

SMR AUTOMOTIVE VISION SYSTEMS MÉXICO, S.A. DE C.V.
(Subsidiary of SMR Automotive Mirrors Stuttgart GmbH)

Financial statements

As of December 31, 2020 and 2019
with the report of the Independent auditors

SMR AUTOMOTIVE VISION SYSTEMS MÉXICO, S.A. DE C.V.
(Subsidiary of SMR Automotive Mirrors Stuttgart GmbH)

Financial statements

As of December 31, 2020 and 2019

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Torre Equus
335 Ricardo Margain
Valle del Campestre
San Pedro Garza García, Nuevo León
C.P. 66265

Tel: (81) 8152 1800
Fax: (81) 8152 1839
ey.com.mx

INDEPENDENT AUDITOR'S REPORT

To the Shareholders
SMR Automotive Vision Systems México, S.A. de C.V.

Opinion

We have audited the accompanying financial statements of SMR Automotive Vision 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 SMR Automotive Vision 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 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.

3.

- 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.

The accompanying financial statement have been translated into English for the convenience of users.

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



Aldo A. Villarreal Robledo

Monterrey, Nuevo León
May 21, 2021.

SMR AUTOMOTIVE VISION SYSTEMS MÉXICO, S.A. DE C.V.
(Subsidiary of SMR Automotive Mirrors Stuttgart GmbH)

Statements of financial position

(Amounts in Mexican pesos)

	As at December 31	
	2020	2019
Assets		
Current assets:		
Cash (Note 5)	\$ 114,954,345	\$ 74,315,256
Accounts receivable (net of allowance for doubtful accounts of \$229,410 in 2020 and \$216,720 in 2019)	171,419,503	243,104,899
Related parties (Note 6)	186,846,030	172,816,259
Recoverable taxes	26,147,840	-
Investments in financial instruments (Note 12)	66,707,934	22,602,160
Other accounts receivable	2,936,295	3,927,938
Inventories, net (Note 7)	177,917,231	192,592,111
Prepaid expenses (Note 8)	6,416,189	5,532,408
Total current assets	753,345,367	714,891,031
Non-current assets:		
Property, plant and equipment, net (Note 9)	658,042,626	678,205,944
Right-of-use assets (Note 10)	6,724,834	8,805,617
Security deposits (Note 8)	4,350,984	3,817,133
Total non-current assets	669,118,444	690,828,694
Total assets	\$ 1,422,463,811	\$ 1,405,719,725
Liabilities and equity		
Current liabilities		
Suppliers	\$ 157,733,482	\$ 152,674,972
Taxes payable	20,427,499	17,091,764
Value added tax payable	13,493,672	25,379,743
Lease liabilities (Note 10)	4,549,957	8,327,329
Related parties (Note 6)	364,394,100	381,764,619
Provisions and accrued liabilities	29,777,897	42,769,269
Short-term employee benefits (Note 14)	17,492,972	31,512,977
Total current liabilities	607,869,579	659,520,673
Long-term liabilities:		
Lease liabilities (Note 10)	2,371,769	773,721
Net employee defined benefit liabilities (Note 13)	27,569,139	19,596,513
Deferred income tax (Note 16)	20,434,676	33,838,067
Deferred employee profit sharing (Note 14c)	9,422,571	13,692,132
Total long-term liabilities	59,798,155	67,900,433
Total liabilities	667,667,734	727,421,106
Equity (Note 15):		
Share capital	101,078,649	101,078,649
Retained earnings	435,920,756	324,501,999
Net profit	283,973,134	215,652,248
Other components of equity (Note 17)	(66,176,462)	37,065,723
Total equity	754,796,077	678,298,619
Contingencies and commitments (Note 18)	-	-
Subsequent events (Note 19)	-	-
Total liabilities and equity	\$ 1,422,463,811	\$ 1,405,719,725

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

Ing. José Luis González Gómez
Plant manager

C.P. Thelma Yadhira Zayas Puga
Finance manager

SMR AUTOMOTIVE VISION SYSTEMS MÉXICO, S.A. DE C.V.
(Subsidiary of SMR Automotive Mirrors Stuttgart GmbH)

Statements of comprehensive income

(Amounts in Mexican pesos)

	For the years ended December 31,	
	2020	2019
Revenue from contracts with customers (Note 4.a.1)	\$ 1,952,485,689	\$ 2,229,575,446
Other income (Note 4.a.1)	132,939,693	176,499,009
	<u>2,085,425,382</u>	<u>2,406,074,455</u>
Cost of sales (Note 16.a)	(1,558,370,303)	(1,881,703,900)
Gross profit	<u>527,055,079</u>	<u>524,370,555</u>
Operating expenses (Note 16.a)	(308,734,126)	(342,320,173)
Operating profit	<u>218,320,953</u>	<u>182,050,382</u>
Net financing cost (Note 16.b):		
Interest income	5,427,717	4,931,521
Interest expense and other finance expenses	(12,482,515)	(11,237,613)
Foreign exchange gain, net	86,600,701	133,495,932
	<u>79,545,903</u>	<u>127,189,840</u>
Profit before income tax	<u>297,866,856</u>	<u>309,240,222</u>
Income tax (Note 16)	(13,893,722)	(93,587,974)
Net profit	<u>283,973,134</u>	<u>215,652,248</u>
Other comprehensive income (Note 17)	(103,242,185)	(56,375,434)
Comprehensive income	<u>\$ 180,730,949</u>	<u>\$ 159,276,814</u>

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

Ing. José Luis González Gómez
Plant manager


C.P. Thelma Yadhira Zayas Puga
Finance manager

SMR AUTOMOTIVE VISION SYSTEMS MÉXICO, S.A. DE C.V.
(Subsidiary of SMR Automotive Mirrors Stuttgart GmbH)

Statements of changes in equity

For the years ended December 31, 2020 and 2019

(Amounts in Mexican pesos)

	Share capital	Retained earnings	Net profit	Other components of equity	Total equity
Balance as at December 31, 2018	\$ 101,078,649	\$ 282,341,166	\$ 195,351,761	\$ 93,441,157	\$ 672,212,733
Application to retained earnings					
Dividends (Note 15c)		195,351,761	(195,351,761)		
Comprehensive income		(153,190,928)			(153,190,928)
Balance as at December 31, 2019	101,078,649	324,501,999	215,652,248	(56,375,434)	159,276,814
Application to retained earnings					
Dividends (Note 15c)		215,652,248	(215,652,248)		
Comprehensive income		(104,233,491)			
Balance as at December 31, 2020	\$ 101,078,649	\$ 435,920,756	\$ 283,973,134	(103,242,185)	\$ 754,796,077

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

Ing. José Luis González Gómez
Plant manager

C.P. Thelma Yadhira Zayas Puga
Finance manager

mSMR AUTOMOTIVE VISION SYSTEMS MÉXICO, S.A. DE C.V.
(Subsidiary of SMR Automotive Mirrors Stuttgart GmbH)

Statements of cash flows

(Amounts in Mexican pesos)

	For the years ended December 31	
	2020	2019
Operating activities		
Profit before income tax	\$ 297,866,856	\$ 309,240,222
Items not affecting cash flows:		
Employee benefits	4,618,624	1,815,531
Deferred employee profit sharing	(15,827,650)	4,069,692
Items related to investing activities:		
Depreciation of property, plant and equipment and right of use assets	77,660,075	76,144,827
Gain on sale of machinery	2,451,498	(544,921)
Foreign exchange for loans made	14,302,606	5,523,330
Interest income	(5,427,717)	(4,931,521)
Loss on dissolution of subsidiary	-	4,042
Items related to financing activities:		
Interest expense	12,482,515	11,237,613
Foreign exchange for loans received	-	(13,542,301)
Total	388,126,807	389,016,514
Changes in operating assets and liabilities:		
Accounts receivable	71,685,396	61,361,706
Inventories	14,674,880	(29,883,939)
Other accounts receivable and other assets	(70,679,603)	15,357,710
Related parties, net	(42,808,237)	(10,406,831)
Suppliers	5,058,510	(102,402,627)
Other accounts payable	25,888,928	(32,788,424)
Tax paid	(42,175,208)	(90,514,781)
Net cash flows provided by operating activities	349,771,473	199,739,328
Investing activities		
Purchase of property, plant and equipment	(51,945,273)	(53,675,423)
Collections from sale of property, plant and equipment	-	1,121,593
Cash received by dissolution of subsidiary	-	13,429,679
Interest gain	5,427,717	2,531,673
Net cash flows used in investing activities	(46,517,556)	(36,592,478)
Financing activities		
Dividends paid	(104,233,491)	(153,190,928)
Interest paid	(12,482,515)	(4,169,723)
Lease payment	(5,966,896)	-
Net cash flows used in financing activities	(122,682,902)	(157,360,651)
Increase in cash	180,571,015	5,786,199
Net foreign exchange difference	(139,931,926)	(28,148,193)
Cash at beginning of year	74,315,256	96,677,250
Cash at end of year	\$ 114,954,345	\$ 74,315,256

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

Ing. José Luis González Gómez
Plant manager


C.P. Thelma Yadhira Zayas Puga
Finance manager

SMR AUTOMOTIVE VISION SYSTEMS MÉXICO, S.A. DE C.V.
(Subsidiary of SMR Automotive Mirrors Stuttgart GMBH)

Notes to the financial statements

December 31, 2020 and 2019

(Amounts in Mexican pesos, unless otherwise indicated)

1. Operations

SMR Automotive Vision Systems México, S.A. de C.V. (collectively, "the Company") which is a subsidiary of SMR Automotive Mirrors Stuttgart GmbH and SMR Automotive Systems Spain, SA, which in turn is a subsidiary of SMR Automotive Mirror Systems Holding Deutschland GmbH and a corporation incorporated under the laws of Mexico on August 26, 1996. Its main address is San Luis Potosí, SLP and its primary activity is manufacture and sale of high-quality plastic materials for automobiles and all kinds of vehicles for the automotive industry, likewise, during 2012 started operations of manufacturing mirrors for its own products. The Company is a 64.7% owned direct subsidiary of SMR Automotive Mirrors Stuttgart GMBH (direct holding company), and an indirect subsidiary of Motherson Sumi Systems Limited (ultimate holding company).

