MSSL WIRINGS JUÁREZ, S.A. DE C.V.

Financial statements

Year ended December 31, 2018 and 2017
with report of independent auditors

MSSL WIRINGS JUÁREZ, S. A. DE C.V.

Financial statements

As of December 31, 2018 and 2017

Contents:

Construyendo un mejor
entorno de negocios

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
MSSL Wirings Juárez, S. A. de C.V.

Qualified opinion

We have audited the accompanying financial statements of MSSL Wirings Juárez, S. A. de C.V., which comprise the statement of financial position at December 31, 2018, and the related statement of income, changes in shareholders' equity, and cash flows for the year then ended, as well as a summary of the significant accounting policies and other explanatory information.

In our opinion, except for effects described in the following section "Basis for qualified opinion", the accompanying financial statements present fairly, in all material respects, the financial position of, MSSL Wiring Juarez S. A. de C.V., as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Mexican Financial Reporting Standards (MFRS).

Basis for qualified opinion

As discussed in Note 1k) to the accompanying financial statements, the Company did not record a provision for its obligation related to termination benefits as of December 31, 2018 and 2017, which should be calculated using the projected unit credit method in accordance with Mexican FRS D-3 Employee benefits. The lack of recognition of such provision is considered a material deviation for the accompanying financial statements. It was not practical for us to determine the amount of the liability for termination benefits in accordance with MFRS D-3 as of December 31, 2018 and 2017.

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

We consider that the audit evidence obtained, provides a sufficient and adequate basis for our qualified opinion.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

C.P.C. Aldo Villarreal Robledo

Ciudad Juárez, Mexico,
May 20th, 2019

MSSL WIRINGS JUÁREZ, S.A. DE C.V.

Statement of financial position

(In Mexican pesos)

	December 31,			
		2018		2017
Assets				
Current assets:				
Cash	Ps.	1,367,010	Ps.	861,143
Accounts receivable:				
Related parties		391,893		697,202
Recoverable taxes (Note 3)		85,551		152,562
Other accounts receivable				20,001
Prepaid expenses		427,273		346,325
		904,717		1,216,090
Total current assets		2,271,727		2,077,233
Non-current assets:				
Leasehold improvements, net (Note 4)		207,570		741,194
Deferred income tax (Note 10)		400,273		285,002
Deferred profit sharing (Note 10)		143,325		78,833
Guarantee deposits		43,478		43,478
Total non-current assets		794,646		1,148,507
Total assets	Ps.	3,066,373	Ps.	3,225,740
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payables	Ps.	131,144	Ps.	44,412
Provisions and accrued liabilities (Note 5)		1,476,295		1,303,270
Short-term direct benefits (Note 7)		455,968		233,223
Income tax		224,263		118,790
Total current liabilities		2,287,671		1,699,695
Labor obligations (Note 8)		266,846		160,923
Total liabilities		2,554,517		1,860,618
Shareholders' equity (Note 9):				
Capital stock		50,000		50,000
Accumulated earnings		1,776,978		1,315,122
		1,315,122		-
Total shareholders' equity		511,856		1,365,122
Total liabilities and shareholders' equity	Ps.	3,066,373	Ps.	3,225,740

The accompanying notes are an integral part of this financial statement.

MSSL WIRINGS JUÁREZ, S.A. DE C.V.

Statement of income

(In Mexican pesos)

	For the years ended December 31, 2018		For the years ended December 31, 2017	
Revenues (Note 1c)	Ps.	28,598,276	Ps.	27,152,205
Other income		129,702		61,224
Costs and expenses		(27,286,361)		(25,735,933)
Operating income		1,441,617		1,477,496
Financing cost:				
Exchange (loss) gain, net		5,103		(9,583)
		5,103		(9,583)
Income before taxes		1,446,720		1,467,913
Income tax (Note 10)		984,864		825,920
Net income	Ps.	461,856	Ps.	641,993

The accompanying notes are an integral part of this financial statement.

MSSL WIRINGS JUÁREZ, S.A. DE C.V.

