

SMP AUTOMOTIVE SYSTEMS MÉXICO, S.A. DE C.V.

Financial statements

Years ended 31 December 2020 and 2019
with report of independent auditors

SMP AUTOMOTIVE SYSTEMS MÉXICO, S.A. DE C.V.

Financial statements

31 December 2020 and 2019

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders of
SMP Automotive Systems México, S.A. de C.V.

Opinion

We have audited the accompanying financial statements of SMP Automotive Systems México, S.A. de C.V., ("The Company"), which comprise the statement of financial position as at December 31, 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SMP Automotive Systems México, S.A. de C.V., as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Mexican Financial Reporting Standards ("MFRS").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Mexico according with the "Código de Ética Profesional del Instituto Mexicano de Contadores Públicos" ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements:

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

In preparing the 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 financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

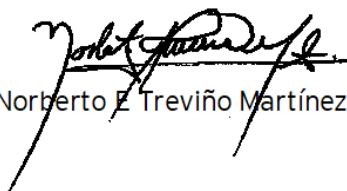
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

The partner in charge of the audit resulting in this independent auditor's report, is who signs it.

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



Norberto E. Treviño Martínez

Puebla, Puebla, México
21 de junio, 2021.

SMP AUTOMOTIVE SYSTEMS MÉXICO, S.A. DE C.V.

Statements of financial position

(Amounts in Mexican pesos)

	As at December 31	
	2020	2019
Assets		
Current assets:		
Cash	\$ 490,028,642	\$ 234,335,246
Accounts receivable :		
Trade (net of allowance for doubtful accounts in 2020 and 2019 of \$1,900,562)	449,232,140	203,855,274
Related parties (Note 2)	9,388,974	67,254,419
Inventories, net (Note 3)	586,784,536	557,197,027
Prepaid expenses	142,202,867	209,363,512
Derivative financial instruments (Note 9)	62,582,778	51,458,750
Total current assets	<u>1,740,219,937</u>	<u>1,323,464,228</u>
Non-current assets:		
Property, plant and equipment, net (Note 4)	2,194,703,219	2,389,180,146
Right of use assets(Note 13)	49,136,834	86,686,768
Intangible assets (Note 5)	89,876,035	103,627,460
Guarantee deposit	9,089,990	9,939,120
Deferred income tax (Note14)	115,909,789	-
Deferred employee profit sharing (Note 11)	38,900,564	-
Long-term receivables	478,339,659	380,403,511
Total non-current assets	<u>2,975,956,090</u>	<u>2,969,837,005</u>
Total assets	<u>\$ 4,716,176,027</u>	<u>\$ 4,293,301,233</u>

	As at December 31	
	2020	2019
Liabilities and equity		
Current liabilities:		
Suppliers	\$ 461,847,881	\$ 369,697,424
Payable taxes	135,333,674	25,938,669
Payable value added tax	23,985,153	27,859,146
Related parties (Note 2)	20,934,313	50,256,232
Provisions and accrued liabilities (Note 7)	484,233,098	145,904,160
Short-term direct employee benefits (Note 11)	65,522,428	93,121,315
Short-term bank loans (Note 6)	536,517,000	1,004,697,795
Other accounts payable	1,346,834	5,434,557
Short-term Lease liability (Note 13)	57,636,381	42,847,637
Short-term loans with related parties (Note 2)	11,526,541	113,581,313
Total current liabilities	<u>1,798,883,303</u>	<u>1,879,338,248</u>
Long-term liabilities:		
Loans with related parties (Note 2)	1,594,151,590	927,309,675
Net defined benefit liability (Note 10)	22,870,543	25,369,870
Deferred employee profit sharing (Note 11)	-	16,668,707
Deferred income tax (Note 14)	-	37,598,054
Long term Lease liabilities (Note 13)	865,360	52,560,141
Total long-term liabilities	<u>1,617,887,493</u>	<u>1,059,506,447</u>
Total liabilities	<u>3,416,770,796</u>	<u>2,938,844,695</u>
Equity (Note 12):		
Share capital	968,669,214	968,669,214
Legal reserve	3,433,715	3,433,715
Accumulated results	285,781,380	351,095,760
Other comprehensive income	41,520,922	31,257,849
Total equity	<u>1,299,405,231</u>	<u>1,354,456,538</u>
Total liabilities and equity	<u>\$ 4,716,176,027</u>	<u>\$ 4,293,301,233</u>

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

SMP AUTOMOTIVE SYSTEMS MÉXICO, S.A. DE C.V.

Statements of income

(Amounts in Mexican pesos)

	For the year ended December 31	
	2020	2019
Net sales	\$ 4,561,056,407	\$ 5,104,873,839
Other income, net	10,640,988	34,508,302
Total income	4,571,697,395	5,139,382,141
Cost of sales	3,468,103,996	4,246,740,888
Gross profit	1,103,593,399	892,641,253
Operating expenses	888,297,146	414,075,198
Operating income	215,296,253	478,566,055
Net financing cost:		
Interest expense, net	(83,119,895)	(125,113,804)
Foreign exchange gain (loss), net	(246,015,830)	105,859,229
	(329,135,725)	(19,254,575)
Income before income tax	(113,839,472)	459,311,480
Income tax (Note 14)	(48,525,092)	102,069,051
Net (loss) income	(65,314,380)	357,242,429
Other comprehensive income:		
Remeasurements of net defined benefit liability	5,981,062	(882,367)
Effect on employee profit sharing	(598,106)	88,237
Effect on income tax	(1,794,319)	264,710
	3,588,637	(529,420)
Derivative valuation:	11,124,060	51,044,597
Effect on employee profit sharing	(1,112,406)	(5,104,460)
Effect on income tax	(3,337,218)	(15,313,379)
Other comprehensive income	10,263,073	30,097,338
Comprehensive (loss) income	\$ (55,051,307)	\$ 387,339,767

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

SMP AUTOMOTIVE SYSTEMS MÉXICO, S.A. DE C.V.

Statements of changes in equity

For the years ended December 31, 2020 and 2019

(Amounts in Mexican pesos)

	Share capital	Legal reserve	Accumulated results	Other comprehensive income	Total capital
Balance as at December 31, 2018	\$ 968,669,214	\$ 3,433,715	\$ (6,146,669)	\$ 1,160,511	\$ 967,116,771
Comprehensive income	-	-	357,242,429	30,097,338	387,339,767
Balance as at December 31, 2019	968,669,214	3,433,715	351,095,760	31,257,849	1,354,456,538
Comprehensive income	-	-	(65,314,380)	10,263,073	(55,051,307)
Balance as at December 31, 2020	\$ 968,669,214	\$ 3,433,715	\$ 285,781,380	\$ 41,520,922	\$ 1,299,405,231

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

SMP AUTOMOTIVE SYSTEMS MÉXICO, S.A. DE C.V.

Statements of cash flows

(Amounts in Mexican pesos)

	For the year ended December 31	
	2020	2019
Operating activities		
Income before income tax	\$ (113,839,472)	\$ 459,311,480
Items not affecting cash flows:		
Deferred employee profit sharing	(16,668,707)	(5,195,039)
Employee benefits	2,499,327	5,651,022
Depreciation and amortization of the year	306,337,188	325,956,606
Depreciation of assets for right of use	37,549,934	39,385,854
Accrued interest	88,243,206	97,337,817
Other comprehensive income	(11,124,028)	50,515,211
Foreign exchange	139,912,657	(43,874,768)
Total	432,910,105	929,088,183
Changes in operating assets and liabilities:		
Accounts receivable	(343,313,015)	374,883,734
Other assets	68,009,774	(27,378,972)
Inventory	(29,587,509)	(142,000,940)
Accounts payable	92,150,457	(261,910,063)
Related parties	28,543,526	(70,019,875)
Other accounts payable	133,631,787	(32,653,666)
Net cash flows from operating activities	382,345,125	734,830,170
Investing activities		
Purchase of machinery and equipment	(105,955,926)	(116,346,808)
Purchase of other assets	(12,219,970)	(16,867,729)
Sale of machinery and equipment	20,067,060	(1,208,496)
Net cash flows used in investing activities	(98,108,836)	(134,423,033)
Financing activities		
Loans with bank	1,431,653,300	-
Payment of bank loans	(1,899,834,095)	(867,291,163)
Loans with related parties	1,844,649,798	1,066,679,238
Repayment of related parties loans	(1,279,862,655)	(886,493,627)
Interest paid	(88,243,206)	(87,125,908)
Payment of the principal and interest portion of the lease liabilities	(36,906,036)	(45,183,100)
Net cash flows used in financing activities	(28,542,894)	(819,414,560)
Increase (decrease) in cash	255,693,396	(219,007,423)
Cash at beginning of year	234,335,246	453,342,669
Cash at end of year	\$ 490,028,642	\$ 234,335,246

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

SMP AUTOMOTIVE SYSTEMS MÉXICO, S.A. DE C.V.

