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

Financial statements

Years ended 31 December 2018 and 2017
with report of independent auditors

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

Financial statements

31 December 2018 and 2017

Contents:

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entorno de negocios

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# REPORT OF INDEPENDENT AUDITORS

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

## Opinion

We have audited the accompanying financial statements of SMP Automotive Systems México, S.A. de C.V., ("The Company"), which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SMP Automotive Systems México, S.A. de C.V., as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Mexican Financial Reporting Standards ("MFRS").

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International 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.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

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

Aldo A. Villarreal Robledo

Puebla, Puebla, México
August 12, 2019.

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

Statements of financial position

(Amounts in Mexican pesos)

| | As at December 31 | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| Assets | | | | |
| Current assets: | | | | |
| Cash | Ps. | 453,342,669 | Ps. | 288,813,846 |
| Accounts receivable : | | | | |
| Trade (net of allowance for doubtful accounts in 2018 and 2017 of Ps.1,900,562) | | 464,225,582 | | 722,936,077 |
| Related parties (Note 2) | | 42,193,309 | | 19,684,237 |
| Inventories, net (Note 3) | | 415,196,087 | | 386,804,191 |
| Prepaid expenses | | 182,850,896 | | 15,642,611 |
| Derivative financial instuments (Note 9) | | 414,119 | | - |
| Total current assets | | 1,558,222,662 | | 1,433,880,962 |
| Non-current assets: | | | | |
| Property, plant and equipment, net (Note 4) | | 2,633,199,890 | | 2,589,386,330 |
| Intangible assets (Note 5) | | 102,541,728 | | 58,743,955 |
| Deferred income tax (Note13) | | 79,519,666 | | 196,718,198 |
| Guarantee deposit | | 9,072,764 | | 8,807,664 |
| Long-term receivables | | 494,916,936 | | 553,970,158 |
| Total non-current assets | | 3,319,250,984 | | 3,407,626,305 |
| Total assets | Ps. | 4,877,473,646 | Ps. | 4,841,507,267 |

| | | As at December 31 | |
|---|---|---|---|
| | | 2018 | 2017 |
| Liabilities and equity | | | |
| Current liabilities: | | | |
| Suppliers | | Ps. 666,785,718 | Ps. 697,631,200 |
| Payable taxes | | 38,117,446 | 17,576,856 |
| Payable value added tax | | 71,395,680 | 49,796,317 |
| Related parties (Note 2) | | 95,214,997 | 143,305,689 |
| Provisions and accrued liabilities (Note 7) | | 143,855,659 | 368,703,446 |
| Short-term direct benefits (Note 11) | | 71,357,208 | 42,033,110 |
| Short-term bank loans (Note 6) | | 1,769,695,728 | - |
| Other accounts payable | | 5,797,249 | 5,882,007 |
| Derivative financial instruments (Note 9) | | - | 3,696,496 |
| Total current liabilities | | 2,862,219,685 | 1,328,625,121 |
| | | | |
| Long-term liabilities: | | | |
| Long term bank loans (Note 6) | | 102,293,230 | - |
| Loans with related parties (Note 2) | | 908,889,318 | 2,821,452,800 |
| Net defined benefit liability (Note 10) | | 20,107,119 | 16,230,085 |
| Deferred employee profit sharing (Note 11) | | 16,847,523 | 12,474,305 |
| Total long-term liabilities | | 1,048,137,190 | 2,850,157,190 |
| Total liabilities | | 3,910,356,875 | 4,178,782,311 |
| | | | |
| Equity (Note 12): | | | |
| Share capital | | 968,669,214 | 968,669,214 |
| Legal reserve | | 3,433,715 | 3,433,715 |
| Retained loses | | (6,146,669) | (306,201,879) |
| Other comprehensive income | | 1,160,511 | (3,176,094) |
| Total equity | | 967,116,771 | 662,724,956 |
| Total liabilities and equity | | Ps. 4,877,473,646 | Ps. 4,841,507,267 |

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

David Vallejo Sobrino
Finance and Administrative Director

Jesús García
Accounting Manager

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

Statements of income

(Amounts in Mexican pesos)

| | For the year ended December 31 2018 | For the year ended December 31 2017 |
|---|---|---|
| Net sales | Ps. 6,471,684,076 | Ps. 4,993,581,730 |
| Other income, net | 128,274,373 | 100,043,809 |
| Total income | 6,599,958,449 | 5,093,625,539 |
| | | |
| Cost of sales | 5,271,074,927 | 4,020,518,527 |
| Gross profit | 1,328,883,522 | 1,073,107,012 |
| | | |
| Operating expenses | 763,461,675 | 560,576,097 |
| Operating income | 565,421,847 | 512,530,915 |
| | | |
| Net financing cost: | | |
| Interest expense, net | 139,984,528 | 152,864,353 |
| Foreign exchange loss (gain), net | 10,351,880 | ( 118,810,164) |
| | 150,336,408 | 34,054,189 |
| | | |
| Income before income tax | 415,085,439 | 478,476,726 |
| | | |
| Income tax (Note 13) | 115,030,229 | 86,473,063 |
| Net income | Ps. 300,055,210 | Ps. 392,003,663 |
| | | |
| Other comprehensive income: | | |
| Remeasurements of net defined benefit liability | ( 935,118) | ( 2,421,719) |
| Effect on employee profit sharing | ( 311,706) | 242,172 |
| Effect on income tax | 3,117,061 | 726,516 |
| | 1,870,237 | ( 1,453,031) |
| | | |
| Derivative valuation | 4,110,615 | 6,731,849 |
| Effect on employee profit sharing | ( 411,062) | ( 673,185) |
| Effect on income tax | ( 1,233,185) | ( 2,019,555) |
| Other comprehensive income | 4,336,605 | 2,586,078 |
| Comprehensive income (loss) | Ps. 304,391,815 | Ps. 394,589,741 |