Statement of changes in shareholder's equity

For the years ended December 31, 2018 and 2017
(In Mexican pesos)

	Capital stock	Accumulated earnings	Total
Balances at December 31, 2016	Ps. 50,000	Ps. 673,129	Ps. 723,129
Net income of the year		641,993	641,993
Balances at December 31, 2017	50,000	1,315,122	1,365,122
Dividends paid (Note 9c)		(1,315,122)	(1,315,122)
Net income of the year		461,856	461,856
Balances at December 31, 2017	Ps. 50,000	Ps. 461,856	Ps. 511,856

The accompanying notes are an integral part of this financial statement.

MSSL WIRINGS JUÁREZ, S.A. DE C.V.

Statement of cash flows

(In Mexican pesos)

	For the years ended December 31,			
		2018		2017
Operating activities				
Income before taxes on profits	Ps.	1,561,991	Ps.	1,467,913
Items not affecting cash flows:				
Depreciation		616,563		329,419
Net periodic cost		39,036		27,166
Deferred income tax		(115,271)		(87,996)
Deferred profit sharing		(64,492)		(30,489)
		2,037,828		1,706,013
Changes in operating assets and liabilities:				
Accounts receivable and other assets		6,065		486,637
Related parties		305,309		(2,635,836)
Current liabilities		(445,272)		(897,736)
Net cash flows provided by (used in) operating activities		1,903,930		(1,340,922)
Financing activities				
Dividends paid		(1,315,122)		-
Net cash flows (used in) financing activities		(1,315,122)		-
Investing activities				
Purchase of fixed assets, net		(82,940)		-
Net cash flows used in investing activities		(82,940)		-
Increase (decrease) in cash		505,867		(1,340,922)
Cash at beginning of year		861,143		2,202,065
Cash at end of year	Ps.	1,367,010	Ps.	861,143

The accompanying notes are an integral part of this financial statement.

1. Description of the business

MSSL Wirings Juárez, S.A. de C.V. (hereafter, the “MWJ” or the Company was incorporated under the terms of the Mexican Corporations Act on March 20, 2015, and is a 99.99% owned subsidiary of MSSL (GB) Limited (Holding company).

MWJ is dedicated to render administrative, financing and accounting services to its related party MSSL Wiring System, Inc. (MWS) in the United States. Revenues are carried out through a Maquiladora service agreement, which provides that these services are to be billed based on costs incurred plus a profit margin.

On May 20th of 2019, the financial statements and these notes were authorized by Mary Esther Covarrubias, the Company’s Controller, for their issue and subsequent approval by the Company’s Board of Directors and shareholders, who have the authority to modify the financial statements.

Summary of significant accounting policies

a) Compliance with Mexican Financial Reporting Standards

Except as mentioned in paragraph 1k), the accompanying financial statements were prepared in conformity with Mexican Financial Reporting Standards (Mexican FRS).

b) Basis of preparation

The accompanying financial statements have been prepared on an historical-cost basis. The amounts are presented in Mexican pesos except where otherwise indicated.

From January 1, 2008, Mexico is considered to have a non-inflationary economic environment, as defined under Mexican FRS B-10 “Effects of Inflation”. As at December 31, 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.

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:

	Cumulative inflation for 2017 (% of 2015, 2016 & 2017)	Cumulative inflation for 2018 (% of 2016, 2017 & 2018)	Inflation for the year (% of 2018)
Inflation percentages	12.81%	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.

c) Recognition of revenues

Revenue is recognized when the service has been rendered. During 2018 and 2017, the Company recognized revenue based on 5.08% and 4.81% respectively over the costs and expenses incurred.

d) Use of estimates

The preparation of financial statements in accordance with Mexican FRS requires the use of estimates and assumptions in certain areas. The Company based its estimates on the best available information at the time the financial statements were prepared. However, the existing circumstances and assumptions about future events may change due to changes in the market or circumstances that are beyond the Company's control. Such changes are reflected in the assumptions as they occur.

