GIS®

ANNUAL REPORT

BUSINESS AND SUSTAINABILITY

2019

CONTENT

GIS PROFILE

GRUPO INDUSTRIAL SALTILLO (GIS) is a Mexican Company dedicated to the design, manufacture and marketing of products for three Sectors: Auto Parts, Construction and Housewares; with presence in three continents: America, Europe and Asia.

We are a global company with operations in six countries: Mexico, Spain, Italy, Czech Republic, Poland and China, and a commercial presence in the United States; it operates 23 production facilities and a team of over 6 thousand talented people all over the world.

Listed on the Mexican Stock Exchange since 1976 under the ticker symbol GISSA. In 2019 sales reached Ps. 17,129 million and an EBITDA of Ps. 2,471 million.

Tthrough Draxton and its joint ventures, are dedicated to the casting and machining of gray, ductile and aluminum parts for brake, engine, transmission and suspension systems for the automotive industry.

Vitromex designs, manufactures and markets large-format ceramic and porcelain tiles for domestic and institutional use, and also manufactures and markets water heaters.

Cinsa designs, manufactures and markets kitchenware and tableware in materials, such as: aluminum, enamel-on-steel and ceramic.

The company was founded in 1928 and has solid experience and knowledge of its products and markets, supported by great brands and a productive, dynamic and flexible organization with a focus on innovation and globalization.

*In 2019, the impacts of the Vitromex restructuring plan were excluded.

LETTER TO SHAREHOLDERS

MANUEL RIVERA GARZA
CEO

JUAN CARLOS LÓPEZ VILLARREAL
Chairman of the Board

DEAR SHAREHOLDERS:

The year 2019 was one of challenges and opportunities that we faced with clear strategies and firm decisions, preparing GIS to resume growth in the coming years.

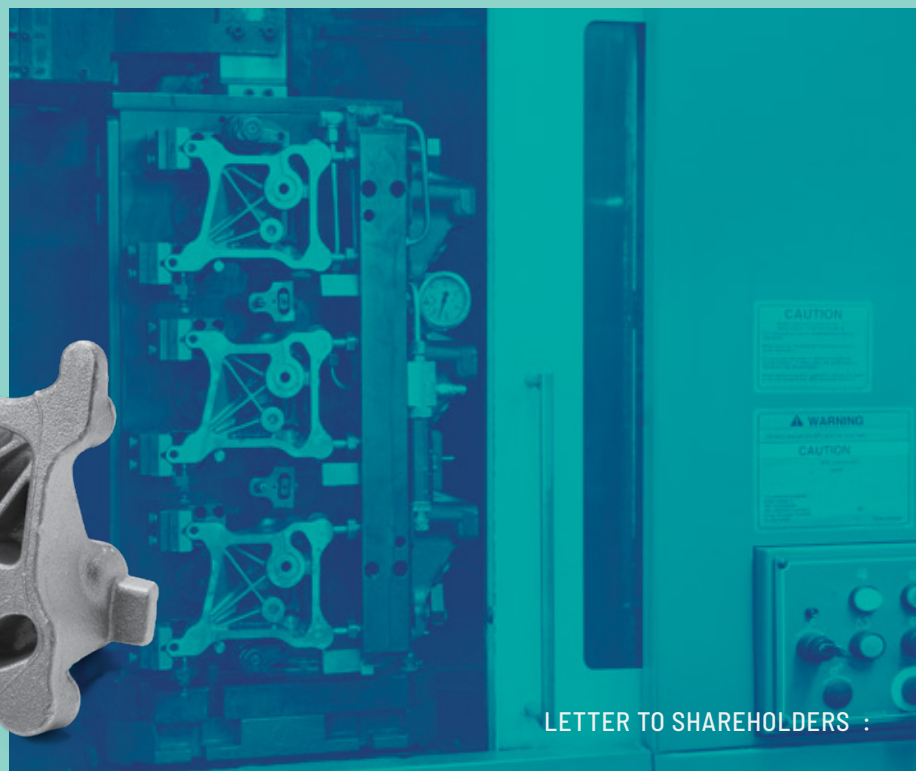
An adverse global economic landscape, a contracting Mexican market, and internal operating opportunities in some of our businesses were reflected in a 10% contraction in dollarized revenues over 2018. However, thanks to significant production and efficiency efforts, we have been able to maintain our EBITDA-to-sales margin.