Notes to financial statements

December 31, 2020 and 2019

(Amounts in Mexican pesos)

1. Nature of operations and summary of significant accounting policies

SMP Automotive Systems México, S.A. de C.V. (the Company) was incorporated under the laws of Mexico on 3 October 1997. The Company is a subsidiary of SMP Automotive Technology Ibérica, S.L., which in turn is a subsidiary of SMP Deutschland GmbH. On 23 November 2011, Samvardhana Motherson Group acquired 80% of the equity of SMP Deutschland GmbH. The Company is primarily engaged in manufacturing parts and components for the automobile industry.

The Company's operating period and fiscal year is from 1 January through 31 December.

On 21 June, 2021, the financial statements and these notes were authorized by the Company's Administrative and Finance Director Jesús García Espinoza, for their issue and subsequent approval by the Company's Board of Directors and shareholders, who have the authority to modify the financial statements. Information on subsequent events covers the period from 1 January 2020 through the above-mentioned issue date of the financial statements.

Significant accounting policies

a) Compliance with Mexican Financial Reporting Standards

The financial statements as at 31 December 2020 and 2019, have been prepared in accordance with Mexican Financial Reporting Standards (Mexican FRS).

b) Basis of preparation

The financial statements have been prepared on a historical cost basis, except for non-monetary items that were acquired or recognized in the financial statements before 31 December 2007, as such items reflect the cumulative effects of inflation from their initial recognition date through 31 December 2007.

As determined based on the National Consumer Price Index (NCPI) published by the National Statistical and Geographical Information Agency (INEGI), Mexico's annual inflation rate for 2020 and 2019 is as follows:

	Cumulative inflation for 2019	Cumulative inflation for 2020	Inflation for the year
	(sum of inflation rates for 2017, 2018 and 2019)	(sum of inflation rates for 2018, 2019 and 2020)	(inflation rate for 2020)
Inflation rate	13.17%	15.10 %	3.33 %

2.

Under Mexican FRS, this cumulative inflation rate represents the necessary condition for considering Mexico as having a non-inflationary economic environment, which means that the financial statements should be prepared on a historical cost basis.

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Expected to be realized within twelve months after the reporting period
- Held primarily for the purpose of trading, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The terms of the liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Company classifies all other liabilities as non-current.

c) Functional currency

The Company has determined that its functional currency is the U.S. dollar. Nevertheless, the Company's financial statements are presented in Mexican pesos, which is the currency the Company uses to record its transactions and the currency it use for presentation purposes. Since the Company's financial statements are issued strictly for legal and tax purposes and therefore, will not be consolidated or include valuations of equity investments accounted for using the equity method, the Company did not translate the financial statements from its recording currency to its functional currency, as allowed under Interpretation to Mexican FRS 15 Financial statements for which the presentation currency is the same as the recording currency, but different from the functional currency.

d) Revenue from contracts with customers

The Company's primary activity is manufacturing, selling and installation parts for the automotive industry.

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements, except for the agency services below, because it typically controls the goods or services before transferring them to the customer.

Sale of goods

Revenue from sale of automotive parts is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the parts. The normal credit term is 30 to 90 days upon delivery.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of parts, the Company considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

Performance obligation

When the customer has entered into an agreement for the design/development of tools and components, these activities should be considered as separate performance obligations. Management believes that the contractual output cannot be reliably estimated over the course of design/development and over the life of the tools and therefore, revenue is recognized at cost in proportion to revenue until the design/development activities have been completed.

Sales returns

The Company accounts for sales returns by recognizing a right of return asset (and corresponding adjustment to cost of sales), as well as an associated refund liability for the amount of the related return. Since the Company has not experienced any relevant returns, Company management does not believe any adjustment will be required. However, Company management will assess the importance of any sales returns and decide whether to approve any adjustments related to the separate disclosure of assets and liabilities for sales returns.

4.

Variable consideration

Variable consideration is estimated at contract inception. MFRS D-1 requires that variable consideration be calculated using either the 'most likely amount method' or the 'expected value method'. Variable consideration is constrained based on the likelihood and significance of expected revenue reversal. Company management monitors and calculates price reductions on a monthly basis and thus believes that the treatment of price reductions is aligned with the guidelines on variable consideration; as a result, the Company does not expect the adoption of the new revenue standards to have a material effect on its financial statements.

Significant financing component

The Company recognizes a financing component when a significant period elapses between the date when the goods or services are delivered to the customer and the Company receives the consideration in exchange for those goods or services. This also applies to inverse financing; i.e. when the Company has received advance consideration. Discounting begins as of the date when the Company recognizes the associated revenue.

A significant financing component must be identified and recognized separately as finance income as of the date when the goods or services are delivered rather than the billing date. The Company considers all unbilled revenue whose billing period is more than 1 year and recognizes the effect of discounting from the date when the revenue is recognized until the collection date.

Warranty obligations

The Company typically provides warranties for general repairs of defects that existed at the time of sale. These assurance-type warranties are accounted for as warranty provisions.

Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in Note 1h) of financial instruments - initial recognition and subsequent measurement.

Consideration payable to customers (Nomination fee)

Mexican FRS D-2 establishes that an entity should recognize the costs to obtain a contract in profit or loss at the time control of the promised goods or services is transferred to the customer and as a result, the entity has satisfied the respective performance obligation. This principle was applied in a consistent manner in the preparation of the financial statements of the Company at December 31, 2019.

Mexican FRS D-2 "Costs for contracts with clients" requires that the incremental costs incurred to obtain a contract and certain costs to fulfill a contract are recognized as assets if certain criteria are met. The nomination fee is recognized as an asset if there are future economic benefits associated with such cost, and the nomination fee is amortized on a systematic basis to reflect the benefits, and this amortization is offset against revenue

e) Use of estimates

The preparation of the Company's financial statements in accordance with Mexican FRS requires management to make judgements, estimates and significant assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. The Company and its subsidiaries based its estimates on the available information at the time the financial statements were prepared. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

Leases

- Determining the lease term of contracts with renewal and termination options - Company as lessee

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

6.

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The renewal options for leases of motor vehicles are not included as part of the lease term because the Company typically leases motor vehicles for not more than five years and, hence, is not exercising any renewal options. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

- Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment at contract inception date. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Provision for expected credit losses (ECL) of trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Impairment in the value of non-financial assets

Impairment exists when the carrying amount of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal or its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the next five years or more, taking into account that growth rates must not be further than five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Additional disclosures related to impairment in the value of the Company's non-financial assets are included in:

- Property plant and equipment in Note 4
- Intangible assets in Note 5

Defined benefit plans (pension benefits)

The net cost of the defined benefit plans and the present value of these labor obligations are determined using actuarial valuations. Actuarial valuations require the use of various assumptions. These include the determination of the discount rate, future salary increases, and mortality, disability, employee turnover rates, as well as certain financial and demographic assumptions. Due to the complexities involved in the valuation, the underlying assumptions and the long-term nature of the valuation, a defined benefit obligation is highly sensitive to changes in these assumptions.

8.

All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of marketable securities in currencies consistent with the currencies of the post-employment benefit obligation by reference to market yields on high-quality corporate bonds or when no such information is available, by reference to market yields on government bonds. When a corporate bond rate is used, the underlying bonds are further reviewed for quality, and those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds. As at 31 December 2019 and 2018, the Company has used a corporate bond rate to discount its long-term defined employee benefits, since management believes that this rate best reflects the present value of the Company's expected future benefit payments based on the characteristics of plan participants and the estimated future payment dates of the benefits.

Future salary increases are based on expected future inflation rates for Mexico considering a growth rate in the expected benefits.

Additional information on the assumptions used is provided in Note 10.

f) Cash

Cash principally consists of bank deposits in Mexican pesos and foreign currencies. Cash is stated at fair value.

Cash in foreign currency is translated using the rate of exchange prevailing at the reporting date. Exchange differences are recognized in the statement of profit or loss as they accrue.

g) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition in trading financial instruments ("IFN" as it stands for in Spanish) and financial instruments to collect or sale ("IFCV" as it stands for in Spanish) both measured at fair value, under Mexican FRS B-17 Fair Value Measurement.

For purposes of subsequent measurement, financial assets are classified as follows: as financial assets subsequent measurement at amortized cost (financial assets to collect principal and interest ("IFCPI" as it stands for in Spanish), financial assets at fair value through OCI ("IFCV") and financial asset at fair value through profit or loss ("IFN").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under Mexican FRS D-1 Revenue from contracts with customers as under Mexican FRS C-20 Financial Assets to collect principal and interest. Refer to the accounting policies in Note 1d) Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest ("IFCPI") on the principal amount outstanding. This assessment is referred to as the financial asset to collect principal and interest test and is performed at an instrument level. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows for the business's activities and not for a particular intention of holding an instrument. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in the following categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss.

