

COMPLETAR PARA OFICINA

MSSL MÉXICO, S.A. DE C.V.  
(Subsidiary of MSSL (S) Pte. Ltd.)

Financial statements

At December 31, 2018 and 2017  
with report of independent auditors

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

### **Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable about whether the financial statements as a whole are free from material misstatement, whether due to fraud error, and to issue an auditor's report that included 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 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 asses 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 or 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, international 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 the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in 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 engagement partner on 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  
June 17, 2019.

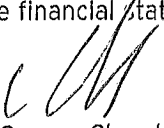
MSSL MÉXICO, S.A. DE C.V.  
(Subsidiary of MSSL (S) Pte. Ltd.)

Statement of financial position

(Mexican pesos)

	At December 31,	
	2018	2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 5)	\$ 24,337,716	\$ 13,281,974
Accounts receivables, net	4,298,466	4,858,675
Others accounts receivable	3,771,474	719,704
Value added tax to recoverable	4,947,434	9,376,483
Related parties (Note 6)	51,551,621	60,067,130
Derivative financial Instruments (Note 9)	1,231,976	-
Inventory (Note 7)	69,325,874	58,583,249
Total current assets	159,464,561	146,887,215
Property, plant and equipment, net (Note 8)	44,870,381	47,801,488
Deferred Income tax (Note 16)	9,865,345	11,530,631
Deferred statutory profit sharing (Note 17)	3,157,049	3,661,978
Other assets	273,741	270,741
Total assets	\$ 217,631,077	\$ 210,152,053
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Suppliers	\$ 28,951,187	\$ 25,595,586
Derivative financial Instruments (Note 9)	-	1,686,611
Income taxes	3,931,745	1,465,874
Bank loans (Note 11)	11,809,740	40,457,570
Related parties (Note 6)	10,377,839	6,526,170
Statutory profit sharing to employees' (Note 17)	3,486,821	4,275,488
Other accounts payable and accrued expenses (Note 10)	29,794,070	24,201,073
Total current liabilities	88,351,402	104,208,372
Employee's benefits (Note 12)	1,540,623	1,299,419
Total liabilities	89,892,025	105,507,791
Equity (Note 13):		
Capital stock	114,097,957	114,097,957
Accumulated results	( 10,300,566)	( 32,499,515)
Net income	21,288,507	22,198,949
Other comprehensive income (Note 14)	2,653,154	846,871
Total equity	127,739,052	104,644,262
Total liabilities and equity	\$ 217,631,077	\$ 210,152,053

The attached notes are integral part of these financial statements, which were authorized for its issuance by the officers who sign at the end.

  
George Chambers  
Legal Representative

MSSL MÉXICO, S.A. DE C.V.  
(Subsidiary of MSSL (S) Pte. Ltd.)

Statements of comprehensive income

(Mexican pesos)

	For the years ended December 31,	
	2018	2017
Net sales	\$ 472,455,182	\$ 410,989,339
Cost of sales (Note15)	( 424,406,220)	( 368,395,589)
Gross income	48,048,962	42,593,750
Operating expenses (Note15)	( 12,844,035)	( 11,796,692)
Operating income	35,204,927	30,797,058
Comprehensive financing result:		
Financial products, net	( 715,375)	( 1,478,092)
Income (loss) exchange	1,192,395	( 188,297)
	477,020	( 1,666,389)
Income before income tax	35,681,947	29,130,669
Income taxes (Note 16)	( 14,393,440)	( 6,931,720)
Net income for the year	21,288,507	22,198,949
Other comprehensive income	1,806,283	1,625,502
Net comprehensive income for the year	\$ 23,094,790	\$ 23,824,451

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MSSL MÉXICO, S.A. DE C.V.  
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Statements of changes in equity

For the years ended December 31, 2018 and 2017

(Mexican pesos)

	Capital stock	Accumulated results	Net income	Other comprehensive income	Total
Balances, December 31, 2016	\$ 114,097,957	\$ ( 58,577,211)	\$ 26,077,696	\$ ( 778,631)	\$ 80,819,811
Transfer to accumulated losses			( 26,077,696)		-
Other comprehensive (Note 14)		26,077,696	22,198,949	1,625,502	23,824,451
Balances, December 31, 2017	114,097,957	( 32,499,515)	22,198,949	846,871	104,644,262
Transfer to accumulated losses		22,198,949	( 22,198,949)		-
Other comprehensive (Note 14)			21,288,507	1,806,283	23,094,790
Balances, December 31, 2018	\$ 114,097,957	\$ ( 10,300,566)	\$ 21,288,507	\$ 2,653,154	\$ 127,739,052

The attached notes are integral part of these financial statements, which were authorized for its issuance by the officers who sign at the end.



George Chambers  
Legal Representative



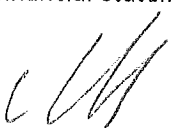
**MSSL MÉXICO, S.A. DE C.V.**  
(Subsidiary of MSSL (S) Pte. Ltd.)

**Statements of cash flows**

(Mexican pesos)

	For the years ended December 31,	
	2018	2017
<b>Operating activities</b>		
Income before Income tax	\$ 35,681,947	\$ 29,130,669
Investing activities related items:		
Provision for long term employee benefits	241,204	( 916,903)
OCI effect	1,806,283	1,625,502
Derivatives	( 2,918,587)	( 1,307,582)
Interest expenses	715,375	1,478,092
Deferred statutory profit sharing	504,929	( 1,178,014)
Depreciation	4,577,406	4,396,550
Profit on sale of fixed assets	( 71,285)	-
	40,537,272	33,228,314
Changes in operating assets and liabilities:		
Increase (decrease) in clients	560,209	( 948,746)
Decrease in inventories	( 10,742,625)	( 8,347,576)
Increase in other assets and accounts receivable	1,374,278	12,999,658
Related parties, net	12,367,178	( 29,662,149)
Increase in suppliers	3,355,601	8,466,388
(Decrease) Increase in other accounts payable	( 5,457,954)	4,879,716
Net cash flows provided by operating activities	41,993,959	20,615,605
<b>Investment activities</b>		
Acquisition of property, machinery and equipment	( 1,575,012)	( 5,295,734)
Net cash flows used in investment activities	( 1,575,012)	( 5,295,734)
<b>Financing activities</b>		
Current-term bank loans acquisition	( 45,370,910)	( 7,186,930)
Loans received	16,723,080	
Paid interests	( 715,375)	( 1,478,092)
Net cash flows used in financing activities	( 29,363,205)	( 8,665,022)
Increase of cash and cash equivalents	11,055,742	6,654,849
Cash and cash equivalents at the beginning of the year	13,281,974	6,627,125
Cash and cash equivalents at the end of the year	\$ 24,337,716	\$ 13,281,974

The attached notes are integral part of these financial statements, which were authorized for its issuance by the officers who sign at the end.