The Company has been incorporated for an unspecified term.

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

The attached financial statements have been prepared, based on Mexican Financial Reporting Standards B15, Conversion of foreign currencies (MFRS B-15), making the conversion from the registration currency (Mexican peso) to the functional currency (United States dollar) and in turn Report (Mexican Peso).

On May 21, 2021, the financial statements and these notes were authorized by the Company's Plant Manager, Ing. José Luis González Gómez, and by the Company's Finance Manager, C.P. Thelma Yadira Zayas Puga 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 January 1, 2019 through the above-mentioned issue date of the financial statements.

2.

Relevant event

COVID-19

In late 2019, the disease known as "COVID-19" began to spread in the Wuhan region of the People's Republic of China. On January 30, 2020, the Emergency Committee of the International Health Regulations of the World Health Organization declared an international health emergency due to the outbreak and spread of COVID-19. Because of COVID-19, cases spread to several countries, causing thousands of deaths, the World Health Organization declared the disease a global pandemic in March 2020. The spread of COVID-19 around the world, the declaration of the disease as a pandemic and the actions taken by governments, companies and individuals over the world, have generated high volatility in global financial markets, as well as significant economic impacts worldwide. As of the date of these financial statements, it is impossible to predict how long the COVID-19 pandemic will last, or the measures that will be taken to prevent its spread.

The spread of COVID-19 and other adverse events related to public health in Mexico, could have a significant adverse effect on the business, financial position, operations and prospective results of the Company. However, The Company has modified its strategy and objectives to mitigate the effects and uncertainty caused by the COVID-19 disease.

2. Summary of significant accounting policies

a) Compliance with Mexican Financial Reporting Standards ("MFRS")

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

b) Basis of preparation

The financial statements as of December 31, 2020 and 2019 have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value, and the non-monetary items that were acquired or recognized in the financial statements before December 31, 2007, as such items reflect the cumulative effects of inflation from their initial recognition date through December 31, 2007.

The amounts shown in the financial statements and these notes are in thousands of Mexican pesos, (\$) except where otherwise indicated.

From January 1, 2008 Mexico is considered to have a non-inflationary economic environment, as defined under Mexican FRS B 10 "Effects of Inflation". As at December 31, 2020 and 2019, Mexico's cumulative inflation rate for the three prior years was 26% (annual average of 8%), which represents the necessary condition for considering Mexico as having a non-inflationary economic environment. Accordingly, the Company ceased restating its financial statements for inflation as of December 31, 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 (sum of inflation rates for 2017, 2018 and 2019)	Cumulative inflation for 2020 (sum of inflation rates for 2018, 2019 and 2020)	Inflation for the year (inflation rate for 2020)
Inflation rates	14.43%	10.81%	3.15%

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.

The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortized cost are adjusted to recognize changes in the fair value attributable to the risks that are being hedged in effective hedge relationships.

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 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 Company classifies all other liabilities as non-current.

4.

c) Fair value measurement

The Company measures financial instruments such as derivatives at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company's Valuation area determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement, such as assets held for sale in discontinued operations.

At each reporting date, the Valuation area analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Company's accounting policies. For this analysis, the administration verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The administration also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, the administration presents the valuation results to the Audit Committee and the Company's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair-value related disclosures for financial instruments that are measured at fair value are summarized in the following notes:

Disclosures for valuation methods, significant estimates and assumptions	Notes 2c), 4 and 5.a.4
Quantitative disclosures of fair value measurement hierarchy	Note 4
Financial instruments (including those carried at amortized cost)	Note 2h), 2i), 5.a.3 and 12

d) Basis of translation of financial statements

The Company financial statements are presented in Mexican pesos, which is the currency of the economic environment in which the parent company operates, to record its operations, and the reporting currency of the Company. Accordingly, the preparation of the financial statements did not require any foreign currency translation in accordance with the guidelines of MFRS B-15, Foreign Currency Translation, making the conversion in the registration currency (Mexican peso) to the functional currency (US dollar) and in turn to the reporting currency (Mexican peso).

As determined in accordance with Mexican FRS B-15 Foreign currency translation, is as follows

Type	Currency 2020 and 2019
Registration currency	Mexican peso
Functional currency	US dollar
Reporting currency	Mexican peso

6.

Differences arising on translations that have been designated as hedges of those items, are recognized in OCI.

e) Revenue from contracts with customers

The Company's primarily activity is manufactures and sells 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, because it typically controls the goods or services before transferring them to the customer.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 2f).

Sale of goods

Revenue from sale of automotive parts ("the 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 (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of parts, the Company considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

i) Variable consideration

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of automotive parts provide customers with a volume rebate. The volume rebates give rise to variable consideration.

- Volume rebates

The Company provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Company applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Company then applies the requirements on constraining estimates of variable consideration and recognizes a refund liability for the expected future rebates (i.e., the amount not included in the transaction price).

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. Refer to the accounting policy on warranty provisions in Note 2q).

Revenue is recognized over the period in which the service-type warranty is provided based on the time elapsed.

Contract balances

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 2h) of financial instruments – initial recognition and subsequent measurement.

Liabilities arising from rights of return

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Company ultimately expects it will have to return to the customer.

The Company's refund liabilities arise from customers' volume rebates.

The Company updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period to take into consideration the corresponding changes of circumstances. Refer to above accounting policy on variable consideration.

8.

f) 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 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.

Other disclosures relating to the Company's exposure to risks and uncertainties includes:

- Financial Instruments risk management and policies Note 5.a.5
- Sensitivity analyses disclosures Note 5.a.5

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.

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 Company included the renewal period as part of the lease term for leases of buildings with shorter non-cancellable period (i.e., three to five years). The Company typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. The renewal periods for leases of buildings with longer non-cancellable periods (i.e., 5 years) are not included as part of the lease term as these are not reasonably certain to be exercised. In addition, 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 or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Revenue from contracts with customers

The Company applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- Determining method to estimate variable consideration and assessing the constraint

Certain contracts for the sale of automotive parts include a volume rebates that give rise to variable consideration. In estimating the variable consideration, the Company is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

10.

In estimating the variable consideration for the sale of automotive parts with volume rebates, the Company determined that using a combination of the most likely amount method and expected value method is appropriate. The selected method that better predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contracts. The most likely amount method is used for those contracts with a single volume threshold, while the expected value method is used for contracts with more than one volume threshold.

Before including any amount of variable consideration in the transaction price, the Company considers whether the amount of variable consideration is constrained. The Company determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame. The Company's expected volume rebates are analyzed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will be likely entitled to rebate will depend on the customer's historical rebates entitlement and accumulated purchases to date.

The Company developed a statistical model for forecasting sales returns. The model used the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Company.

The Company updates its assessment of volume rebates annually and the refund liabilities adjusted accordingly. Estimates of volume rebates are sensitive to changes in circumstances and the Company's past experience regarding rebate entitlements may not be representative of customers' actual returns and rebate entitlements in the future. As at December 31, 2020, the amount recognized as refund liabilities for the volume rebates was \$16,484,662 (in 2019 \$27,469,824).

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. The information about the ECLs on the Company's trade receivables and contract assets is disclosed in Note 2h), 2i), 4.a.2 and 4.b.

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. See Note 4 y 5.a.4 for further disclosures.

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 Note 2n)
- Sensitivity analyses, which are described with further detail Note 5.a.5

12.

Defined benefit plans (pension benefits)

The net cost of defined benefits pension plan and the present value of these labor obligations are determined using actuarial valuations. An actuarial valuation involves making 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. 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 assessed for quality, and those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based due to their low quality. As at December 31, 2020 and 2019, the Company has used a government 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.

The mortality rate is based on Mexico's publicly available mortality tables.

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 13.

g) Cash

Cash principally consist of petty cash balances in local and foreign currency and bank deposits. Cash are stated at fair value.

Cash in foreign currency are translated using the rate of exchange prevailing at the reporting date. Exchange differences are recognized in the statement of comprehensive income as they accrue.

h) Financial instruments – Initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and 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).

