñoz B and Elías Muñoz V.), in Cuenca (Rafael Salas between Fernando de Legarda and Joaquín Pinto) and Manta (11th floor Building Manta Business Center).

The main activity of the Company is the import, sale, installation, maintenance, modernization, repair of vertical and horizontal transportation equipment, import and trade of its parts and pieces, as well as the import, export and trade of all types of lines, products and services related to construction. The Company is subject to the control and surveillance of the Superintendency of Companies, Securities and Insurance of the Republic of Ecuador.

1.2. Approval of financial statements

These financial statements were authorized for issuance by the Company's Management on March 20, 2020 and in accordance with the statutory requirements they will be submitted to the Board of Shareholders' approval.

2.- Basis of Preparation of the Financial Statment

2.1. Statment of Compliance

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).
This is the first set of the Company's annual financial statements in which IFRS 16 Leases has been applied.

These financial statements have been prepared on the historic cost basis.

2.2. Funtional Currency

These financial statements are presented in U.S. Dollars, the Company's functional currency. All information is presented in this currency, unless otherwise stated.

2.3. Basis of Measurement

These financial statements have been prepared on the historic cost basis.

2.4. Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires the Company's Management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are prospectively recognized.

i. Judgments

Management reports that there are no critical judgments in the application of accounting policies that may have an important effect on the amounts recognized in the financial statements.

ii. Assumptions and Estimate Uncertainties

Information about assumptions and estimate uncertainties that have a significant risk of resulting in material adjustment in the year ended December 31, 2020 is included in note 18 - measurement of defined benefit obligations: key actuarial assumptions.

iii. Measurement of Fair Values

A number of the Company's accounting policies and disclosures according to the IFRS, require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company's Management uses the measurement of fair values mainly for: (i) initial recognition, (ii) disclosure; and (iii) when there is any indication of impairment in nonfinancial assets. When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. In accordance with IFRS, fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data.

If inputs used to measure the fair value of an asset or liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirely in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Any transfer between levels of fair value hierarchy is recognized at the end of the period the change occurred.

3. Changes in Significant Accounting Policies

The Company has initially applied IFRS 16 as of January 1, 2019. Certain other new standards are also effective as of January 1, 2019, but do not have a significant effect on the Company's financial statements.

Definition of a lease

Before January 1, 2019, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. At December 31, 2019, the Company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4.8. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

As a lessee

The Company leases administrative office and customer service facilities for its operations. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most of these leases.

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

- Leases classified as operating leases under IAS 17

  Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company’s incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

  - their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the incremental borrowing rate at the date of initial application; or

- the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Company has applied this approach to its significant leases.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

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

- did not recognized right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term.

Transition

The Company leases facilities for administrative offices and customer service. The written agreement with the Lessor is established for one year, however, the analysis made by the Company considers the intention to remain for a period of at least 20 years considering its previous experience and renewals to the contract. Lease payments are renegotiated based on the terms of the contract to reflect market rents and are generally adjusted according to local price indices. Leases for these offices include fixed payments (monthly payments). During 2019, the Company recognized the right of use asset on the administrative office and customer service contract; the amounts recognized are as follows:

		January 1, 2019
Right-of-use asset	US$	3,408,840
Lease liability		3,408,840

In measuring lease liabilities classified as operating leases, the Company discounted lease payments using its incremental borrowing rate. The weighted rate applied is 8.96%.

4. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

4.1. Classification of Current and Non-Current Balances

Asset and liability balances presented in the statement of financial position are classified in relation of their maturity, i.e. as current those with a maturity to be equal or less than 12 months, which are within the Company's normal operating cycle, and as non-current, those with a maturity beyond said period.

4.2. Financial Instruments

i. Non-Derivative Financial Assets and Liabilities - Initial Recognition and Measurement

The Company initially recognized trade debtors and other receivables on the date they originate; all other financial assets and financial liabilities are initially recognized on the trading date in which the Company begins to be part of the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or a financial liability is initially measured at fair value plus any transaction cost attributable to its acquisition or issue (for an item that is not measured at fair value through profit or loss). A trade receivable without a significant financing component is initially measured at the transaction price.

ii. Non-derivative Financial Assets and Liabilities – Classification and Subsequent Measurement

Financial Assets

On initial recognition, a financial asset is classified as measured at: i) amortized cost; ii) fair value through other comprehensive income; or, iii) fair value through profit or loss. Financial assets maintain their initial classification, unless the Company changes its business model to manage the financial assets; in which case all affected financial assets are reclassified to the corresponding category as of the first reporting period following the change in business model.