  
George Chambers  
Legal Representative

**MSSL MÉXICO, S.A. DE C.V.**  
**(Subsidiary of MSSL (S) Pte. Ltd.)**

**Notes to the financial statements**

For the years ended December 31, 2018 and 2017

(Amount expressed in Mexican pesos, except foreign currency and shares)

**1. History and company activities**

MSSL México, S.A. de C.V. (the Company) was incorporated in accordance with Mexican Laws on March 1, 2012 in México Distrito Federal, with an undetermined duration, its main activity is manufacturing, design and commercialization of all kind of cables and cable sets, as well as all kind of products and components for the automotive industry.

The period of operations of the Company and the fiscal year comprise from January 1, to December 31.

On June 17, 2019, the financial statements and these notes were authorized by the Company's Operations Manager, George Chambers 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, 2018 through the above-mentioned issue date of the financial statements.

**2. Summary of significant accounting policies**

**a) Compliance with Mexican Financial Reporting Standards**

The accompanying financial statements as of December 31, 2018 and 2017, have been prepared in accordance with Mexican Financial Reporting Standards (MFRS or Mexican FRS).

**b) Basis of presentation**

The financial statements as of December 31, 2018 and 2017, have been prepared on a historical-cost basis except for derivative financial instruments, debt and equity financial instruments and contingent consideration that have been measured at fair value.

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 of December 31, 2018, and 2017, 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.

2.

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 2018 and 2017 is as follows:

	Acumulative inflation for 2017	Acumulative inflation for 2018	Inflation for the year
	(% de 2015, 2016 and 2017)	(% de 2016, 2017 and 2018)	(% de 2018)
Porcentajes de inflación	12.26%	14.96%	4.83%

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

#### c) Functional currency

Management has established the US Dollar as functional currency; the financial statements are presented on Mexican pesos; this currency is also used to record operations and report financial statements.

The financial statements are issue for legal and tax purposes, therefore are not subject to consolidation or valuation base on equity method, company did not perform the conversion of recording currency to functional currency in accordance with INIF 15 Financial statements, where reporting currency is equal to entry currency, but different from functional currency.

#### d) 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.

#### 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 60 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).

The Company determines a price reserve for some products considering the cooper price established with client at the beginning of the year and the real price (market price) of this commodity. Any fluctuation is accrued monthly and reimbursed to clients through a credit note as a price reduction.

#### **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 in Note 1h.

#### **Contract liabilities and advances from customers**

A contract liability is the obligation to transfer the control over goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is due, and an advance from customers when the payment is made. Contract liabilities (or advance from customer) are recognized as revenue when the Company performs its performance obligations under the contract.

#### **Assets and liabilities arising from rights of return**

#### **Right of return assets**

Right of return asset represents the Company's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the product before its sale (e.g., inventory), less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Company updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products. The Company presents separately the asset from the refund liability.

#### **Refund liabilities**

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

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.

4.

**e) Use of estimates**

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

**Estimates and assumptions**

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

**Judgements**

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

**Provision for Expected Credit Losses (ECL) of trade receivables and contract assets**

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.

### **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 9 for further disclosures.

### **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 31 December 2018 and 2017, 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 12.

6.

**f) Cash and cash equivalents**

Cash and cash equivalents principally consist of petty cash balances in local and foreign currency, bank deposits, minted precious metals, and highly liquid investments with maturities of 90 days or less. Cash and cash equivalents are stated at fair value.

Cash and cash equivalents 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.

Bank overdrafts are recorded as current liabilities, even when the Company has other checking accounts with the same bank with positive balances since the Company does not have any balance offset agreements with the bank.

**g) Derivative financial instruments and hedge accounting**

**Initial recognition and subsequent measurement**

The Company uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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

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

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

Before 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 1 January 2018, 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, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency contracts is recognized as other expense and the ineffective portion relating to commodity contracts is recognized in other operating income or expenses. Refer to Note 9 for more details.

Before 1 January 2018, the Company designated all forward contracts as hedging instrument. Any gains or losses arising from changes in the fair value of derivatives were taken directly to profit or loss, except for the effective portion of cash flow hedges, which were recognized in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

Beginning 1 January 2018, the Company designates only the spot element of forward contracts as a hedging instrument. The forward element is recognized in OCI and accumulated in a separate component of equity under cost of hedging reserve.

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



8.

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. For additional details over Cash flow hedges see Note 9.

As of December 31, 2018, the Company does not have hedges of fair value nor a net investment.

#### **h) 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 receivables are classified as long-term.

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

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 receivables 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 receivables are presented as part of current assets.

Other accounts receivables are 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.

#### **i) 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.

#### **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.

10.

**j) 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.

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.

**k) 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 8:

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 31 December 2018 and 2017, there were no indicators of impairment.

#### **l) Accrued liabilities, provisions, contingent liabilities 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.

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 virtually certain. Trade advances in foreign currency are translated using the exchange rate prevailing on the day of the initial transactions, and are not adjusted for subsequent changes in exchange rates. Trade advances are recognized as current liabilities and recognized as expenses as the products are sold or the services are rendered.

#### **m) 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.

12.

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.

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. See Note 15.

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.

#### **n) Income tax**

##### **Current income tax**

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

##### **Deferred income tax**

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

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

Asset tax is treated as a tax credit, and the Company makes an appropriate evaluation of its recovery in the future.

#### **o) 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 assets and liabilities relating to items outside profit or loss from components of other comprehensive income that have not yet been realized are recognized in equity and reclassified to profit or loss immediately as accrued.

**p) Employees' benefits**

The employees' benefits granted by the Company to its employees, including the defined benefit plans (or defined contribution plans) are described as follows:

Direct benefits (salary, overtime, vacation, holiday, compensated absences payments, etc.), are recognized in income as they accrue and their corresponding liabilities are expressed at nominal value since they are short-term. Compensated absence payments based on the legal or contractual provisions, are non-cumulative.

The Company has no employees' benefit plans of defined contribution, except as required by the social security laws.

Liability recognized in the statement of the financial position regarding the defined benefit plans is the present value of the defined benefit obligation at the date of the statement of the financial position. Defined benefit obligation is calculated annually by using the method of projected unit cost.

The present value of defined benefit obligation is determined by discounting estimated future cash flows using discount rates in accordance with MFRS D-3, which are denominated in the currency in which benefits will be paid, and have maturity approximating the terms of the pension liability.

Remeasurement are gains or losses on the plan, obtained between defined assets and liabilities, which should be recognized in other comprehensive income, subsequently and gradually being recognized in net profit or loss, based on the average remaining working life, eliminating the corridor approach or fluctuation band and in the same proportion as OBD and AP decrease, from an early settlement of obligations, and amendment to the plan and/or downsizing.