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 2e) Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortized, 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 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 marketplace (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 category:

- Financial assets at amortized cost (debt instruments)

14.

Financial assets at amortized cost (debt instruments)

The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the Effective Interest Rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost includes trade receivables and loan to related parties included under financial assets.

Derecognition

A financial asset (or a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Impairment of financial assets

Estimated credit losses (CLs) are recognized in stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit risk exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs debtors at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at the initial date of recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, accounts payable or derivative designed as effective hedging instruments.

All financial liabilities are initially measured at fair value, and for loans and borrowings and accounts payable are measured including transaction cost directly attributable.

Company's financial liabilities includes trade creditors and other payable accounts, loans and borrowings and derivative financial instruments.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss.
- Financial liabilities at amortized cost (loans and borrowings).

16.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by Mexican FRS C-10. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss .

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in Mexican FRS C-2 and Mexican FRS C-19 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortized cost (loans and borrowings)

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Financial liabilities derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of profit or loss.

iii) Offsetting of financial instruments

The Company may offset a financial asset and a financial liability and present the net amount in its statement of financial position only when:

- It has the right or an obligation to receive or pay a single net amount and intends to do so, and it has, in effect, only a single financial asset offset or financial liability offset; and
- the net amount resulting from offsetting the financial asset and the financial liability reflects the Company's expected cash flows from settling two or more separate financial instruments.

Based on the above, the Company offsets a financial asset and a financial liability and presents the net amount in its statement of financial position only when it:

- Has an enforceable legal right to set off the recognized amounts under any circumstance; and at the same time
- Intends either to settle on a net basis the financial asset and liability, or to realize the financial asset and settle the financial liability simultaneously.

iv) Transfer of financial assets

The Company is considered to have transferred a financial asset only when it:

- Transfers the contractual rights to receive the future cash flows of the financial asset, or
- retains its contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipient in an arrangement that meets all the following conditions:
 - The transfer contract establishes the obligation to pay the recipient the amount the Company collects from the original financial asset,
 - the Company is prohibited by the terms of the transfer contract from selling or pledging the original asset, and
 - the Company has an obligation to remit any cash flows it collects on behalf of the eventual recipients. The Company is not entitled to reinvest the cash flows except for the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed on to the eventual recipients.

18.

When the Company transfers a financial asset, it must evaluate to what extent it retains the risks and rewards of the financial asset in order to identify the appropriate accounting treatment. Consequently:

- If the Company substantially transfers all of the risks and rewards of ownership of the financial asset, the Company must derecognize the financial asset and recognize separately as assets and liabilities any rights or obligations created or retained in the transfer (non-recourse transfer);
- If the Company substantially retains all the risks and rewards of ownership of the financial asset, the entity should continue to recognize the financial asset and recognize a liability, since the transaction essentially represents secured borrowing with a pledge of collateral on the financial asset (transfer with recourse);
- If it is not clear and convincing to what extent the Company substantially transfers all the risks and rewards of ownership of the financial asset, the Company must determine whether it has retained control of the financial asset by evaluating the extent of its continuing involvement in the transferred asset. In this case:
 - If the Company has not retained control over the financial asset, it must derecognize the financial asset and recognize simultaneously any rights or obligations created or retained in the transfer; or
 - If the Company has retained control, it must continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

i) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Company uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks. 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.

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:

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. The ineffective portion relating to foreign currency contracts is recognized as other expense. Refer to Note 12 for more details.

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.

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.

As of December 31, 2020 and 2019, the Company had no fair value hedges or a net investment.

20.

j) Trade receivables and other accounts receivable

Accounts receivable 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 (IFC as are known in Spanish), as they arise from a contract that establishes the contractual obligations of the parties.

Accounts receivable 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. Accounts receivable 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.

The amount of a receivable can vary because of rebates, discounts or refunds, and the corresponding changes to the consideration amount are recognized at the time the customer becomes entitled to such rebate, discount or refund. Accounts receivable 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.

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 cost.

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 is 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.

Related party receivables arising from the sale of goods or services are presented and disclosed separately, since these receivables have special characteristics with respect to their collectability.

Other accounts receivable are initially recognized as they accrue and represent amounts owed to an entity arising from transactions that are unrelated to its normal operations (loans to shareholders, officers and employees, insurance claims, recoverable taxes when the Company is entitled in accordance with the corresponding tax law), and which the entity expects to receive within one year of the reporting date (or within the entity's normal business cycle if it exceeds one year). Other accounts receivable is presented as part of current assets.

Other accounts receivable is measured at the amount of the consideration to which the Company is entitled, which is generally the nominal amount of the receivable at initial recognition, and the uncollected nominal amount upon subsequent recognition.

k) Allowance for expected credit losses

The Company recognizes an allowance for expected credit losses and exercises its judgement 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.

l) 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 goods in process: 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 selling costs.

The Company records impairment losses on the value of its inventories when there are losses from firm sales commitments in excess of its inventory stock levels. When the net realizable value of inventories is less than their net carrying amount, the difference is recognized as an impairment loss as part of cost of sales.

Advances to suppliers are recorded under inventory, when the risks and rewards of ownership of the goods have been transferred to the Company.

m) 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 asset will flow to the Company.

Prepaid expenses denominated in foreign currencies are translated using the exchange rates prevailing at the dates of the initial transactions, with no subsequent adjustments recorded for changes in the exchange rates of the currency in which the prepayments were made.

22.

At the time the goods or services 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.

n) Property, plant and equipment

Property, plant and equipment is measured initially at cost.

Those assets requiring a substantial period of time to get ready for their intended use, the acquisition (construction) cost includes: the acquisition cost of the asset and capitalized borrowing costs incurred during the acquisition period (construction and installation) of the asset.

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. For machinery and equipment made up of components with different estimated useful lives, the major individual components are depreciated over their individual useful lives. Repair and maintenance costs are expensed as incurred.

Depreciation of property, plant and equipment is calculated on the asset's acquisition cost less the residual value of property, plant and equipment on a straight-line basis (since management considers that this method best reflects the use of these assets) and over the estimated useful lives of the assets, as described in Note 9.

Prepayments to suppliers are capitalized in property, plant and equipment at the time the risks and rewards of ownership of the goods have been transferred to the Company.

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 comprehensive income, 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 items of property, plant and equipment, when the circumstances that caused the impairment loss are favorably resolved and there are observable indications that the net carrying amount of the asset has increased, the impairment loss is reversed. When an impairment loss is reversed, the amount recognized shall be net of depreciation for the year in which the reversal occurs. For the years ended as at December 31, 2020 and 2019, there were no indicators of impairment.

o) 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.

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.

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:

Machinery	5 years
Motor vehicles and other equipment	3 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 is also subject to impairment. Refer to the accounting policies in Note 2f) Use of estimates, specifically about the impairment in the value of non-financial assets.

24.

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.

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.

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.

The recognized amounts as provisions are management's best estimates of expenditures required to settle the obligation at the time the financial statements were prepared.

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.

Contingent assets are recognized when the realization of income is mostly certain.

q) Product warranties

The Company extends warranties for possible manufacturing defects in products for a period of two years.

Accordingly, at each sale or service date, a warranty provision is created based on the Company's cost estimates, which take into account its past warranty claim rates. The initial estimate of warranty-related costs is revised annually.

The Company has also entered into extended warranty agreements covering some of its products. The revenue from such agreements is recognized as the performance obligations are satisfied based on the term of the warranty agreement. Costs incurred to cover obligations under extended warranties are charged to cost of sales as accrued.

r) Net employee defined benefit liabilities

The Company has a defined benefit pension plan that covers all of its employees. Pensions are determined based on the employees' compensation in their final year of service, the number of years they have worked for the Company, and their age at retirement.

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.

26.

The Company annually recognizes the liability for pensions, seniority premiums and termination benefits for so-called "pre-existing obligations" is based on independent actuarial calculations applying the projected unit credit method, using financial assumptions net of inflation.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, are immediately recognized in the statement of financial position with the effect recognized in OCI in equity, 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.

Past service costs are recognized at the earlier of the following dates:

- When the plan amendment or curtailment occurs.
- When the Company recognizes related restructuring costs.

s) 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.

t) Employee Profit Sharing (EPS)

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

Deferred employee profit sharing is determined using the asset and liability method. Under this method, deferred employee profit sharing is determined 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 that has not yet been realized are recognized in equity and reclassified to profit or loss immediately as accrued. See Note 14c).

u) Exchange differences

Transactions in foreign currencies are initially translated using the exchange rates prevailing on the days 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 the statement of income.