10.

h) Hedging activities and derivatives

Initial recognition and measurement

The Company uses derivative financial instruments, such as currency forwards, to hedge its foreign currency exposures. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges

The change in the fair value of a hedging instrument is recognized in the statement of profit or loss as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the statement of profit or loss as other expense.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Company uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency contracts is recognized as other expense and the ineffective portion relating to commodity contracts is recognized in other operating income or expenses.

The Company designates only the spot element of forward contracts as a hedging instrument. The forward element is recognized in OCI and accumulated in a separate component of equity under cost of hedging reserve.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

12.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction.

i) Trade receivables

Trade receivables represent the consideration to which an entity is entitled in exchange for satisfaction of a performance obligation through the transfer of a promised good or service to a customer.

Trade receivables are considered to be financial assets, as they arise from a contract that establishes the contractual obligations of the parties.

Trade receivables are recognized upon accrual of the transaction giving rise to them, which occurs when control over the promised good or service is transferred to the customer in execution of the terms of the related contract. Trade receivables are only recognized when they meet the conditions for recognition of the corresponding revenue in accordance with Mexican FRS D-1 Revenue from contracts with customers.

Trade receivables are initially recognized at the transaction price determined in accordance with Mexican FRS D-1 and subsequently adjusted to the amount of the transaction price that has not been collected from the customer.

Trade receivables denominated in foreign currency or in another medium of exchange are translated to the Company's functional currency using the rate of exchange prevailing at the reporting date. Changes in the amount of trade receivables arising from exchange rate fluctuations are recognized as part of net financing income.

Accounts receivable are classified as either short-term or long-term depending on the length of their terms. Accounts receivable that are due within one year of the reporting date (or within the entity's normal business cycle if it exceeds one year) are classified as short-term. All other accounts receivable are classified as long-term.

The Company records an allowance for expected credit losses in profit or loss upon initial recognition of its trade receivables, based on an assessment of their recoverability, and then recognizes the changes to the allowance that arise in each subsequent period.

j) Allowance for expected credit losses

The Company recognizes an allowance for expected credit losses and exercises its judgment to determine the expected credit losses of its trade receivables, taking into consideration its historical credit loss experience, current circumstances, and reasonable and sustainable forecasts of different future quantifiable events that could reduce the future cash flows earned from the Company's receivables.

The Company recognizes the allowance for expected credit losses related to accounts receivable in accordance with Mexican FRS C-16 Impairment of financial assets.

k) Inventories

Inventories are valued at the lower of either their cost or net realizable value. The cost of inventories includes all purchase and production costs incurred in bringing each product to its present location and condition. Inventories are valued as follows:

- Raw materials: at cost using the average cost method.
- Finished goods and work in progress: based on the cost of materials and direct labor costs, as well as indirect production expenses, excluding borrowing costs.

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

Provisions for impairment losses on the value of inventories are recognized when there are losses from firm sales commitments in excess of inventory stock levels.

l) Prepaid expenses

Prepaid expenses are initially recognized as assets as of the date the payment is made, provided that it is probable that the future economic benefits associated with the item will flow to the Company.

At the time the goods are received, prepaid expenses are either capitalized or recognized in profit or loss as an expense, depending on whether there is certainty that the acquired goods or services will generate future economic benefits.

The Company periodically evaluates its prepaid expenses to determine the likelihood that they will cease to generate future economic benefits and to assess their recoverability.

Unrecoverable prepaid expenses are recognized as impairment losses in profit or loss. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the recoverable amount of prepaid expenses to the extent that those changes are permanent in nature. These reversals are recognized in OCI.

m) Property, plant and equipment

Property, plant and equipment is initially measured at cost.

The cost of acquiring property, plant and equipment includes the costs initially incurred to acquire or build the asset, plus costs subsequently incurred to replace the asset or enhance its service capability. Repair and maintenance costs are expensed as incurred.

14.

Depreciation of property, plant and equipment is calculated on the assets' carrying amounts on a straight-line basis over the estimated useful lives of the assets. An analysis is as follows:

	<u>Estimated useful life</u>
Buildings	20 years
Computer equipment	3 years
Automotive equipment	4 years
Machinery and equipment	10 years
Office furniture and equipment	10 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statement of profit or loss when the asset is derecognized.

The carrying amount of property, plant and equipment is reviewed whenever there are indicators of impairment in the value of such assets. When the recoverable amount of an asset, which is the higher of the asset's expected net selling price and its value in use (the present value of future cash flows) is less than its net carrying amount, the difference is recognized as an impairment loss.

For the years ended 31 December 2020 and 2019, there were no indicators of impairment in the value of the Company's fixed assets.

n) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets (based on its materiality). The Company recognizes lease liabilities to make lease payments and right of use assets representing the right to use the underlying assets.

Until December 31, 2019, lease agreements of property, plant and equipment are recognized as finance leases if the ownership of the leased asset is transferred to the lessee upon termination of the lease, the agreement includes an option to purchase the asset at a reduced price, the term of the lease is substantially the same as the remaining useful life of the leased asset, or the present value of minimum lease payments is substantially the same as the market value of the leased asset, net of any future benefit or scrap value.

When the risks and rewards inherent to the ownership of the leased good remain substantially with the lessor, they are classified as operating leases. Rent is recognized in profit or loss as incurred.

i) Right of use assets

The Company recognizes right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation or amortization and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the initial amount of lease liabilities recognized, initial direct costs incurred by the lessee, and lease payments made at or before the commencement date less any lease incentives received.

Right of use assets are depreciated or amortized on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Buildings	3 to 4 years
Motor vehicles and other equipment	2 to 4 years

The Company's lease arrangements do not contain an obligation to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to a specified condition.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation or amortization is calculated using the estimated useful life of the asset.

The right of use assets are also subject to impairment. Refer to the accounting policies in Note 1e) Use of estimates, specifically about the impairment in the value of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

16.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company's lease liabilities are presented separately in the statement of financial position.

iii) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

o) Intangible assets

Project development costs are capitalized only when such costs can be reliably quantified, the Company expects to obtain future economic benefits from the investment and the Company maintains control over such benefits.

Capitalized development costs are measured initially at cost.

Intangible assets are amortized on a straight-line basis over the estimated useful lives of the related assets, as follows:

	<u>Estimated useful life</u>
Pre-operational expenses	10 years
Patents and trademarks	3-10 years

Intangible assets with indefinite useful lives are not amortized.

The Company's policy is to review the carrying amounts of its intangible assets with finite useful lives whenever there are indicators of impairment in the value of such assets. When the recoverable amount of an asset, which is the higher of the asset's expected net selling price and its value in use (the present value of future cash flows) is less than its net carrying amount, the difference is recognized as an impairment loss.

Intangible assets with indefinite useful lives, including those that are not yet available for use, and intangible assets with finite useful lives whose amortization period exceeds twenty years from the date they were available for use, are tested for impairment on an annual basis.

For the years ended as at 31 December 2020 and 2019, there were no indicators of impairment in the value of the Company's intangible assets.

p) Provisions, contingents and commitments

Provisions are recognized when (i) the Company has a present obligation (legal or constructive) as a result of a past event, (ii) it is probable (more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and (iii) a reliable estimate can be made of the amount of the obligation.

When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is mostly certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provision amounts are determined as the present value of the expected outflow of resources to settle the obligation.

The provisions are discounted using a pre-tax rate that reflects the current market conditions at the date of the statement of financial position and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Contingent liabilities are recognized only when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Also, commitments are only recognized when they will generate a loss.

q) Net defined benefit obligation

Seniority premiums are paid to workers as required by Mexican labor law. Additionally, under Mexican labor law, the Company is liable to make certain payments to workers who terminate employment or are dismissed in certain circumstances.

Remeasurements of the net defined benefit obligation, which comprise actuarial gains and losses and the return on plan assets, are immediately recognized in the statement of financial position with the effect recognized in OCI, and they are recycled to profit or loss in a subsequent period based on the average remaining working lives of the employees expected to receive the benefits of the current plan.

18.

Past service costs are recognized on the earlier of:

- The date of the plan amendment or curtailment, and
- the date that the Company recognizes related restructuring costs.

r) Compensated absences

The Company creates a provision for the costs of compensated absences, such as paid annual leave, which is recognized using the accrual method.

s) Employee profit sharing

Current and deferred employee profit sharing are presented as part of costs or expenses in the statement of profit or loss.

Deferred employee profit sharing is determined using the asset and liability method. Under this method, deferred employee profit sharing is calculated by applying the 10% rate to all temporary differences between the values of assets and liabilities for financial and tax reporting purposes. The Company periodically evaluates the possibility of recovering deferred employee profit sharing assets and if necessary, creates a valuation allowance for those assets that do not have a high probability of being realized.

