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

Financial statements

Years ended 31 December 2019 and 2018
with report of independent auditors

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

Financial statements

31 December 2019 and 2018

Contents:

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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, 2019, 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, 2019, and its financial performance and its cash flows for the year then ended in accordance with Mexican Financial Reporting Standards ("MFRS").

Basis for opinion

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

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

Aldo A. Villarreal Robledo

Puebla, Puebla, México
August 19, 2020.

C.P.A. Aldo A. Villarreal Robledo
CERTIFIED PUBLIC ACCOUNTANT

REPORT OF LEGAL REVIEWER

To the Stockholders' Meeting of
SMP Automotive Systems México, S.A. de C.V.

Acting as Legal Reviewer of SMP Automotive Systems México, S.A. de C.V., (The Company), I am submitting to you my report on the veracity, reasonability, and sufficiency of the information contained in the financial statements for the year ended December 31, 2019. This information has been presented to you by the Board of Directors.

Due to the fact that I was not summoned to the Shareholders 'meetings or to the meetings of the Board of Directors that were held in the year ended December 31, 2019, I was aware of the agreements taken by both the Shareholders' meeting and the Board of Directors through the audit of the financial statements, for the year ended December 31, 2019. I also obtained from the directors and administrators the additional information that I considered necessary for the preparation and issuance of my legal reviewer´s report. My review was carried out in accordance with international auditing standards.

In my opinion, the criteria and accounting policies and information used by the Company, considered by the administrators to prepare the Financial Statements presented to this Stockholders' Meeting, are adequate and sufficient and have been applied consistently with prior year, therefore, also in my opinion, the Financial Statements reflect the veracity, reasonability, and sufficiency in all important respects, the financial position of SMP Automotive Systems México, SA of CV, as of December 31, 2019, and the statement of income, statement of changes in equity and cash flow statement, for the year then ended in accordance with Mexican financial reporting standards.

C.P.C. Aldo A. Villarreal Robledo
Legal Reviewer

Puebla, Puebla, Mexico
August 19, 2020.

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

Statements of financial position

(Amounts in Mexican pesos)

	As at December 31			
	2019		2018	
Assets				
Current assets:				
Cash	Ps.	234,335,246	Ps.	453,342,669
Accounts receivable :				
Trade (net of allowance for doubtful accounts in 2019 and 2018 of Ps.1,900,562)		203,855,274		464,225,582
Related parties (Note 2)		67,254,419		42,193,309
Inventories, net (Note 3)		557,197,027		415,196,087
Prepaid expenses		209,363,512		182,850,896
Derivative financial instuments (Note 9)		51,458,750		414,119
Total current assets		1,323,464,228		1,558,222,662
Non-current assets:				
Property, plant and equipment, net (Note 4)		2,389,180,146		2,633,199,890
Right of use Assets(Note 13)		86,686,768		-
Intangible assets (Note 5)		103,627,460		102,541,728
Deferred income tax (Note14)		-		79,519,666
Guarantee deposit		9,939,120		9,072,764
Long-term receivables		380,403,511		494,916,936
Total non-current assets		2,969,837,005		3,319,250,984
Total assets	Ps.	4,293,301,233	Ps.	4,877,473,646

	As at December 31	
	2019	2018
Liabilities and equity		
Current liabilities:		
Suppliers	Ps. 369,697,424	Ps. 666,785,718
Payable taxes	25,938,669	38,117,446
Payable value added tax	27,859,146	71,395,680
Related parties (Note 2)	50,256,232	95,214,997
Provisions and accrued liabilities (Note 7)	145,904,160	143,855,659
Short-term direct employee benefits (Note 11)	93,121,315	71,357,208
Short-term bank loans (Note 6)	1,004,697,795	1,769,695,728
Other accounts payable	5,434,557	5,797,247
Short-term Lease liability (Note 13)	42,847,637	-
Short-term loans with related parties (Note 2)	113,581,313	-
Total current liabilities	1,879,338,248	2,862,219,683
Long-term liabilities:		
Loans with related parties (Note 2)	927,309,675	908,889,318
Net defined benefit liability (Note 10)	25,369,870	20,107,121
Long term bank loans (Note 6)	-	102,293,230
Deferred employee profit sharing (Note 11)	16,668,707	16,847,523
Deferred income tax (Note14)	37,598,054	-
Long term Lease liabilities (Note 13)	52,560,141	-
Total long-term liabilities	1,059,506,447	1,048,137,192
Total liabilities	2,938,844,695	3,910,356,875
Equity (Note 12):		
Share capital	968,669,214	968,669,214
Legal reserve	3,433,715	3,433,715
Accumulated results	351,095,760	(6,146,669)
Other comprehensive income	31,257,849	1,160,511
Total equity	1,354,456,538	967,116,771
Total liabilities and equity	Ps. 4,293,301,233	Ps. 4,877,473,646

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

David Vallejo Sobrino
Finance and Administrative Director

Jesús García Espinoza
Finance Manager

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

Statements of income

(Amounts in Mexican pesos)

	For the year ended December 31 2019	2018
Net sales	Ps. 5,104,873,839	Ps. 6,471,684,076
Other income, net	34,508,302	128,274,373
Total income	5,139,382,141	6,599,958,449
Cost of sales	4,246,740,888	5,271,074,927
Gross profit	892,641,253	1,328,883,522
Operating expenses	414,075,198	763,461,675
Operating income	478,566,055	565,421,847
Net financing cost:		
Interest expense, net	(125,113,804)	(139,984,528)
Foreign exchange gain (loss), net	105,859,229	(10,351,880)
	(19,254,575)	(150,336,408)
Income before income tax	459,311,480	415,085,439
Income tax (Note 14)	102,069,051	115,030,229
Net income	357,242,429	300,055,210
Other comprehensive income:		
Remeasurements of net defined benefit liability	264,710	(935,118)
Effect on employee profit sharing	88,237	(311,706)
Effect on income tax	(882,367)	3,117,061
	(529,420)	1,870,237
Derivative valuation:	51,044,597	4,110,615
Effect on employee profit sharing	(5,104,460)	(411,062)
Effect on income tax	(15,313,379)	(1,233,185)
Other comprehensive income	30,097,338	4,336,605
Comprehensive income	Ps. 387,339,767	Ps. 304,391,815