A financial asset is measured at amortized cost if it (as long as it is not classified at fair value through profit or loss) is held within a business model whose objective is hold assets to collect contractual cash flows; and the contractual terms include specific dates of collection of the cash flows that are solely payments of principal and interest on the principal amount outstanding. All financial assets not classified as measured at amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. On initial recognition, the Company can irrevocably designate a financial asset (that otherwise meets the requirements to be measured at amortized cost or at fair value through other comprehensive income) under the fair value measurement through profit or loss; if doing so eliminates or significantly reduces accounting mismatch or recognition that would otherwise arise.

Financial Assets - Assessment of the Business Model

The Company makes an objective assessment of the business model in which a financial asset is held in a portfolio because this reflects the way in which the business is managed and information is provided to the Management. The evaluation mainly includes the following aspects:

- the policies and objectives set for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on collecting contractual interest income, maintaining a specific interest yield profile, or coordinating the duration of financial assets with that of the liabilities those assets are financing or expected cash outflows, or realizing cash flows through the sale of assets;

- how the performance of the portfolio is evaluated and the Company's Management is informed;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated, e.g., whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected.

Financial assets that held for trading or managed and whose performance is evaluated on a fair value basis are measured at fair value through profit or loss.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration of the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time; and, for other risks and costs of basic loans (for example: liquidity risk and administrative costs); as well as, a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the opportunity or the amount of the contractual cash flows such that it does not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and,
- terms that limit the Company's claim of the cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion, if the prepayment amount substantially represents unpaid amounts of principal and interest amount outstanding, which may include reasonable additional compensation for early termination of contract.

Financial assets – Subsequent measurement and gains and losses

Financial assets at fair value through profit or loss: These assets are subsequently measured at fair value. Net gains and losses, including income from interest or dividends, are recognized in profit or loss.

Financial assets at amortized cost: These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss due to derecognition is recognized in profit or loss.

Financial liabilities: Classification, subsequent measurement and Gains and Losses

Financial liabilities are classified as measured at amortized cost or at fair value through profit or loss. A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

iii. Non-Derivative Financial Assets and Liabilities – Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows derived from the asset expire, or when it transfers the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risks are transferred and benefits related to the ownership of the financial asset. Any participation in the transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are paid or canceled, or they have expired.

iv. Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and has the purpose of liquidating them on a net basis or to realize the asset and settle the liability simultaneously.

4.3. Share Capital

Incremental costs are directly attributable to the issue of ordinary shares, if any, are recognized as a deduction from equity, net of any tax effect.

4.4. Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, in bank accounts and short-term investments in highly liquid securities, subject to an insignificant risk of changes in their value with maturities of three months or less, which are used by the Company in the management of its short-term commitments.

4.5. Inventories

The cost is determined by the weighted average cost method except, for import in-transit, which is recognized at specific cost of supplier invoices and includes all costs incurred to acquire inventory and bring it to its present location and condition.

4.6. Other Assets

Assets expected to be recovered mainly through the sale instead of continuous use are classified as other assets.

Usually, these assets are measured at the lowest between their carrying amount and fair value less sale costs. Impairment losses in initial recognition as other assets are recognized in profit or loss.

4.7. Property and Equipment

4.7.1 Recognition and Measurement

Items of property and equipment are measured at cost less accumulated depreciation and any impairment losses. When significant parts of an item of property and equipment have different useful lives, they are accounted for separately as an integral component of the asset. Any gain or loss on disposal of an item of property and equipment is recognized in profit or loss.

4.7.2 Subsequent Costs

Significant improvements and renewals which extend the useful life of an asset, are capitalized only if it is probable that future economic benefits flow to the Company and their cost can be estimated reliable. The remaining repairs and maintenance are charged to profit or loss of the period as incurred.

4.7.3 Measurement Subsequent to Recognition – Revaluation Model

After initial recognition, land and buildings are presented at their revaluated amounts, which are their fair values, at the moment of the revaluations, less the accumulated amount of impairment losses. Revaluations are performed on a regular basis, so that the carrying amount does not differ materially from the one that would have been calculated using the fair values at the end of each period.