Termination benefits were analyzed in accordance with the Company's policies and payments made, by which management determined that according to established, in the law, these payments represent pre-existing conditions and are considered cumulative benefits, thus they are recognized as post-employment benefits. They are payable when the employment relationship is terminated by the Company before the normal retirement date or when an employee voluntarily accepts the termination of the employment relationship in exchange of these benefits. The Company recognizes termination benefits at the earliest of the following dates: a) when the Company is no longer able to withdraw the offering of these benefits and b) at the time the Company recognizes costs for a restructuring involving the payment of termination benefits.

14.

The Company provides short-term employee benefits, which include wages, salaries, annual compensation and bonuses, payable over the next 12 months.

The Company determines the net financial expense applying the discount rates at the net defined benefit liability.

Past service costs are recognized immediately in the income statement.

#### **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.

#### **q) Comprehensive income**

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

#### **r) Costs, expenses and additional line items presentation in the income statement**

The Company presents the costs and expenses in the income statement under the classification criterion based on the function of items, which has as its key feature separating the cost of sales of other costs and expenses. Additionally, for a better analysis of your financial position, the Company has considered necessary to show the amount of operating income (loss) separately in the income statement, because such information is a common practice in the industry the entity belongs to.

Allowance for bad debts, bonus and discounts are recognized based on studies made by the Company's management and considered sufficient to absorb losses. Applications to such allowance are recognized in the income statement of the year.

#### **s) Statement of comprehensive income presentation**

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

Although not required to do so under Mexican FRS, the Company includes operating income/(loss) 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.

**t) Exchange differences**

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

Exchange differences from the transaction date to the time foreign currency denominated assets and liabilities are settled are recognized in the statement of income, except for those arising on foreign currency denominated loans obtained for the construction of fixed assets, as such costs are capitalized as borrowing costs during the construction period of the assets.

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 date of the statement of financial position, are recognized in the statement of comprehensive income.

See Note 4 for the Company's foreign currency position at the end of each period and the exchange rates used to translate foreign currency denominated balances.

**u) Derivative financial instruments**

All the derivative financial instruments classified as held for trading or accounting hedging, are recognized in the statement of the financial position as assets and/or liabilities at their fair value.

Fair value is determined based on recognized market prices and, if not listed in a market, it is determined based on valuation techniques accepted in the financial environment.

Changes in fair value on such derivative financial instruments are recognized in the comprehensive financing income (loss) (RIF by its Spanish acronym), except when acquired with risk hedging purposes and meet all accounting hedging requirements; their designation at the beginning of the hedging operation is documented describing the objective, primary position, risks to be hedged, type of derivatives and hedging relationship effectiveness measurement, characteristics, accounting recognition and how the effectiveness measurement will be carried out, applicable to this operation.

In the fair value hedging both the derivative instrument and the hedged item are valued at fair value and the valuation fluctuations are recorded in the income statement in the same line item as the position they hedge; in the cash flow hedging, the effective portion is temporarily recorded in comprehensive income, within stockholders' equity and is reclassified to income when the hedged position affects income, the ineffective portion is immediately recognized in income.

**v) Equity**

Changes in the Company's equity, legal reserve and cumulative gains (losses) are recognized in terms of historical cost as of 1 January 2008. These changes were restated for inflation through December 31, 2007.



Contributions for future capital increases that meet the requirements of Mexican FRS C-11 "Equity" (those for which there are firm shareholder commitments, for which a fixed number of shares has been established in exchange for a predetermined contribution amount, among others) are recorded as part of contributed capital. Contributions for future capital increases that do not meet these requirements must be recognized as liabilities in the statement of financial position.

#### **w) 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) will default on its payment of obligations with the Company.

##### **(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.

#### **x) 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. There have been no breaches in the financial covenants of any interest-bearing loans and borrowing in the current period.

### **3. New accounting pronouncements**

#### **1) Standards and Improvements to Mexican FRS issued but not yet effective**

The standards 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) D-5 "Leases" (effective as of 1 January 2019)**

In December 2017, the Mexican Financial Reporting Standards Board (Consejo Mexicano de Normas de Información Financiera, A.C. or CINIF) issued the new Mexican FRS D-5 "Leases", which contains the following two critical lease accounting principles:

18.

- a) Lessees must recognize an asset representing the right to use the leased underlying asset and a liability to make lease payments, unless the lease is a short-term lease or the underlying asset has a low value.
- b) Lessors must classify their lease agreements into operating or finance leases, depending on the degree to which substantially all of the risks and rewards of ownership of the underlying asset have been transferred to the lessee. Under a finance lease, the lessor derecognizes the underlying asset and recognizes a receivable. Under an operating lease, the lessor does not derecognize the underlying asset and recognizes lease payments received as accrued instead.

Mexican FRS D-5 sets out a single lessee accounting model that requires lessees to recognize assets and liabilities for all leases with lease terms of twelve months or more, unless the underlying asset has a low value. Lessees must recognize a right-of-use asset for the underlying asset and a liability representing the obligation to make lease payments.

The most important changes for lessees are as follows:

- At the lease commencement date, lessees must determine whether they obtain the right to control an identified asset or assets for a period of time.
- The new Mexican FRS D-5 eliminates the requirement for lessees to classify leases as operating leases or finance leases. Lessees now shall recognize a lease liability for the present value of the lease payments and an asset for an equal amount for the right to use the underlying asset.
- Lessees will no longer recognize operating lease expense on a straight-line basis, and will instead recognize the depreciation or amortization expense associated with the right-of-use asset and interest expense associated with their lease liabilities. The purpose of this change is to unify the treatment of lease expenses for all leases.
- In the statement of cash flows, payments arising from operating leases shall no longer be recognized within operating activities and instead shall be recognized within financing activities.
- The recognition of the gains or losses resulting from the transfer of an asset by a seller-lessee to another entity or from sale-leaseback transactions shall no longer be based on the classification of the sale-leaseback agreement; instead, the seller-lessee will only recognize a sale for the rights transferred to the buyer-lessor that will not be returned to it (the unguaranteed residual value).

The new accounting Mexican FRS D-5 "Leases" contains significant changes to lessee accounting, but no significant changes to lessor accounting compared to the former Mexican accounting Bulletin D-5 "Leases" apart from additional disclosure requirements.

Mexican FRS D-5 replaces Bulletin D-5 "Leases" ("Bulletin D-5") and the supplementary application of IFRIC 4 "Determining whether an Arrangement contains a Lease" ("IFRIC 14"). MFRS D-5 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under Bulletin D-5. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under MFRS D-5 is substantially unchanged from today's accounting under Bulletin D-5. Lessors will continue to classify all leases using the same classification principle as in Bulletin D-5 and distinguish between two types of leases: operating and finance leases.

MFRS D-5 also requires lessees and lessors to make more extensive disclosures than under Bulletin D-5.