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

David Vallejo Sobrino
Finance and Administrative Director

Jesús García Espinoza
Finance Manager

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

Statements of changes in equity

For the Years Ended December 31, 2019 and 2018

(Amounts in Mexican pesos)

	Share Capital	Legal reserve	Accumulated results	Other comprehensive income	Total capital
Balance as at December 31, 2017	Ps. 968,669,214	Ps. 3,433,715	Ps. (306,201,879)	Ps. (3,176,094)	Ps. 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
Comprehensive income			357,242,429	30,097,338	387,339,767
Balance as at December 31, 2019	Ps. 968,669,214	Ps. 3,433,715	Ps. 351,095,760	Ps. 31,257,849	Ps. 1,354,456,538

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

David Vallejo Sobrino
Finance and Administrative Director

Jesús García Espinoza
Finance Manager

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

Statements of cash flows

(Amounts in Mexican pesos)

	For the year ended December 31 2019		For the year ended December 31 2018	
Operating activities:				
Income before income tax	Ps.	459,311,480	Ps.	415,085,439
Items not affecting cash flows:				
Deferred employee profit sharing		(5,195,039)		3,650,450
Employee benefits		5,651,022		3,877,034
Depreciation and amortization of the year		325,956,606		296,425,492
Depreciation of assets for right of use		39,385,854		-
Accrued interest		97,337,817		121,554,994
Other comprehensive income		50,515,211		4,336,605
Foreign exchange		(43,874,768)		33,859,575
Total		929,088,183		878,789,589
Changes in operating assets and liabilities:				
Accounts receivable		374,883,734		317,763,717
Other assets		(27,378,972)		(65,180,155)
Inventory		(142,000,940)		(28,391,896)
Accounts payable		(261,910,063)		(30,845,482)
Related parties		(70,019,875)		(172,892,994)
Other accounts payable		(32,653,666)		(153,468,496)
Net cash flows from operating activities		734,830,170		745,774,283
Investing activities:				
Purchase of machinery and equipment		(116,346,808)		(323,386,814)
Purchase of other assets		(16,867,729)		(51,530,485)
Sale of machinery and equipment		(1,208,496)		(9,119,525)
Net cash flows used in investing activities		(134,423,033)		(384,036,824)
Loans with bank		-		1,871,988,958
Payment of bank loans		(867,291,163)		-
Loans with related parties		1,066,679,238		325,732,350
Repayment of related parties loans		(886,493,627)		(2,273,374,950)
Interest paid		(87,125,908)		(121,554,994)
Payment of the principal and interest portion of the lease liabilities		(45,183,100)		-
Net cash flows used in financing activities		(819,414,560)		(197,208,636)
(Decrease) Increase in cash		(219,007,423)		164,528,823
Cash at beginning of year		453,342,669		288,813,846
Cash at end of year	Ps.	234,335,246	Ps.	453,342,669

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

David Vallejo Sobrino
Finance and Administrative Director

Jesús García Espinoza
Finance 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 August 19 2020, 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 2019 and 2018 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 2019 and 2018 is as follows:

	Cumulative inflation for 2018	Cumulative inflation for 2019	Inflation for the year
	(sum of inflation rates for 2016, 2017 and 2018)	(sum of inflation rates for 2017, 2018 and 2019)	(inflation rate for 2019)
Inflation rate	15.25%	13.17%	2.74%

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

Current versus non-current classification

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

An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

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

The Company classifies all other liabilities as non-current.

c) Functional currency

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

d) Revenue from contracts with customers

The Company's primarily activity is manufactures, sells and installation parts for the automotive industry.

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

Sale of goods

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

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

Performance obligation

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

Sales returns

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

Variable consideration

Variable consideration is estimated at contract inception. MFRS D1 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 elaPs.es 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 consider all unbilled revenue whose billing period is more than 1 year and recognizes the effect of discounting from the date when the revenue is recognized until the collection date.

Warranty obligations

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

Trade receivables

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

Consideration payable to customers (Nomination fee)

Mexican FRS D-2 establishes that an entity should recognize the costs to obtain a contract in profit or loss at the time control of the promised goods or services is transferred to the customer and as a result, the entity has satisfied the respective performance obligation. This principle was applied in a consistent manner in the preparation of the financial statements of the Company at December 31, 2018.

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

e) Use of estimates

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

Estimates and assumptions

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

Judgements

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

Leases

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

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

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

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

6.

- Leases - Estimating the incremental borrowing rate

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

Provision for expected credit losses (ECL) of trade receivables

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

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

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

Fair value measurement of financial instruments

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

Impairment in the value of non-financial assets

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

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

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

Defined benefit plans (pension benefits)

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

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

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

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

f) Cash

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

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

g) Financial assets

Initial recognition and measurement

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

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

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

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

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

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

Subsequent measurement

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

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

h) Hedging activities and derivatives

Initial recognition and measurement

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

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

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

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

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

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

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

Fair value hedges

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

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

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

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

Cash flow hedges

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

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

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

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

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

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

i) Trade receivables

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

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

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

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

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

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

j) Allowance for expected credit losses

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

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

k) Inventories

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

- Raw materials: at cost using the average cost method.

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

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

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

l) Prepaid expenses

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

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

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

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

m) Property, plant and equipment

Property, plant and equipment is initially measured at cost.