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

David Vallejo Sobrino
Finance and Administrative Director

Jesús García
Accounting Manager

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

Statements of changes in equity

For the Years Ended December 31, 2018 and 2017

(Amounts in Mexican pesos)

| | Capital | Legal reserve | Retained earnings | Other comprehensive income | Total capital |
|---|---|---|---|---|---|
| Balance as at December 31, 2016 | Ps. 968,669,214 | Ps. 3,433,715 | Ps.( 698,205,542) | Ps. ( 5,762,172) | Ps. 268,135,215 |
| Comprehensive income | | | 392,003,663 | 2,586,078 | 394,589,741 |
| Balance as at December 31, 2017 | 968,669,214 | 3,433,715 | ( 306,201,879) | ( 3,176,094) | 662,724,956 |
| Comprehensive income | | | 300,055,210 | 4,336,605 | 304,391,815 |
| Balance as at December 31, 2018 | Ps. 968,669,214 | Ps. 3,433,715 | Ps. 6,146,669 | Ps. 1,160,511 | Ps. 967,116,771 |

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

David Vallejo Sobrino
Finance and Administrative Director

Jesús García
Accounting Manager

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

Statements of cash flows

(Amounts in Mexican pesos)

| | For the year ended December 31 | |
|---|---|---|
| | 2018 | 2017 |
| **Operating activities:** | | |
| Income before income tax | $ 415,085,439 | Ps. 478,476,726 |
| Items not affecting cash flows: | | |
| Deferred employee profit sharing | 3,650,450 | (13,210,698) |
| Employee benefits | 3,877,034 | 9,401,475 |
| Depreciation and amortization of the year | 296,425,492 | 225,248,614 |
| Accrued interest | 121,554,994 | 155,310,401 |
| Other comprehensive income | 4,336,605 | 2,586,078 |
| Foreign exchange | 33,859,575 | (126,243,599) |
| Total | 878,789,589 | 731,568,997 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 317,763,717 | (573,447,602) |
| Other assets | (65,180,155) | (8,880,490) |
| Inventory | (28,391,896) | (219,307,488) |
| Accounts payable | (30,845,482) | 392,155,048 |
| Related parties | (172,892,994) | 60,036,523 |
| Other accounts payable | (153,468,496) | 108,456,194 |
| Net cash flows from operating activities | 745,774,283 | 490,581,182 |
| **Investing activities:** | | |
| Purchase of machinery and equipment | (323,386,814) | (500,279,092) |
| Purchase of other assets | (51,530,485) | (59,738,118) |
| Sale of machinery and equipment | (9,119,525) | - |
| Net cash flows used in investing activities | (384,036,824) | (560,017,210) |
| **Financing activities** | | |
| Repayment of bank loans | - | (10,357,500) |
| Loans with related parties | 325,732,350 | 304,462,400 |
| Loans with bank | 1,871,988,958 | - |
| Repayment of related parties loans | (2,273,374,950) | - |
| Interest paid | (121,554,994) | (155,310,402) |
| Net cash flows (used in) from financing activities | (197,208,636) | 138,794,498 |
| Increase in cash | 164,528,823 | 69,358,470 |
| Cash at beginning of year | 288,813,846 | 219,455,376 |
| Cash at end of year | Ps. 453,342,669 | Ps. 288,813,846 |

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

David Vallejo Sobrino
Finance and Administrative Director

Jesús García
Accounting Manager

(Amounts in Mexican pesos)

## 1. Nature of operations and summary of significant accounting policies

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

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

On 25 July 2019, the financial statements and these notes were authorized by the Company’s Administrative and Finance Director, David Vallejo Sobrino, for their issue and subsequent approval by the Company’s Board of Directors and shareholders, who have the authority to modify the financial statements. Information on subsequent events covers the period from 1 January 2019 through the above-mentioned issue date of the financial statements.

### Significant accounting policies

### a) Compliance with Mexican Financial Reporting Standards

The financial statements as at 31 December 2018 and 2017 have been prepared in accordance with Mexican Financial Reporting Standards (Mexican FRS).

### b) Basis of preparation

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

As determined based on the National Consumer Price Index (NCPI) published by the National Statistical and Geographical Information Agency (INEGI), Mexico’s annual inflation rate for 2018 and 2017 is as follows:

| | Cumulative inflation for 2017 (sum of inflation rates for 2015, 2016 and 2017) | Cumulative inflation for 2018 (sum of inflation rates for 2016, 2017 and 2018) | Inflation for the year (inflation rate for 2018) |
|---|---|---|---|
| Inflation rate | 12.81% | 15.25% | 4.28% |

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) Functional currency

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

d) Revenue from contracts with customers

The Company is primarily engaged in manufacturing, selling and assembling 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 is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the parts. The normal credit term is 30 to 90 days upon delivery.

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

Interest income

Interest income is recognized using the Effective Interest Rate (EIR) method. The effective interest method is a method of calculating the amortized cost of a financial asset or liability (or a group of financial assets or liabilities) and of allocating interest income over the relevant period. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Accrued interest receivable is included in net financing cost in the statement of profit or loss.

e) Use of estimates

The preparation of the Company's financial statements in accordance with Mexican FRS requires the use of estimates and assumptions in certain areas. The Company based its 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.

The key assumptions used as at 31 December 2018 and 2017 to calculate those estimates that involve uncertainty and which may represent a significant risk of requiring a material adjustment to the carrying amounts of assets or liabilities within the next financial year, are described below:

Defined benefit plans (pension benefits)

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

In determining the appropriate discount rate, management considers the interest rates of marketable securities in currencies consistent with the currencies of the post-employment benefit obligation by reference to market yields on high-quality corporate bonds or when no such information is available, by reference to market yields on government bonds. When a corporate bond rate is used, the underlying bonds are further reviewed for quality, and those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high quality corporate bonds. As at 31 December 2018 and 2017, the Company has used a corporate bond rate to discount its long-term defined employee benefits, since management believes that this rate best reflects the present value of the Company's expected future benefit payments based on the characteristics of plan participants and the estimated future payment dates of the benefits.

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

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

f) Cash

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

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

g) Hedging activities and derivatives

Initial recognition and measurement

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

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

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

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

h) Trade receivables

Trade receivables represent the consideration to which an entity is entitled in exchange for satisfaction of a performance obligation through the transfer of a promised good or service to a customer.
Trade receivables are considered to be financial assets, as they arise from a contract that establishes the contractual obligations of the parties.

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

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

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

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.

i) Allowance for expected credit losses

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

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

j) Inventories

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

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

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

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

k) Prepaid expenses

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

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

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

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

l) Property, plant and equipment

Property, plant and equipment is initially measured at cost.