For our auto parts business, the greatest challenge was to improve profitability in light of an automotive industry that has receded globally. During 2019, Draxton implemented a rightsizing and operating efficiency strategy that allowed it to keep our EBITDA in dollars steady, and to improve the margin in percentage terms, despite lower industry volumes.

Improving technical and research abilities, and working to strengthen ties with clients has resulted in capturing new projects for more than 150 million dollars in the coming years, the majority of which are related to braking systems, segment that will represent more than 50% of our portfolio in the medium term.

Draxton is solidly positioned as a company with global capacities and highly specialized braking components. Around 40% of the vehicles in Europe have Draxon braking components.

We faced 2019 with clear strategies and firm decisions to get back on the road to growth in the coming years.



In North America, we have followed negotiations closely regarding the new United States-Mexico-Canada Agreement (USMCA) approved at the beginning of 2020, through which we see opportunities for Draxton due to its strategic location in Mexico and to the increased requirement for regional content in vehicles produced in the three countries. We believe this could accelerate growth in the Mexican braking components market, which we expect to double over the next five years.

Note that these opportunities are independent of propulsion systems for future vehicles. Furthermore, the efficiencies gained in the manufacturing process will allow future programs to be funded with lower CAPEX.

In February 2019, we signed an extension to the agreement with our client and partner ZF, to supply it with braking system components until 2033, through a joint venture in Evercast. We are therefore increasing its casting capacity by 50% with an investment of around 28 million dollars. The new line will begin operating in the second half of 2020.

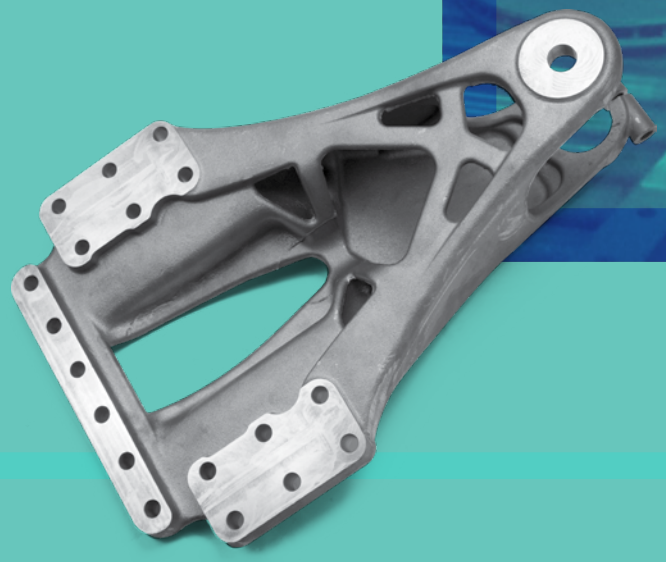
In Europe, Draxton continues to grow its auto parts machining business, investing in new production lines to handle projects at our plant in Lleida, Spain. We have also continued to successfully diversify our portfolio by entering the commercial vehicles market, which has more complex products with higher added value.

In Asia, in the Chinese automotive market – which is the largest market in the world – significant growth potential due to improving our technical capabilities worldwide, will allow us to increase our market share and satisfy the demand of local clients, with low CAPEX requirements.

Our advances in consolidating Draxton as a globally recognized company have allowed us to capitalize on technical experience from the different operations. And we foresee a potential for synergies that will contribute to improving the business' profitability.

WE ARE INVESTING IN NEW PRODUCTION LINES FOR DRAXTON.

We extended our agreement with our client and partner ZF.



At Vitromex, our floor and ceramic tiles business, 2019 was a year of operational restructuring. At the beginning of the second half, we announced significant steps to streamline our manufacturing footprint, to refurbish and simplify 45% of our product lines to adapt them to market needs, and to improve our logistics system by increasing our level of service.