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

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 2019 and 2018, there were no indicators of impairment in the value of the Company's fixed assets.

n) Leases

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

Company as a lessee

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

Until December 31,2018, lease agreements of property, plant and equipment are recognized as finance leases if the ownership of the leased asset is transferred to the lessee upon termination of the lease, the agreement includes an option to purchase the asset at a reduced price, the term of the lease is substantially the same as the remaining useful life of the leased asset, or the present value of minimum lease payments is substantially the same as the market value of the leased asset, net of any future benefit or scrap value.

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

i) Right of use assets

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

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

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

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

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

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

ii) Lease liabilities

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

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

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

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

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

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

o) Intangible assets

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

Capitalized development costs are measured initially at cost.

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

	Estimated useful life
Pre-operational expenses	7 years
Patents and trademarks	10 years

Intangible assets with indefinite useful lives are not amortized.

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

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

For the years ended as at 31 December 2019 and 2018, there were no indicators of impairment in the value of the Company's intangible assets.

p) Provisions, contingents and commitments

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

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

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

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

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

q) Net defined benefit obligation

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

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

Past service costs are recognized on the earlier of:

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

r) Compensated absences

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

s) Employee profit sharing

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

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

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

t) Exchange differences

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

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

u) Comprehensive income

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

v) Income tax

Current income tax

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

Deferred income tax

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

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

w) Statement of comprehensive income presentation

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

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

x) Equity

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

y) New accounting pronouncements

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

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

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

Guidance on Mexican FRS 5 Alternatives for Transitioning to Mexican FRS D-5 Leases (effective as of 1 January 2020)

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

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

Improvements to Mexican FRS for 2020

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

(i) Mexican FRS C-16 *Impairment of Financial Assets*

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

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

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

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

(ii) Mexican FRS C-19 *Financial Liabilities* and Mexican FRS C-20 *Financial Assets to collect principal and interest*

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

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

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

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

(iii) Mexican FRS D-4 *Income Taxes* and Mexican FRS D-3 *Employee Benefits*

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

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

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

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

(iv) Mexican FRS D-4 *Income Taxes*

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

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

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

(v) Mexican FRS D-5 *Leases*

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

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

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

b) Separating components of a lease

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

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

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

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

2) New standards, interpretations and Improvements to Mexican FRS effective as at 1 January 2019

The Company applied Mexican FRS D-5 *Leases* (MFRS D-5) and Guidance on Mexican FRS 4 *Considerations related to the application of Mexican FRS D-5 Leases* and IFRIC 23 *Uncertainty over Income Tax Treatments* (IFRIC 23) for the first time. The nature and effect of the changes arising from the adoption of these new accounting standards are described below.

A description of the most relevant effects of the standards effective for annual periods beginning on or after 1 January 2019 is, as follows:

Leases

Mexican FRS D-5 supersedes Bulletin D-5 "Leases" ("Bulletin D-5") and the supplementary application of IFRIC 4 "Determining whether an Arrangement contains a Lease" ("IFRIC 4"). 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.

Lessor accounting under MFRS D-5 is substantially unchanged from Bulletin D-5. Lessors will continue to classify leases using the same classification principle as in Bulletin D-5 and distinguish between two types of leases: operating and finance leases. Therefore, it is not expected impact of MFRS D-5 for leases where the Company is the lessor.

The Company adopted MFRS D-5 using the full retrospective method of adoption, with the date of initial application of 1 January 2019. The Company elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying Bulletin D-5 and IFRIC 4 at the date of initial application.

The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

The effect of adopting MFRS D-5 is, as follows:

Impact on the statement of financial position (increase/(decrease)):

Assets		
Right of use assets	Ps.	123,808,021
Total assets	Ps.	123,808,021
Liabilities		
Lease liabilities	Ps.	123,808,021
Total liabilities	Ps.	123,808,021

22.

The Company has lease contracts for various items of buildings, vehicles and other equipment. Before the adoption of MFRS D-5, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 1n) Leases for the accounting policy prior to 1 January 2019.

Upon adoption of MFRS D-5, the Company applied a single recognition and measurement approach for all leases for which it is the lessee, except for short-term leases and leases of low-value assets. The Company recognized lease liabilities to make lease payments and right of use assets representing the right to use the underlying assets. In accordance with the full retrospective method of adoption of MFRS B-1, the Company applied MFRS D-5 at the date of initial application as if it had already been effective at the commencement date of existing lease contracts.

- Leases previously accounted for as operating leases

The Company recognised right of use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right of use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right of use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- Right of use assets were recognized and presented separately in the statement of financial position. Lease assets recognized previously under finance leases, which were included under property, plant and equipment, were derecognized.

- Lease liabilities were recognized and presented separately in the statement of financial position.

- Prepayments and Trade and other payables related to previous operating leases were derecognized.

- Deferred tax liabilities decreased because of the deferred tax impact of the changes in recognized lease related assets and liabilities.

- Retained earnings and Non-controlling interests decreased due to the net impact of these adjustments.

For the year ended 31 December 2019:

- Assets for right of use were recognized in the amount of Ps. 123,808,021 which were filed separately in the statement of financial position

- Additional lease liabilities amounting to Ps. 123,808,021 were recognized.

Uncertainty over income tax treatments

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment* ("the Interpretation") addresses the accounting for income taxes when tax treatments involve uncertainty. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately or combined
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its financial statements.

The Company did not identify uncertaint tax positions, therefore this interpretation has no effects in the financial statements.