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

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

| | Estimated useful life |
|---|---|
| Buildings | 20 years |
| Computer equipment | 3 years |
| Automotive equipment | 4 years |
| Machinery and equipment | 10 years |
| Office furniture and equipment | 10 years |

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

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

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

m) Leases

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

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

n) Liabilities and provisions

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 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.

o) Net defined benefit obligation

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

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

Past service costs are recognized on the earlier of:

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

p) 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) Employee profit sharing

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

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

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

r) Exchange differences

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

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

s) Comprehensive income

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

t) 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.

u) Statement of comprehensive income presentation

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

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

v) Equity

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

w) New accounting pronouncements

1) Standards issued but not yet effective

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

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

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 instead recognizes lease payments received.

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 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 4”). Mexican FRS 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 amortization 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 the new Mexican FRS 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.

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

Mexican FRS D-5 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies Mexican FRS 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.

During 2018, the Company performed a detailed impact assessment of Mexican FRS D-5. In summary, the Company does not expect that the adoption of this new accounting standard will have a material effect 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 recognition standards (Mexican FRS D-1 Revenue from contracts with customers and Mexican FRS D-2 Costs to obtain a contract) for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

The following new accounting pronouncements are effective for annual periods beginning on or after 1 January 2018:

Revenue from contracts with customers and costs to obtain a contract

Mexican FRS D-1 Revenue from contracts with customers and Mexican FRS D-2 Costs to obtain a contract supersede the supplementary application of IAS 18 Revenue and its interpretations and apply, with limited exceptions, to all revenue arising from contracts with its customers.

Mexican FRS 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 to a customer.

Mexican FRS D-1 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. Mexican FRS 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 Company adopted the new revenue standards using the modified retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides a practical expedient.

An analysis of the effect of the adoption of the new revenue standards is as follows:

- Performance obligation: When the customer has entered into an agreement for the design/development of tools and components, these activities should be considered as separate performance obligations. Management believes that the contractual output cannot be reliably estimated over the course of design/development and over the life of the tools and therefore, revenue is recognized at cost in proportion to revenue until the design/development activities have been completed. The Company's accounting policies for development and tools are aligned with the new revenue standards and the adoption of these new standards therefore had no effect on the Company's financial statements.

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

- Variable consideration: Variable consideration is estimated at contract inception. IFRS 15 requires that variable consideration be calculated using either the 'most likely amount method' or the 'expected value method'. Variable consideration is constrained based on the likelihood and significance of expected revenue reversal. Company management monitors and calculates price reductions on a monthly basis and thus believes that the treatment of price reductions is aligned with the guidelines on variable consideration; as a result, the Company does not expect the adoption of the new revenue standards to have a material effect on its financial statements.

- Significant financing component: The Company recognizes a financing component when a significant period elapses between the date when the goods or services are delivered to the customer and the Company receives the consideration in exchange for those goods or services. This also applies to inverse financing; i.e. when the Company has received advance consideration. Discounting begins as of the date when the Company recognizes the associated revenue. A significant financing component must be identified and recognized separately as finance income as of the date when the goods or services are delivered rather than the billing date. The Company must consider all unbilled revenue whose billing period is more than 1 year and must recognize the effect of discounting from the date when the revenue is recognized until the collection date.

- Consideration payable to customers (Nomination fee): When consideration paid to a customer does not correspond to a separate service, the amount of the consideration must be discounted from the transaction price. Under current guidance, the nomination fee is recognized as an asset if there are future economic benefits associated with such cost, and the nomination fee is amortized on a systematic basis to reflect the benefits, and this amortization is offset against revenue. Under the new revenue standards, the Company can continue to apply this accounting policy.

The effect of the adoption of Mexican FRS D-1 and D-2 was not material for the Company's financial statements.

Improvements to Mexican FRS for 2018

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

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

Mexican FRS B-2 introduces a new requirement that entities must now include 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 standard 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 non-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 standard 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 C-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, with early adoption permitted for annual periods beginning on or after 1 January 2017. The adoption of this standard had no effect on the Company's financial statements.

Improvements to Mexican FRS for 2017

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

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.

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 are 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.

Mexican FRS C-4 Inventories

Paragraph 60.1 of Mexican FRS C-4 requires entities to disclose the value of their consignment inventories, managed inventories, and inventories for maquila operations. Based on recommendations received by the CINIF, Mexican FRS C-4 was amended to require that entities also disclose their commitments associated with these types of inventories, which would include an entity's obligation to return inventory imported on a temporary basis. Mexican FRS C-6 Property, Plant and Equipment was also amended to require disclosures related to machinery and equipment imported on a temporary basis for an entity's maquila operations or for demonstration purposes and which the entity is required to return to the country of origin.

These improvements are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted for annual periods beginning on or after 1 January 2017. The adoption of this standard had no effect on the Company's financial statements.

Mexican FRS C-11 Equity

Mexican FRS C-11 did not previously address the accounting treatment applicable to the costs of a stock exchange listing of shares that are already outstanding and for which the entity has received the respective capital. With this registration the entity is allowed to trade its shares on the stock exchange, expanding its financing options.

As a result, the CINIF amended Mexican FRS C-11 to establish that these costs should be immediately recognized as an expense in profit or loss, since the costs are not associated with an equity transaction.

Mexican FRS C-11 also previously established that the cost of reissuing treasury shares should be recognized in profit or loss; however, the CINIF believed that this accounting treatment was inconsistent with the treatment for stock exchange listings under Mexican FRS, since Mexican FRS generally requires these costs to be recognized as a reduction in issued and outstanding share capital. As a result, the CINIF amended Mexican FRS C-11 to require this accounting treatment for stock exchange listings as well. This accounting change is consistent with IFRS (IAS 32 Financial Instruments: Presentation).

These improvements are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted for annual periods beginning on or after 1 January 2017. The adoption of this standard had no effect on the Company's financial statements.

Mexican FRS D-3 Employee benefits

a) Discount rate for employee benefit obligation 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. The adoption of this standard had no effect on the Company's financial statements.

b) Treatment of remeasurements of the net defined benefit obligation

Paragraph 45.4.4 c) of Mexican FRS D-3 previously established that the difference between the final net defined benefit obligation determined based on paragraph b) and the expected net defined benefit obligation determined based on paragraph a) should be recognized as a remeasurement of the net defined benefit obligation 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. The adoption of this standard had no effect on the Company's financial statements.