Deferred employee profit sharing assets and liabilities relating to items outside profit or loss from components of other comprehensive income that have not yet been realized are recognized in equity and reclassified to profit or loss immediately as accrued (See Note 11).

t) Exchange differences

Transactions in foreign currency are initially translated using the prevailing exchange rate on the day of the initial transactions. Foreign currency denominated assets and liabilities are translated using the exchange rate ruling at the reporting date.

Exchange differences from the transaction date to the time foreign currency denominated assets and liabilities are settled, as well as those arising from the translation of foreign currency denominated balances at the reporting date, are recognized in profit or loss, except for those arising on foreign currency denominated loans obtained for the construction of fixed assets, as such costs are capitalized as borrowing costs during the construction period of the assets.

u) Comprehensive income

Comprehensive income represents the increase or decrease in earned capital from net profit or loss for the year, components of Other Comprehensive Income (OCI) and the Company's share in the OCI of other entities. Other comprehensive income consists of income, cost and expense items recognized in equity that are expected to be realized in the medium term and whose amounts may change due to changes in the fair value of the assets and liabilities that gave rise to them, making their realization uncertain. OCI includes unrealized gains and losses on hedges and net defined benefit obligation remeasurement gains and losses.

v) Income tax

Current income tax

Current income tax is recognized as a current liability, net of prepayments made during the year. Current income tax is recognized as an expense in profit or loss, except to the extent that it arises from transactions or other events recognized outside profit or loss, either in comprehensive income or directly in equity.

Deferred income tax

Deferred income tax is calculated using the asset and liability method. Under this method, deferred taxes are recognized on all temporary differences between financial reporting and tax values of assets and liabilities, applying the enacted income tax rate as of the date of the statement of financial position, or the enacted rate at the date of the statement of financial position that will be in effect when the temporary differences giving rise to deferred tax assets and liabilities are expected to be recovered or settled.

The Company periodically evaluates the possibility of recovering deferred tax assets and if necessary, creates a valuation allowance for those assets that do not have a high probability of being realized.

w) Statement of comprehensive income presentation

Costs and expenses shown in the statement of comprehensive income are analyzed by their function in order to present cost of sales separately from other costs and expenses, since such classification allows for a more accurate evaluation of the Company's operating and gross profit margins.

Although not required to do so under Mexican FRS, the Company includes operating profit in the statement of comprehensive income, since this item is an important indicator for evaluating the Company's operating results, given that this is a common disclosure in the industry in which the Company operates.

x) Equity

Changes in the Company's equity, legal reserve and cumulative gains (losses) are recognized in terms of cumulative historical cost.

y) New accounting pronouncements

1) Standards, Interpretations and Improvements to Mexican FRS issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issue of the Company's financial statements are disclosed below.

20.

The Company intends to adopt these standards, if applicable, when they become effective.

Mexican Financial Reporting Standard (Mexican FRS) C-15 Impairment of long-lived assets (effective for annual periods beginning on or after 1 January 2022)

Mexican FRS C-15 Impairment of long-lived assets was issued by the CINIF in December 2020 and sets out the framework for the accounting recognition of impairment losses on the value of long-lived assets, and their reversal.

Mexican FRS C-15 will supersede Bulletin C-15 Accounting for the impairment or disposal of long-lived assets. The most important changes contained in the new standard are as follows: Mexican FRS C-15 provides new examples to assess whether there is any indication that an asset may be impaired, for the purpose of impairment testing, the term net selling price is now replaced by the term fair value less costs to sell, entities now have the option to use an estimate of future cash flows and a real discount rate, to determine the recoverable amount, new guidelines for the accounting treatment of foreign currency future cash flows, new guidelines for the allocation of goodwill at a cash-generating unit (CGU) level and recognition of an impairment loss, impairment tests will no longer be determined using the perpetuity value for intangible assets with indefinite useful lives and, as a result, such impairment tests have been modified, new guidelines that address the impairment of corporate assets, and as a result of the aforementioned changes, the disclosure guidelines have been modified.

Mexican FRS C-15 is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

The adoption of Mexican FRS C-15 had no effect on the Company's consolidated financial statements.

Interpretation to Mexican FRS 24 Recognition of the effect of the application of new benchmark interest rates (effective for annual periods beginning on or after 1 January 2021)

Interpretation to Mexican FRS 24 Recognition of the effect of the application of new benchmark interest rates was issued by the CINIF in October 2020 to establish guidelines regarding the effects of adopting the new benchmark interest rates applicable to financial assets and liabilities or hedging relationships. The referred benchmark interest rates replace the 'IBOR' rates (e.g. TIIE, LIBOR, EURIBOR, Prime Offering Rate, etc.) applied under the previous guidance. The Interpretation also addresses whether the adjustments arising from the replacement or change in interest rates shall cause the financial instrument to be derecognized or the hedging relationship to be discontinued.

The new Interpretation also establishes new disclosures related to the adoption of the new benchmark interest rates.

Interpretation to Mexican FRS 24 is effective for annual periods beginning on or after 1 January 2021, with early application permitted. The effects of the change to benchmark interest rates must be recognized prospectively.

The adoption of Interpretation to Mexican FRS 24 had no effect on the Company's consolidated financial statements.

Improvements to Mexican FRS for 2021

(i) Mexican FRS B-1 Accounting changes and error corrections

Entities are now required to recognize prospectively the initial effect of an accounting change or error correction when it is impracticable to determine such initial effect using the retrospective approach.

This improvement is effective for annual periods beginning on or after 1 January 2021, with early adoption permitted for annual periods beginning on or after 1 January 2020. Any accounting changes arising from the adoption of this improvement are to be recognized prospectively.

The adoption of this improvement had no effect on the Company's consolidated financial statements.

(ii) Mexican FRS C-2 Investment in financial instruments

Mexican FRS C-2 now includes an option to recognize in other comprehensive income (OCI) any changes in the fair value of certain investments in equity instruments that are not held for trading in the short-term. Foreign exchange differences arising from equity investments belonging to this new classification shall also be recognized in OCI as part of the fair value adjustment.

This improvement is effective for annual periods beginning on or after 1 January 2021, with early adoption permitted for annual periods beginning on or after 1 January 2020.

The adoption of this improvement had no effect on the Company's consolidated financial statements.

(iii) Mexican FRS B-3 Statement of comprehensive income: Mexican FRS C-2 Investment in financial instruments; Mexican FRS C-19 Financial liabilities; and Mexican FRS C-20 Financial assets

Entities are now required to separately recognize, as part of operating results in the statement of comprehensive income, any gains and losses arising on derecognition of liabilities as well as the effects of renegotiation of financial assets to collect principal and interest ("IFCPI" as it stands for in Spanish) or financial assets to collect or sell ("IFCV" as it stands for in Spanish), known as "loan reduction".

This improvement is effective for annual periods beginning on or after 1 January 2021, with early adoption permitted for annual periods beginning on or after 1 January 2020.

22.

The adoption of this improvement had no effect on the Company's consolidated financial statements.

(iv) Mexican FRS D-5 Leases

a) Lease recognition exemption disclosures

Mexican FRS D-5 clarifies certain issues surrounding the expense related to short-term leases and leases of low-value assets, for which no right-of-use asset is recognized.

b) Sale-leaseback transactions

Mexican FRS D-5 explains and clarifies certain issues surrounding the determination of the lease liability arising in a sale and leaseback transaction. Consequently, the illustrative example of a sale and leaseback transaction provided in Mexican FRS D-5 has been modified.

These improvements are effective for annual periods beginning on or after 1 January 2021, with early adoption permitted for annual periods beginning on or after 1 January 2020.

The adoption of these improvements had no effect on the Company's consolidated financial statements.

2) New Standards, Interpretations and Improvements to Mexican FRS effective as at 1 January 2020

Improvements to Mexican FRS for 2020

The improvements with accounting changes related to valuation, disclosures or presentation in the financial statements are as follows:

(i) Mexican FRS C-16 Impairment of financial assets

Mexican FRS C-16 was amended to include the requirement that entities must use the original effective interest rate (EIR) for subsequent measurement of a financial asset to collect principal and interest, that was not derecognized as a result of a renegotiation or modification of the contractual cash flows.

When this occurs, the original EIR should only be adjusted to include the unamortized renegotiation costs.

This improvement is effective for annual periods beginning on or after 1 January 2020, with early adoption permitted for annual periods beginning on or after 1 January 2019.

The Company considers this adoption of these improvements will not have effects on the Company's financial statements.

(ii) Mexican FRS C-19 Financial liabilities and Mexican FRS C-20 Financial assets to collect principal and interest

Entities are no longer required to periodically recalculate the EIR for financial liabilities and financial assets to collect principal and interest with variable interest rate when the effects of the periodic recalculation of the contractual cash flows are relatively immaterial.

This means that, in these cases, entities will continue to amortize the transaction costs based on the initial EIR, and the effects of interest rate fluctuations will be recognized in profit or loss as they occur.