See Note 11 for the Company's foreign currency position at the end of each period and the exchange rates used to translate foreign currency denominated balances.

v) Exchange differences on translation of foreign operations

The Company's financial statements maintain a registration currency different from the functional one, they were converted into the functional currency according to the following procedure:

- The balances of monetary assets and liabilities as of December 31, 2020 and 2019, expressed in the registration currency (Mexican pesos), were translated at the closing exchange rates, which were \$19.94 and \$18.84, respectively.
- To the balances as of December 31, 2019 of the non-monetary assets and liabilities and of the stockholders' equity converted into functional currency, the movements occurred during 2020 were added, which were converted at historical exchange rates.
- The Income, costs and expenses of the 2020 and 2019 fiscal years, expressed in the registration currency (Mexican peso), were converted at the historical exchange rates on the date they were accrued and recognized in the income statement, whose averages they were \$21.50 and \$19.26, respectively; unless they originated from non-monetary items, in which case the historical exchange rates of non-monetary items were used.
- The differences in changes that originated in the conversion from the registration currency to the functional currency were recognized as income or expense in the income statement in the period in which they originated.

The figures thus determined (in functional currency) served as the basis for converting the financial information to the Company's reporting currency, considering a non-inflationary environment, as follows:

- Assets and liabilities as of December 31, 2020 and 2019 were translated at the closing exchange rates, which were \$19.94 and \$18.84, respectively.
- To the balances as of December 31, 2019 of the stockholders' equity converted to the reporting currency, the movements occurred during 2020 were added, which were converted at historical exchange rates.
- Revenue, costs and expenses for the year were converted at historical average exchange rates of \$21.50 and \$19.26, respectively.
- Due to the above, there was an exchange differences on translation of foreign operations that was recognized as an item within comprehensive income in stockholders' equity.

28.

The following is the analysis of the movement of the cumulative exchange differences on translation of foreign operations:

	2020	2019
Initial balance	\$ 19,729,556	\$ 78,959,086
Less:		
Exchange differences on translation of foreign operations of the year	(123,333,266)	(59,229,530)
Final balance	<u>\$ (103,603,710)</u>	<u>\$ 19,729,556</u>

w) Comprehensive income

Comprehensive Income represents the increase or decrease in earned capital from net income or loss for the year, components of other comprehensive income (OCI). Other comprehensive income (OCI) consists of income, cost and expense items recognized in equity that are expected to be realized in the medium or long 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 gains and losses on hedges and available-for-sale securities and net defined benefit liability remeasurement gains and losses.

x) 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 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.

y) 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; however, the Company includes operating income in the income statement, 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.

z) Equity

Changes in the Company's equity and cumulative gains are recognized in terms of historical cost as of January 1, 2008. These changes were restated for inflation through January 1, 2008.

aa) Financial risk management objectives and policies

The Company's main financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. The Company's main financial assets include loans, trade and other receivables, as well as cash and short-term deposits that derive directly from its operations. The Company also holds available-for-sale investments and enters into derivative transactions.

The Company is exposed to (i) market risk (which includes interest rate risk and foreign currency risk), (ii) credit risk, and (iii) liquidity risk.

i) Market risks

- Interest rate risk – This risk results from fluctuations in market interest rates, which affect the value of the Company's contracted debt, lease obligations and derivative financial instruments.
- Foreign currency risk – This risk results from volatility in the foreign currency market, which affects the value of the Company's foreign currency holdings, and its foreign-currency denominated in cash, accounts receivable, related-party transactions, supplier accounts and other accounts payable, debt and derivative financial instruments.

ii) Credit risk

Credit risk is the risk that the counterparty (customer, supplier, related party or financial company).

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iii) Liquidity risk

Liquidity risk is the risk that debt and equity market conditions will impede the Company from having the financial resources it needs for its business activities.

The Company monitors its liquidity risk using liquidity planning tools.

Concentration of risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Company to manage risk concentrations at both the relationship and industry levels.

The credit risk in accounts receivable is mitigated by the fact the Company has a broad customer base that is geographically diverse. The Company continuously monitors its customer accounts and it requires no collateral to guarantee collection of its receivables. Nevertheless, in the event that the Company's collection cycles deteriorate significantly, its financial performance could be adversely affected.

bb) Capital management

For the purpose of the Company's capital management, capital includes issued capital, convertible preference shares, share premiums and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Company's capital management is to maximize the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of its financial covenants. To maintain or adjust its capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

In order to achieve this overall objective, the Company's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. In the current period, the Company has not incurred loans or credits with third parties that are subject to the payment of interest since the financing is obtained from its holding company.

No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2020 and 2019.

cc) Equity investment in subsidiary

The equity investment in subsidiaries are initially recognized based on the amount invested, contributed or acquired, later these investments are valued under the equity method, which consists of adjusting the value of the investment, contribution or acquisition of the shares, the latter determined based on the purchase method, by the proportional part of the profits or comprehensive losses and the distribution of profits for capital repayments after the acquisition date. The Company's participation in the results of its subsidiary company is presented separately in the income statement. As of December 31, 2018, the amount for this concept was immaterial. On April 23, 2019, the investment in its subsidiary company was canceled mainly due to the fact that said subsidiary was dissolved and liquidated on this date, the result of the liquidation was \$13,429,679.

3. 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.

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.

32.

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 financial statements.

Mexican FRS C-22 Cryptocurrencies (effective for annual periods beginning on or after 1 January 2021)

Mexican FRS C-22 Cryptocurrencies was issued by the CINIF in November 2019 and addresses the accounting for holdings of cryptocurrencies, cryptocurrency mining expenses and cryptocurrencies held in custody. Mexican FRS C-22 also establishes the guidelines for the initial and subsequent fair value measurement of cryptocurrencies.

Cryptocurrencies are defined as digital assets designed to work as a medium of payment or exchange that use cryptography to secure the electronic transfer of the assets. Based on the fair value hierarchy set out in Mexican FRS B-17, cryptocurrencies are to be measured using Level 1 fair value inputs and occasionally, by way of exception, Level 2 inputs. When there are no quoted prices in active markets that can be used to measure the fair value of a cryptocurrency, the fair value shall be equal to zero.

Digital assets value arising from an underlying asset and that meet the definition of a derivative financial instrument, as well as digital assets where a counterparty has an obligation to pay the value or settle the asset, are outside the scope of Mexican FRS C-22, since these assets are considered as primary financial instruments.

Mexican FRS C-22 is effective for annual periods beginning on or after 1 January 2021, with early application permitted.

The adoption of Mexican FRS C-22 had no effect on the Company's 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 financial statements.

Improvements to Mexican FRS for 2021

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

(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 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 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".

34.

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 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 financial statements.

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

The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective, even if early application is permitted.

The following new accounting pronouncements are effective for annual periods beginning on or after 1 January 2020.

Mexican FRS B-11 Disposal of long-lived assets and discontinued operations

In November 2018, the CINIF issued Mexican FRS B-11 Disposal of long-lived assets and discontinued operations, the purpose of which is to separate the requirements for presentation and disclosure of disposals of long-lived assets (or disposal groups) classified as held for sale, as well as discontinued operations, from the requirements for measurement of long-lived assets were established as of 31 December 2019, in Bulletin C-15 Accounting for the impairment or disposal of long-lived assets.

Mexican FRS B-11 establishes that long-lived assets and certain assets that an entity would normally regard as non-current that are acquired exclusively with the view to resale shall not be classified as current unless they meet the criteria to be classified as held for sale in accordance with Mexican FRS B-11. In addition, for assets classified according to a liquidity presentation of the statement of financial position, under Mexican FRS B-11, non-current assets are those assets expected to be recovered more than twelve months after the reporting date (or within the entity's normal business cycle if it exceeds twelve months).

Mexican FRS B-11 is effective for annual periods beginning on or after 1 January 2020. Early application is not permitted. Under Mexican FRS B-11, initial adoption can be applied on a prospective basis.

The adoption of Mexican FRS B-11 had no effect on the Company's financial statements.

Guidance on Mexican FRS 5 Alternatives for transitioning to Mexican FRS D-5 Leases

Guidance on Mexican FRS 5 Alternatives for Transitioning to Mexican FRS D-5 Leases contains guidance on accounting for the transition to Mexican FRS D-5 upon initial adoption and provides a number of illustrative examples.

The adoption of Guidance on Mexican FRS 5 had no effect on the Company's financial statements.

Guidance on Mexican FRS 6 Discount rate, lease term and certain disclosures under Mexican FRS D-5 Leases

Guidance on Mexican FRS 6 Discount rate, lease term and certain disclosures under Mexican FRS D-5 Leases provides guidelines related to determination of the discount rate and lease term and certain disclosures arising from application of Mexican FRS D-5.

The adoption of Guidance on Mexican FRS 6 had no effect on the Company's financial statements.

Improvements to Mexican FRS for 2020

The improvements that give rise to 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.

36.

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 adoption of this improvement had no effect 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 adoption of these improvements had no effect 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 adoption of these improvements had no effect 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.

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

38.

4. Fair value measurement

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities:

- Fair value measurement hierarchy for assets as at December 31, 2020:

	Date of valuation	Total	Fair value measurement using		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:					
Derivative financial assets (Note 12):					
Foreign exchange forward contracts (USD)	December 31, 2020	\$ 66,707,934	\$ -	\$ 66,707,934	\$ -
Loans and credits:					
Fixed-rate loans	December 31, 2020	\$ 192,517,559	\$ -	\$ -	\$ 192,517,559

As of December 31, 2020, cash is also held at fair value.