## 2. Related parties

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

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

| | 2018 | 2017 |
|---|---|---|
| Receivable: | | |
| SMP Deutschland GmbH (affiliate) | Ps 21,739,399 | Ps. 19,297,168 |
| SMP Automotive Systems Alabama Inc. (affiliate) | 12,484,609 | 370,712 |
| SMR Automotive Vision Systems México, S.A. de C.V. (affiliate) | 7,969,301 | 16,357 |
| | Ps. 42,193,309 | Ps. 19,684,237 |
| Payable: | | |
| SMP Deutschland GmbH (affiliate) | Ps. 61,775,269 | Ps. 95,639,802 |
| SMR Automotive Vision Systems México, S.A. de C.V. | 22,573,895 | - |
| SMP Automotive Systems Alabama Inc. (affiliate) | 7,514,858 | 375,452 |
| Motherson Automotive Elastomers (affiliate) | 1,116,508 | 1,861,281 |
| Motherson Automotive Technologies & Engineering | 383,360 | 1,634,250 |
| MSSL GmbH (affiliate) | - | 1,538,984 |
| Motherson Sumi Infotech & Designs (affiliate) | 766,565 | 1,093,296 |
| Group B. V. (affiliate) | - | 1,010,437 |
| SMP Automotive Technology Ibérica, S. L. (holding company) | - | 36,127,897 |
| Samvardhana Motherson Global FZE | 402,705 | 635,613 |
| Samvardhana Motherson Automotive Systems (affiliate) | - | 3,388,677 |
| Motherson Sumi Infotech & Designs Ltd. (afiliate) | 398,236 | |
| MSSL México, S.A. de C.V. | 283,601 | - |
| | Ps. 95,214,997 | Ps. 143,305,689 |

As at December 31 2018 and 2017, balances receivable due from related parties consist of unsecured current accounts that bear no interest, without guarantees.

| | 2018 | 2017 |
|---|---|---|
| Loans payable in the long term: | | |
| SMP Automotive Technology Ibérica, S.L. (holding) (1) | Ps. 581,894,755 | Ps. 2,632,832,000 |
| Samvardhana Motherson Automotive Systems Group B.V. (affiliate) (2) | 326,994,563 | 188,620,800 |
| | Ps. 908,889,318 | Ps. 2,821,452,800 |

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

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

[1] Loan agreement of US $118,000,000 with its holding entered on June 20, 2017, bearing interests in a quarterly basis at a rate of 5.90% annually. At December 31, 2018, the Company increased the amount borrowed in the amount of US $16,000,000. Repayment date is March 31, 2019.

[2] Loan agreement by its affiliate on December 14, 2018 for a principal amount of up to EUR $14,500,000 of wich EUR $ 14,500,000 has been disposed as of December 31 2018, bearing interests in a quarterly basis at a rate of 4.50% annually. Repayment date is June 30, 2020.

c) During the years ended December 31, 2018 and 2017, the Company had the following transactions with its related parties:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Manufacturing services: | | | | |
| Transactions with affiliates: | | | | |
| SMP Deutschland GmbH | Ps. | 31,619,838 | Ps. | 101,475,021 |
| SMP Automative Produtos Automotivos Do Brasil Ltda. | | 7,488,859 | | - |
| SMR Automotive Vision Systems | | 5,927,584 | | 99,740 |
| Samvardhana Motherson Innovative Au | | 25,062 | | 417,927 |
| SMP Automotive Systems Alabama Inc. | | - | | 14,785,242 |
| SMP Ibérica S.L | | - | | 228,207 |
| | | | | |
| Accrued interest: | | | | |
| Transactions with affiliates: | | | | |
| SMP Automotive Systems Alabama Inc. | Ps. | 14,597 | Ps. | 2,440,551 |
| | | | | |
| Sale of fixed assets | | | | |
| Transactions with affiliates | | | | |
| AEES Manufacturera, S. de R.L. de C.V. | Ps. | 7,212,435 | Ps. | - |
| | | | | |
| Expense reimbursement: | | | | |
| Transactions with affiliates: | | | | |
| SMP Automotive Systems Alabama Inc. | Ps. | 12,343,662 | Ps. | 139,657 |
| SMP Automative Produtos Automotivos Do Brasil Ltda. | | 69,759 | | - |
| SMP Deutschland GmbH | Ps. | - | | 4,465,231 |
| | | | | |
| Admistrative Services: | | | | |
| Transactions with affiliates: | | | | |
| SMP Automotive Systems Alabama Inc. | Ps. | 496,780 | Ps. | - |

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Inventory purchases: | | | | |
| Transactions with affiliates: | | | | |
| SMP Deutschland GmbH | Ps. | 419,072,844 | Ps. | 121,924,024 |
| Motherson Automotive Technologies | | 22,528,929 | | 547,318 |
| SMR Automotive Vision Systems México, S.A. de C.V. | | 19,461,639 | | - |
| Motherson Automotive Elastomers Tec | | 9,566,349 | | 5,550,331 |
| MSSL México, S.A. de C.V. | | 6,208,872 | | 6,031,065 |
| Samvardhana Motherson Innovate | | 34,705 | | 1,164,474 |
| Motherson Automotive Technologies (Pondicherry) | | - | | 16,666,140 |
| Motherson Automotive Elastomers | | - | | 4,626,686 |
| SMP Ibérica S.L. | | - | | 47,425 |
| | | | | |
| Fixed assets purchases: | | | | |
| Transactions with affiliates | | | | |
| SMP Deutschland GmbH | Ps. | 16,945,400 | Ps. | 7,521,140 |
| Matsui Technologies India Ltd. | | 1,852,467 | | - |
| SMP Automotive Systems Alabama INC | | - | | 99,019,605 |
| Motherson Automotive Technologies | | - | | 15,732,965 |
| Samvardhana Motherson Innovative (SMIA GmbH) | | - | | 3,416,040 |
| Motherson Sumi Infotech & Designs | | - | | 215,534 |
| | | | | |
| Administrative services received: | | | | |
| Transactions with affiliates: | | | | |
| MSSL GmbH | Ps. | 12,397,273 | Ps. | 7,814,649 |
| Samvardhana Motherson Global FZE | | 6,811,170 | | 4,019,694 |
| Motherson Sumi Infotekk & Design GMBH | | 6,996,583 | | - |
| SMP Ibérica S.L. | | 2,965,485 | | - |
| Motherson Sumi Infotech & Designs Ltd. | | 686,155 | | - |
| Motherson Air Travel Agency Lt. | | 570,417 | | - |
| Anest Iwata Motherson Coating Equipment PVT | | 10,346 | | |
| SMR Automotive Vision Systems | | - | | 104,831 |
| | | | | |
| TI services: | | | | |
| Transactions with affiliates: | | | | |
| Motherson Sumi Infotech & Designs | Ps. | 8,091,040 | Ps. | - |
| SMP Deutschland GmbH | | 515,455 | | 415,269 |
| | | | | |
| Royalties: | | | | |
| Transactions with affiliates: | | | | |
| SMP Deutschland GmbH | Ps. | 179,401,400 | Ps. | - |
| | | | | |
| Technical assistance and development services: | | | | |
| Transactions with affiliates: | | | | |
| SMP Deutschland GmbH | Ps. | 23,478,502 | Ps. | 18,740,197 |