The key assumptions used as at December 31 2018 and 2017 to calculate those estimates that may represent a significant risk of requiring a material adjustment to the carrying amount of assets or liabilities affected in future periods are as follows:

Defined benefit plans (pension benefits)

The net cost of defined benefits 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 and the underlying assumptions, and the long-term nature of the valuation, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of marketable securities in currencies consistent with the currencies of the post-employment benefit obligation by reference to market yields on high-quality corporate bonds or when no such information is available, by reference to market yields on government bonds. When a corporate bond rate is used, the underlying bonds are further assessed for quality, and those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based due to their low quality. As at December 31, 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 publicly available mortality tables for Mexico as country.

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

Additional information on the assumptions used is provided in Note 8.

e) Cash

Cash principally consist of bank deposits. Cash and cash equivalents are stated at fair value.

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

f) Other accounts receivable

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

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

Other accounts receivable 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.

g) Prepaid expenses

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

At the time the goods or services are received, prepaid expenses are either capitalized or charged to the statement of comprehensive income, depending on whether there is certainty that the acquired goods or services will generate future economic benefits.

h) Leasehold improvements

Leasehold improvements are recognized at acquisition cost, net of accumulated depreciation and accumulated impairment losses, if any. At December 31, 2018 and 2017, there were no constructions in progress to which applies any capitalization of the comprehensive financing cost.

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

Depreciation of leasehold improvements is computed on the assets' carrying values, using the straight-line method (since management considers that this method best reflects the use of these assets) and based on their estimated useful lives, as follows:

	Estimated useful life
Leasehold improvements	5 years

Depreciation of leasehold improvements is computed using the straight-line method, based on the historical value and estimated useful lives of the related assets. (See Note 4).

Fixed assets are derecognized upon disposal or when no future economic benefits are expected from their 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 immediately recorded in the income statement.

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

For the year ended December 31, 2018 and 2017, there were no indicators of impairment in the Company's fixed assets.

i) Leases

Property lease agreement is recognized as capital lease if (i) the ownership of the leased asset is transferred to the lessee upon termination of the lease; (ii) the agreement includes an option to purchase the asset at a reduced price; (iii) the term of the lease is basically the same as the remaining useful life of the leased asset; or (iv) the present value of minimum lease payments is basically the same as the market value of the leased asset, net of any future benefit or scrap value.

When the risk and benefits inherent to the ownership of the leased asset remain mostly with the lesser, they are classified as operating lease rent expense is charged to the results of operations when incurred.

j) Accrued liabilities, provisions, contingent liabilities and commitments

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

If the effect of the time value of money is material, provision amounts are determined as the present value of the expected disbursements to settle the obligation. The discount rate is determined on a pre-tax basis and reflects current market conditions at the balance sheet date and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent liabilities are recognized when they will most likely give rise to a future cash disbursement for their settlement. Also, commitments are only recognized when they will generate a loss.

k) Reserve for seniority premiums and termination payments

Seniority premiums are paid to workers as required by Mexican labor law. Additionally, under Mexican labor law, the Company is obligated for certain benefits accruing to workers who leave or are dismissed in certain circumstances.

At December 31, 2018 and 2017, the Company recognized the liability for seniority premiums based on independent actuarial computations applying the projected unit credit method, using financial assumptions net of inflation. The latest actuarial computation was prepared at December 2018.

As at December 31, 2018 and 2017, the Company did not record a provision for its obligation related to termination benefits, which should be calculated using the projected unit credit method in accordance with Mexican FRS D-3 Employee benefits, because management determined that it was not practical to calculate the Company’s employee benefit obligation.

l) Employee profit sharing

Current year employee profit sharing is presented as part of costs or expenses in the statement of comprehensive income.

The deferred employee profit sharing shall be determined using the asset and liability method. Under this method, deferred profit sharing is to be computed by applying the 10% rate to all temporary differences between the values of all assets and liabilities for financial and tax reporting purposes.

m) Exchange differences

Transactions in foreign currency are recorded at the prevailing exchange rate on the day of the related transactions. Foreign currency denominated assets and liabilities are translated at the prevailing exchange rate at the balance sheet date.