In addition to building up our technical, operational and commercial teams, we launched a new type of clay called Vitroker, which, because of its technical and design characteristics, is high quality and cost efficient, both for our business and for our clients, which resulted in volume growth over 2018.

Also at Vitromex, we have continued our efforts to recover market share in North America, focusing on the Opening Price Point segment and on improving our levels of service. With this group of activities, we believe that we will again see positive results in this business.

WE RENOVATED AND SIMPLIFIED

45%

OF OUR VITROMEX PRODUCT LINES.

In our kitchen and tableware business, Cinsa, external challenges such as increased costs of raw materials and distribution, plus the drop in volume in the wholesale and promotional channels in Mexico, presented significant challenges, which we faced with actions focusing on productivity, and hiring specialized talent.

In April 2019, employing a strategy to focus and simplify the portfolio, we finalized the sale of our Calorex Water Heaters business for 2.7 billion pesos, which funds we used mostly to pay down debt early.

Seeking to improve the debt maturity profile, in September 2019 we finalized a long-term syndicated loan agreement for up to 195 million dollars expiring in six years, plus a revolving line of credit for 50 million dollars, expiring in three years. This operation allowed us to release more than 42 million dollars for payments expiring in 2020.

In 2019, we focused our efforts on improving the operating discipline of our businesses, thus establishing the bases to improve profitability going forward. Today we are on solid footing to face the challenges and opportunities of 2020, which will most certainly be defined by the volatility and uncertainty engendered by the COVID-19 pandemic.

From the moment we began receiving information about the rapid propagation of this virus, we have been taking preventative measures to protect the health of our workers, and we have also been providing ventilators and personal protective equipment to hospitals in the communities of which we are a part, through the GIS Foundation.

Supported by our Board of Directors, a committed management team, and the talent of more than 6,000 employees all over the world who work with a dedicated focus on results, we are certain that we will emerge even stronger when economic activity resumes. We are prepared to step back onto the path of growth that we have been following.

JUAN CARLOS LÓPEZ VILLARREAL
Chairman of the Board

MANUEL RIVERA GARZA
Chief Executive Officer

TODAY, WE HAVE A SOLID FOUNDATION FOR MEETING THE CHALLENGES AND OPPORTUNITIES OF 2020.

KEY FIGURES

SALE

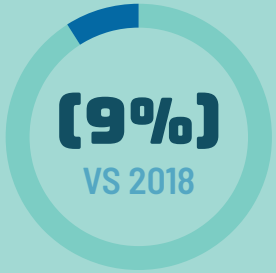
EBIT*

EBITDA*

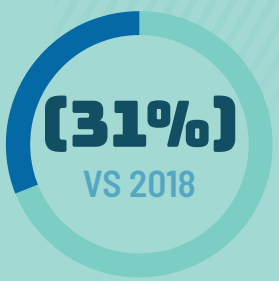
NET INCOME

CASH

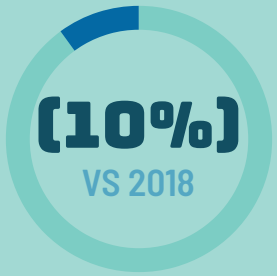
SALES
17,129



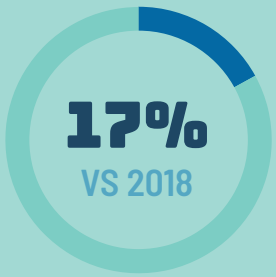
EBIT*
918



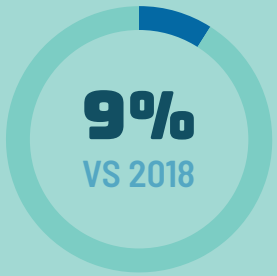
EBITDA*
2,471



NET INCOME
808



CASH
1,674



Expressed in millions of pesos.
2018 and 2019 figures include Evercast.
2017, 2018, and 2019 figures exclude Calorex.
*In 2019, the impacts of the Vitromex restructuring plan were excluded.
This charges include the closure of the Saltillo plant ($206) and other impacts/provisions, mainly related to reducing inventory and simplifying our portfolio ($112).