| | 2018 | 2017 |
|---|---|---|
| Management fees: | | |
| Transactions with affiliates: | | |
| SMP Ibérica S.L. | Ps. 1,080,621 | Ps. 3,044,906 |
| | | |
| Accrued interest: | | |
| Transactions with affiliates: | | |
| SMP Ibérica S.L. | Ps. 81,039,600 | Ps. 132,144,190 |
| Samvardhana Motherson Automotive | 1,858,951 | 12,815,560 |
| | | |
| Inside group services: | | |
| Transactions with affiliates: | | |
| SMP Deutschland GmbH | Ps. 134,461,151 | Ps. 105,409,988 |
| SMP Automotive Systems Alabama Inc. | 8,835,069 | - |
| | | |
| Other expenses (Royalties): | | |
| Transactions with affiliates: | | |
| SMP Deutschland GmbH | Ps. 140,602,360 | Ps. - |
| | | |
| Expenses refund: | | |
| Transactions with affiliates: | | |
| SMP Ibérica S.L. | Ps. 1,990,942 | Ps. 443,372 |
| Motherson Automotive Technologies | 711,448 | 2,952,319 |
| SMP Automotive Systems Alabama Inc. | 504,103 | 4,004,089 |
| Anest Iwata Motherson Coating Equipment PVT | 84,906 | - |
| SMP Deutschland GmbH | 67,668 | 899,206 |
| Motherson Air Travel Agency GmbH | 29,241 | 1,871,144 |
| Motherson Automotive Technologies & Engg | 25,979 | - |
| MSSL GmbH | 20,579 | 44,641 |
| Motherson Sumi Infotech & Designs | - | 9,828,502 |
| SMP Barcelona | - | 44,431 |

## 3. Inventories

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

| | 2018 | 2017 |
|---|---|---|
| Raw materials and components | Ps. 223,149,519 | Ps. 209,483,483 |
| Tooling | 16,507,710 | 59,481,658 |
| Spare parts | 129,684,112 | 64,090,810 |
| Finished products | 9,755,085 | 9,308,278 |
| Work in process | 38,607,050 | 36,439,559 |
| Goods in transit | 22,650,787 | 21,296,630 |
| | 440,354,263 | 400,100,418 |
| Slow moving and obsolete inventory estimate | ( 25,158,176) | ( 13,296,227) |
| | Ps. 415,196,087 | Ps. 386,804,191 |

## 4. Property, plant and equipment

a) An analysis of property, plant and equipment as at December 31, 2018 and 2017, is as follows:

| Components subject to depreciation | 2018 | | 2017 | |
|---|---|---|---|---|
| | Investment | Accumulated depreciation | Investment | Accumulated depreciation |
| Buildings | Ps. 628,551,078 | Ps.( 76,672,627) | Ps. 597,494,728 | Ps. ( 45,610,395) |
| Computer equipment | 97,401,956 | ( 62,902,845) | 69,596,359 | ( 37,440,924) |
| Transportation equipment | 3,710,712 | ( 3,710,712) | 4,477,201 | ( 4,477,201) |
| Improvements to property leasing | 50,603,610 | ( 13,540,299) | 30,121,125 | ( 11,513,318) |
| Machinery and equipment | 2,572,141,936 | ( 843,695,846) | 2,255,061,232 | ( 762,684,738) |
| Furniture and office equipment | 221,087,782 | ( 40,487,165) | 7,328,724 | ( 3,822,202) |
| | Ps. 3,573,497,074 | Ps.( 1,041,009,494) | Ps. 2,964,079,369 | Ps. ( 865,548,778) |
| Components not subject to depreciation | | | | |
| Land | Ps. 15,227,512 | | Ps. 14,637,304 | |
| Construction in process | 85,484,798 | | 476,218,435 | |
| Property, plant and equipment, net | Ps. 2,633,199,890 | | Ps. 2,589,386,330 | |

b) Depreciation and amortization expense for the years ended December 31, 2018 and 2017, amounted to Ps.288,692,779 and Ps.222,934,747, respectively. Depreciation is calculated based on the straight line method considering the estimated useful life of the assets.

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

## 5. Intangible assets

An analysis of intangible assets as at December 31, 2018 and 2017, is as follows:

| | License | Pre-operational expenses | Total |
|---|---|---|---|
| Cost: | | | |
| As at January 1, 2017 | Ps. 9,660,725 | Ps. 17,816,869 | Ps. 27,477,549 |
| Additions | | 59,738,118 | 59,738,118 |
| As at December 31, 2017 | 9,660,725 | 77,554,987 | 87,215,712 |
| Additions | - | 51,530,485 | 51,530,485 |
| As at December 31, 2018 | Ps. 9,660,725 | Ps. 129,085,472 | Ps. 138,746,197 |
| Amortization and impairment | | | |
| As at January 1, 2017 | Ps. ( 7,623,622) | Ps. ( 18,534,268) | Ps. ( 26,157,890) |
| Amortization | ( 745,000) | ( 1,568,867) | ( 2,313,867) |
| As at December 31, 2017 | ( 8,368,622) | ( 20,103,135) | ( 28,471,757) |
| Amortization | ( 742,980) | ( 6,989,732) | ( 7,732,712) |
| As at December 31, 2018 | Ps. ( 9,111,602) | ( 27,092,867) | Ps. ( 36,204,469) |
| Net book value: | | | |
| As at 31 December, 2018 | Ps. 549,123 | Ps. 101,922,605 | Ps. 102,541,728 |
| As at 31 December, 2017 | Ps. 1,292,103 | Ps. 57,451,852 | Ps. 58,743,955 |

The total depreciation for the years 2018 and 2017, was recognized in the results of these periods for an amount of Ps.7,732,712 and Ps.2, 313,867, respectively; which is presented in the item of general expenses.