MFRS D-5 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies MFRS D-1. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

As of December 31, 2018, the Company does not have any leasing contract that may have a potential effect of MFRS D-5 on its financial statements.

## **2) New standards and Improvements to Mexican FRS effective as at 1 January 2018 and 2017**

The Company applied the new revenue standards (MFRS D-1 Revenue from Contracts with Customers and MFRS D-2 Costs of Contracts with Customers) and financial instrument standards (MFRS C-2 Investments in Financial Instruments, MFRS C-3 Accounts Receivable, MFRS C-9 Provisions, Contingencies and Commitments, MFRS C-10 Derivative Financial Instruments and Hedging Relationships, MFRS C-16 Impairment of Financial Assets, MFRS C-19 Financial Liabilities and MFRS C-20 Financial Assets to collect principal and interest or "new financial instrument standards") for first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

A description of the most relevant effects of the standards effective as at 1 January 2018 is, as follows:

#### **Revenue and Cost from contracts with customers**

MFRS D-1 Revenue from Contracts with Customers (MFRS D-1) and MFRS D-2 Costs of Contracts with Customers (MFRS D-2) supersedes the supplementary basis of IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers.

MFRS D-1 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

MFRS D-1 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. MFRS D-2 specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

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

#### **Improvements to Mexican FRS for 2018**

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

##### **(i) Mexican FRS B-2 Statement of cash flows**

Mexican FRS B-2 introduces a new requirement that entities must now include in the notes to the financial statements, disclosures related to relevant changes in liabilities reported within financing activities that may or may not have required the use of cash or cash equivalents. In addition to the required disclosures, entities also need to include a reconciliation of beginning and ending balances for these items.

These improvements are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted for annual periods beginning on or after 1 January 2017.

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

##### **(ii) Mexican FRS B-10 Effects of inflation**

Mexican FRS B-10 introduces a new requirement that the notes to the financial statements (whether restated for inflation or not) should, in addition to the cumulative inflation rate for the three prior years and the inflation rate used to determine whether the entity operates in an inflationary or not inflationary economic environment, state the following rates:

- The cumulative inflation rate for three years that includes the two prior years and the current year, which shall be the basis for determining whether the entity will operate in an inflationary economic environment in the following year.
- The inflation rate considered for purposes of preparing the financial statements.

These improvements are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted for annual periods beginning on or after 1 January 2017.

The adoption of this improvement had no effect on the Company's financial statements, except as described in Note 2.

**(iii) Mexican FRS C-6 Property, plant and equipment and Mexican FRS C-8 Intangible assets**

These accounting standards establish that the method used for the depreciation or amortization of an asset should reflect the pattern of consumption of the expected future economic benefits and not the pattern of generation of expected future economic benefits.

The standards also establish that the use of a depreciation or amortization method based on the amount of revenue earned from the use of the assets is no longer appropriate, since the amount of that revenue can be dependent on factors other than the pattern of consumption of the economic benefits of the asset. However, unlike Mexican FRS C-6, Mexican FRS-8 does allow entities to use a revenue-based depreciation or amortization method under certain circumstances.

These improvements are effective for annual periods beginning on or after 1 January 2018.

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

**(iv) Mexican FRS C-14 Transfer and derecognition of financial assets**

Mexican FRS C-14 eliminated the contradiction between paragraphs 42.5.5 and 42.5.6 whereby the subsequent fair value adjustments of transferred assets over which the entity retains some degree of continuing involvement were to be recognized in profit or loss. Mexican FSR C-14 now requires that the subsequent recognition be carried out following the appropriate accounting guidance for each type of asset and the classification of each asset.

These improvements are effective for annual periods beginning on or after 1 January 2018.

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

### **Improvements to Mexican FRS for 2017**

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

#### **(i) Mexican FRS B-13 Events after the reporting period**

Mexican FRS B-13 had originally established that long-term liabilities that become due and payable as the result of an entity's breach of a contractual condition at the reporting date were to be reclassified to current liabilities at the reporting date, even when after the reporting date, the creditor has agreed not to demand payment from the entity.

However, based on recommendations received by the CINIF, Mexican FRS B-13 was amended to establish that if during the subsequent events period (i.e., from the reporting date to the date when the financial statements are authorized for issue) a debtor reaches an agreement with a creditor allowing the debtor to continue to make long-term payments against a liability contracted with long-term payment conditions, the entity may continue to recognize the debt as a long-term liability at the reporting date.

The CINIF, based on the economic substance postulate, indicated that in the case of bad debt arising after the reporting date, it is appropriate to maintain the long-term classification of the related financial assets or liabilities when a) the debt was originally contracted under long-term collection or payment conditions, and b) during the subsequent events period the debtor and creditor have reached an agreement for payment of the debt on a long-term basis. Mexican FRS B-13 was amended based on this conclusion, and changes were also made to the other standards that address this matter, which include Mexican FRS B-6 Statement of financial position, Mexican FRS C-19 Financial liabilities, and Mexican C-20 Financial Assets to collect principal and interest.

This new accounting rule established in Mexican FRS B-13 is considered a more appropriate accounting treatment for this type of subsequent event and it is consistent with US GAAP. This accounting change represents a new difference between Mexican FRS and International Financial Reporting Standards (IFRS) that the CINIF has classified as a Type B difference, which means that the CINIF believes that the guidance provided in Mexican FRS is more appropriate and the difference will only be eliminated if the respective accounting rule in IFRS is amended to converge with Mexican FRS.

These improvements will be effective for annual periods beginning on or after 1 January 2017, with early adoption permitted for annual periods beginning on or after 1 January 2016.

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

**(ii) Mexican FRS D-3 Employee benefits**

**a) Discount rate for employee benefit liability valuation**

Paragraph 45.5.9 of Mexican FRS D-3 previously established that the interest rate used to discount post-employment benefit obligations (funded or unfunded) was to be determined by reference to market yields on high-quality corporate bonds or when no such information was available, by reference to market yields on government bonds.

However, based on recommendations received by the CINIF, Mexican FRS D-3 was amended to allow entities to elect to use either the government bond rate or the corporate bond rate to determine the discount rate.

In its analysis regarding this topic, the CINIF clarified that paragraph 45.5.9 of Mexican FRS D-3 requires the use of corporate bond rates or government bond rates to determine the present value of these long-term employee benefit obligations because the credit risk associated with these instruments is nil or extremely low and consequently, both rates represent the time value of money, and that for this reason the CINIF concluded that either of the two rates should be reliable and appropriate for determining the discount rate.

These improvements are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

**b) Treatment of remeasurements of the net defined benefit liability**

Paragraph 45.4.4 c) of Mexican FRS D-3 previously established that the difference between the final net defined benefit liability determined based on paragraph b) and the expected net defined benefit liability determined based on paragraph a) should be recognized as a remeasurement of the net defined benefit liability in other comprehensive income (OCI), as set forth in section 45.7 of the accounting standard.