Improvements to Mexican FRS for 2019

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 2019, with early adoption permitted for annual periods beginning on or after 1 January 2018. 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 2019, with early adoption permitted for annual periods beginning on or after 1 January 2018. 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 2019, with early adoption permitted for annual periods beginning on or after 1 January 2018. The adoption of this standard had no effect on 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:

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 2018, 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 2018, with early adoption permitted for annual periods beginning on or after 1 January 2018. 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 can 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 2018, with early adoption permitted for annual periods beginning on or after 1 January 2018. 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 2018. 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 2018. 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, 2019 and 2018 is as follows:

		2019		2018
Receivable:				
SMP Deutschland GmbH (affiliate)	Ps.	6,691,040	Ps.	21,739,399
SMP Automotive Systems Alabama Inc. (affiliate)		60,563,379		12,484,609
SMR Automotive Vision Systems México, S.A. de C.V. (affiliate)		-		7,969,301
	Ps.	67,254,419	Ps.	42,193,309
Payable:				
SMP Deutschland GmbH (affiliate)	Ps.	45,079,223	Ps.	61,775,269
SMP Automotive Vision Systems (affiliate)		-		22,573,895
SMP Automotive Technology Ibérica, S. L.(tenedora)		70,716		-
SMP Automotive Systems Alabama Inc.		1,411,095		7,514,858
Samvardhana Motherson Automotive Systems (affiliate)		956,305		-
Motherson Automotive Elastomers (affiliate)		445,684		1,116,508
Motherson Automotive Technologies & Engineering (affiliate)		-		383,360
Motherson Sumi Infotech & Designs (affiliate)		730,727		766,565
Samvardhana Motherson Global FZE		342,467		402,705
Motherson Sumi Infotech & Designs Ltd. (affiliate)		1,069,635		398,236
MSSL México, S.A. de C.V.		-		283,601
MSSL GmbH (affiliate)		150,380		-
Total accounts payable	Ps.	50,256,232	Ps.	95,214,997

As at December 31 2019 and 2018, balances receivable due from related parties consist of unsecured current accounts that bear no interest, without guarantees.

		2019		2018
Loans payable in the short term:				
SMP Automotive Technology Ibérica, S.L. (tenedora) [(1)]	Ps.	51,932,440	Ps.	-
SMP Automotive Systems Alabama Inc. [(3)]		61,648,873		-
	Ps.	113,581,313	Ps.	-
Loans payable in the long term:				
Samvardhana Motherson Automotive Systems Group B.V. (affiliate) [(2)]	Ps.	927,309,675	Ps.	326,994,563
SMP Automotive Technology Ibérica, S.L. (holding) [(1)]		-		581,894,755
	Ps.	927,309,675	Ps.	908,889,318

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

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

(1) Loan agreement of US $118,000,000 with its holding entered on June 20, 2016, bearing interests in a quarterly basis at a rate of 5.90% annually.

(2) Loan agreements by its affiliate on December 14, 2019 for a principal amount of up to EUR $14,500,000 and on December 1st. 2019 of EUR $29,000,000, both loans bearing interests in a quarterly basis at a rate of 4.50% annually. Repayment date is June 30, 2020.

(3) Loan granted in an amount up to December 26, 2019 for US$ 10,000,000, US$5,000,000 wit SMP Automotive Systems Alabama Inc., of which US$ 5,000,000 has been drawn, with interest at an annual rate of 3.54%, due May 31, 2022.

(4) Contract for the payment of licenses with SMP México must pay 2% of the net sales of the Audi Q5 project, signed on June 24 and expiring on December 31, 2023.

c) During the years ended December 31, 2019 and 2018, the Company had the following transactions with its related parties:

		2019		2018
Manufacturing services:				
Operations with affiliates:				
SMP Deutschland GmbH.	Ps.	12,376,054	Ps.	31,619,838
SMP Automotive Systems Alabama Inc.		8,075,886		-
SMP Automative Produtos Automotivos Do Brasil Ltda.		-		7,488,859
SMR Automotive Vision Systems México, S.A. de C.V.		15,041,068		5,927,584
Samvardhana Motherson Innovative Au		-		25,062
Accrued interest:				
Transactions with affiliates:				
SMP Automotive Systems Alabama Inc.	Ps.	4,794,895	Ps.	14,597
Sale of fixed assets				
Transactions with affiliates				
SMP Automotive Systems Alabama Inc.	Ps.	49,225,314	Ps.	7,212,435
Expense reimbursement:				
Transactions with affiliates:				
SMP Automotive Systems Alabama Inc.	Ps.	72,953	Ps.	12,343,662
SMP Deutschland GmbH.		25,666		-
SMP Automative Produtos Automotivos Do Brasil Ltda.		-		69,759
Admistrative Services:				
Transactions with affiliates:				
SMP Automotive Systems Alabama Inc.	Ps.	10,552,085	Ps.	496,780
SMP Deutschland GmbH.		158,585		-
SMR Automotive Mirror Technology Hungary Bt.		901,888		-
Inventory purchases:				
Transactions with affiliates:				
SMP Deutschland GmbH.	Ps.	29,352,522	Ps.	419,072,844
Motherson Automotive Technologies		-		22,528,929
Motherson Automotive Technologies and Engineering (A division of Motherson Sumi Systems Limited)		9,029,506		-
Motherson Automotive Technologies and Engineering (A division of MSSL) (Cost Center -Robis South)		4,748,765		-
SMR Automotive Vision Systems México, S.A. de C.V.		-		19,461,639
Motherson Automotive Elastomers Tec		7,892,386		9,566,349
MSSL México, S.A. de C.V.		5,108,121		6,208,872
SMP Ibérica S.L.		3,500,996		-
Samvardhana Motherson Innovate		-		34,705

30.