## 6. Bank loans (Short term)

An analysis of long-term bank loans as at December 31, 2018 and 2017, is as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Revolving credit line granted by HSBC MEXICO institución de banca múltiple,(Financial Group HSBC) for a principal amount of up to US $38,000,000, with a LIBOR rate applicable in relation to the level of leverage. Payment date to year after signature date, renewal up to 4 additional periods. | Ps. | 747,671,832 | Ps. | - |
| Revolving credit line granted by Bank of America N.A. for a principal amount of up to US $25,000,000 payable on May 28, 2020, this can be extended only if there is no other contract. | | 492,347,968 | | - |
| Current credit line granted by Santander (México) S. A. for a principal amount of up to US $16,000,000 payable on July 19, 2019. | | 315,416,103 | | - |
| Current credit line granted by BBVA Bancomer, S.A. (Bancomer) for a principal amount of up to US $16,000,000 or its equivalent in Mexican pesos, at the annual LIBOR rate plus 1.25% in dollars or TIIE plus 1.25% in pesos. | | 316,553,055 | | - |
| Total | Ps | 1,871,988,958 | Ps. | - |
| Short-term debt and short-term portion of long-term bank loans | Ps. | 1,769,695,728 | Ps. | - |
| Bank loans with maturity longer than one year (long-term) | Ps. | 102,293,230 | Ps. | - |

## 7. Provisions and accumulated liabilities

As of December 31, 2018 and 2017, the accumulated provisions and liabilities are integrated as follows:

| | | Balance as at December 31, 2017 | | Increase | | Applications | | Balance as at December 31, 2018 |
|---|---|---|---|---|---|---|---|---|
| Difference in price | Ps. | 30,247,121 | Ps. | 158,149,735 | Ps. | ( 172,955,265) | Ps. | 15,441,591 |
| Provision for clients charges | | 89,105,386 | | 341,763,141 | | ( 409,004,757) | | 21,863,770 |
| Provision for entry tickets | | 46,964,464 | | 352,517,462 | | ( 312,795,016) | | 86,686,910 |
| Provision CAPEX | | 33,401,284 | | 76,703,977 | | ( 104,265,646) | | 5,839,615 |
| Other provisions | | 168,985,191 | | 1,100,914,921 | | (1,255,876,339) | | 14,023,773 |
| | Ps. | 368,703,446 | Ps. | 2,030,049,236 | Ps. | ( 2,254,897,023) | Ps. | 143,855,659 |

## 8. Foreign currency balances

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

| | (Amount in U.S. Dollar) | | | |
|---|---|---|---|---|
| | | 2018 | | 2017 |
| Current assets | USD | 58,064,304 | USD | 25,329,196 |
| Current liabilities | | ( 60,522,864) | | ( 171,340,505) |
| Net monetary liability position | USD | ( 2,458,560) | USD | ( 146,011,309) |

The exchange rates used to translate the above amounts to Mexican pesos as at December 31, 2018 and 2017 were Ps.19.6403 and Ps. 19.6480 pesos respectively, per U.S. dollar. As at July 25, 2018, the date of issue of these financial statements, the exchange rate was Ps.19.1315 pesos per U.S. dollar.

b) The financial statements as at December 31, 2018 and 2017, include the following euros denominated assets and liabilities:

| | (Amount in Euros) | | | |
|---|---|---|---|---|
| | | 2018 | | 2017 |
| Current asstes | € | 2,796,484 | € | 367,191 |
| Current liabilities | | ( 20,333,446) | | ( 6,931,454) |
| Net monetary liability position | € | ( 17,536,962) | € | ( 6,564,263) |

The exchange rates used to translate the above amounts to Mexican pesos as at December 31, 2018 and 2017 were Ps.22.5255 and Ps.23.5697, pesos per Euro respectively. As at July 25, 2018, the date of issue of these financial statements, the exchange rate was Ps.21.39 pesos per Euro.

## 9. Derivative financial instruments

An analysis of investments in financial instruments as at December 31, 2018 and 2017, is as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Derivative financial instruments: | | | | |
| Cash-flow hedges: | | | | |
| Foreign currency hedges | Ps. | ( 414,119) | Ps. | 3,696,496 |
| Total derivative financial instruments | Ps. | ( 414,119) | Ps. | 3,696,496 |

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

The position in derivative financial instruments of foreign currency held as of December 31, 2018, are summarized below:

| Counterpart | Value of the forward | Underliying | Date of start | Date of finish | Exchange rate agreed | Fair value (USD) | Underliying fair value |
|---|---|---|---|---|---|---|---|
| Barclays Bank Plc. | 2,000,000 | MXN | 12/01/2018 | 25/02/2019 | $ 20.5416 | $ ( 69,832) | USD |
| Barclays Bank Plc. | 2,000,000 | MXN | 12/01/2018 | 25/03/2019 | 20.6176 | ( 67,697) | USD |
| Barclays Bank Plc | 5,000,000 | MXN | 01/05/2018 | 30/09/2019 | 20.2155 | 90,396 | USD |
| Barclays Bank Plc | 10,000,000 | MXN | 14/05/2018 | 31/03/2020 | 21.4630 | ( 91,906) | USD |
| Barclays Bank Plc | 5,000,000 | MXN | 15/05/2018 | 29/03/2019 | 20.6800 | ( 178,658) | USD |
| Barclays Bank Plc | 5,000,000 | MXN | 24/04/2018 | 30/09/2019 | 20.2663 | 78,283 | USD |
| Barclays Bank Plc | 10,000,000 | MXN | 24/04/2018 | 31/03/2020 | 20.7000 | 257,295 | USD |
| Barclays Bank Plc | 10,000,000 | MXN | 25/04/2018 | 25/03/2020 | 20.9311 | 122,537 | USD |
| Barclays Bank Plc | 500,000 | MXN | 25/04/2018 | 25/02/2019 | 19.8240 | 53 | USD |
| Barclays Bank Plc | 750,000 | MXN | 25/04/2018 | 25/01/2019 | 19.7582 | ( 1,142) | USD |
| Barclays Bank Plc | 103,400,000 | USD | 09/11/2018 | 29/03/2019 | 20.7548 | 199,199 | USD |
| | | | | | Total (USD) | $ 338,528 | |
| | | | | Exchange rate | | 19.6403 | |
| | | | | Fair value | | Ps. 6,648,791 | |