These improvements are effective for annual periods beginning on or after 1 January 2020, with early adoption permitted. Any accounting changes arising from the adoption of these improvements are to be recognized prospectively.

The Company considers this adoption of these improvements will not have effects on the Company's financial statements.

(iii) Mexican FRS D-4 Income taxes and Mexican FRS D-3 Employee benefits

Entities are now required to account for the effects of uncertain tax treatments on their income tax and employee profit sharing. The improvements address matters such as: whether an entity should consider uncertain tax treatments separate or combined basis, the assumptions an entity must make when determining whether the tax treatment will be reviewed by the tax authorities, how an entity should determine its taxable profit, tax base, unused tax losses, unused tax credits and tax rates, methods for estimating the uncertainty, and how an entity should evaluate changes in facts and circumstances.

Since employee profit sharing is determined based on the same tax laws and using practically the same tax base as income tax, the above mentioned considerations related to the effects of uncertainty are also applicable to current and deferred employee profit sharing.

These improvements are effective for annual periods beginning on or after 1 January 2020, with early adoption permitted for annual periods beginning on or after 1 January 2019.

The Company considers this adoption of these improvements will not have effects on the Company's financial statements.

(iv) Mexican FRS D-4 Income taxes

Entities are now required to recognize the tax effects of distributions of dividends in equity, so when an entity recognizes a liability for distribution of dividends, it must also recognize the corresponding income tax liability, if applicable.

This improvement is effective for annual periods beginning on or after 1 January 2020, with early adoption recommended for annual periods beginning on or after 1 January 2019.

24.

The Company considers this adoption of these improvements will not have effects on the Company's financial statements.

(v) Mexican FRS D-5 Leases

a) Use of a risk free rate to discount future lease payments

Mexican FRS D-5 now includes an option for lessees to measure the lease liability at the commencement date of the lease, at the present value of the lease payments that are not paid at that date using a risk free rate. Lessees must elect whether to apply this option to each lease agreement and, if this option is elected, it must be applied until the end of the lease term.

Mexican FRS D-5 establishes that a risk free rate is the rate that reflects the time value of money under prevailing market conditions established for government bonds with specific maturities; a risk free rate does not take any other risks into account.

b) Separating components of a lease

Limitations were imposed on the use of the practical expedient set forth in Mexican FRS D-5 related to the separation of non-lease components or relatively insignificant components when determining the right of use asset and the lease liability.

The practical expedient establishes that, when it is difficult to separate the components, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. Lessees still may not apply this practical expedient to embedded derivatives that meet the separation criteria in Mexican FRS C-10.

These improvements are effective for annual periods beginning on or after 1 January 2020, with early adoption permitted for annual periods beginning on or after 1 January 2019.

The Company considers this adoption of these improvements will not have effects on the Company's financial statements.

2. Related parties

The companies mentioned in this note are considered affiliates, as the Company's shareholders are also shareholders in such companies.

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

	2019	2018
Receivable:		
SMP Deutschland GmbH (affiliate)	\$ 8,028,668	\$ 6,691,040
SMP Automotive Systems Alabama Inc. (affiliate)	1,110,931	60,563,379
SMR Automotive Mirror Technology Hungary Bt (afiliada)	248,291	-
Motherson Air Travel Agency GmbH (afiliada)	1,084	-
	<u>\$ 9,388,974</u>	<u>\$ 67,254,419</u>
Payable:		
SMP Deutschland GmbH (affiliate)	\$ 14,922,238	\$ 45,079,223
SMRC Automotive Modules France SAS	1,964,330	-
Motherson Sumi Systems Limited	1,148,341	-
Motherson Sumi Infotech & Designs (affiliate)	844,350	730,727
MothersonSumi Infotekk and Design GmbH	722,425	-
Motherson Automotive Elastomers (affiliate)	632,688	445,684
SMP Automotive Systems Alabama Inc.	272,758	1,411,095
Samvardhana Motherson Global FZE	263,986	342,467
MSSL México, S.A. de C.V.	163,197	-
Motherson Sumi Infotech & Designs Ltd. (affiliate)	-	1,069,635
Samvardhana Motherson Automotive Systems (affiliate)	-	956,305
MSSL GmbH (affiliate)	-	150,380
SMP Automotive Technology Ibérica, S. L. (tenedora)	-	70,716
Total accounts payable	<u>\$ 20,934,313</u>	<u>\$ 50,256,232</u>

As at December 31 2020 and 2019, balances receivable due from related parties consist of unsecured current accounts that bear no interest, without guarantees.

	2020	2019
Loans payable in the short term:		
SMP Automotive Systems Alabama Inc. ⁽³⁾	\$ -	\$ 61,648,873
SMP Automotive Technology Ibérica, S.L. (tenedora) ⁽¹⁾	-	51,932,440
Samvardhana Motherson Automotive Systems Group B. V. (afiliada)	11,526,541	-
	<u>\$ 11,526,541</u>	<u>\$ 113,581,313</u>
Loans payable in the long term:		
Samvardhana Motherson Automotive Systems Group B.V. (affiliate) ⁽²⁾	\$ -	\$ 927,309,675
SMP Automotive Technology Ibérica, S.L. (holding) ⁽¹⁾	1,594,151,590	-
	<u>\$ 1,594,151,590</u>	<u>\$ 927,309,675</u>

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The operations maintained between related parties are realized at market value prices. Accounts receivable due from related parties are all considered collectible. Balances receivable from related parties are considered recoverable and therefore there has been no uncollectibility expense related to those accounts.

b) The Company has entered into the following agreements with its related parties:

- (1) Loan agreement of US \$118,000,000 with its holding entered on June 20, 2016, bearing interests in a quarterly basis at a rate of 5.90% annually.
- (2) Loan agreements by its affiliate on December 14, 2018 for a principal amount of up to EUR \$14,500,000 and on December 1st. 2019 of EUR \$50,000,000, both loans bearing interests in a quarterly basis at a rate of 4.50% annually. Repayment date is June 30, 2021.
- (3) Loan granted in an amount up to December 26, 2019 for US\$ 10,000,000, US\$5,000,000 with SMP Automotive Systems Alabama Inc., of which US\$ 5,000,000 has been drawn, with interest at an annual rate of 3.54%, due May 31, 2022.
- (4) Contract for the payment of licenses with SMP México must pay 2% of the net sales of the Audi Q5 project, signed on June 24 and expiring on December 31, 2023.

c) During the years ended December 31, 2020 and 2019, the Company had the following transactions with its related parties:

	2020	2019
Manufacturing services:		
Operations with affiliates:		
SMP Automotive Systems Alabama Inc.	\$ 1,215,250	\$ -
Samvardhana Motherson Innovative Autosystems de México, S.A. de C.V.	93,952	-
SMP Deutschland GmbH.	84,110	12,376,054
SMR Automotive Vision Systems México, S.A. de C.V.	-	15,041,068
SMP Automotive Systems Alabama Inc.	-	8,075,886
SMP Automotive Produtos Automotivos Do Brasil Ltda.		-
Accrued interest:		
Transactions with affiliates:		
SMP Automotive Systems Alabama Inc.	233,566	4,794,895

	2020	2019
Sale of fixed assets:		
Transactions with affiliates:		
SMP Automotive Systems Alabama Inc.	\$ -	\$ 49,225,314
Expense reimbursement:		
Transactions with affiliates:		
SMP Automotive Systems Alabama Inc.	4,944,905	72,953
SMR Automotive Vision Systems México, S.A. de C.V.	33,750	-
Samvardhana Motherson Innovative Autosystems de México, S.A. de C.V.	33,750	-
SMP Deutschland GmbH.	-	25,666
Administrative Services:		
Transactions with affiliates:		
SMP Deutschland GmbH.	1,943,521	158,585
SMR Automotive Mirror Technology Hungary Bt.	250,530	901,888
SMP Automotive Systems Alabama Inc.	20,058	10,552,085
Inventory purchases:		
Transactions with affiliates:		
Motherson Automotive Technologies and Engineering (a division of Motherson Sumi Systems Limited)	7,695,131	-
Motherson Automotive Elastomers Tec	7,122,322	7,892,386
MSSL México, S.A. de C.V.	4,529,683	5,108,121
Motherson Automotive Technologies & Engg Samvardhana Motherson Innovative	115,393	13,778,273
Autosystems de México, S.A. de C.V.	9,864	-
SMP Ibérica S.L.	1,983	3,500,996
SMP Deutschland GmbH.	-	29,352,522
Fixed assets purchases:		
Transactions with affiliates		
Motherson Sumi Infotech & Designs Ltd.	-	4,117,808