- Fair value measurement hierarchy for liabilities as at December 31, 2020:

	Date of valuation	Total	Fair value measurement using		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Loans and credits:					
Fixed-rate loans	December 31, 2020	\$ 357,052,864	\$ -	\$ -	\$ 357,052,864

There were no transfers between Level 1 and Level 2 during 2020.

- Fair value measurement hierarchy for assets as at December 31, 2020:

	Date of valuation	Total	Fair value measurement using		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value:					
Derivative financial assets (Note 12):					
Foreign exchange forward contracts (USD)	December 31, 2019	\$ 22,602,160	\$ -	\$ 22,602,160	\$ -
Loans and credits:					
Fixed-rate loans	December 31, 2019	\$ 174,051,083	\$ -	\$ -	\$ 174,051,083

As of December 31, 2019, cash is also held at fair value.

- Fair value measurement hierarchy for liabilities as at December 31, 2019:

	Date of valuation	Total	Fair value measurement using		
			Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Loans and credits:					
Fixed-rate loans	December 31, 2019	\$ 330,063,197	\$ -	\$ -	\$ 330,063,197

There were no transfers between Level 1 and Level 2 during 2019.

4.a Revenue from contracts with customers

4.a.1 Disaggregated revenue information

For the years ended December 31, 2020 and 2019, all of the income in the statement of comprehensive income corresponds to the sale of automotive parts for goods and services, both have a moment of recognition of income at a certain time.

For the years ended December 31, 2020 and 2019, other income mainly consists of the sale of waste, tools, administrative services, sale of fixed assets and others.

4.a.2 Contract balances

	2020	2019
Trade receivables (Note 4.b)	\$ 171,419,503	\$ 243,104,899

Trade receivables are non-interest bearing and are generally on terms of 45 to 90 days. In 2020, \$229,410 (2019, \$216,720) was recognized as provision for expected credit losses on trade receivables.

4.a.3 Refund liabilities

	2020	2019
Refund liabilities		
Arising from retrospective volume rebates	\$ 16,484,662	\$ 27,469,824

40.

4.a.4 Performance obligations from contracts with customers

Information about the Company's performance obligations are summarized below:

Automotive parts

The performance obligation is satisfied upon delivery of the automotive parts, and payment is generally due within 45 to 90 days from delivery. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

In some contracts, a one-year warranty beyond fixing the defects that existed at the time of sale is provided to customers. The warranty is accounted for as a separate performance obligation and a portion of the transaction price is allocated. The performance obligation for the warranty service is satisfied over the coverage period based on time elapsed.

Services

The performance obligation is satisfied at the time the services are rendered, and payment is generally due upon completion of the service and acceptance of the customer. In some contracts, short-term advances are required before the service is provided.

4.b. Trade receivables

Trade receivables

As of December 31, 2020 and 2019, the accounts receivable is described below:

	2020	2019
Receivables from third-party customers	\$ 171,648,913	\$ 243,321,619
Allowance for expected credit losses	(229,410)	(216,720)
	<u>\$ 171,419,503</u>	<u>\$ 243,104,899</u>

Trade receivables are non-interest bearing and are generally on terms of 45 to 90 days.

Set out below is the movement in the allowance for expected credit losses of trade receivables and contract assets:

	2020	2019
As at January 1	\$ (216,720)	\$ (226,353)
Write-off	(12,690)	9,633
	<u>\$ (229,410)</u>	<u>\$ (216,720)</u>

The significant changes in the balances of trade receivables are disclosed in Note 4.a.2 while the information about the credit exposures are disclosed in Note 2h).

4.c. Contract liabilities

	2020	2019
Warranties	\$ 4,603,203	\$ 6,774,154
Total contract liabilities	<u>\$ 4,603,203</u>	<u>\$ 6,774,154</u>
Current	\$ 4,603,203	\$ 6,774,154
Non-current	-	-
	<u>\$ 4,603,203</u>	<u>\$ 6,774,154</u>

5. Cash

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

	2020	2019
Cash	\$ 36,000	\$ 36,000
Cash in banks	114,918,345	74,279,256
Total unrestricted cash	<u>\$ 114,954,345</u>	<u>\$ 74,315,256</u>

5.a. Financial assets and financial liabilities

5.a.1 Financial assets

	2020	2019
Derivatives not designated as hedging instruments:		
Foreign exchange forward contracts	\$ 66,707,934	\$ 22,602,160
Total financial assets at fair value	<u>66,707,934</u>	<u>22,602,160</u>
Debt Instruments at amortized cost		
Trade receivables (Note 4.b)	171,419,503	243,104,899
Loan to related party	192,517,559	174,051,083
Total financial assets (*)	<u>363,937,062</u>	<u>417,155,982</u>
Total current	<u>\$ 430,644,996</u>	<u>\$ 439,758,142</u>

(*) Financial assets, other than cash and short-term deposits

Derivatives not designated as hedging instruments

Reflect the positive change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable forecast sales in US dollars (USD).

Debt Instruments at amortized cost

Include trade receivables and receivables from related parties.

42.

5.a.2 Financial liabilities

	Interest rate	Maturity	2020	2019
Current Interest-bearing loans and borrowings				
Loan to related party USD15,021,934	3%	December 31, 2020	\$ 357,052,864	\$ 330,063,197
Total current interest-bearing loans and borrowings			\$ 357,052,864	\$ 330,063,197
Total Interest-bearing loans and borrowings			\$ 357,052,864	\$ 330,063,197

Other financial liabilities

	2020	2019
Other financial liabilities at amortized cost, other than interest-bearing loans and borrowings		
Trade and other payables	\$ 157,733,482	\$ 152,674,972
Total other financial liabilities	\$ 157,733,482	\$ 152,674,972
Total current	\$ 157,733,482	\$ 152,674,972

Derivatives designated as hedging instruments

Reflect the negative change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable future purchases in US dollars.

5.a.3 Hedging activities and derivatives

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed using derivative instruments are foreign currency risk.

The Company's risk management strategy and how it is applied to manage risk are explained in Note 5.a.5 below.

Derivatives not designated as hedging instruments

The Company uses foreign currency-denominated borrowings and foreign exchange forward contracts to manage some of its transaction exposures. The foreign exchange forward contracts are not designated as cash flow hedges and are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to 12 months.

Derivatives designated as hedging instruments

Cash flow hedges

Foreign currency risk

Foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of forecast sales and purchases in US dollar. The foreign exchange forward contract balances vary with the level of expected foreign currency sales and purchases.

The Company is holding the following foreign exchange forward contracts:

	Maturity					Total
	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	
As at December 31, 2020:						
Foreign exchange forward contracts (highly probable forecast sales)						
Notional amount	\$ 2,750,000	\$ 4,500,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 16,250,000
Average forward rate (MXN/USD)	19.94	19.94	19.94	19.94	19.94	19.94
As at December 31, 2019:						
Foreign exchange forward contracts (highly probable forecast sales)						
Notional amount	\$ 900,000	\$ 10,150,000	\$ 2,450,000	\$ 18,555,370	\$ 3,750,000	\$ 35,805,370
Average forward rate (MXN/USD)	18.84	18.84	18.84	18.84	18.84	18.84

The impact of the hedging instruments on the statement of financial position is, as follows:

	Notional amount	Carrying amount	Line item in the statement of financial position	Change in fair value used for measuring ineffectiveness for the period
As at December 31, 2020				
Foreign exchange forward contracts	\$ 16,250,000	\$ 66,707,934	Other current financial assets	\$ (50,457,935)
As at December 31, 2019				
Foreign exchange forward contracts	\$ 35,805,370	\$ 22,602,160	Other current financial assets	\$ 13,203,209

5.a.4 Fair value

The management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

44.

The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Company based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the estimated losses of these receivables.
- The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing model using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies. Some derivative contracts are fully collateralized, thereby eliminating both counterparty risk and the Company's own non-performance risk. As at December 31, 2020, the marked-to-market value of other derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.
- The fair values of the Company's interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at December 31, 2020 was assessed to be insignificant.

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at December 31, 2020 and 2019 are shown below:

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to fair value
Loans to related parties	DCF method	Discount for non-performance risk	2020: 0 % 2019: 0%	Not applicable

5.a.5 Financial instruments risk management objectives and policies

The Company's principal financial liabilities, other than derivatives, comprise loans and borrowings, and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include trade receivables, and cash and short-term deposits that derive directly from its operations. The Company also holds investments in debt and equity instruments and enters into derivative transactions.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks.

All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: interest rate risk and currency risk. Financial instruments affected by market risk include loans and borrowings, deposits and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at December 31 in 2020 and 2019.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at December 31, 2020.

The analyses exclude the impact of movements in market variables on the carrying values of pension and other post-retirement obligations; provisions; and the non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at December 31, 2020 and 2019 including the effect of hedge accounting.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

46.

The Company manages its interest rate risk by having a balanced portfolio of fixed rate loans and borrowings. The Company's policy is to maintain borrowings at fixed rates of interest. At December 31, 2020, 100% of the Company's borrowings are at a fixed rate of interest (2019: 100%).