| Counterpart | Value of the forward | Underliying | Date of start | Date of finish | Exchange rate agreed | Fair value (USD) | Underliying fair value |
|---|---|---|---|---|---|---|---|
| BBVA Bancomer | 1,000,000 | MXN | 05/01/2018 | 09/01/2019 | 20.5261 | $ ( 39,259) | EUR |
| BBVA Bancomer | 2,000,000 | MXN | 04/01/2018 | 07/01/2019 | 20.6005 | ( 85,538) | EUR |
| BBVA Bancomer | 2,000,000 | MXN | 22/02/2018 | 22/02/2019 | 19.8706 | ( 8,460) | EUR |
| BBVA Bancomer | 3,000,000 | MXN | 02/03/2018 | 06/03/2019 | 20.0743 | ( 34,268) | EUR |
| BBVA Bancomer | 10,000,000 | MXN | 25/05/2018 | 29/05/2020 | 21.7844 | ( 169,813) | EUR |
| BBVA Bancomer | 1,000,000 | EUR | 11/10/2018 | 25/01/2019 | 1.1670 | 16,985 | EUR |
| BBVA Bancomer | 1,000,000 | EUR | 11/10/2018 | 25/02/2019 | 1.1700 | 17,024 | EUR |
| BBVA Bancomer | 1,000,000 | EUR | 11/10/2018 | 26/03/2019 | 1.1730 | 17,018 | EUR |
| BBVA Bancomer | 5,000,000 | MXN | 25/10/2018 | 30/09/2020 | 21.5793 | 40,247 | EUR |
| BBVA Bancomer | 5,000,000 | MXN | 29/10/2018 | 31/03/2020 | 21.4907 | ( 67,488) | EUR |
| | | | | | Total EUR | $ ( 313,552) | |
| | | | | Closing exge rate | | 22.5255 | |
| | | | | Fair value | | Ps.(7,062,911) | |
| | | | | Total fair value | | Ps.( 414,119) | |

As of December 31, 2018, the Company management has evaluated the effectiveness of its hedges for accounting purposes and has considered them to be highly effective.

The fair value of the forwards as of December 31, 2018 and 2017, resulted in the recognition of a liability and an expense in the comprehensive income for an amount of Ps.414,119,and Ps.3,696,496, respectively.

## 10. Net defined benefit liability

An analysis of the net periodic benefit cost, the net defined benefit liability and the fair value of plan assets associated with the Company's post-employment benefits (seniority premiums, and termination benefit plan) as at and for the years ended December31, 2018 and 2017 is as follows:

a) Net periodic benefit cost

| | 2018 | | |
|---|---|---|---|
| | Retirement benefits | Termination benefits | Total |
| Analysis of net periodic benefit cost for 2018: | | | |
| Current year service cost | Ps. 7,251,136 | Ps. 336,254 | Ps. 7,587,390 |
| Net interest cost on net defined benefit liability | 1,135,964 | 113,753 | 1,249,717 |
| Reclassification of remeasurement | 239,789 | 26,377 | 266,166 |
| Past service cost | - | - | - |
| Reductions and early settlements | ( 2,109,178) | - | ( 2,109,178) |
| Increase by recognized remeasurements in OCI | ( 3,031,633) | ( 85,428) | ( 3,117,061) |
| Net periodic benefit cost for 2018 | Ps. 3,486,078 | Ps. 390,956 | Ps. 3,877,034 |

| | 2017 | | |
|---|---|---|---|
| | Retirement benefits | Termination benefits | Total |
| Analysis of net periodic benefit cost for 2018: | | | |
| Current year service cost | Ps. 4,912,304 | Ps. 223,202 | Ps. 5,135,506 |
| Net interest cost on net defined benefit liability | 676,877 | 80,869 | 757,746 |
| Reclassification of remeasurement | ( 119,265) | 1,447 | ( 117,818) |
| Past service cost | 3,629,399 | - | 3,629,399 |
| Reductions and early settlements | ( 2,425,077) | - | ( 2,425,077) |
| Increase by recognized remeasurements in OCI | 2,273,586 | 148,133 | 2,421,719 |
| Net periodic benefit cost for 2018 | Ps. 8,947,824 | Ps. 453,651 | Ps. 9,401,475 |

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

| | Retirement benefits | Termination benefits | Total |
|---|---|---|---|
| Net defined benefit liability/(asset): | | | |
| Net defined benefit liability/(asset) as at 1 January 2017 | Ps. 6,217,498 | Ps. 1,023,656 | Ps. 7,241,154 |
| Current year service cost | 8,947,824 | 453,651 | 9,401,473 |
| Benefits paid | ( 412,542) | - | ( 412,542) |
| Remedies recognized in OIR | - | - | - |
| Net defined benefit liability/(asset) as at December 31 2017 | 14,752,780 | 1,477,307 | 16,230,085 |
| Current year service cost | 3,486,078 | 390,956 | 3,877,034 |
| Net defined benefit liability/(asset) as at December 31 2018 | Ps. 18,238,858 | Ps. 1,868,263 | Ps. 20,107,119 |

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

| | 2018 | | |
|---|---|---|---|
| | Retirement benefits | Termination benefits | Total |
| Provisions for: | | | |
| Vested benefit obligation | Ps. 18,238,858 | Ps. 1,868,263 | Ps. 20,107,121 |
| Defined benefit obligation | 18,238,858 | 1,868,263 | 20,107,121 |
| Net defined benefit liability | Ps. 18,238,858 | Ps. 1,868,263 | Ps. 20,107,121 |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Retirement benefits | | Termination Benefits | | Total | |
| Provisions for: | | | | | | |
| Vested benefit obligation | Ps. | 14,752,778 | Ps. | 1,477,307 | Ps. | 16,230,085 |
| Defined benefit obligation | Ps. | 14,752,778 | Ps. | 1,477,307 | Ps. | 16,230,085 |
| Net defined benefit liability | Ps. | 14,752,778 | Ps. | 1,477,307 | Ps. | 16,230,085 |