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	2020	2019
Administrative services received:		
Transactions with affiliates:		
MSSL GmbH.	12,249,122	12,019,201
SMP Deutschland GmbH.	6,289,088	7,502,865
Samvardhana Motherson Global FZE	4,540,862	5,494,323
Motherson Sumi Infotekk & Design GmbH.	8,098,891	8,536,237
Samvardhana Motherson Automotive Systems Group BV.	2,138,760	4,040,900
SMRC Automotive Modules France SAS	2,724,131	-
Motherson Sumi Infotech & Designs Ltd.	530,866	540,395
SMR Automotive Vision Systems México, S.A. de C.V.	186,070	-
SMP Automotive Systems Alabama Inc.	-	3,364,996
Motherson Auro Ltd.	-	353,421
MSSL Wiring System Inc.	-	211,327
Motherson Air Travel AGmbH.	-	33,980
IT Services:		
Transactions with affiliates:		
Motherson Sumi Infotech & Designs	11,834,038	12,343,771
SMP Deutschland GmbH.	925,065	-
Royalties:		
Transactions with affiliates:		
SMP Deutschland GmbH.	58,246,405	63,704,797
Technical assistance and development services:		
Transactions with affiliates:		
SMP Deutschland GmbH.	191,900,694	32,385,462
Management fees:		
Transactions with affiliates:		
SMP Ibérica S.L.	217,563	861,764
Accrued interest:		
Transactions with affiliates:		
Samvardhana Motherson Automotive Systems Group B.V.	23,982,877	14,332,201
SMP Ibérica S.L.U	432,042	19,058,647
SMP Automotive Systems Alabama Inc.	75,023	-

	2020	2019
Inside group services:		
Transactions with affiliates:		
SMP Deutschland GmbH.	40,608,370	106,607,000
Expenses refund:		
Transactions with affiliates:		
SMP Automotive Systems Alabama Inc.	1,872,050	-
SMP Deutschland GmbH	101,050	-
Motherson Automotive Technologies	-	371,844
MSSL GmbH.	-	190,300
Motherson Air Travel Agency GmbH.	-	142,315
Motherson Sumi Infotech & Designs	-	31,031
Motherson Air Travel Agencies Ltd.	-	1,978
Servicio de Ingenieria		
Transactions with affiliates:		
Motherson Technologies	-	6,429,208

3. Inventories

An analysis of inventories as at December 31, 2020 and 2019, is as follows:

	2020	2019
Raw materials and components	\$ 126,915,397	\$ 155,365,599
Tooling	284,904,766	245,704,556
Spare parts	120,768,477	123,573,408
Finished products	13,745,879	7,016,306
Work in process	38,360,916	28,775,860
Goods in transit	18,776,693	17,150,647
	603,472,128	577,586,376
Slow moving and obsolete inventory estimate	(16,687,592)	(20,389,349)
Total inventory	\$ 586,784,536	\$ 557,197,027

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4. Property, plant and equipment

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

Components subject to depreciation

	2020		2019	
	Investment	Accumulated depreciation	Investment	Accumulated depreciation
Buildings	\$ 661,790,702	\$ (141,640,622)	\$ 657,368,308	\$ (108,584,366)
Computer equipment	100,737,407	(81,435,701)	91,056,391	(77,040,661)
Transportation equipment	3,482,061	(3,375,158)	3,826,569	(3,727,694)
Improvements to property leasing	100,156,460	(29,603,096)	98,110,109	(19,927,582)
Machinery and equipment	2,630,778,438	(1,288,279,375)	2,600,446,278	(1,061,515,795)
Furniture and office equipment	265,964,425	(91,986,467)	228,383,039	(65,435,976)
	<u>\$ 3,762,909,493</u>	<u>\$ (1,636,320,419)</u>	<u>\$ 3,679,190,694</u>	<u>\$ (1,336,232,074)</u>
Components not subject to depreciation				
Land	\$ 15,227,512		\$ 15,227,512	
Construction in process	52,886,633		30,994,014	
Property, plant and equipment, net	<u>\$ 2,194,703,219</u>		<u>\$ 2,389,180,146</u>	

b) Depreciation and amortization expense for the years ended December 31, 2020 and 2019, amounted to \$300,088,345 and \$310,174,610 respectively. Depreciation is calculated based on the straight line method considering the estimated useful life of the assets.

Construction in progress projects are expected to be completed in a period of no more than one year and correspond mainly to fire protection equipment to be used in Puebla Plant and machinery to be used in Zitlaltepec Plant.

5. Intangible assets

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

	License	Pre-operational expenses	Total
Cost:			
As at December 31, 2018	\$ 9,660,725	\$ 129,085,472	\$ 138,746,197
Additions	10,466,073	6,401,656	16,867,729
As at December 31, 2019	20,126,798	135,487,128	155,613,926
Additions	12,219,970	-	12,219,970
Fixed	-	(19,722,552)	(19,722,552)
As at December 31, 2020	<u>\$ 32,346,768</u>	<u>\$ (115,764,576)</u>	<u>\$ 148,111,344</u>
Amortization and impairment:			
As at December 31, 2018	\$ (9,111,602)	\$ (27,092,867)	\$ (36,204,469)
Amortization	(7,002,622)	(8,779,375)	(15,781,997)
As at December 31, 2019	(16,114,224)	(35,872,242)	(51,986,466)
Amortization	(3,472,511)	(2,776,332)	(6,248,843)
As at December 31, 2020	<u>\$ (19,586,735)</u>	<u>\$ (38,648,574)</u>	<u>\$ (58,235,309)</u>
Net book value:			
As at 31 December, 2020	<u>\$ 12,760,033</u>	<u>\$ 77,116,002</u>	<u>\$ 89,876,035</u>
As at 31 December, 2019	<u>\$ 4,012,574</u>	<u>\$ 99,614,886</u>	<u>\$ 103,627,460</u>

The total depreciation for the years 2020 and 2019, was recognized in the results of these periods for an amount of \$6,248,843 and \$15,781,996, respectively; which is presented in the item of general expenses.

6. Bank loans

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

	2020	2019
Revolving credit line granted by HSBC MEXICO institución de banca múltiple, (Financial Group HSBC) for a principal amount of up to US \$38,000,000, with a LIBOR rate applicable in relation to the level of leverage. Payment date to year after signature date, renewal up to 4 additional periods.	\$ 258,323,000	\$ 530,183,225
Revolving credit line granted by Bank of America N.A. for a principal amount of up to US \$25,000,000 payable on May 28, 2020, this can be extended only if there is no other contract.	-	474,514,570
Current credit line granted by Santander (México) S. A. for a principal amount of up to US \$16,000,000 payable on July 19, 2019.	19,871,000	-
Current credit line granted by BBVA Bancomer, S.A. (Bancomer) for a principal amount of up to US \$16,000,000 or its equivalent in Mexican pesos, at the annual LIBOR rate plus 1.25% in dollars or TIIE plus 1.25% in pesos.	258,323,000	-
Total	536,517,000	1,004,697,795
Short-term debt and short-term portion of long-term bank loans	(536,517,000)	(1,004,697,795)
Bank loans with maturity longer than one year (long-term)	\$ -	\$ -

7. Provisions and accumulated liabilities

As of December 31, 2020 and 2019, the accumulated provisions and liabilities are integrated as follows:

	Balance as at December 31, 2019	Increase	Applications	Balance as at December 31, 2020
Provisions for fixed expenses	\$ 71,629,680	\$ 1,971,620,123	\$ 1,753,187,027	\$ 290,062,776
Provision for trade agreements	65,932,371	174,850,355	89,655,163	151,127,563
Provision for long-lived assets	8,342,109	225,922,260	191,221,610	43,042,759
	\$ 145,904,160	\$ 2,372,392,738	\$ 2,034,063,800	\$ 484,233,098

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8. Foreign currency balances

a) The financial statements as at December 31, 2020 and 2019, include the following U.S. dollar denominated assets and liabilities:

	(Amount in U.S. Dollar)			
	2020		2019	
Current assets	USD	72,500,143	USD	33,432,450
Current liabilities		(112,834,962)		(23,630,795)
Net monetary liability position	USD	(40,334,819)	USD	9,801,655

The exchange rates used to translate the above amounts to Mexican pesos as at December 31, 2020 and 2019 were \$19.9087 and \$18.9250 pesos respectively, per U.S. dollar. As at 21 June, 2021, the date of issue of these financial statements, the exchange rate was \$ 20.7002 pesos per U.S. dollar.

b) The financial statements as at December 31, 2020 and 2019, include the following euros denominated assets and liabilities:

	(Amount in Euros)			
	2020		2019	
Current asstes	€	340,380	€	562,850
Current liabilities		(12,731,312)		(47,778,357)
Net monetary liability position	€	(12,390,932)	€	(47,215,507)

The exchange rates used to translate the above amounts to Mexican pesos as at December 31, 2020 and 2019 were \$24.2686 and \$21.2149, pesos per Euro respectively. As at 21 June, 2021, the date of issue of these financial statements, the exchange rate was \$24.6643 pesos per Euro.