Exchange differences from the transaction date to the time foreign currency denominated assets and liabilities are settled, as well as those arising from the translation of foreign currency denominated balances at the date of the statement of financial position, are recognized in the statement of comprehensive income.

See Note 6 for the foreign currency position at the end of each year and the exchange rates used to translate foreign currency denominated balances.

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 taxes on profits are 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 effective 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.

o) Statement of comprehensive income presentation

Costs and expenses shown in the Company's statement of income are presented based on their function, since such classification allows for an accurate evaluation of both gross profit and operating margins.

Although Mexican FRS B-3 does not require the presentation of operating income, this caption is shown in the statement of income, since operating income is an important indicator used for evaluating the Company's operating results.

p) Equity

Changes in the Company’s equity and cumulative gains are recognized in terms of historical cost as of 1 January 2008.

q) Financial risk management objectives and policies

The Company is exposed to (i) economic independence.

- (i) Economic dependence

The main risk associated with the Company is that practically 100% of the Company's net revenue derives from services rendered to its related party MSSL Wiring System, Inc. In the event that such related party stopped their production or not pay the Company for their services in a timely fashion, the financial position and the results of operations of the Company would be adversely affected. The Company anticipates that this significant customer concentration will continue for the foreseeable future.

r) New accounting pronouncements

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:

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.

The Company will not apply the standard because its lease activity has a term of 12 months and is considered short-term according to Bulletin D-5.

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 these new accounting improvements 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 these new accounting improvements had no effect on the Company's financial statements.

(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 these new accounting improvements had no effect on the Company's financial statements.

2. Related parties

a) An analysis of balances due to related parties at December 31, 2018 and 2017, is as follows:

	2018		2017	
Due from:				
MSSL Wiring System, Inc.	Ps.	391,893	Ps.	697,202
Total	Ps.	391,893	Ps.	697,202

In 2015, the Company entered into a Maquiladora service agreement to render for the supply, storage, distribution, classification, inspection, testing or verification of goods; design or engineering of products; Maintenance and support of computer systems, data processing; training, consulting and evaluation for the improvement of human capital; assurance of the quality and processes of the companies in the sector of technologies of the information and processes of administration, finances, accounting, collection, payroll, human and legal resources; control of production and clinical analysis to its related party MSSL Wiring System, Inc. (MWS) in the United States, which provides that these services are to be billed based on costs incurred plus a profit margin.

b) During the year ended December 31, 2018 and 2017, the Company had the following transactions with related companies:

	2018		2017	
Revenue in bond services	Ps.	28,598,276	Ps.	27,152,205

3. Recoverable taxes

An analysis of recoverable taxes at December 31, 2018 and 2017, is as follows:

	2018		2017	
Valued added tax	Ps.	85,551	Ps.	152,162
Total	Ps.	85,551	Ps.	152,162

4. Leasehold improvements

a) An analysis of leasehold improvements at December 31, 2018 and 2017, is as follows:

		2018		2017	
	Useful life in years	Investment	Accumulated depreciation	Investment	Accumulated depreciation
Leasehold improvements	5	Ps. 1,621,869	Ps. 1,447,079	Ps. 1,647,097	Ps. 905,903
Machinery and equipment	10	37,110	4,330	-	-
		1,658,979	Ps. 1,451,409	1,647,097	905,903
Leasehold improvements, machinery and equipment, net		Ps. 207,570		Ps. 741,194	

b) Depreciation expense for the year ended December 31, 2018 and 2017, was Ps. 616,563 and Ps. 329,419, respectively.

5. Provisions and accrued liabilities

An analysis of other accounts payable and accrued liabilities is as follows:

	Balance as at 31 December 2017	Increases	Payments	Cancelations	Balance as at 31 December 2018
Short term provisions:					
Taxes on payroll	Ps. 896,264	Ps. 7,615,453	Ps. (7,618,780)	Ps. -	Ps. 892,937
Other	301,257	1,184,185	(1,187,387)	-	298,055
Payroll	105,749	12,569,181	(12,389,627)	-	285,303
	Ps. 1,303,270	Ps. 21,368,819	Ps. (21,195794)	Ps. -	Ps. 1,476,295

The other provisions recognized represent services contracted during the year that will be paid in the following year.