GIS BUSINESS PORTFOLIO

	AUTO PARTS	CONSTRUCTION	HOUSEWARES
BUSINESS	DRAXTON EVERCAST GISederlan 	VITROMEX 	CINSA 
PRODUCTS	Casting and machining in gray and ductile iron, as well as aluminum for the automotive industry.	Ceramic and porcelain tiles of large format for floor and wall.	Pots, pans, and skillets made of enamel-on-steel, stainless steel, and aluminum, with and without a non-stick coating. Ceramic tableware for domestic and school use.
BRANDS	Draxton* Evercast GISEderlan*	Vitromex* Arko*	Cinsa* Santa Anita* Cook Now*
PRODUCTION FACILITIES	Saltillo, Mexico. Irapuato, Mexico. (2) San Luis Potosí, Mexico. (2) Atxondo, Spain. Barcelona, Spain. Teruel, Spain. Lleida, Spain. Brno, Czech Rep. Wroclaw, Poland. Rovigo, Italy. Wuhu, China. (2) R&D Center, Boroa, Spain.	San José Iturbide, Mexico.(2) San Luis Potosí, Mexico. Chihuahua, Mexico.	Saltillo, Mexico. (4) Villa de Reyes, Mexico.

* Registered trademarks

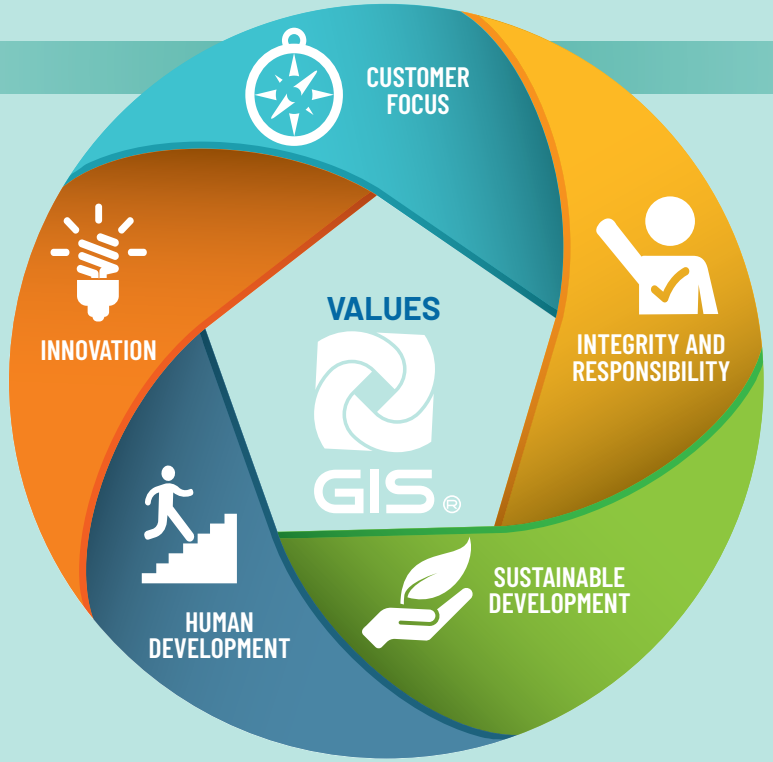
GIS DECALOGUE

Apoyados en nuestro Decálogo estamos enfocados al logro de resultados.

MANAGEMENT

MISSION
- Create economic value, generating opportunities for the progress and well-being for every person and institution with whom we interact.

VISION
- Become a global organization that creates value by developing leading companies.