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

| | 2018 | 2017 |
|---|---|---|
| Financial assumptions | | |
| Discount rate | 8.50% | 7.70% |
| Expected salary increase rate | 4.00% | 4.00% |
| Salary rate | 5.80% | 5.80% |

## 11. Short-term employee benefits

a) Short-term employee benefits

As at December 31, 2018 and 2017, the Company has recognized accrued liabilities for short term employee benefits. An analysis is as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Vacation premium | Ps. | 14,895,093 | Ps. | 4,426,063 |
| Bonus | | 18,228,770 | | - |
| Employee profit sharing payable | | 38,233,345 | | 37,607,047 |
| | Ps. | 71,357,208 | Ps. | 42,033,110 |

b) Employee Profit Sharing (EPS)

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

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Current employee profit sharing | Ps. | 38,233,345 | Ps. | 37,607,047 |
| Deferred employee profit sharing | | 16,847,523 | | 12,474,305 |
| Total employee profit sharing | Ps. | 55,080,868 | Ps. | 50,081,352 |

c) Deferred Employee Profit Sharing (EPS)

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

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Deferred EPS assets: | | | | |
| Allowance for doubtful accounts | Ps. | 578,813 | Ps. | 190,056 |
| Retirement benefits and termination benefits | | 1,065,677 | | 1,623,009 |
| Inventory reserve | | 692,874 | | 1,329,623 |
| Property, plant and equipment | | 45,553,026 | | 28,684,241 |
| Provisions | | 39,108,565 | | 38,504,223 |
| | | 86,998,955 | | 70,331,152 |
| Deferred EPS liabilities: | | | | |
| Accounts receivable for developments | | ( 57,201,262) | | ( 63,645,699) |
| Prepaid expenses | | ( 38,832,742) | | ( 13,236,951) |
| Derivative financial instruments | | ( 3,845,273) | | - |
| Other accounts receivable | | ( 3,967,201) | | ( 5,922,807) |
| Deferred employee profit sharing liability, net | Ps. | ( 16,847,523) | Ps. | ( 12,474,305) |

12. Equity

a) As at December 31, 2018 and 2017, the Company's share capital is variable, with an authorized fixed minimum of Ps.50,000 represented as follows:

| | Shares | | Amount |
|---|---|---|---|
| Fixed | | | |
| Serie "A" | 50 | Ps. | 50,000 |
| Variable | | | |
| Serie "B" | 943,818 | | 943,818,400 |
| | 943,868 | Ps. | 943,868,400 |
| Inflationary effect (B-10) | | | 24,800,814 |
| Total equity | | Ps. | 968,669,214 |

b) In accordance with the Mexican Corporations Act, the Company is required to appropriate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of the value of the Company's share capital. As at December 31, 2018 and 2017, the legal reserve is Ps.3,433,715.

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

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

## 13. Income tax

### I) Income tax (IT)

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

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

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

For the years ended December 31, 2018 and 2017, the Company determined a tax profit of Ps.357,558,450 and a tax loss of Ps.406,444,429, respectively, for fiscal year 2018 and 2017, were amortized tax losses for previos years, and therefore, a tax income was not determined.

b) As of December 31, 2018 and 2017, the income tax was as follows:

| | 2018 | 2017 |
|---|---|---|
| Deferred income tax | Ps. 115,030,229 | Ps. 86,473,063 |

The effect of the temporary differences of the deferred taxes for the years ended December 31, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Deferred taxes assets | | |
| Tax losses | Ps. 128,750,269 | Ps. 238,613,932 |
| Provisions | 118,637,658 | 113,328,291 |
| Property, plant and equipment | 136,659,078 | 86,052,722 |
| Inventories allowance | 3,197,032 | 3,988,868 |
| Retirement benefits and termination benefits | 1,736,439 | 2,580,584 |
| Allowance for doubtful accounts | 2,078,623 | 570,169 |
| | Ps. 391,059,099 | Ps. 445,134,566 |
| Deferred tax liabilities: | | |
| Accounts receivable developments | ( 171,603,786) | ( 190,937,095) |
| Prepaid expenses | ( 72,444,642) | ( 39,710,853) |
| Derivatives | ( 11,535,820) | ( 468,196) |
| Other accounts receivable | ( 55,955,185) | ( 17,300,224) |
| | Ps. ( 79,519,666) | Ps. 196,718,198 |

The reconciliation of net deferred taxes is as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Initial balance as of January 1 | Ps. | 196,718,198 | Ps. | 284,484,300 |
| Income tax recognized in profits | | ( 115,030,229) | | ( 86,473,063) |
| Income tax recognized in OCI | | ( 2,168,303) | | ( 1,293,039) |
| Final balance as of December 31 | Ps. | 79,519,666 | Ps. | 196,718,198 |

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

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Income before income tax | Ps. | 415,085,439 | Ps. | 478,476,726 |
| Tax effects of the following items: | | | | |
| Annual adjustment for inflation | | 117,820,339 | | 171,574,046 |
| Non-deductible expenses | | 33,204,859 | | 32,602,671 |
| Inflationary effect in tax losses and fixed assets | | ( 166,423,098) | | ( 382,474,733) |
| Other items | | ( 16,253,441 ) | | ( 11,935,167) |
| Income before income tax includes permanents items | | 383,434,098 | | 288,243,543 |
| Statutory income tax rate | | 30% | | 30% |
| Total income tax | Ps. | 115,030,229 | Ps. | 86,473,063 |
| Effective income tax rate | | 28% | | 18% |

d) Tax losses

As of December 31, 2018, the Company has accumulated tax losses totaling Ps.477,762,002. The expiration date of the Company's tax loss carryforward is as follows:

| Year of tax loss | | Amount | Expiration year |
|---|---|---|---|
| 2016 | Ps. | 477,762,002 | 2026 |

14. Contingencies and commitments

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

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

c) Enacted changes made to the Mexican Federal Labor Law that came into effect on December 1, 2012, could have an effect on the Company's financial position. The effects of these changes may vary from a disclosure in the financial statements to the recognition of an additional liability for employee profit sharing or other liabilities related to employee benefits. As at December 31, 2018, the Company has evaluated the effects that the changes in the Labor Law may have on its financial information and has concluded that the changes have had no effect as at December 31, 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.