		2019		2018
Fixed assets purchases:				
Transactions with affiliates				
Motherson Sumi Infotech & Designs Ltd.	Ps.	4,117,808	Ps.	-
SMP Deutschland GmbH.		-		16,945,400
Matsui Technologies India Ltd.		-		1,852,467
Administrative services received:				
Transactions with affiliates:				
MSSL GmbH.	Ps.	12,019,201	Ps.	12,397,273
SMP Deutschland GmbH.		7,502,865		
Samvardhana Motherson Global FZE		5,494,323		6,811,170
Motherson Sumi Infotekk & Design GmbH.		8,536,237		6,996,583
Samvardhana Motherson Automative Systems Group BV.		4,040,900		-
SMP Automotive Systems Alabama Inc.		3,364,996		-
Motherson Sumi Infotech & Designs Ltd.		540,395		686,155
Motherson Auro Ltd.		353,421		-
MSSL Wiring System Inc.		211,327		-
Motherson Air Travel AGmbH.		33,980		-
SMP Ibérica S.L.		-		2,965,485
Motherson Air Travel Agency Ltd.		-		570,417
Anest Iwata Motherson Coating Equipment PVT		-		10,346
IT Services:				
Transactions with affiliates:				
Motherson Sumi Infotech & Designs	Ps.	12,343,771	Ps.	8,091,040
SMP Deutschland GmbH.		-		515,455
Royalties:				
Transactions with affiliates:				
SMP Deutschland GmbH.	Ps.	63,704,797	Ps.	320,003,760
Technical assistance and development services:				
Transactions with affiliates:				
SMP Deutschland GmbH.	Ps.	32,385,462	Ps.	23,478,502
Management fees:				
Transactions with affiliates:				
SMP Ibérica S.L.	Ps.	861,764	Ps.	1,080,621
Accrued interest:				
Transactions with affiliates:				
SMP Ibérica S.L.	Ps.	19,058,647	Ps.	81,039,600
Samvardhana Motherson Automative Systems Group B.V.		14,332,201		1,858,951

	2019		2018	
Inside group services:				
Transactions with affiliates:				
SMP Deutschland GmbH.	Ps.	106,607,000	Ps.	134,461,151
SMP Automotive Systems Alabama Inc.		-		8,835,069
Expenses refund:				
Transactions with affiliates:				
SMP Ibérica S.L.	Ps.	-	Ps.	1,990,942
Motherson Automotive Technologies		371,844		711,448
MSSL GmbH.		190,300		20,579
Motherson Air Travel Agency GmbH.		142,315		29,241
Motherson Air Travel Agencies Ltd.		1,978		-
Motherson Sumi Infotech & Designs		31,031		-
SMP Automotive Systems Alabama Inc.		-		504,103
Anest Iwata Motherson Coating Equipment PVT		-		84,906
SMP Deutschland GmbH.		-		67,668
Motherson Automotive Technologies & Engg.		-		25,979
Servicio de Ingenieria				
Transactions with affiliates:				
Motherson Technologies	Ps.	6,429,208	Ps.	-

3. Inventories

An analysis of inventories as at December 31, 2019 and 2018, is as follows:

	2019		2018	
Raw materials and components	Ps.	155,365,599	Ps.	223,149,519
Tooling		245,704,556		16,507,710
Spare parts		123,573,408		129,684,112
Finished products		7,016,306		9,755,085
Work in process		28,775,860		38,607,050
Goods in transit		17,150,647		22,650,786
		577,586,376		440,354,262
Slow moving and obsolete inventory estimate		(20,389,349)		(25,158,175)
Total inventory	Ps.	557,197,027	Ps.	415,196,087

4. Property, plant and equipment

a) An analysis of property, plant and equipment as at December 31, 2019 and 2018, is as follows:

Components subject to depreciation	2019				2018			
		Investment		Accumulated depreciation		Investment		Accumulated depreciation
Buildings	Ps.	657,368,308	Ps.(	108,584,366)	Ps.	628,551,078	Ps.(	76,672,627)
Computer equipment		91,056,391	(	77,040,661)		97,401,956	(	62,902,845)
Transportation equipment		3,826,569	(	3,727,694)		3,710,712	(	3,710,712)
Improvements to property leasing		98,110,109	(	19,927,582)		50,603,610	(	13,540,299)
Machinery and equipment		2,600,446,278	(	1,061,515,795)		2,572,141,936	(	843,695,846)
Furniture and office equipment		228,383,039	(	65,435,976)		221,087,782	(	40,487,165)
	Ps.	3,679,190,694	Ps.(	1,336,232,074)	Ps.	3,573,497,074	Ps.(	1,041,009,494)
Components not subject to depreciation								
Land	Ps.	15,227,512			Ps.	15,227,512		
Construction in process		30,994,014				85,484,798		
Property, plant and equipment, net	Ps.	2,389,180,146			Ps.	2,633,199,890		

b) Depreciation and amortization expense for the years ended December 31, 2019 and 2018, amounted to Ps.310,174,610 and Ps. 288,692,780,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, 2019 and 2018, is as follows:

		License		Pre-operational expenses		Total
Cost:						
As at december 1, 2017	Ps.	9,660,725	Ps.	77,554,987	Ps.	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
Additions		10,466,073		6,401,656		16,867,729
As at December 31, 2019	Ps.	20,126,798	Ps.	135,487,128	Ps.	155,613,926
Amortization and impairment						
As at January 1, 2018	Ps. (	8,368,622)	Ps. (	20,103,135)	Ps.(	28,471,757)
Amortization	(	742,980)	(	6,989,732)	(	7,732,712)
As at December 31, 2018	Ps. (	9,111,602)	Ps. (	27,092,867)	Ps.(	36,204,469)
Amortization	(	7,002,622)	(	8,779,375)	(	15,781,997)
As at December 31, 2019	Ps. (	16,114,224)	Ps. (	35,872,242)	Ps.(	51,986,466)
Net book value:						
As at 31 December, 2019	Ps.	4,012,574	Ps.	99,614,886	Ps.	103,627,460
As at 31 December, 2018	Ps.	549,123	Ps.	101,992,605	Ps.	102,541,728

The total depreciation for the years 2019 and 2018, was recognized in the results of these periods for an amount of Ps.15,781,996 and Ps.7,732,712, respectively; which is presented in the item of general expenses.