FOUNDATIONS

EXECUTE:
- Zero accidents
- Operational excellence
- Execute with excellence
- Financial health

CULTIVATE:
- Body, mind and spirit
- Talent
- Service and significance
- Retention and punctuality

GROW:
- Continuous improvement
- Sales and profitability
- Social responsibility
- Image and positioning

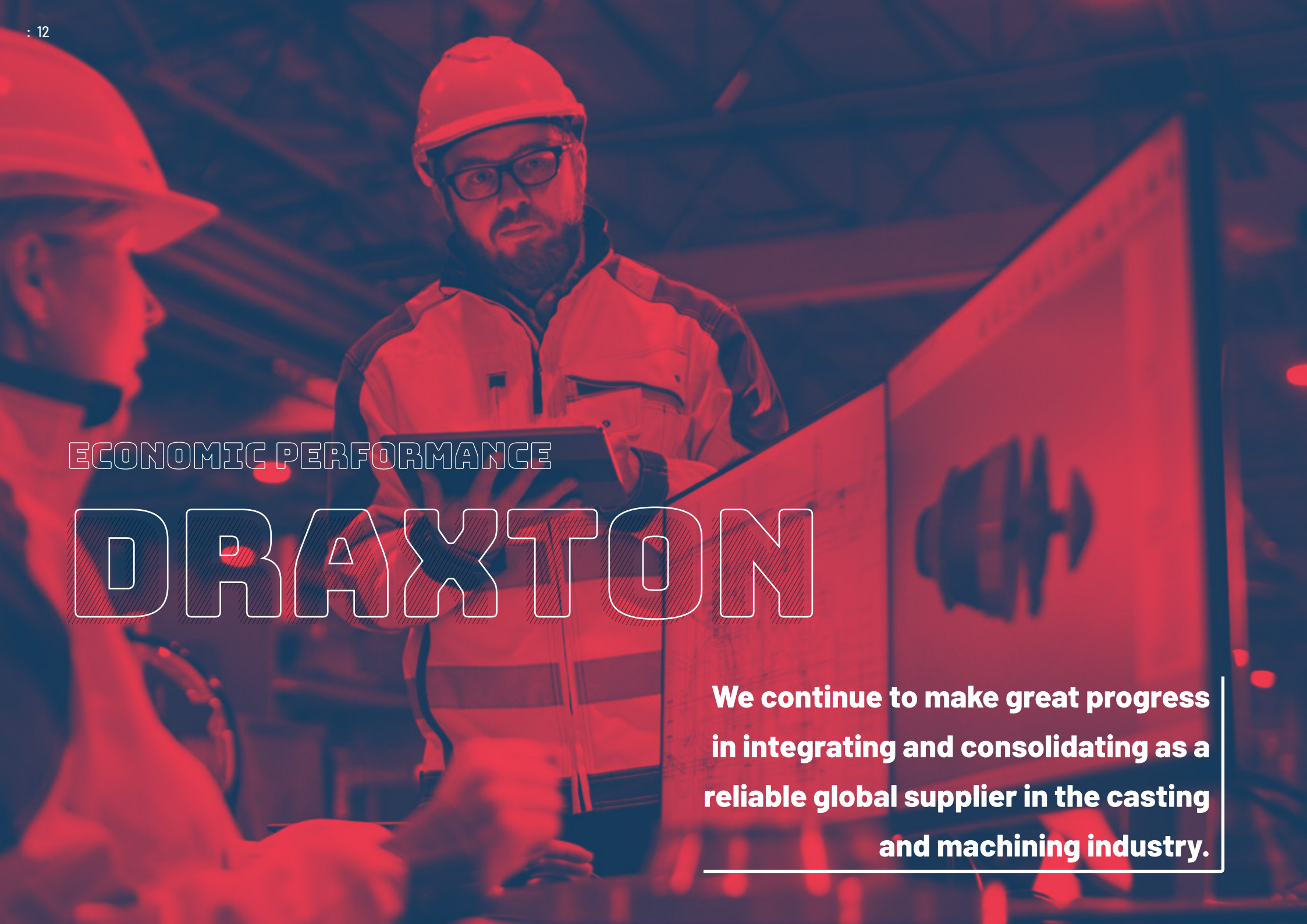
CUSTOMER FOCUS
- **I KNOW** the needs and expectations of our customer.
- **I FOLLOW** the terms, specifications and service level stipulated with the customer.
- **I AM FAMILIAR** with our products and their benefits.
- **I ACT AND MAKE** decisions to satisfy our customers.