Increases for revaluation of land and buildings are recognized in other comprehensive income and recorded in equity in the reserve for property revaluation account. A decrease of carrying amount for impairment loss of land and buildings, is recorded in profit or loss to the extent the balance is exceeded, if any, maintaining in the reserve for revaluation related to a previous revaluation of said assets. The balance of revaluation of land and buildings included in equity is transferred directly to retained earnings, when the write-off in the asset accounts is produced. The remaining useful life used to calculate depreciation of buildings was determined by Management based on the information provided by an independent expert.

(In U.S. dollars US$)

4.7.4 Depreciation

Depreciation of property and equipment is calculated based on the amount to depreciate, corresponding to the cost of asset. Depreciation is recognized in profit or loss using the straight-line basis over their estimated useful lives of each component of property and equipment. Depreciation methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

Estimated useful lives for current and comparative periods are as follows:

Description	Useful life (in years)
Buildings	65
Machinery and tools	10
Vehicles and transportation equipment	5
Furniture, fixtures and equipment	10
Computer equipment	3

4.7.5 Write-offs or Sales of Property and Equipment

Losses and gains from the sale of property and equipment are calculated by comparing revenue obtained with the carrying amount and are included in the statement of comprehensive income.

4.8. Leased Assets

The Company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated and continues to be presented in accordance with IAS 17 and IFRIC 4. Details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from January 1, 2019

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

This policy is applied to contracts entered after January 1, 2019.

As a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Likewise, said incremental borrowing rate is determined by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

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

- Fixed payments, including in-substance fixed payments; and
- variable lease payments that depend on an index or rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. In the comparative period, assets held under other leases were classified as operating leases and were not recognized in the Company's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease.

4.9. Impairment

i. Non-Derivative Financial Assets

The Company recognizes loss allowances for the expected credit losses of financial assets measured at amortized cost.

The Company measures loss allowances based on the expected credit losses during the lifetime of the financial asset, for which an "Individual Model" was developed that establishes an analysis per client, classifying each one for the risk of not collection and allocating percentages of expected loss based on the maturity.

In determining whether the credit risk of a financial asset has increased significantly since its initial recognition, and in estimating the expected credit losses, the Company considers reasonable and supportable information that is relevant and available, including quantitative and qualitative analysis, based on the Company's historical experience, a current and prospective credit assessment.

The Company assumes that the credit risk of a financial asset has increased significantly if it has a default of more than 360 days. Likewise, the Company considers that a financial asset is in default when:

- the borrower is unlikely to pay all of the credit obligations contracted with the Company; without considering actions to be executed by the Company, such as the execution of guarantees, if any; or,
- the financial asset has more than 360 days past due.

The expected credit losses during the life time are the credit losses that result from all possible default events that may occur during the expected life of the financial asset.

The twelve-month expected credit losses correspond to those expected losses over the life of the asset arising from possible events of default to occur in a period of 12 months from the date of presentation of the financial statements (or a lower period if the financial asset has a life of less than 12 months).

The maximum period considered when estimating expected credit losses is the contractual period during which the Company is exposed to credit risk.

Measurement of Expected Credit Losses

The expected credit losses are based on the payment profiles of the sales during a period of 12 months, which represent the present value of the negative cash flows this is, the difference between the cash flow owed to the entity in accordance with the contract and the cash flows that the Company expects to receive). The expected credit losses are discounted using the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date of the financial statements, the Company evaluates whether the financial assets recorded at amortized cost and the debt instruments at fair value with changes in other comprehensive income, show credit impairment; condition that arises when one or more events that have a negative impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset has credit impairment includes the following observable data.

- significant financial difficulties of the issuer or the borrower;
- failure to pay payments or accounts due for more than 360 days;
- the restructuring of a loan by the Company in terms that it would not consider under other circumstances;
- It is probable that the borrower enters bankruptcy or other financial reorganization; or
- the disappearance of an active market for the financial asset in question, due to financial difficulties.

Presentation of Impairment Allowances and Write-offs

The impairment estimates for financial assets measured at amortized cost are deducted from the recorded value of the corresponding financial assets. In the case of debt instruments measured at fair value through other comprehensive income, the estimate of impairment charge to results and is recognized in other comprehensive income.

The carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion of it. In the case of individual customers (individuals), the Company's policy is to write-off the recorded value of the financial asset when it presents a delay of more than 360 days, based on the Company's historical experience with recoveries of similar assets. In the case of corporate clients, the Company makes an individual assessment of the timing and scope of the write-off based on the existence or not of a reasonable expectation of recovery. The Company does not expect a significant recovery of the amount of the assets written off. However, the financial assets that are written-off may be subject to management by the Company that allow the recovery of the amounts due.

ii. Non-Financial Assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at the date of the statement of financial position to determine whether there is any indication of impairment.

If those indications exist, then the asset's recoverable amount is estimated.

For the purpose of impairment assessment, assets that cannot be individually assessed, are grouped together into the smallest group called "cash-generating unit" that generate cash inflows from continuing use that are independent of the cash inflows of other assets or cash-generating unit.

The recoverable amount of an asset or cash-generating unit is the greater between its value in use and its fair value, less cost of sales. In assessing value in use, the estimated future cash flows are discounted at their present value using a pre-tax discount rate that reflects current market assessments over the time value of money and the risks specific the asset may have.

An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses are reversed if there has been a change in their recoverable amount. When an impairment loss is reversed, the asset's carrying amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

4.10. Income Tax

Income tax expense comprises current and deferred income tax.

Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the related tax amount is recognized in other comprehensive income or in equity, respectively.

i. Current Income Tax

Current income tax is the expected tax payable on the taxable income of the year, by using the tax rate approved or near to be approved at the date of the statement of financial position.

ii. Deferred Income Tax

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither financial, nor taxable profit or loss.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax is not recognized for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither financial, nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on tax laws that have been enacted or substantively enacted by the date of the statement of financial position.

Deferred tax assets and liabilities are offset only if certain criteria are met.

A deferred tax asset is recognized for tax losses carried forward to future periods and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

iii. Tax Exposure

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interests might be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company changes its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

4.11. Employee Benefits

i. Short-term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized when the Company has a present legal or constructive obligation to make payments, as a result of a past service provided by an employee, and the obligation can be reliably estimated. Main accruals recognized for this concept consist on those established by the Ecuadorian Labor Code such as vacation, employees' profit sharing and thirteenth and fourteenth salaries.

ii. Post-Employment Benefits

Defined Benefit Plans – Retirement Pension and Severance Indemnity

The Company´s net obligation in respect of retirement pension and severance indemnity is calculated separately, by estimating the future benefit amount that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The calculation is performed annually by a qualified actuary using the "Actuarial Cost Method of Projected Unit Credit", attributable to a part of benefit to be paid in the future in return for the service in the current period.

Legal provisions do not provide enforceability to establish funds or assign assets to meet such plans that qualify as defined benefit plans without allocation of separate funds.

The Company recognizes in other comprehensive income all actuarial gains and actuarial losses arising from defined benefit plans. Expenses related to defined benefit plans, and unwinding of the discount recognized in employee benefit expense.

Management uses assumptions to determine the best estimate of benefits, which are defined by the Company by using public and own financial information. These assumptions include a discount rate, expected increases in salaries and future permanence, among others.

When improvements or curtailment of a defined benefit plan occur, the resulting modification in the benefit relating to past service rendered by employees or resulting gains or losses for curtailment, will be immediately recognized in profit or loss. The Company recognizes settlement gains or losses of a defined benefit plan when incurred.

iii. Termination Benefits

Termination benefits are recognized as an expense when the Company has made an offer of voluntary redundancy.

4.12. Revenue from Ordinary Activities from Contracts with Customers

Note 24 provides information on the Company's accounting policies for customer contracts.

4.13. Costs and Expenses

Costs are all those incurred for the generation of income from ordinary activities: include losses generated by net realizable value and inventory write-offs.

Expenses are recognized based on when they are incurred or caused. An expense is immediately recognized when the disbursement does not generate future economic benefits.

4.14. Offsetting of Balances and Transactions

As a general rule in the financial statements assets and liabilities neither income and expenses are offset, except in those cases in which offset is required or permitted by a standard and this presentation is a reflection of the transaction essence.

Income and expenses arising from transactions that, contractually or by a legal norm, consider the possibility of offsetting and the Company intends to settle for their net amount or to realize the asset and proceed to the payment of the liability simultaneously; they are presented net in the profit or loss.