6. Foreign currency balances and transactions

a) The financial statements at December 31, 2018 and 2017, include the following U.S. dollar denominated assets:

	2018	2017
Current assets:		
Cash	USD. 69,602	USD. 14,339
Total monetary asset position	USD. 69,602	USD. 14,339

The exchange rate used to translate the above amounts to Mexican pesos at December 31, 2018 and 2017, were Ps. 19.6403 and Ps. 19.2188, respectively per U.S. dollar. At May 20, 2019, the date of the issuance of these financial statements, the exchange rate is Ps.19.1058 per U.S. dollar.

7. Short-term employee benefits

a) Short term benefits

At December, 31, 2018 and 2017, the Company has recognized accrued liabilities for short-term direct benefits. An analysis is as follows:

		2018		2017
Profit sharing	Ps.	291,998	Ps.	233,223
Vacation		126,138		-
Vacation premium		37,832		-
Total	Ps.	455,968	Ps.	233,223

b) Employee Profit Sharing (EPS)

The LISR establishes that the basis for the determination of the EPS of the fiscal year is the fiscal profit that is determined for the calculation of the Income Tax for the year considering certain adjustments considered by the LISR itself.

An analysis of employee profit sharing for the years ended 31 December 2018 and 2017 is as follows:

		2018		2017
Current employee profit sharing	Ps.	291,998	Ps.	233,223
Deferred employee profit sharing		(64,492)		(30,489)
	Ps.	227,506	Ps.	202,734

c) Deferred Employee Profit Sharing (EPS)

An analysis of the Company's deferred employee profit sharing (EPS) assets/(liabilities) as at 31 December 2018 and 2017 is as follows:

		2018		2017
Deferred EPS assets				
Provisions	Ps.	92,493	Ps.	61,049
Leasehold improvements		82,969		46,795
		175,462		107,844
Deferred EPS liabilities				
Prepaid expenses		(32,137)		(29,011)
		(32,137)		(29,011)
Deferred employee profit sharing asset/(liability), net	Ps.	143,325	Ps.	78,833

8. Labor obligations

An analysis of the reserve for seniority premiums and termination payments and the net period cost, together with the basic actuarial assumptions considered in the computation of labor obligations, is as follows:

a) Net periodic benefit cost

Analysis of net benefit cost for 2018:	Seniority premiums	Total 2018
Current year service cost	Ps. 30,612	Ps. 30,612
Net interest cost	11,520	11,520
Remeasurements of past service cost	(3,098)	(3,098)
Net periodic cost	Ps. 39,036	Ps. 39,036

Analysis of net benefit cost for 2017:	Seniority premiums	Total 2017
Current year service cost	Ps. 22,693	Ps. 22,693
Net interest cost	8,667	8,667
Remeasurements of past service cost	(4,194)	(4,194)
Net periodic cost	Ps. 27,166	Ps. 27,166

b) Defined benefit liability

Liabilities:	Seniority premiums	Total 2018
Defined reformulated benefit obligations as at January 1, 2018	Ps. 160,923	Ps. 160,923
Net periodic cost	39,036	39,036
Benefits paid	(27,398)	(27,398)
Other comprehensive for the year	94,285	94,285
Net projected liability	Ps. 266,846	Ps. 266,846

Liabilities:	Seniority premiums	Total 2017
Defined reformulated benefit obligation as at January 1, 2017	Ps. 122,632	Ps. 122,632
Net periodic cost	27,166	27,166
Other comprehensive for the year	11,125	11,125
Net projected liability	Ps. 160,923	Ps. 160,923

Weighted average assumptions used to determine the benefit obligation as of December:

	2018	2017
Discount rate	10.00%	7.80%
General salary increase	5.00%	5.00%
Minimum salary increase	4.00%	4.00%