INTEGRITY AND RESPONSIBILITY
- **I SPEAK** the truth.
- **I ACT HONESTLY** and transparently.
- **I AM CONSISTENT** with GIS Values.
- **I TAKE OWNERSHIP** of the problem and the solution.
- **I USE** resources wisely.
- **I PUSH** myself and demand that we follow through on the commitments we make.

SUSTAINABLE DEVELOPMENT
- **I TAKE CARE** of the environment.
- **I TAKE CARE** of raw materials and elements.
- **WE SEEK** to use renewable energy.
- **WE IMPROVE** the quality of life.
- **WE MEET** the needs of the interest groups.

HUMAN DEVELOPMENT
- **I AM RESPONSIBLE** for my development.
- **I DEVELOP** the leadership and skills of my collaborators.
- **I PROMOTE** collaboration and teamwork.
- **I FOSTER** an environment where the collaborators can reach their maximum potential and accomplish their best.
- **I RESPECT** human dignity.

HUMAN DEVELOPMENT
- **I DO** things differently to obtain better results.
- **I PROMOTE** creativity.
- **I AM OPEN** to listening to and promoting new ideas that make the business grow.



ECONOMIC PERFORMANCE

DRAXTON

We continue to make great progress in integrating and consolidating as a reliable global supplier in the casting and machining industry.

DRAXTON®
Mobility inspired

MEXICO

CASTING AND MACHINING of ductile iron parts for the automotive industry.

EUROPE & ASIA

CASTING AND MACHINING of gray and ductile iron auto parts, as well as casting and machining of aluminum parts.

JOINT VENTURES

CASTING & MACHINING of gray and ductile iron auto parts.

14 PRODUCTION FACILITIES

MEXICO
- Saltillo, Mexico.
- Irapuato, Mexico.
- San Luis Potosí, Mexico.

EUROPA Y ASIA
- Atxondo, Spain.
- Barcelona, Spain.
- Lleida, Spain.
- Teruel, Spain.
- Brno, Czech Republic.
- Wroclaw, Poland
- Rovigo, Italy.
- Wuhu, China.

JOINT VENTURES
- Irapuato, Mexico.
- San Luis Potosí, Mexico.
- Wuhu, China.

APPLICATIONS

- Brakes
- Chassis
- Engine

BRANDS

DRAXTON®

EVERCAST

GISEDERLAN®

: DRAXTON

Draxton continues to move forward successfully with its integration and consolidation as a reliable global supplier in casting and auto parts machining for the mobility industry.

Our wide-reaching capacity to serve the markets in North America, Europe and Asia, along with our research, development and engineering capabilities for manufacturing innovative cast products, enable us to secure US$150 million in new contracts in 2019, most of which are related to braking systems.

For Draxton, Evercast, and GISederlan, our businesses in the auto parts sector, one of the year's top challenges was to improve profitability amid a shrinking automotive industry and operating in mature markets. Despite all of this, as a result of implementing a strategy focused on rightsizing and operational efficiency we maintained our EBITDA level when compared to 2018.

We have also achieved significant improvements in our production processes and cost systems, by sharing best practices at Draxton's plants worldwide. We are certain that we will have many opportunities in the future to continue implementing synergies that will help us maintain our leadership position in quality, technology, and cost.

We continued to develop our technical capabilities at the Brakes Competence Center located in Spain, through which, and with a defined customer engagement strategy , we held workshops sessions for the co-design of products, making it possible to present innovative designs and materials, and which also strengthened the confidence that our customers have placed in us as business partners.

: MOBILITY INSPIRED

Through the Draxton Europe and Asia Business Unit, we are increasing our participation in the machining of auto parts and the casting of components for commercial vehicles and trucks. One example of this, is the new machining project with Volvo Trucks, which has allowed us to strengthen our strategic position in the commercial vehicles segment. During the year we will continue investing in high-technology machinery and equipment to develop machining projects in Europe.