6. Bank loans

An analysis of long-term bank loans as at December 31, 2019 and 2018, is as follows:

		2019		2018
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.	530,183,225	Ps.	747,671,832
Revolving credit line granted by Bank of America N.A. for a principal amount of up to US $25,000,000 payable on May 28, 2020, this can be extended only if there is no other contract.		474,514,570		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.	1,004,697,795	Ps.	1,871,988,958
Short-term debt and short-term portion of long-term bank loans		(1,004,697,795)		(1,769,695,728)
Bank loans with maturity longer than one year (long-term)	Ps.	-	Ps.	102,293,230

7. Provisions and accumulated liabilities

As of December 31, 2019 and 2018, the accumulated provisions and liabilities are integrated as follows:

		Balance as at December 31, 2018		Increase		Applications		Balance as at December 31, 2019
Difference in price	Ps.	15,441,590	Ps.	421,519,269	Ps.	(422,582,234)	Ps.	14,378,625
Provision for clients charges		21,863,770		138,764,446		(140,577,295)		20,050,921
Provision for entry tickets		86,686,910		40,805,460		(81,610,920)		45,881,450
Provision CAPEX		5,839,615		29,798,419		(27,295,925)		8,342,109
Other provisions		14,023,774		1,742,470,666		(1,699,243,385)		57,251,055
	Ps.	143,855,659	Ps.	2,273,358,260	Ps.	(2,371,309,759)	Ps.	145,904,160

8. Foreign currency balances

a) The financial statements as at December 31, 2019 and 2018, include the following U.S. dollar denominated assets and liabilities:

	(Amount in U.S. Dollar)			
		2019		2018
Current assets	USD	33,432,450	USD	58,064,304
Current liabilities		(23,630,795)		(60,522,864)
Net monetary liability position	USD	9,801,655	USD	(2,458,560)

The exchange rates used to translate the above amounts to Mexican pesos as at December 31, 2019 and 2018 were Ps.18.9250 and Ps. 19.6403 pesos respectively, per U.S. dollar. As at august 19, 2020, the date of issue of these financial statements, the exchange rate was Ps.22.1535 pesos per U.S. dollar.

b) The financial statements as at December 31, 2019 and 2018, include the following euros denominated assets and liabilities:

	(Amount in Euros)			
		2019		2018
Current asstes	€	562,850	€	2,796,484
Current liabilities		(47,778,357)		(20,333,446)
Net monetary liability position	€	(47,215,507)	€	(17,536,962)

The exchange rates used to translate the above amounts to Mexican pesos as at December 31, 2019 and 2018 were Ps.21.2149 and Ps.22.5255, pesos per Euro respectively. As at August 19, 2020, the date of issue of these financial statements, the exchange rate was Ps.26.3638 pesos per Euro.

9. Derivative financial instruments

An analysis of investments in financial instruments as at December 31, 2019 and 2018, is as follows:

		2019		2018
Derivative financial instruments:				
Cash-flow hedges:				
Foreign currency hedges	Ps.	51,458,750	Ps.	414,119
Total derivative financial instruments	Ps.	51,458,750	Ps.	414,119

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, 2019, 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.	214,630,000	USD	14/01/2019	31/03/2020	$ 20.5416	$ (766,975)	USD
Barclays Bank Plc.	209,310,700	UDS	14/01/2019	25/03/2019	20.5300	(745,156)	USD
Barclays Bank Plc.	10,000,000	MXN	14/05/2018	31/03/2020	21.4630	1,211,318	USD
Barclays Bank Plc.	10,000,000	MXN	24/04/2018	31/03/2020	20.7000	810,667	USD
Barclays Bank Plc.	10,000,000	MXN	25/04/2018	25/03/2020	20.9311	949,521	USD
Barclays Bank Plc.	(700,00)	MXN	08/05/2019	31/03/2020	20.0607	(33,152)	USD
Barclays Bank Plc.	(2,000,000)	MXN	08/05/2019	31/03/2020	20.0665	(95,325)	USD
Barclays Bank Plc.	(2,000,000)	MXN	08/05/2019	31/03/2020	20.0665	(95,325)	USD
Barclays Bank Plc.	(1,800,000)	MXN	08/05/2019	31/03/2020	20.0730	(86,404)	USD
Barclays Bank Plc.	(1,500,000)	MXN	08/05/2019	31/03/2020	20.0739	(72,074)	USD
Barclays Bank Plc.	(2,000,000)	MXN	08/05/2019	31/03/2020	20.0889	(95,869)	USD
					Total (USD)	$ 981,226	
				Exchange rate		18.9250	
				Fair value		$ 18,569,702	