The CINIF amended Mexican FRS D-3 to allow entities to elect to recognize the remeasurements referred to in paragraph 45.4.4 in either OCI, as previously required by the accounting standard, or in profit or loss at the time the remeasurements are determined.

The CINIF believes that to option to recognize remeasurements in either OCI or profit or loss is a more practical accounting treatment for this item.

These improvements are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

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



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#### 4. Foreign currency position

At December 31, 2018 and 2017, the Company had the following U.S. dollar (US\$) monetary assets and liabilities, are shown as follows:

	2018	2017
Dollars:		
Assets	US\$ 3,966,993	US\$ 3,732,268
Liabilities	( 1,855,459)	( 2,693,447)
Net asset position	US\$ 2,111,534	US\$ 1,038,821

At December 31, 2018 and 2017, the Company held no hedge contracts to protect against foreign exchange risks, except for the hedge mentioned in the Note 9.

At December 31, 2018 and 2017, the Company had the following transactions in the next currencies:

	2018	2017
Purchase	US\$ 10,017,063	US 8,218,422
Purchase	EU€ 1,494,292	EU€ 1,232,272
Purchase	JPY 66,157,185	JPY 66,283,755
Purchase	GBP 184,403	GBP 162,509
Purchase	CHF 1,320	CHF -
Sales	US\$ 24,417,746	US 21,813,308
Sales	EU€ -	EU€ 352

At December 31, 2018 and 2017, the exchange rate was \$19.68 and \$19.73 Mexican pesos per one U.S. dollar respectively. At the date of issuance of these financial statements, the exchange rate was \$19.1645 per one U.S. dollar.

#### 5. Cash and cash equivalents

The cash and cash equivalents at December 31, 2018 and 2017, is mainly comprised by cash at bank including foreign currency amounts and temporary investments, which are of high liquidity to and are subject to non-significant value change risks. The integration of such balance is shown as follows:

	2018	2017
Cash	\$ 50,336	\$ 45,666
Bank accounts in MXP	738,305	7,077,033
Bank accounts in USD	23,549,075	6,159,275
Total non-restricted cash and cash equivalents	\$ 24,337,716	\$ 13,281,974

## 6. Balances and transactions with related parties

a) The main balances with related parties at December 31, 2018 and 2017, are shown as follows:

	2018	2017
Current accounts receivable:		
SMR Automotive Systems USA, Inc.	\$ 24,359,812	\$ 37,271,083
SMR Automotive Vision Systems México, S.A. de C.V.	21,318,193	15,273,016
SMR Automotive Brasil, Ltd.	5,203,055	5,941,743
SMP Automotive Systems México, S.A. de C.V.	291,997	1,498,849
SMP Automotive Alabama	371,278	80,481
MSSL WH System (Thailand) Co. LTD.	7,286	-
SMP Deutschland GmbH	-	1,958
	<u>\$ 51,551,621</u>	<u>\$ 60,067,130</u>
Current accounts payable:		
MSSL Mideast (FZE) Unit 1	\$ 2,967,159	\$ 3,175,476
Motherson Sumi Systems Ltd.	4,331,042	2,318,714
MSSL GmbH	1,128,291	649,716
MSSL GB LTD	1,377,914	16,785
Motherson Air Travel Agencies Ltd	32,200	-
MSSL Wiring System, Inc.	283,949	153,395
Motherson Sumi Electric Wires (Noida)	44,823	101,554
MSSL Tooling (FZE)	31,588	51,153
MSSL Japan Limited	149,340	32,695
Motherson Auto Ltd.	31,533	-
Motherson Sumi Infotech & Designs Ltd.	-	26,682
	<u>\$ 10,377,839</u>	<u>\$ 6,526,170</u>

b) Transactions with related parties are as follows:

	2018	2017
Income:		
Sales of finished goods	<u>\$ 447,040,420</u>	<u>\$ 368,448,016</u>
Cost of sale and expenses:		
Raw material purchases	\$ 69,110,880	\$ 56,827,889
Consumables	1,587,283	1,740,942
Management services	3,753,932	2,470,858
Others	1,041,792	756,776
	<u>\$ 75,493,887</u>	<u>\$ 61,796,465</u>

26.

## 7. Inventories

The main balances at December 31, 2018 and 2017, are shown as follows:

	2018	2017
Raw material	\$ 45,644,352	\$ 27,958,941
Work in progress	6,492,592	17,485,366
Finished goods	11,977,426	16,679,431
	<u>64,114,370</u>	<u>62,123,738</u>
Lees:		
Allowances for NRV	( 891,153)	( 1,065,800)
Allowances for obsolete inventories	( 1,558,547)	( 5,197,448)
Goods in transit	7,661,204	2,722,759
	<u>\$ 69,325,874</u>	<u>\$ 58,583,249</u>

## 8. Property, plant and equipment

The main balance at December 31, 2018 and 2017, are shown as follows:

	2018	2017	Annual depreciation rate
Components subject to depreciation:			
Building	\$ 28,549,051	\$ 28,366,093	5%
Machinery and equipment	22,751,836	21,334,704	10%
Computer equipment	2,974,889	2,778,104	30%
Transportation equipment	2,085,940	1,388,282	25%
Office furniture	1,918,334	1,719,652	5%
Office equipment	319,017	259,456	10%
Tools (factory equipment)	1,898,797	2,000,994	35%
	<u>60,497,864</u>	<u>57,847,285</u>	
Less - Accumulated depreciation	( 23,390,018)	( 18,956,725)	
	<u>37,107,846</u>	<u>38,890,560</u>	
Components not subject to depreciation:			
Land	7,342,588	7,342,588	
Capital work in progress	419,947	1,568,340	
	<u>7,762,535</u>	<u>8,910,928</u>	
	<u>\$ 44,870,381</u>	<u>\$ 47,801,488</u>	

Capital work in progress is expected to be completed in a period less than one year and consists basically machinery and equipment.

The depreciation recorded in the income statements of 2018 and 2017, amounts \$4,577,406 and \$4,396,550, respectively, which is comprised in the statement of comprehensive income.

## 9. Derivative financial instruments

## Exchange rate derivative financial instruments

The Company in its payment for wages, salaries and miscellaneous expenses is exposed to the fluctuation of Mexican peso and US dollar, reason why its hedging strategy with forwards has been approved by the Board of Directors with the purpose of shorten the foreign exchange risk for those transactions.

At December 31, 2018, characteristics of forwards designated as hedging are as follows:

Counterparty: Banco Nacional de México, S.A.