Interest rate sensitivity

As of December 31, 2020 and 2019, the sensitivity analysis is not presented since all the company's loans are agreed at fixed interest rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a foreign currency).

The Company manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 12-month period for hedges of forecasted sales.

When a derivative is entered into for the purpose of being a hedge, the Company negotiates the terms of the derivative to match the terms of the hedged exposure. For hedges of forecast transactions, the derivative covers the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting receivable or payable that is denominated in the foreign currency.

The Company hedges its exposure to fluctuations on the translation into USD of its foreign operations by holding net borrowings in foreign currencies and by using foreign currency forwards.

At December 31, 2020 and 2019, the Company hedged 75% and 70%, for 9 and 12 months, respectively, of its expected foreign currency sales. Those hedged sales were highly probable at the reporting date. This foreign currency risk is hedged by using foreign currency forward contracts.

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in USD exchange rates, with all other variables held constant. The impact on the Company's profit before tax is due to changes in the fair value of monetary assets and liabilities including non-designated foreign currency derivatives. The impact on the Company's equity is due to changes in the fair value of forward exchange contracts designated as cash flow hedges and net investment hedges. The Company's exposure to foreign currency changes for all other currencies is not material.

	Change in USD rate	Effect on profit before tax	Effect on equity
2020	+5%	\$ 125	\$ 6,670,793
	-5%	(125)	(6,670,793)
2019	+5%	\$ 1,998	\$ 2,260,216
	-5%	(1,998)	(2,260,216)

The movement in the pre-tax effect is a result of a change in the fair value of monetary assets and liabilities denominated in US dollars. Although the derivatives have not been designated in a hedge relationship, they act as an economic hedge and will offset the underlying transactions when they occur.

The movement in equity arises from changes in US dollar borrowings (net of cash). These movements will offset the translation of the US operations' net assets into Mexican peso.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables and contract assets

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

Outstanding customer receivables and contract assets are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance obtained from reputable banks and other financial institutions.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than three years and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 5.a.1. The Company does not hold collateral as security. The letters of credit and other forms of credit insurance are considered integral part of trade receivables and considered in the calculation of impairment.

The Company evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy. Counterparty credit limits are reviewed by the Company's Board of Directors on an annual basis. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

The Company's maximum exposure to credit risk for the components of the statement of financial position at December 31, 2020 and 2019 is the carrying amounts as illustrated in Note 4.b except for derivative financial instruments.

Liquidity risk

The Company monitors its risk of a shortage of funds using a liquidity planning tool.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. Approximately 100% of the Company's debt will mature in less than one year at December 31, 2020 (2019: 100%) based on the carrying value of borrowings reflected in the financial statements. The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The Company has access to a sufficient variety of sources of funding and debt maturing within 12 months can be rolled over with existing lenders.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Company to manage risk concentrations at both the relationship and industry levels.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

Year ended December 31, 2020	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing loans and borrowings	\$ 357,052,857	\$ 57,384,797	\$ 299,668,060	\$ -	\$ -	\$ 357,052,857
Lease liabilities (Note 10)	6,921,726	1,137,489	3,412,468	2,371,769	-	6,921,726
Trade and other payables	157,733,482	157,733,482	-	-	-	157,733,482
Derivatives	<u>\$ 521,708,065</u>	<u>\$ 216,255,768</u>	<u>\$ 303,080,528</u>	<u>\$ 2,371,769</u>	<u>\$ -</u>	<u>\$ 521,708,065</u>

The financial derivative instruments disclosed in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net.

5.a.6 Changes in liabilities arising from financing activities

	January 1, 2020	Cash flows, foreign exchange movements and changes in fair value	December 31, 2020
Current interest-bearing loans and borrowings	\$ 330,063,197	\$ 26,912,914	\$ 356,976,111
Derivatives	22,602,160	44,105,774	66,707,934
Total liabilities from financing activities	<u>\$ 352,665,357</u>	<u>\$ 71,018,688</u>	<u>\$ 423,684,045</u>

6. Related parties

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

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

	2020	2019
Receivables:		
SRM Automotive Mirrors Stuttgart GmbH (holding company) ⁽¹⁾	\$ 186,846,030	\$ 172,816,259
Total	<u>\$ 186,846,030</u>	<u>\$ 172,816,259</u>

(1) As of December 31, 2020, this balance includes resources sent for an amount of USD\$8,445,609 and for \$933,689 euros (USD\$8,224,387 and for \$907,328 euros as of December 31, 2019).

	2020	2019
Payables current:		
SMR Automotive Beteiligungen Deutschland GmbH (affiliate) ⁽²⁾	\$ 357,052,857	\$ 329,991,212
SMR Automotive Systems USA Inc. (affiliate)	161,667	25,965,149
MSSL México, S.A. de C.V. (affiliate)	-	14,190,761
SMR Automotive Mirror Technology Hungary Bt. (affiliate)	3,155,567	5,636,864
SMR Automotive Australia Pty Ltd. (affiliate)	1,059,161	2,312,666
SMR Automotive Modules Korea Ltd. (affiliate)	-	2,420,446
Motherson Sumi Infotech and Designs Ltd. (affiliate)	328,159	778,644
Samvardhana Motherson Global (Dubai) (affiliate)	342,639	235,659
SMR Automotive Systems India Ltd. (affiliate)	58,655	166,232
SMR Automotive Systems Spain (shareholder)	-	66,986
SMR Japan Office (affiliate)	6,822	-
SMR Automotive Yancheng Co. Ltd (affiliate)	2,228,573	-
	<u>\$ 364,394,100</u>	<u>\$ 381,764,619</u>

(2) Corresponds to a loan for the amount of USD \$15,021,934 in 2020 and 2019, this loan accrues an interest rate of 3% per year. Accrued interest charged in 2020 and 2019 were \$10,084,816 and \$8,665,915, respectively.

As at December 31, 2020 and 2019, balances receivable due from related parties consist of unsecured current accounts that bear no interest and are payable in cash within 30 days.

Accounts receivable due from related parties are all considered collectible. Accordingly, for the years ended December 31, 2020 and 2019, there was no expense related to the uncollectible of accounts receivable due from related parties.

As at December 31, 2020 and 2019, balances payable due to related parties consist of unsecured current accounts that bear no interest and are payable in cash within 60 days.

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

	2020	2019
Income:		
Sale of finished products and raw materials	\$ 5,755,968	\$ 4,868,699
Administrative services	5,342,274	22,818,845
Interest	5,423,466	4,928,656
Other income	10,548,428	11,093,522
	<u>\$ 27,070,136</u>	<u>\$ 43,709,722</u>
Expenses:		
Inventory purchases	\$ 200,981,908	\$ 241,453,005
Launch costs (services)	38,951,544	160,253,751
Administrative services	78,853,032	67,053,653
Interest	303,000	8,665,915
Other services	9,858,288	937,148
	<u>\$ 328,947,772</u>	<u>\$ 478,363,472</u>

7. Inventories

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

	2020	2019
Raw materials at cost	\$ 141,582,983	\$ 157,458,922
Production in process at cost	27,507,194	33,364,207
Finished products at cost	32,347,652	20,185,751
Goods in transit	1,664,183	-
	<u>203,102,012</u>	<u>211,008,880</u>
Impairment allowance:		
Reserve for obsolete inventories	(22,038,405)	(12,230,325)
Net realizable value reserve	(3,146,375)	(6,186,444)
	<u>\$ 177,917,231</u>	<u>\$ 192,592,111</u>

Raw materials

In 2020, there were increases in purchases derived from pending orders to be supplied to customers.

52.

Production in process and finished goods:

In 2020, the Company received a higher number of orders from its customers, compared to the previous period, in view of the normal high production cycle, production in process shows a decrease as of December 31, 2020 compared to the balance shown in that item as of December 31, 2019, while the balance of finished products shows a decrease in that same period.

8. Prepaid expenses

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

	2020	2019
Current assets:		
Prepaid insurance	\$ 4,298,799	\$ 4,306,040
Advance payments made to service providers	2,117,390	1,226,368
Total current assets	<u>\$ 6,416,189</u>	<u>\$ 5,532,408</u>
Non-current assets		
Deposits in guarantee	<u>\$ 4,350,984</u>	<u>\$ 3,817,133</u>

9. Property, plant and equipment

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

	% depreciation	2020	2019
Components subject to depreciation			
Buildings	13%	\$ 117,789,886	\$ 111,684,035
Machinery and equipment	7%	1,122,295,312	1,027,126,897
Furniture and office equipment	6%	2,801,066	2,489,530
Tooling	21%	5,331,821	5,041,720
Packing material	12%	52,523,634	50,116,175
		<u>1,300,741,719</u>	<u>1,196,458,357</u>
Less:			
Accumulated depreciation		<u>(686,180,606)</u>	<u>(560,643,732)</u>
		<u>614,561,113</u>	<u>635,814,625</u>
Components not subject to depreciation:			
Construction in process		37,867,765	37,176,650
Land		5,613,748	5,214,669
		<u>43,481,513</u>	<u>42,391,319</u>
Property, plant and equipment, net		<u>\$ 658,042,626</u>	<u>\$ 678,205,944</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$72,108,591 and \$67,697,351, respectively, which was recognized in profit and loss as part of cost of sales and operating expenses.

b) The Company sold property, plant and equipment for \$80,000 during 2020 (\$1,121,593 in 2019), which are presented within other income.

c) Construction projects in progress correspond to new production lines and are expected to be completed in a period not exceeding one year and are mainly made up of machinery and equipment in process. The amount to which construction projects in progress will amount is expected to be completed in a period not exceeding one year. As of December 31, 2020 and 2019, there are no commitments made for this project.