9. Derivative financial instruments

An analysis of investments in financial instruments as at December 31, 2020 and 2019, is as follows:

	2020		2019	
Derivative financial instruments:				
Cash-flow hedges:				
Foreign currency hedges	\$	62,582,778	\$	51,458,750
Total derivative financial instruments	\$	62,582,778	\$	51,458,750

Samvardana Motherson group management established a policy that requires the Company to manage its exchange risks with respect to its functional currency. The Company manages its exposure to exchange risk together with its holding company. Exchange risk results from recognized assets or liabilities that are denominated in a currency that is not the Company's functional currency.

The position in derivative financial instruments of foreign currency held as of December 31, 2020, are summarized below:

Counterpart	Contract	Type of instrument	Date of finish	Fair value (USD)	Underlying fair value
BBVA Bancomer	135962480	FORWARD DE DIVISA	25/01/2021	\$ 35,146	EUR
BBVA Bancomer	135962487	FORWARD DE DIVISA	25/02/2021	35,462	EUR
BBVA Bancomer	135962494	FORWARD DE DIVISA	25/03/2021	35,776	EUR
BBVA Bancomer	135989939	FORWARD DE DIVISA	25/03/2021	(5,856)	EUR
BBVA Bancomer	135989949	FORWARD DE DIVISA	24/02/2021	(6,002)	EUR
BBVA Bancomer	135990301	FORWARD DE DIVISA	25/01/2021	8,086	EUR
BBVA Bancomer	135993846	FORWARD DE DIVISA	27/09/2021	113,664	EUR
BBVA Bancomer	135994958	FORWARD DE DIVISA	24/12/2021	165,546	EUR
BBVA Bancomer	53417224	FORWARD DE DIVISA	30/06/2021	1,078,514	EUR
BBVA Bancomer	53419118	FORWARD DE DIVISA	25/03/2022	1,182,875	EUR
BBVA Bancomer	50911572	SWAPS FX	25/03/2021	(35,776)	EUR
BBVA Bancomer	50911578	SWAPS FX	24/02/2021	1,000	EUR
BBVA Bancomer	50913569	SWAPS FX	16/04/2021	375,609	EUR
BBVA Bancomer	50913570	SWAPS FX	30/06/2021	(377,480)	EUR
BBVA Bancomer	50913575	SWAPS FX	14/05/2021	343,545	EUR
BBVA Bancomer	50913576	SWAPS FX	30/06/2021	(345,124)	EUR
BBVA Bancomer	50913581	SWAPS FX	16/06/2021	354,647	EUR
BBVA Bancomer	50913582	SWAPS FX	30/06/2021	(355,909)	EUR
BBVA Bancomer	50913587	SWAPS FX	16/06/2021	2,143	EUR
BBVA Bancomer	50913588	SWAPS FX	27/09/2021	(2,273)	EUR
BBVA Bancomer	50913599	SWAPS FX	16/07/2021	34,299	EUR
BBVA Bancomer	50913600	SWAPS FX	27/09/2021	(36,372)	EUR
BBVA Bancomer	50913605	SWAPS FX	16/08/2021	37,855	EUR
BBVA Bancomer	50913606	SWAPS FX	27/09/2021	(39,782)	EUR
BBVA Bancomer	50913611	SWAPS FX	15/09/2021	33,871	EUR
BBVA Bancomer	50913612	SWAPS FX	27/09/2021	(35,236)	EUR
BBVA Bancomer	50913617	SWAPS FX	15/09/2021	1,538	EUR
BBVA Bancomer	50913618	SWAPS FX	24/12/2021	(1,655)	EUR
BBVA Bancomer	50913623	SWAPS FX	15/10/2021	54,114	EUR
BBVA Bancomer	50913624	SWAPS FX	24/12/2021	(57,941)	EUR
BBVA Bancomer	50913629	SWAPS FX	16/11/2021	50,096	EUR
BBVA Bancomer	50913630	SWAPS FX	24/12/2021	(52,975)	EUR
BBVA Bancomer	50913635	SWAPS FX	16/12/2021	407,466	EUR
BBVA Bancomer	50913636	SWAPS FX	25/03/2022	(414,006)	EUR
BBVA Bancomer	50913647	SWAPS FX	16/03/2022	352,884	EUR
BBVA Bancomer	50913648	SWAPS FX	25/03/2022	(354,863)	EUR
BBVA Bancomer	50913659	SWAPS FX	24/12/2021	(52,975)	EUR
BBVA Bancomer	50913660	SWAPS FX	14/01/2022	53,218	EUR
BBVA Bancomer	50913732	SWAPS FX	16/02/2022	409,633	EUR
BBVA Bancomer	50913733	SWAPS FX	25/03/2022	(414,007)	EUR
			Total EUR	\$ 2,578,755	
		Tipo de cambio de cierre		24.2686	
		Total del valor razonable pesos		<u>\$ 62,582,778</u>	

34.

As of December 31, 2020, the Company management has evaluated the effectiveness of its hedges for accounting purposes and has considered them to be highly effective.

The fair value of the forwards as of December 31, 2020 and 2019, resulted in the recognition of a liability and an expense in the comprehensive income for an amount of \$17,105,122 and \$51,458,750, respectively.

10. Net defined benefit liability

An analysis of the net periodic benefit cost, the net defined benefit liability and the fair value of plan assets associated with the Company's post-employment benefits (seniority premiums, and termination benefit plan) as at and for the years ended December 31, 2020 and 2019 is as follows:

a) Net periodic benefit cost

	2020		
	Retirement benefits	Termination benefits	Total
Analysis of net periodic benefit cost for 2020:			
Current year service cost	\$ 7,621,884	\$ 648,456	\$ 8,270,340
Recognition of seniority	190,434	56,807	247,241
Net interest cost on net defined benefit liability	1,606,547	255,774	1,862,321
Reclassification of remeasurement	(246,220)	166,508	(79,712)
Reductions and early settlements	(6,219,920)	(562,541)	(6,782,461)
Increase by recognized remeasurements in OCI	(6,186,282)	205,220	(5,981,062)
Net periodic benefit cost for 2020	\$ (3,233,557)	\$ 770,224	\$ (2,463,333)
	2019		
	Retirement benefits	Termination benefits	Total
Analysis of net periodic benefit cost for 2019:			
Current year service cost	\$ 8,076,608	\$ 414,907	\$ 8,491,515
Net interest cost on net defined benefit liability	1,550,303	158,802	1,709,105
Reclassification of remeasurement	(227,558)	10,405	(217,153)
Reductions and early settlements	(4,733,098)	(481,714)	(5,214,812)
Increase by recognized remeasurements in OCI	(376,863)	1,259,230	882,367
Net periodic benefit cost for 2019	\$ 4,289,392	\$ 1,361,630	\$ 5,651,022

b) An analysis of changes in the Company's net defined benefit liability/ (asset) is as follows:

	Retirement benefits	Termination benefits	Total
Net defined benefit liability/(asset):			
Net defined benefit liability/(asset) as at December 31 2018	\$ 18,238,858	\$ 1,868,263	\$ 20,107,121
Current year service cost	4,289,392	1,361,630	5,651,022
Benefits paid	(388,273)	-	(388,273)
Net defined benefit liability/(asset) as at December 31 2019	22,139,977	3,229,893	25,369,870
Current year service cost	(3,233,557)	770,224	(2,463,333)
Benefits paid	(35,994)	-	(35,994)
Net defined benefit liability/(asset) as at December 31 2020	<u>\$ 18,870,426</u>	<u>\$ 4,000,117</u>	<u>\$ 22,870,543</u>

c) An analysis of the net defined benefit liability is as follows:

	2020		
	Retirement benefits	Termination benefits	Total
Provisions for:			
Defined benefit obligation	\$ 18,870,426	\$ 4,000,117	\$ 22,870,543
Net defined benefit liability	<u>\$ 18,870,426</u>	<u>\$ 4,000,117</u>	<u>\$ 22,870,543</u>

	2019		
	Retirement benefits	Termination Benefits	Total
Provisions for:			
Defined benefit obligation	\$ 22,139,977	\$ 3,229,893	\$ 25,369,870
Net defined benefit liability	<u>\$ 22,139,977</u>	<u>\$ 3,229,893</u>	<u>\$ 25,369,870</u>

d) The key assumptions used in the actuarial study, expressed in absolute terms, were as follows:

	2020	2019
Financial assumptions		
Discount rate	8.00%	8.00%
Expected salary increase rate	5.00%	5.00%
Salary rate	5.80%	5.80%

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11. Short-term employee benefits

a) Short-term employee benefits

As at December 31, 2020 and 2019, the Company has recognized accrued liabilities for short term employee benefits. An analysis is as follows:

	2020	2019
Vacation premium	\$ 8,302,616	\$ 16,879,185
Annual bonus	22,077,150	31,632,290
Employee profit sharing payable	35,142,662	44,609,840
	<u>\$ 65,522,428</u>	<u>\$ 93,121,315</u>

b) Employee Profit Sharing (EPS)

An analysis of employee profit sharing for the years ended December 31, 2020 and 2019, is as follows:

	2020	2019
Current employee profit sharing	\$ 35,142,662	\$ 44,609,840
Deferred employee profit sharing	(38,900,564)	16,668,707
Total employee profit sharing	<u>\$ (3,757,902)</u>	<u>\$ 61,278,547</u>

c) Deferred Employee Profit Sharing (EPS)

An analysis of the Company's deferred employee profit sharing (EPS) as at December 31, 2020 and 2019, is as follows:

	2020	2019
Deferred EPS assets:		
Provisions	\$ 10,052,864	\$ 20,103,625
Property, plant and equipment	67,522,693	56,869,063
Allowance for doubtful accounts	190,056	578,813
Retirement benefits and termination benefits	2,287,054	1,344,603
Inventory reserve	-	1,593,248
Right-of-use assets, net	-	872,101
	<u>80,052,667</u>	<u>81,361,453</u>
Deferred EPS liabilities:		
Accounts receivable for developments	(3,196,702)	(41,622,263)
Insurance	(757,102)	-
Prepaid expenses	(36,315,585)	(46,621,344)
Derivative financial instruments	(82,714)	(6,126,540)
Other accounts receivable	-	(3,660,013)
Deferred employee profit sharing liability, net	<u>\$ 38,900,564</u>	<u>\$ (16,668,707)</u>

12. Equity

a) As at December 31, 2020 and 2019, the Company's share capital is variable, with an authorized fixed minimum of \$50,000 represented as follows:

	Shares	Amount
Fixed		
Serie "A"	50	\$ 50,000
Variable		
Serie "B"	943,818	943,818,400
	<u>943,868</u>	<u>943,868,400</u>
Inflationary effect (B-10)		24,800,814
Total equity		<u>\$ 968,669,214</u>

b) In accordance with the Mexican Corporations Act, the Company is required to appropriate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of the value of the Company's share capital. As at December 31, 2020 and 2019, the legal reserve is \$ 3,433,715.

c) Earnings distributed in excess of the Net reinvested taxed profits account (CUFINRE by its acronym in Spanish) and Net taxed profits account (CUFIN by its acronym in Spanish) balances will be subject to the payment of corporate income tax at the statutory rate at that time. The payment of this tax may be credited against the Company's current income tax.

Dividends paid to individuals and foreign corporations from earnings generated as of January 1, 2014 shall be subject to an additional 10% withholding tax.

13. Leases

The Company has lease contracts for various items of machinery, vehicles and other equipment used in its operations. Leases of machinery generally have lease terms of 4 years, while motor vehicles and other equipment generally have lease terms between 1 and 3 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets and some contracts require the Company to maintain certain financial ratios. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The Company also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

38.

Set out below are the carrying amounts of right of use assets recognized and the movements during the period:

	Buildings	Vehicles	Equipment	Total
As at 1 January 2019	\$ 115,046,127	\$ 7,525,254	\$ 1,236,640	\$ 123,808,021
Additions	-	2,264,601	-	2,264,601
Amortization	(35,600,611)	(3,229,603)	(555,640)	(39,385,854)
As at 1 January 2020	79,445,516	6,560,252	681,000	86,686,768
Amortization	(37,308,698)	(192,310)	(48,926)	(37,549,934)
As at 31 December	\$ 42,136,818	\$ 6,367,942	\$ 632,074	\$ 49,136,834

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2020	2019
As at 1 January	\$ 95,407,778	\$ 123,808,021
Accretion of interest	7,198,306	10,211,908
Conversion effect	12,087,393	6,570,949
Payments	(56,191,736)	(45,183,100)
As at 31 December	\$ 58,501,741	\$ 95,407,778
Current	\$ 57,636,381	\$ 42,847,637
Non current	\$ 865,360	\$ 52,560,141

14. Income tax

I) Income tax (IT)

a) The Mexican Income Tax Law (MITL) establishes a corporate income tax rate of 30% for fiscal years 2020 and 2019.

Income tax for the year is calculated by applying the statutory income tax rate to the Company's taxable income for the year.

The MITL establishes requirements and limits regarding certain deductions, including restrictions on the deductibility of payroll-related expenses that are considered tax-exempt for employees, contributions to create or increase pension fund reserves, and Mexican Social Security Institute dues that are paid by the Company but that should be paid by the employees. The MITL also establishes that certain payments made to related parties shall not be deductible if they do not meet certain requirements.

For the years ended December 31, 2020 and 2019, the Company determined a tax profit of \$367,047,626 and \$425,309,004, generating for the fiscal year 2020 an income tax payable for \$108,883,540; for 2019, were amortized tax losses for previous years, and therefore, a tax income was not determined.

b) As of December 31, 2020 and 2019, the income tax was as follows:

	2020	2019
Tax income	\$ 110,114,288	\$ -
Deferred income tax	(158,639,380)	102,069,051
	<u>\$ (48,525,092)</u>	<u>\$ 102,069,051</u>

The effect of the temporary differences of the deferred taxes for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Deferred taxes assets		
Tax losses	\$ -	\$ 9,865,997
Provisions	20,729,174	62,852,945
Property, plant and equipment	202,568,079	170,607,190
Inventories allowance	6,861,163	4,033,809
Retirement benefits and termination benefits	570,169	1,736,439
Allowance for doubtful accounts	-	4,779,743
Right-of-use assets, net	-	2,616,303
	<u>230,728,585</u>	<u>256,492,426</u>
Deferred tax liabilities:		
Accounts receivable developments	(160,688)	(124,866,790)
Prepaid expenses	(111,218,064)	(87,434,613)
Derivatives	(2,648,142)	(18,379,619)
Net, employee profit sharing	(791,902)	-
Other accounts receivable	-	(63,409,458)
Net deferred tax asset (liability)	<u>\$ 115,909,789</u>	<u>\$ (37,598,054)</u>

The reconciliation of net deferred taxes is as follows:

	2020	2019
Initial balance as of January 1	\$ (37,598,054)	\$ 79,519,666
Income tax recognized in profits	158,639,380	(102,069,051)
Income tax recognized in OCI	(5,131,537)	(15,048,669)
Final balance as of December 31	<u>\$ 115,909,789</u>	<u>\$ (37,598,054)</u>

40.

c) A conciliation between the rate of the tax established by the income tax law and the effective rate is as follows:

	2020	2019
Income before income tax	\$ (113,839,472) \$	459,311,480
Tax effects of the following items:		
Annual adjustment for inflation	64,764,540	56,329,954
Non-deductible expenses	35,371,613	33,740,174
Inflationary effect in tax losses and fixed assets	(93,512,008)	(208,786,492)
Other items	(40,330,674)	-
Other items	(2,900,815)	(364,946)
Income before income tax includes permanent items	(144,645,186)	340,230,170
Statutory income tax rate	30%	30%
Total income tax	\$ (43,393,556) \$	102,069,051
Effective income tax rate	38%	22%

15. Contingencies and commitments

a) The federal and state taxes are subject to review, on the part of the fiscal authorities during a period of five years, being obliged to the payment of the above mentioned contributions, updates and surcharges for possible detected differences.

b) The operations with related parties are subject to limitations and fiscal obligations according to the Law of the Income tax. The fiscal authorities might check the prices and reject them, demanding the payment of the tax and accessories that correspond, besides fines of the issued contributions; which might be even 100 % on the amount updated of the contributions.

c) Enacted changes made to the Mexican Federal Labor Law that came into effect on December 1, 2012, could have an effect on the Company's financial position. The effects of these changes may vary from a disclosure in the financial statements to the recognition of an additional liability for employee profit sharing or other liabilities related to employee benefits. As at December 31, 2020, the Company has evaluated the effects that the changes in the Labor Law may have on its financial information and has concluded that the changes have had no effect as at December 31, 2020. However, this situation may change in the future and so the Company will continue assessing the effects of the changes to the law in the years to come.

16. Subsequent events

In early 2020, Latin American countries have been affected by the COVID-19 virus pandemic, which, together with other global economic factors, represent business challenges and risks for many industries. As of the date of these financial statements, the company has not identified a relevant impact that affects the valuation of its assets and liabilities immediately; however, the COVID-19 pandemic is likely to lead to a reduction in society's profitability at least until the current outbreak of COVID-19 is under control and the global economy has returned to normal. Automotive component suppliers to the automotive marketplace rely on the performance and strategies of automotive manufacturers (known as OEMS) aligned with consumer demand and industry trends. The local management will continue to analyze the short and long-term impact of the current environment to address the impact of the financial statements in subsequent reporting periods, in accordance with the prevailing circumstances at that time.