<b>Contract number</b>	<b>Notional amount</b>	<b>Start date</b>	<b>Due date</b>	<b>Type of underlying</b>	<b>Strike</b>	<b>Mark to market</b>
1807910966	\$ 121,326	March 20, 2018	March 8, 2019	USD	19.7814	\$ ( 7,691)
1807911956	121,826	March 20, 2018	February 8, 2019	USD	19.7003	( 6,969)
1807911951	122,368	March 20, 2018	January 9, 2019	USD	19.6129	( 6,307)
1812812367	207,258	May 8, 2018	January 10, 2019	USD	20.2646	124,024
1813711396	203,661	May 17, 2018	April 11, 2019	USD	20.6225	131,879
1813711384	205,407	May 17, 2018	February 14, 2019	USD	20.4472	136,376
1813710392	204,532	May 17, 2018	March 14, 2019	USD	20.5347	134,572
1815811448	56,383	June 7, 2018	February 20, 2019	USD	21.2832	82,943
1815812503	56,676	June 7, 2018	January 18, 2019	USD	21.1731	83,880
1824211405	75,157	August 30, 2018	June 27, 2019	USD	19.9583	( 19,214)
1824211409	74,540	August 30, 2018	August 26, 2019	USD	20.1235	( 21,754)
1824210431	74,844	August 30, 2018	July 26, 2019	USD	20.0416	( 20,215)
1824212401	75,492	August 30, 2018	May 24, 2019	USD	19.8696	( 17,364)
1824212397	75,810	August 30, 2018	April 26, 2019	USD	19.7864	( 16,584)
1824210414	76,076	August 30, 2018	March 27, 2019	USD	19.7170	( 14,312)
1824210411	76,762	August 30, 2018	January 25, 2019	USD	19.5408	( 12,980)
1824211397	76,406	August 30, 2018	February 27, 2019	USD	19.6320	( 13,948)
1830210886	80,462	October 29, 2018	March 15, 2019	USD	20.5065	50,434
1830211881	80,059	October 29, 2018	May 17, 2019	USD	20.6097	40,804
1830211880	80,437	October 29, 2018	April 17, 2019	USD	20.5130	41,803
1830210896	79,666	October 29, 2018	June 18, 2019	USD	20.7115	39,631
1830210899	158,607	October 29, 2018	July 18, 2019	USD	20.8061	76,951
1830211892	157,899	October 29, 2018	August 16, 2019	USD	20.8995	75,051
1830210875	81,587	October 29, 2018	January 18, 2019	USD	20.2239	43,582
1830212922	80,868	October 29, 2018	February 15, 2019	USD	20.4036	49,940
1831712574	56,863	November 13, 2018	May 29, 2019	USD	21.1035	53,738
1831710568	57,190	November 13, 2018	April 24, 2019	USD	20.9828	54,496
1831710564	57,932	November 13, 2018	January 30, 2019	USD	20.7141	56,760
1831711530	57,657	November 13, 2018	February 27, 2019	USD	20.8127	56,665
1831711533	57,417	November 13, 2018	March 27, 2019	USD	20.8999	55,785
						<b>\$ 1,231,976</b>

At December 31, 2017, characteristics of forwards designated as hedging are as follows:

Counterparty: Banco Nacional de México, S.A.

Contract number	Notional amount	Start date	Due date	Type of underlying	Strike	Mark to market
1718114133	\$ 78,800	June 30, 2017	June 25, 2018	USD	19.0356	\$ ( 94,368)
1718113150	79,769	June 30, 2017	March 23, 2018	USD	18.8042	( 89,337)
1718114113	79,420	June 30, 2017	April 25, 2018	USD	18.8869	( 90,830)
1718114124	79,131	June 30, 2017	May 25, 2018	USD	18.956	( 92,837)
1718113136	80,092	June 30, 2017	February 23, 2018	USD	18.7284	( 88,446)
1718114093	80,427	June 30, 2017	January 25, 2018	USD	18.6505	( 87,335)
1729012472	59,577	October 17, 2017	October 15, 2018	USD	20.1418	( 30,997)
1729010450	60,060	October 17, 2017	August 15, 2018	USD	19.98	( 27,954)
1729012460	60,347	October 17, 2017	July 13, 2018	USD	19.885	( 26,679)
1729011485	59,776	October 17, 2017	September 14, 2018	USD	20.075	( 28,592)
1729010441	60,575	October 17, 2017	June 15, 2018	USD	19.81	( 25,287)
1729010437	60,844	October 17, 2017	May 15, 2018	USD	19.7227	( 24,076)
1729011453	61,134	October 17, 2017	April 13, 2018	USD	19.6289	( 23,187)
1729011427	61,986	October 17, 2017	January 12, 2018	USD	19.359	( 20,835)
1729011432	61,687	October 17, 2017	February 15, 2018	USD	19.453	( 22,180)
1729011447	61,406	October 17, 2017	March 15, 2018	USD	19.5419	( 22,596)
1733912264	60,870	December 5, 2017	December 5, 2018	USD	19.7141	( 66,025)
1733912250	61,375	December 5, 2017	October 5, 2018	USD	19.5518	( 63,941)
1733911262	61,109	December 5, 2017	November 5, 2018	USD	19.637	( 64,891)
1733910250	62,859	December 5, 2017	May 4, 2018	USD	19.0902	( 61,240)
1733910253	62,555	December 5, 2017	June 5, 2018	USD	19.1831	( 61,879)
1733911260	61,640	December 5, 2017	September 5, 2018	USD	19.4679	( 63,032)
1733911237	63,157	December 5, 2017	April 5, 2018	USD	19.0003	( 61,186)
1733912244	61,974	December 5, 2017	August 3, 2018	USD	19.3628	( 62,780)
1733912242	62,241	December 5, 2017	July 5, 2018	USD	19.2798	( 61,976)
1734911177	59,424	December 15, 2017	November 9, 2018	USD	20.1939	( 32,967)
1734911161	59,737	December 15, 2017	October 9, 2018	USD	20.0881	( 32,895)
1734910165	60,031	December 15, 2017	September 10, 2018	USD	19.9896	( 32,745)
1734910156	60,675	December 15, 2017	July 9, 2018	USD	19.7775	( 32,243)
1734912160	60,358	December 15, 2017	August 9, 2018	USD	19.8814	( 32,514)
1734910187	59,115	December 15, 2017	December 10, 2018	USD	20.2995	( 32,965)
1734912145	61,954	December 15, 2017	March 9, 2018	USD	19.3691	( 32,117)
1734911131	61,619	December 15, 2017	April 9, 2018	USD	19.4745	( 31,865)
1734910144	61,303	December 15, 2017	May 9, 2018	USD	19.5749	( 31,816)
1734910147	60,994	December 15, 2017	June 8, 2018	USD	19.6741	( 31,998)
						<u>\$ ( 1,686,611)</u>

The Company considers its future purchase transactions qualify as highly possible in the terms required by the accounting regulation.