10. Leases

This note provides information for leases where the Company is a lessee.

i Balances recognized in statements of financial position

The statements of financial position show the following amount related to leases:

	2020	2019
Right-use-assets:		
Buildings, computer equipment and vehicles	\$ 12,182,069	\$ 17,253,093
Depreciation/amortization expense	(5,457,235)	(8,447,476)
Right-use-assets, net	\$ 6,724,834	\$ 8,805,617

During 2020 the Company has not increased the right-use-asset.

	2020	2019
Lease liability:		
Current	\$ 6,921,726	\$ 9,101,050
Non-current	4,549,957	8,327,329
	\$ 2,371,769	\$ 773,721

ii Balances recognized in statements of comprehensive income

The statements of comprehensive income show the following amount related to leases:

	2020	2019
Right-use-asset depreciation expense	\$ 8,371,700	\$ 8,447,476
Interest expenses (Included in financial cost)	665,351	678,376

The total cash flows related to the payments of leases in 2020 and 2019 amount of \$9,125,466 and \$14,907,734, respectively.

54.

11. Foreign currency balances

a) The financial statements as at December 31, 2020 and 2019 include the following on thousands of US dollars denominated assets and liabilities:

	2020	2019
Assets:	USD. 25,907	USD 26,088
Liabilities	(25,782)	(28,209)
Net monetary liability (asset) position	USD. 125	USD (2,121)

b) The exchange rates used to translate the above amounts to Mexican pesos as at December 31, 2020 and 2019 were \$19.94 and \$18.84, respectively, per U.S. dollar. As at May 21, 2021, the date of issue of these financial statements, the exchange rate was \$19.8143 pesos per U.S. dollar.

c) As of December 31, 2020 and 2019, the Company had no hedging financial instruments to cover its passive monetary positions in US dollars, with the exception of what is shown in Note 12.

d) As of December 31, 2020 and 2019, the Company has non-monetary assets of foreign origin, the replacement cost of which is basically determined in dollars as follows:

	Thousands of dollars	
	2020	2019
Inventories	USD 8,854	USD 9,320
Property, machinery and equipment	31,912	43,591

e) The main operations in foreign currency, carried out by the Company together with its income and expenses in thousands of US dollars, are summarized below.

	2020	2019
Sales of goods	Dls. 79,764	Dls. 109,987
Purchases of finished goods, raw materials and spare parts	Dls. 45,932	Dls. 62,736

12. Derivative financial instruments

Derivative financial instruments exchange rate.

The Company is exposed to the exchange rate fluctuation between the Mexican peso and the US dollar when making salary and wage payments, as well as any other payment, this is the reason why the Board of Directors decided to approve the strategic coverage for forwards, with the purpose of reducing the risk of currency fluctuation in these transactions.

56.

Counterpart: Barclays Bank PLC

Contract	Amount national	Date	Maturity	Underlying type	Exchange rate	Fair value
309750907	\$ 5,000,000	April 24, 2018	March 31, 2020	USD	18.84	\$ 7,580,803
404842819	2,000,000	May 17, 2019	March 31, 2020	USD	18.84	(1,971,435)
404843171	1,500,000	May 17, 2019	March 31, 2020	USD	18.84	(1,474,430)
404843403	1,500,000	May 17, 2019	March 31, 2020	USD	18.84	(1,474,298)
						<u>\$ 2,660,640</u>

The Company considers that its future payment transactions qualify as highly probable according to the terms required by accounting regulations.

The fair value of the forwards as of December 31, 2020 and 2019 resulted in the recognition of an asset (liability), respectively, and a credit (charge) in the comprehensive income account, which will be reclassified as an (expense) income in the same period and on the same line as it corresponds in the Net financing cost.

The estimated amounts related to financial derivative instruments reflect the reference of the volume acquired; however, they do not reflect the amounts at risk relative to future flows. Amounts at risk are generally limited to the unrealized profit or loss from the market valuation of such instruments, which could vary according to changes in the market value of the underlying currency, its volatility and the credit quality of the securities. counterparts.

The main obligation of the Company depends on the acquisition processes and the conditions established in each of the derivative financial instruments effective as of December 31, 2020 and 2019.

13. Net employee defined benefit liabilities

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

a) The value of the net defined benefit as of December 31, 2020 and 2019 amounted to \$27,569,139 and \$19,596,513, respectively.

b) Below is a reconciliation between the present value of the net defined benefit and the fair value of the plan assets and the net defined benefit liability/(asset): recognized in the statement of financial position:

	Legal compensation	Pensions	Premium seniority	2020 Total	2019 Total
Labor liabilities:					
Net defined benefit	\$ 7,669,077	\$ 15,116,489	\$ 4,783,573	\$ 27,569,139	\$ 19,596,513
Net defined benefit liability	<u>\$ 7,669,077</u>	<u>\$ 15,116,489</u>	<u>\$ 4,783,573</u>	<u>\$ 27,569,139</u>	<u>\$ 19,596,513</u>

c) Net periodic benefit cost:

	Legal compensation	Pensions	Premium seniority	2020 Total	2019 Total
Current year service cost	\$ 1,937,799	\$ 1,000,712	\$ 398,767	\$ 3,337,278	\$ 2,788,337
Net interest cost on net defined benefit liability	475,103	755,700	251,041	1,481,844	1,176,554
Reductions and early settlements					(1,378,703)
Reclassification of remeasurement	(53,066)	(226,012)	78,580	(200,498)	(770,657)
Net periodic benefit cost	\$ 2,359,836	\$ 1,530,400	\$ 728,388	\$ 4,618,624	\$ 1,815,531

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

	2020	2019
Expected salary increase rate	5.00%	5.00%
Salary career rate	5.80%	5.80%
Discount rate	7.00%	8.00%
Daily minimum wage	\$ 141.70	\$ 123.22

As at December 31, 2020 and 2019, the Company does not have any material contingent liabilities for employee benefits.

14. 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
Employee profit sharing payable	\$ 17,492,972	\$ 31,512,977
	\$ 17,492,972	\$ 31,512,977

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	\$ 17,342,493	\$ 31,361,754
Deferred employee profit sharing	15,827,650	4,069,692
Deferred employee profit sharing in OCI	(11,558,089)	(4,088,675)
Total employee profit sharing	\$ 21,612,054	\$ 31,342,771

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c) Deferred Employee Profit Sharing (EPS)

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

	2020	2019
Deferred EPS assets		
Provisions	\$ 26,188,8623	\$ 38,705,181
Retirement benefits and termination benefits	14,611,644	10,386,152
Allowance for obsolete inventories	22,038,405	12,230,325
Liabilities to individuals	2,124,384	3,216,262
Allowance for doubtful accounts	229,410	216,720
Lease liability	9,101,050	9,101,050
	<u>74,293,756</u>	<u>73,855,690</u>
Deferred EPS liabilities		
Property, plant and equipment	(89,174,293)	(177,225,334)
Derivative financial instruments	(66,707,934)	(22,602,160)
Right of use assets	(8,805,617)	(8,805,617)
Prepaid expenses	(3,831,630)	(2,143,905)
	<u>(168,519,474)</u>	<u>(210,777,016)</u>
	<u>(94,225,718)</u>	<u>(136,921,326)</u>
EPS rate	10%	10%
Deferred employee profit sharing liability, net	<u>\$ (9,422,571)</u>	<u>\$ (13,692,132)</u>

Based on financial and tax projections prepared by Company management, the Company has determined that its net deferred employee profit sharing asset will be realized.

Current and deferred employee profit sharing are presented as part of cost of sales, operating costs and OCI in the comprehensive income.

15. Equity

a) Share capital

As of December 31, 2020 and 2019, the share capital is represented by 7,916,315 registered shares, fully subscribed and paid as shown:

	Shares (*)	As of December 31, 2020
Capital stock:		
Fixed capital	7,400	\$ 74,000
Variable capital	7,908,915	79,089,150
Capital stock	<u>7,916,315</u>	<u>79,163,150</u>
Update until December 31, 2007		21,915,499
Updated share capital		<u>\$ 101,078,649</u>

(a) Ordinary registered shares with a nominal value of \$ 1 each, fully subscribed and paid.

b) Legal reserve

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 Company has not created such a reserve.

c) Dividends

At an extraordinary shareholders' meetings held on January 31, 2020, the shareholders declared dividends of \$41,233,491 that comes from Net Tax Income Account (CUFIN for its acronyms in Spanish).

At an extraordinary shareholders' meetings held on October 1, 2020, the shareholders declared dividends of \$63,000,000 that comes from Net Tax Income Account (CUFIN for its acronyms in Spanish).