The Draxton plant in Barcelona, Spain was chosen by our customer Knorr-Bremse to produce crankshafts for air brake compressors trucks, thereby opening a new market niche for this type of product.

In North America we have improved our positioning as a preferred supplier by capitalizing on the recent trend of relocating brake components operations to Mexico, which has significantly increased market size, and is expected to double in the coming years. This will create growth opportunities, even in a mature automotive market that will maintain vehicle production volumes over the next coming years.

In February 2019, we signed an extension of the agreement with our customer and partner, ZF, in the Evercast joint venture. As a result of this agreement, we will continue to supply auto parts to ZF until 2033. In addition, as part of this agreement, we began the installation of a third molding line to increase the installed capacity in the Irapuato, Guanajuato plant by 50%. Operations will start in the second half of 2020.

Auto parts production in Mexico and their export to North America will continue to grow, driven by the new regional content rules of the USMCA Agreement. Some European and Asian original equipment manufacturers (OEM) will need to increase their regional content though local sourcing, creating new opportunities for Draxton. Our auto parts average about 90% of regional content, which far exceeds the established percentages.

The Chinese market showed a slowdown in the automotive industry in 2019, reflecting the downturn in the country's economy. Likewise, more sophisticated requirements from OEMs, increasingly stringent environmental restrictions being imposed by the Chinese government, and the difficult trade relationship with the United States make the economic environment even more challenging.

OUR PLANT IN CHINA IS ONE OF THE BESTIN TERMS OF PRODUCTIVITY AND QUALITY, WHICH WILL ALLOW US TO CONTINUE GROWING.

WE ARE INVESTING IN NEW PRODUCTION LINES.

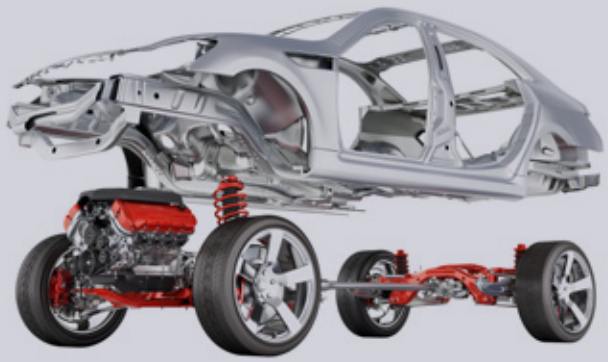
However, we are ready to face these challenges. On one hand, we have the right technical capabilities through our global engineering areas. Additionally, our plant located in Wuhu, China, is one of our best units in terms of productivity and quality, which will allow us to continue growing in this market, which represented around 5% of Draxton's total sales in 2019. Thanks to our experience as a manufacturer of parts for commercial vehicles in Europe and the excellent business relationships we have with leading truck manufacturers in the region, we are an attractive option in China as well, a market that represents an opportunity for growth due to the positive trend of disc brake penetration in the industry.

Globally, Draxton has high growth potential in the commercial vehicles market due to the requirement for highly complex components with advanced mechanical properties and greater added value through machining.

New environmental regulations form governments around the world are driving the trend towards electrification, smaller parts, and lighter materials in next-generation automobiles, without compromising vehicle safety. Given this trend, the increase in electrified vehicles is tangible, including mild hybrids, plug-in hybrids, and electric vehicles. According to industry analysts like IHS Markit, out of the electrified vehicles the hybrid segment will be the one with the highest growth rate in the coming years, thus more than 85% of vehicles are expected to continue using an internal combustion engine by 2031.

Based on this scenario, we anticipate that Draxton will see a positive trend thanks to our work in engineering, research and development of new materials with high properties, making it possible for us to offer lighter designs, and other value-added processes to meet our customers' requirements.

We have moved forward in our strategy of delivering higher added value through machining. As of today, we machine nearly 10% of our foundry volume, which leaves much potential to continue increasing the added value that our customers demand.