Counterpart	Value of the forward	Underliying	Date of start	Date of finish	Exchange rate agreed	Fair value (USD)	Underliying fair value
BBVA Bancomer	10,000,000	MXN	25/05/2018	29/05/2020	$ 21.7844	$ 1,126,822	EUR
BBVA Bancomer	5,000,000	MXN	25/10/2018	30/09/2020	21.5793	427,727	EUR
BBVA Bancomer	5,000,000	MXN	29/10/2018	31/03/2020	21.4907	540,558	EUR
BBVA Bancomer	703,195	MXN	10/05/2019	24/04/2020	20.3150	35,137	EUR
BBVA Bancomer	500,000	MXN	21/06/2019	15/01/2020	21.2570	54,385	EUR
BBVA Bancomer	33,930,351	USD	02/05/2019	31/03/2020	19.9590	(62,542)	EUR
BBVA Bancomer	39,925,740	USD	02/05/2019	31/03/2020	19.9629	(73,936)	EUR
BBVA Bancomer	25,947,922	USD	02/05/2019	31/03/2020	19.9599	(47,881)	EUR
BBVA Bancomer	37,033,446	USD	27/06/2019	29/05/2020	21.7844	(191,560)	EUR
BBVA Bancomer	34,855,008	USD	27/06/2019	29/05/2020	21.7844	(180,292)	EUR
BBVA Bancomer	37,033,446	USD	27/06/2019	29/05/2020	21.7844	(191,560)	EUR
BBVA Bancomer	37,033,446	USD	27/06/2019	29/05/2020	21.7844	(191,560)	EUR
BBVA Bancomer	107,896,550	USD	27/06/2019	30/09/2020	21.5793	(427,727)	EUR
BBVA Bancomer	10,892,190	USD	27/06/2019	29/05/2020	21.7844	(56,341)	EUR
BBVA Bancomer	21,784,380	USD	27/06/2019	29/05/2020	21.7844	(112,682)	EUR
BBVA Bancomer	39,211,884	MXN	27/06/2019	29/05/2020	21.7844	(202,828)	EUR
BBVA Bancomer	1,500,000	MXN	06/08/2019	15/05/2020	20.0814	79,838	EUR
BBVA Bancomer	1,500,000	MXN	06/08/2019	27/01/2020	20.1232	80,369	EUR
BBVA Bancomer	1,800,000	MXN	06/08/2019	14/02/2020	20.1825	96,767	EUR
BBVA Bancomer	1,700,000	MXN	07/08/2019	26/02/2020	20.2426	93,137	EUR
BBVA Bancomer	3,500,000	MXN	07/08/2019	17/03/2020	20.3020	191,566	EUR
BBVA Bancomer	244,711	MXN	19/08/2019	18/06/2020	20.6801	14,427	EUR
BBVA Bancomer	1,000,000	MXN	28/11/2019	27/04/2020	19.9956	34,746	EUR
BBVA Bancomer	1,000,000	MXN	28/11/2019	26/05/2020	20.0801	34,627	EUR
BBVA Bancomer	1,000,000	MXN	28/11/2019	25/06/2020	20.1680	34,496	EUR
BBVA Bancomer	1,000,000	MXN	28/11/2019	24/07/2020	20.2529	34,595	EUR
BBVA Bancomer	1,000,000	MXN	28/11/2019	25/08/2020	20.3464	34,704	EUR
BBVA Bancomer	1,000,000	MXN	28/11/2019	25/09/2020	20.4352	34,678	EUR
BBVA Bancomer	1,000,000	MXN	28/11/2019	26/10/2020	20.5234	34,846	EUR
BBVA Bancomer	1,000,000	MXN	28/11/2019	25/11/2020	20.6086	34,976	EUR
BBVA Bancomer	1,000,000	MXN	28/11/2019	24/12/2020	20.6866	34,868	EUR
BBVA Bancomer	1,000,000	MXN	28/11/2019	25/01/2021	20.7713	34,778	EUR
BBVA Bancomer	1,000,000	MXN	28/11/2019	25/02/2021	20.8533	34,744	EUR
BBVA Bancomer	1,000,000	MXN	28/11/2019	25/03/2021	20.9286	34,808	EUR
BBVA Bancomer	11,145,423	EUR	19/12/2019	06/01/2020	1.1145	18,073	EUR
BBVA Bancomer	11,089,798	EUR	20/12/2019	06/01/2020	1.1090	67,908	EUR
BBVA Bancomer	5,545,649	EUR	20/12/2019	06/01/2020	1.1091	33,282	EUR
BBVA Bancomer	4,452,480	EUR	20/12/2019	06/01/2020	1.1131	12,326	EUR
					Total, EUR	$ 1,550,279	
				Closing exge rate		21.2149	
				Fair value		$ 32,889,048	
				Total fair value		$ 51,458,750	

As of December 31, 2019, 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, 2019 and 2018, resulted in the recognition of a liability and an expense in the comprehensive income for an amount of Ps.51,458,750 and Ps.414,119, 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, 2019 and 2018 is as follows:

a) Net periodic benefit cost

	2019		
	Retirement benefits	Termination benefits	Total
Analysis of net periodic benefit cost for 2019:			
Current year service cost	Ps. 8,076,608	Ps. 414,907	Ps. 8,491,515
Net interest cost on net defined benefit liability	1,550,303	158,802	1,709,105
Reclassification of remeasurement	(227,558)	10,405	(217,153)
Reductions and early settlements	(4,733,098)	(481,714)	(5,214,812)
Increase by recognized remeasurements in OCI	(376,863)	1,259,230	882,367
Net periodic benefit cost for 2019	Ps. 4,289,392	Ps. 1,361,630	Ps. 5,651,022

	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
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

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 2018	Ps. 14,752,780	Ps. 1,477,307	Ps. 16,230,087
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. 20,107,121
Current year service cost	4,289,392	1,361,630	5,651,022
Benefits paid	(388,273)	-	(388,273)
Net defined benefit liability/(asset) as at December 31 2019	Ps. 22,139,977	Ps. 3,229,893	Ps. 25,369,870

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

	2019		
	Retirement benefits	Termination benefits	Total
Provisions for:			
Vested benefit obligation	Ps. 22,139,977	Ps. 3,229,893	Ps.25,369,870
Defined benefit obligation	22,139,977	3,229,893	25,369,870
Net defined benefit liability	Ps. 22,139,977	Ps. 3,229,893	Ps.25,369,870

	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

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

	2019	2018
Financial assumptions		
Discount rate	8.00%	8.50%
Expected salary increase rate	5.00%	4.00%
Salary rate	5.80%	5.80%

11. Short-term employee benefits

a) Short-term employee benefits

As at December 31, 2019 and 2018, the Company has recognized accrued liabilities for short term employee benefits. An analysis is as follows:

	2019	2018
Vacation premium	Ps. 16,879,185	Ps. 14,895,092
Bonus	31,632,290	18,228,771
Employee profit sharing payable	44,609,840	38,233,345
	Ps. 93,121,315	Ps. 71,357,208

b) Employee Profit Sharing (EPS.)