The forwards fair value at year-end 2018 and 2017 resulted in the recognition of an asset and liability, respectively, and a (debit) credit in the comprehensive income account and will be reclassified to income in the same period and line items as the corresponding account of RIF.

Notional amounts related to derivative financial instruments reflect the acquired reference volume; however, do not reflect the amounts in risk concerning the future flows. The amounts in risk are generally limited to the profit or loss non-realized by market valuation of such instruments, which may vary according to changes in the market value of the underlying, their volatility and the credit quality of the counterparties.

The main obligation which the Company is subject to depends on the acquiring procedures and the conditions set up in each one of the derivative financial instruments effective at December 31, 2018 and 2017, respectively.

# 10. Other accounts payable and accrued expenses

The analysis of the most significant provision is presented as follows:

Type of provision	Balance at January 1 2018	Increasing	Applications	Balance at December 31, 2018
Freights	\$ 7,256,411	\$ 5,048,148	\$ 7,650,069	\$ 4,654,490
Transportation services	1,386,981	3,543,409	1,386,980	3,543,410
Social security	3,570,551	3,669,164	3,570,551	3,669,164
Reserve of price	512,711	26,111,729	20,964,363	5,660,077
Salaries	4,758,469	104,739,493	105,015,461	4,482,501
Professional services	4,244,225	3,267,585	4,244,225	3,267,585
Insurance	-	-	-	-
Staff uniforms	-	-	-	-
Local taxes	1,157,368	13,677,802	12,607,636	2,227,534
Savings fund	31,650	10,102,759	9,677,964	456,445
Other	1,282,707	3,117,315	2,567,158	1,832,864
	<u>\$ 24,201,073</u>	<u>\$ 173,277,404</u>	<u>\$ 167,684,407</u>	<u>\$ 29,794,070</u>

Type of provision	Balance at January 1, 2017	Increasing	Applications	Balance at December 31, 2017
Freights	\$ 1,079,306	\$ 6,535,157	\$ 358,052	\$ 7,256,411
Transportation services	346,145	1,386,981	346,145	1,386,981
Social security	2,920,840	3,570,551	2,920,840	3,570,551
Reserve of price	2,506,993	19,260,461	21,254,743	512,711
Salaries	2,115,344	88,495,491	85,852,366	4,758,469
Professional services	777,440	4,244,225	777,440	4,244,225
Local taxes	661,524	12,160,096	11,664,252	1,157,368
Insurance	170,000	-	170,000	-
Staff uniforms	66,302	-	66,302	-
Savings fund	(30,329)	7,209,121	7,147,142	31,650
Other	1,679,960	2,772,754	3,170,007	1,282,707
	<u>\$ 12,293,525</u>	<u>\$ 145,634,837</u>	<u>\$ 133,727,289</u>	<u>\$ 24,201,073</u>

## 11. Analysis of bank loans

At December 31, 2018 and 2017, the Company had credit line with Banco Nacional de México, S.A., by \$600,000 and \$2,050,000 US dollars, respectively (\$11,809,740 and \$40,457,570 Mexican pesos, respectively). The interest is on annual rate equivalent to LIBOR plus 1.75 percentage points.

	2018	2017
	\$ 11,809,740	\$ 40,457,570

The maturities of the credit are:

January 10, 2018 <sup>(1)</sup>

March 7, 2019 <sup>(2)</sup>

March - 2018 <sup>(2)</sup>

April 11, 2018 <sup>(1)</sup>

June 8, 2018 <sup>(1)</sup>

	2018	2017
Dls.	-	Dls. 100,000
	600,000	
		900,000
	-	800,000
	-	250,000
Dls.	600,000	Dls. 2,050,000

(1) These credits were paid at the date of the issuance of these financial statements.

(2) This credit expires on December 7, 2018, however a payment of it was renewed by the same amount. During 2018, The Company paid \$300,000 of this loan. The new maturity date is on March 7, 2019.

## 12. Employees' benefits

The valuation of labor obligations corresponding to remuneration plans at retirement (indemnities and seniority premiums), covers all the employees and is based on the years of service, the age and remuneration at the date of retirement. Below is a summary of the most relevant amounts relating to labor obligations:

### a) Seniority premiums and termination benefits:

	Seniority premiums December 31,		Indemnities December 31,		Total December 31,	
	2018	2017	2018	2017	2018	2017
Obligations for defined benefits OBD	\$ 582,587	\$ 550,979	\$ 958,036	\$ 748,440	\$ 1,540,623	\$ 1,299,419

## b) Net cost of the year to seniority premiums and termination benefits:

	Seniority premiums December 31,		Indemnities December 31,		Total December 31,	
	2018	2017	2018	2017	2018	2017
Financial cost	\$ 40,198	\$ 31,768	\$ 73,497	\$ 48,190	\$ 113,695	\$ 79,958
Labor cost of the current service	107,495	105,937	89,977	73,591	197,472	179,528
Net actuarial earning or loss	( 116,086)	267,632	46,123	( 1,444,021)	( 69,963)	( 1,176,389)
Total	\$ 31,607	\$ 405,337	\$ 209,597	\$ ( 1,322,240)	\$ 241,204	\$ ( 916,903)

## c) Main actuarial assumptions used referred at December 31, 2018 and 2017, are as follows:

	2018	2017
Discount rate	9.25%	7.69%
Wage rate rate	3.00%	3.00%
Minimum wage increase	4.00%	4.00%

## 13. Equity

## a) At December 31, 2018, the capital stock is comprised as follows:

Shares (*)	Description	Amount
50,000	Serie "A" fixed part no withdrawal right	\$ 50,000
114,047,957	Serie "B" variable part no withdrawal rights	114,047,957
114,097,957	Capital stock	\$ 114,097,957

(\*) Common shares with a par value of \$1.00 each, fully subscribed and paid.

b) In accordance with the Mexican Corporations Act, the Company is required to appropriate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of the value of the Company's share capital. At December 31, 2018 and 2017, legal reserve has not been created.

c) From 1999 through 2001, the Mexican Income Tax Law extended corporate taxpayers the option of deferring payment of a portion of their annual corporate income tax for those years. The earnings on which there was a deferral of taxes are controlled in the Net reinvested taxed profits account (CUFINRE by its acronym in Spanish).

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.