9. Shareholders' equity

At December 31, 2018 and 2017, partnership capital is Ps. 50,000 (nominal amount). Total partnership capital is represented by 50,000 common registered shares, issued and outstanding, with a par value of one Mexican peso each.

a) Legal reserve

In conformity 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 until the legal reserve reaches 20% of capital stock. At December 31, 2018 and 2017, the Company has not separated the legal reserve.

b) Dividends declared

At regular shareholders' meetings held on August 10 2018, the shareholders declared dividends from the available utilities of the Net Tax Profit Account (CUFIN) of Ps. 1,315,122.

The profits that are distributed in excess of the balances of the net fiscal profit account (CUFIN), will be subject to the payment of the corporate ISR at the rate in effect at the time of distribution. The payment of tax may be credited against the ISR.

Any distribution of earnings in excess of the Net taxed profits account (CUFIN) balances will be subject to corporate income tax, payable by the Company, at the enacted income tax rate at that time.

10. Income tax

Income Tax (IT)

a) The Mexican Income Tax Law (MITL) establishes a corporate income tax rate of 30% for fiscal years 2018 and 2017.

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

b) An analysis of income tax recognized in profit and loss for the years ended 31 December 2018 and 2017 is as follows:

		2018		2017
Current income tax	Ps.	1,100,135	Ps.	913,916
Deferred income tax		(115,271)		(87,996)
Total income tax	Ps.	984,864	Ps.	825,920

c) An analysis of deferred taxes shown in the balance sheet is as follows:

		2018		2017
Deferred tax assets:				
Liability provisions	Ps.	203,179	Ps.	185,332
Employee profit sharing		87,596		69,967
Leasehold improvements		248,907		140,384
		539,682		395,683
Deferred tax liabilities:				
Liability provisions		(96,411)		(87,032)
Deferred profit sharing		(42,998)		(23,649)
		(139,409)		(110,681)
Deferred income tax, net	Ps.	400,273	Ps.	285,002

A reconciliation of the statutory income tax rate recognized by the Company for the financial reporting purposes is as follows:

		2018		2017
Income before tax	Ps.	1,447,458	Ps.	1,467,913
Permanent differences:				
Non-deductible expenses		1,856,545		1,292,851
Inflationary effects		367		12,534
Other items		(21,490)		(20,228)
Income before income tax, plus permanent items		3,282,880		2,753,070
Statutory income tax rate		30%		30%
Total income tax	Ps.	984,864	Ps.	825,920
Effective tax rate		68%		56%

d) Tax balances

At December 31 2018, the Company had the following tax balance:

		2018
Restated Contributed Capital Account (CUCA)	Ps.	58,775
Net Taxed Profits Account (CUFIN)		2,365,704

11. Contingencies and commitments

At December 31, 2018, MSSL Wirings Juárez, S.A. de C.V., is responsible for the following commitments and contingencies:

- The Company is responsible for all differences that could rise as a result of any review performed by the Tax Authorities.

- The company is subject to litigation in the normal course of business. As of December 31, 2017, in opinion of the Company's attorneys, there are no material matters of a legal nature.

- In accordance with the Income Tax Law, companies that carry out transactions with related parties are subject to fiscal limitations and obligations, in terms of determining agreed prices, since they must be comparable to those that would be used with or between independent parties. in comparable operations. If the tax authorities review the prices and reject the amounts determined, they could demand, in addition to the collection of the tax and corresponding accessories (updating and surcharges), fines on the omitted contributions, which could be up to 100% about the updated amount of contributions.

12. Operating leases

The Company has entered into an operating lease for the building located at Ciudad Juárez, where its offices and warehouses are located. The contract is for a period ranging from two years, and the minimum annual lease payments during the next years, are as follows:

	Thousands of U.S. dollars	
2019	USD.	6
Total	USD.	6

Rent charged to results of operations for operating leases was Ps.1,428,423 and Ps.1,376,934 in 2018 and 2017, respectively.