An analysis of employee profit sharing for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Current employee profit sharing	Ps. 44,609,840	Ps. 38,233,345
Deferred employee profit sharing	16,668,707	16,847,523
Total employee profit sharing	Ps. 61,278,547	Ps. 55,080,868

c) Deferred Employee Profit Sharing (EPS.)

An analysis of the Company's deferred employee profit sharing (EPS.) as at December 31, 2019 and 2018, is as follows:

		2019		2018
Deferred EPS.assets:				
Provisions	Ps.	20,103,625	Ps.	39,108,565
Property, plant and equipment		56,869,063		45,553,026
Allowance for doubtful accounts		578,813		578,813
Retirement benefits and termination benefits		1,344,603		1,065,677
Inventory reserve		1,593,248		692,874
Right-of-use assets, net		872,101		-
	Ps.	81,361,453	Ps.	86,998,955
Deferred EPS.liabilities:				
Accounts receivable for developments		(41,622,263)		(57,201,262)
Prepaid expenses		(46,621,344)		(38,832,742)
Derivative financial instruments		(6,126,540)		(3,845,273)
Other accounts receivable		(3,660,013)		(3,967,201)
Deferred employee profit sharing liability, net	Ps.	(16,668,707)	Ps.	(16,847,523)

12. Equity

a) As at December 31, 2019 and 2018, the Company's share capital is variable, with an authorized fixed minimum of Ps.50,000 represented as follows:

		Shares		Amount
Fixed				
Serie "A"	Ps.	50	Ps.	50,000
Variable				
Serie "B"		943,818		943,818,400
	Ps.	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, 2019 and 2018, 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. Leases

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

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

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

	Buildings	Vehicles	Equipment	Total
As at 1 January	Ps. 115,046,127	Ps. 7,525,254	Ps. 1,236,640	Ps. 123,808,021
Additions	-	2,264,601	-	2,264,601
Amortization	(35,600,611)	(3,229,603)	(555,640)	(39,385,854)
As at 31 December	Ps. 79,445,516	Ps. 6,560,252	Ps. 681,000	Ps. 86,686,768

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

	2019
As at 1 January	Ps. 123,808,021
Additions	
Accretion of interest	10,211,908
Conversion effect	6,570,949
Payments	(45,183,100)
As at 31 December	Ps. 95,407,778
Current	Ps. 42,847,637
Non current	Ps. 52,560,141

14. Income tax

I) Income tax (IT)

a) The Mexican Income Tax Law (MITL) establishes a corporate income tax rate of 30% for fiscal years 2019 and 2018.

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, 2019 and 2018, the Company determined a tax profit of Ps. 425,309,004 and Ps. 357,558,450, respectively, for fiscal year 2019 and 2018, were amortized tax losses for previos years, and therefore, a tax income was not determined.

b) As of December 31, 2019 and 2018, the income tax was as follows:

	2019	2018
Deferred income tax	Ps. 102,069,051	Ps. 115,030,229

The effect of the temporary differences of the deferred taxes for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Deferred taxes assets		
Tax losses	Ps. 9,865,997	Ps. 128,750,269
Provisions	62,852,945	118,637,658
Property, plant and equipment	170,607,190	136,659,078
Inventories allowance	4,033,809	3,197,032
Retirement benefits and termination benefits	1,736,439	1,736,439
Allowance for doubtful accounts	4,779,743	2,078,623
Right-of-use assets,net	2,616,303	-
	Ps. 256,492,426	Ps. 391,059,099
Deferred tax liabilities:		
Accounts receivable developments	(124,866,790)	(171,603,786)
Prepaid expenses	(87,434,613)	(72,444,642)
Derivatives	(18,379,619)	(11,535,820)
Other accounts receivable	(63,409,458)	(55,955,185)
Net deferred tax (liability) asset	Ps. (37,598,054)	Ps. 79,519,666

The reconciliation of net deferred taxes is as follows:

	2019	2018
Initial balance as of January 1	Ps. 79,519,666	Ps. 196,718,198
Income tax recognized in profits	(102,069,051)	(115,030,229)
Income tax recognized in OCI	(15,048,669)	(2,168,303)
Final balance as of December 31	Ps. (37,598,054)	Ps. 79,519,666

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

		2019		2018
Income before income tax	Ps.	459,311,480	Ps.	415,085,439
Tax effects of the following items:				
Annual adjustment for inflation		56,329,954		117,820,339
Non-deductible expenses		33,740,174		33,204,859
Inflationary effect in tax losses and fixed assets		(208,786,492)		(166,423,098)
Other items		(364,946)		(16,253,441)
Income before income tax includes permanents items		340,230,170		383,434,098
Statutory income tax rate		30%		30%
Total income tax	Ps.	102,069,051	Ps.	115,030,229
Effective income tax rate		22%		28%

d) Tax losses

As of December 31, 2019, the Company has accumulated tax losses totaling Ps.32,886,658. The expiration date of the Company's tax loss carryforward is as follows:

Year of tax loss		Amount	Expiration year
2016	Ps.	32,886,658	2026

15. Contingencies and commitments

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

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

c) Enacted changes made to the Mexican Federal Labor Law that came into effect on December 1, 2012, could have an effect on the Company's financial position. The effects of these changes may vary from a disclosure in the financial statements to the recognition of an additional liability for employee profit sharing or other liabilities related to employee benefits. As at December 31, 2019, the Company has evaluated the effects that the changes in the Labor Law may have on its financial information and has concluded that the changes have had no effect as at December 31, 2019. However, this situation may change in the future and so the Company will continue assessing the effects of the changes to the law in the years to come.

16. Subsequent events

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