#### 14. Other Comprehensive Income (OCI)

The effects of income tax derived from OCI movements of the period are shown as follows:

2018	Opening balances	OCI before tax	Deferred		Net OCI
			Income tax 30%	EPS 10%	
Valuation of cash flow hedges	\$ ( 1,011,967)	\$ 2,918,587	\$ ( 875,576)	\$ ( 291,859)	\$ 739,185
Remeasurement on actuarial gains and losses	1,858,838	69,963	( 11,124)	( 3,708)	1,913,969
Total other comprehensive income	\$ 846,871	\$ 2,988,550	\$ ( 886,700)	\$ ( 295,567)	\$ 2,653,154

2017	Opening balances	OCI before tax	Deferred		Net OCI
			Income tax 30%	EPS 10%	
Valuation of cash flow hedges	\$ ( 1,796,516)	\$ 1,307,582	\$ ( 392,275)	\$ ( 130,758)	\$ ( 1,011,967)
Remeasurement on actuarial gains and losses	1,017,885	1,067,198	( 169,684)	( 56,561)	1,858,838
Total other comprehensive income	\$ ( 778,631)	2,374,780	\$ ( 561,959)	\$ ( 187,319)	\$ 846,871

(\*) The deferred income tax and deferred of EPS is calculated considering the 53% of deduction.

#### 15. Analysis of cost and expenses

	2018	2017
Cost of material sold	\$ 220,533,264	\$ 187,654,775
Wages and salaries	127,852,279	115,177,433
Incoming freights	21,377,906	18,310,501
Bus hire and conveyance	13,384,458	13,992,433
Freight outwards	22,310,360	13,544,286
Repairs, maintenance and consumables	6,715,492	6,461,337
Depreciation	4,577,406	4,396,550
Other staff cost and welfare expense	1,153,759	3,118,875
Professional and legal expense	6,200,966	5,808,554
Employees' Statutory Profit Sharing (EPS)	3,486,821	3,756,502
Deferred of EPS	800,496	( 1,365,334)
Payment to auditors	475,150	1,721,948
Raffles (material revision)	1,124,778	1,724,778
Other expenses	1,753,079	1,143,506
Traveling expenses	1,238,757	1,422,646
Security expenses	853,244	834,115
Insurance cost	1,199,620	995,601
Electricity and power expenses	1,089,200	863,127
Computer and software expenses	857,678	342,666
Communication expenses	265,542	287,982
	<u>\$ 437,250,255</u>	<u>\$ 380,192,281</u>

## 16. Income tax

The Company determined a tax profit of \$43,179,229 and \$40,524,603 in 2018 and 2017, respectively. At December 31, 2017, the Company applied tax carryforward losses against its tax result of \$7,786,213. The tax result differs from the accounting result, mainly in such items cumulative by the time and deducted differently for accounting and tax purposes, by the recognition of the inflation effects for tax purposes, as well as such items only affecting either the accounting or tax result.

The provision for income tax is analyzed as follows:

	2018	2017
Current Income tax	\$ 11,841,455	\$ 9,821,517
Deferred income tax	2,551,985	( 2,889,797)
Income tax	<u>\$ 14,393,440</u>	<u>\$ 6,931,720</u>

At December 31, 2018 and 2017, the main temporary differences on which the deferred income tax was recognized are analyzed as follows:

	2018	2017
Liability provisions	\$ 10,387,044	\$ 25,942,009
Property plant and equipment, net	13,156,585	915,786
Employee benefits	1,540,623	1,299,419
Deferred statutory profit sharing	( 1,673,236)	( 1,940,849)
Reserve of price provisions	5,660,077	512,711
Allowance for obsolete inventories	1,558,547	6,263,248
Statutory profit sharing	3,486,821	3,756,502
Derivative financial instruments	( 1,231,976)	1,686,611
	<u>32,844,485</u>	<u>38,435,437</u>
Income tax rate	30%	30%
Deferred income tax asset net	<u>\$ 9,865,345</u>	<u>\$ 11,530,631</u>

The deferred income tax recognized outside the income statement in other comprehensive income is shown as follows:

	2018	2017
Valuation of cash flow hedges	\$ ( 875,576)	\$ 392,275
Remesurement on actuarial gains and losses	( 11,124)	169,684
Total other comprehensive income	<u>\$ ( 886,700)</u>	<u>\$ 561,959</u>

### 17. Current and deferred Employees' Statutory Profit Sharing (EPS)

The Company is subject to the EPS payment which is calculated applying the procedures established in the income tax law. In October 2013 a new income tax law was issued which modifies the procedure for determining the tax base for the calculation of the EPS, which should be determined based on the provisions of article 9 of the Income Tax Law, in which is considered as taxable income for income tax purposes, without decreasing the EPS paid nor the amortized tax loss and decreasing the amount of nondeductible exempt wages and historical tax depreciation that would have determined had it been not applied immediately to fixed asset deduction in years prior to 2014.

In 2018, the Company determined and EPS payable of \$3,486,821 (\$3,756,502 in 2017). The taxable base of the EPS differs from the accounting result mainly because, for accounting purposes, the restated depreciation and the accrued exchange fluctuation are recognized while, for EPS purposes, the historical depreciation and the exchange fluctuation, when due, are recognized to the differences when some items accrue or are deducted from accounting and EPS purposes, as well as for such items only affecting either the accounting or EPS of the year.

Provisions for EPS in 2018 and 2017 are analyzed as follows:

	2018	2017
Deferred EPS	\$ 800,496	\$ ( 1,365,334)
EPS payable	3,486,821	3,756,502
	<u>\$ 4,287,317</u>	<u>\$ 2,391,168</u>

The main temporary differences on which the deferred EPS was recognized are analyzed as follows:

	2018	2017
Liability provisions	\$ 10,886,635	\$ 25,942,009
Property, plant and equipment, net	13,156,585	915,786
Employee benefits	1,540,623	1,299,419
Reserve of price provisions	5,660,077	512,711
Allowance for obsolete inventories	1,558,547	6,263,248
Derivative financial instruments	( 1,231,976)	1,686,611
	<u>31,570,490</u>	<u>36,619,784</u>
Applicable EPS rate	10%	10%
Sum of deferred income tax	<u>3,157,049</u>	<u>3,661,978</u>
Asset deferred EPS	<u>\$ 3,157,049</u>	<u>\$ 3,661,978</u>

## 18. Commitments and contingencies

### I. Commitments

As of December 31, 2018, the Company has the commitment regarding to the derivative financial instruments (See Note 9).

### II. Contingencies

a) In accordance with the Federal Tax Code, the Company's taxes are open to review by the tax authorities for a period of five years and the tax authorities may determine tax differences as a result of this review. Under certain circumstances, this term may be extended to ten years.

b) 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. At December 31, 2018, the Company has evaluated what effects the changes in the labor law may have on its financial information and has concluded that they have had no effect at December 31, 2018. 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.

c) In accordance with the Mexican Income Tax Law, companies that carry out transactions with related parties, either domestic or foreign, are subject to certain tax limitations 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 authorities review and reject the Company's intercompany pricing in comparable transactions, they may demand payment of the omitted taxes, plus the respective inflationary restatement and surcharges, as well as fines for amounts of up to 100% of the omitted taxes.



George Chambers  
Legal Representative