At an extraordinary general meeting of Shareholders held on June 24, 2019, the Shareholders agreed to decree and pay dividends in the amount of \$ 131,836,320, from the Net taxed profits account (CUFIN by its acronym in Spanish).

At an extraordinary general meeting of Shareholders held on September 10, 2019, the Shareholders agreed to decree and pay dividends in the amount of \$21,354,608, from the Net taxed profits account (CUFIN by its acronym in Spanish).

There was no dividend decree between the closing date of the accompanying financial statements and the date of authorization to issue them.

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.

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16. Income tax

i. Tax Reform 2020 in Mexico

On October 30, 2019, the Mexican Congress approved the 2020 Tax Reform applicable for the whole country, which became effective on January 1, 2020. Among other changes, the reform establishes a net interest expense deduction limitation equal to 30% of an entity's adjusted tax profit. This limitation is only applicable when the amount of the aggregate interest payments of the members of a corporate group in Mexico exceeds 20 million Mexican pesos. The Company did not identify significant accounting impacts of the 2020 Tax Reform on the financial statements.

a) Income tax

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.

b) Employee Profit Sharing (EPS)

The MITL establishes that entities are to calculate their EPS on the basis of their taxable earnings for the year determined for income tax purposes, plus or minus the effects of certain adjustments specified in the MITL.

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

In 2020, the Company determined a tax profit of \$151,703,145 (\$290,585,003 in 2019). The tax result differs from the accounting result, mainly for those items that accumulate over time and are deducted differently for accounting and tax purposes, for the recognition of the effects of inflation for tax purposes, as well as those items that only affect the accounting or fiscal result.

	2020	2019
Current income tax	\$ 45,510,943	\$ 87,175,501
Deferred income tax	(31,617,221)	6,412,473
	<u>\$ 13,893,722</u>	<u>\$ 93,587,974</u>

Other Comprehensive Income (OCI):

	2020	2019
Deferred taxes related to items recognized in other comprehensive income during the year		
Exchange differences on translation of foreign operations	\$ (31,206,841)	\$ (14,007,866)
Derivative financial instruments	(13,231,732)	4,023,511
Remeasurements of net defined benefit liability (*)	533,286	(725,242)
Deferred tax recognized in OCI	<u>\$ (43,905,287)</u>	<u>\$ (10,709,597)</u>

(*) Deferred income tax is calculated on a 53% deduction.

An analysis of deferred taxes shown in the statement of financial position is as follows:

	2020	2019
Deferred tax assets:		
Provisions	\$ 26,188,863	\$ 38,705,181
Current employee profit sharing	16,687,555	31,394,661
Retirement benefits and termination benefits	14,611,644	10,386,152
Allowance for obsolete inventories	22,038,405	12,230,325
Liabilities to individuals	2,124,388	3,216,262
Allowance for doubtful accounts	229,410	216,720
Lease liabilities	9,101,050	9,101,050
	<u>90,981,314</u>	<u>105,250,351</u>
Deferred tax liabilities:		
Property, plant and equipment	(89,174,293)	(177,225,334)
Deferred employee profit sharing	9,422,571	(7,266,891)
Derivative financial instruments	(66,707,934)	(22,602,160)
Right of use assets	(8,805,617)	(8,805,617)
Prepaid expenses	(3,831,630)	(2,143,905)
	<u>(159,096,903)</u>	<u>(218,043,907)</u>
	<u>(68,115,588)</u>	<u>(112,793,556)</u>
Income tax rate	30%	30%
Deferred tax liability, net	<u>\$ (20,434,676)</u>	<u>\$ (33,838,067)</u>

The estimate for deferred income tax assets covers 100% of the assets arising from the provisions.

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d) A reconciliation of net deferred taxes is as follows:

	2020	2019
Income before Income taxes	\$ 297,866,856	\$ 309,240,222
Statutory income tax rate 30%	30%	30%
Income taxes at statutory income tax rate	89,360,057	92,772,067
Plus/(less):		
Non-deductible expenses	11,791,515	4,990,844
Annual inflation adjustment	7,032,759	1,553,169
Exchange differences on translation of foreign operations	(127,062,693)	8,446,069
Others	32,772,084	(14,174,175)
	(75,466,335)	815,907
Total income tax	\$ 13,893,722	\$ 93,587,975
Effective income tax rate	5%	30%

16.a Analysis of cost of sales and operating expenses

An analysis of the Company's cost of sales and relevant operating expenses recognized in the statement of comprehensive income by function as at December 31, 2020 and 2019 is as follows:

	2020	2019
Purchase of raw materials	\$ 1,217,952,403	\$ 1,560,739,213
Tooling Expenses	103,042,211	121,541,718
Wages and salaries	117,741,257	114,315,231
Administrative services	109,048,157	89,544,547
Depreciations and amortizations	80,480,291	67,697,351
Freight	48,046,085	49,624,072
Employee profit sharing	17,342,493	31,361,754
Various	18,887,409	29,467,396
Electricity	20,888,900	28,234,689
Maintenance and conservation	21,187,529	27,285,212
Project development expenses	13,190,410	19,100,331
B-15 exchange differences on translation of foreign operations	31,144,235	14,637,028
Professional fees and services	13,064,889	16,505,111
Non-deductible expenses	881,797	16,363,149
External rework	4,561,489	12,257,835
Auxiliary production materials	10,906,211	9,044,642
Insurance and sureties	11,364,021	6,157,589
Leased equipment	16,829,531	6,077,513
Deferred employee profit sharing	10,545,111	4,069,692
	\$ 1,867,104,429	\$ 2,224,024,073

16.b. Analysis of net financing cost

An analysis of the Company's net financing cost recognized in the statement of comprehensive income as at December 31, 2020 and 2019 is as follows:

	2020	2019
Interest income	\$ 5,427,717	\$ 4,931,521
Interest expense	(11,817,164)	(10,559,237)
Interest on lease liabilities	(665,351)	(678,376)
Foreign exchange gain/(loss), net	86,600,701	133,495,932
	<u>\$ 79,545,903</u>	<u>\$ 127,189,840</u>

17. Other Comprehensive Income (OCI)

The effects of income tax derived from movements in the OCI for the period are shown below:

Exchange differences on translation of foreign operations:

	Initial OCI balances	OCI before tax	Income taxes 30%	EPS 10%	OCI net
Fixed asset	\$ 120,128,670	\$ 104,022,802	\$ (31,206,841)	\$ (11,558,089)	\$ 181,386,542
Stockholders' equity	(101,997,755)	(188,320,565)	-	-	(290,319,320)
Total other comprehensive income	<u>\$ 18,130,915</u>	<u>\$ (84,297,763)</u>	<u>\$ (31,206,841)</u>	<u>\$ (11,558,089)</u>	<u>\$ (108,931,778)</u>

Other comprehensive income:

	Initial OCI balances	OCI before tax	Income taxes 30%	EPS 10%	OCI net
Derivative financial instruments	\$ 19,347,148	\$ 44,105,771	\$ (13,231,732)	\$ (4,410,577)	\$ 45,810,610
Remeasurement of actuarial gains and losses (*)	(412,340)	(3,354,002)	533,286	177,762	(3,055,294)
Total other comprehensive income	<u>\$ 18,934,808</u>	<u>\$ 40,751,769</u>	<u>\$ (12,698,446)</u>	<u>\$ (4,232,815)</u>	<u>\$ 42,755,316</u>

(*) Deferred income tax and deferred EPS are calculated considering the 53% deduction.

Other comprehensive income of the period:

	2020	2019
Exchange differences on translation of foreign operations	\$ (127,062,693)	\$ (60,828,173)
Derivative financial instruments	26,463,462	8,047,022
Employee benefits	(2,642,954)	(3,594,283)
Effect on OCI of the year	<u>\$ (103,242,185)</u>	<u>\$ (56,375,434)</u>

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18. Contingencies and commitments

a) 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, 2019, 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, 2019. 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.

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

Should the tax authorities review and reject the Company's intercompany pricing, they may demand payment of the omitted taxes, plus restatements and surcharges, as well as fines for amounts of up to 100% of the restated omitted taxes.

19. Subsequent event

On April 23, 2021, the decree by which various provisions of the Federal Labor Law (LFT), Social Security Law (LSS), Law of the Institute of the National Housing Fund for Workers (LINFONAVIT), Federal Tax Code (CFF), Income Tax Law (LISR), Value Added Tax Law (LIVA) and Federal Law of Workers at the Service of the State (LFTSE). This reform mainly prohibits the subcontracting of personnel (outsourcing and insourcing schemes), except in the case of specialized services or execution of specialized works that are not part of the corporate purpose or the predominant economic activity of the entity.

Among other obligations, companies will have a period of 90 days, counted from the entry into force of the decree, to regularize their personnel and eliminate the aforementioned schemes that do not meet the requirements stipulated therein. As of the date of issuance of the financial statements, the Company's management is in the process of evaluating the impact that this reform will have on its administrative structure and operations.



Ing. José Luis González Gómez
Plant manager



C.P. Thelma Yadhira Zayas Puga
Finance manager