We launched a new center of machining excellence based in Barcelona.

In December 2019, we launched a global engineering structure, which includes a new Machining Competence Center based in Barcelona. The goal is to accelerate the deployment of our engineering capabilities to all regions where we operate. We have also created an Advanced Engineering and Marketing organization to work with current and potential customers in the early stages of vehicle design, allowing us to offer new advanced materials and processes that have benefits in terms of weight, volume (package size) and cost.

The experience and prestige we have acquired in the production of brake system auto parts has placed us in an ideal position to take advantage of growth opportunities in the global market; especially considering that every vehicle regardless of its propulsion system, whether electric, hybrid, or internal combustion, will require a reliable brake system.

: DRAXTON NORTH AMERICA

In the North American market, Draxton operates three plants in Mexico, strategically located near the region´s top automotive customers. This allows us to take advantage of the opportunities offered by the recent ratification of the USMCA Agreement. Our auto parts, which are considered either core or critical components with high regional content, exceed the minimum regional content rules specified in this agreement.

Despite the 4% reduction in North American automotive production in 2019, coupled with the effects of the GM strike in October, Draxton Mexico achieved 4% growth in EBITDA compared to 2018, the result of a well-executed efficiency and productivity plan. Optimizing operations and looking for more efficient processes, flexible operations, and improved designs are all a part of daily life at our plants.

In recent years, Mexico has become the largest brake producer for the North American market, and Draxton is the leader in critical safety parts, such as calipers and brackets. We see high growth potential in this segment through brake manufacturers in Mexico, which expects to duplicate their production in the coming years.

At Draxton Mexico, we worked on 109 projects for the development of new products, of which 34 were completed during the year and 62 were managed under Draxton's global methodology NPCD, deployed in early 2019.

Aware of the challenges Draxton Mexico faces to improve our cost structure to maintain competitiveness and meet the requirements of our customers, we launched a project to transform our purchasing processes, allowing us to achieve significant volume based cost reductions in all our operations in Mexico.

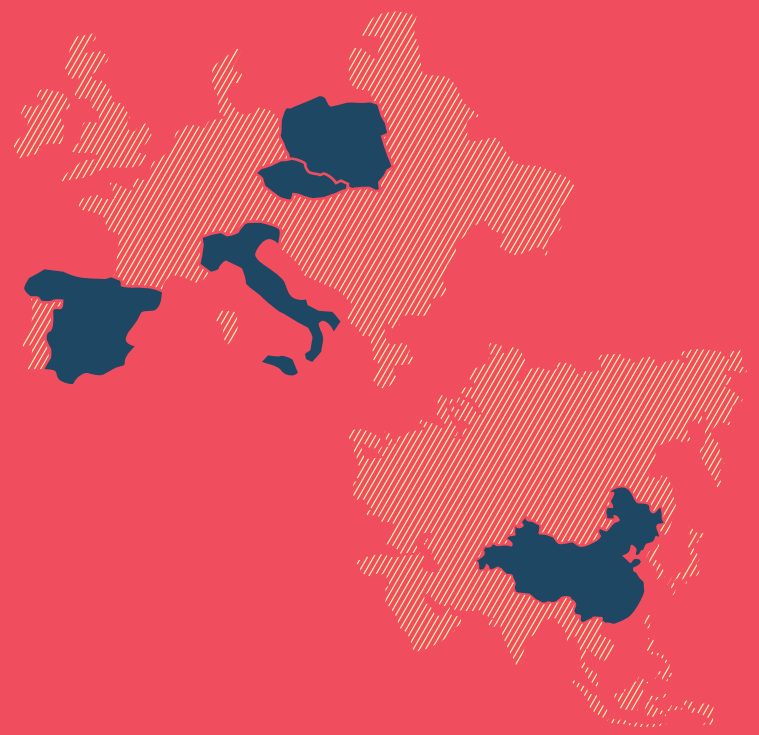
In 2020, at Draxton Mexico will focus on consolidating the implementation of the Global Engineering Model to optimize the launch of new products, and we will continue strengthening our lean manufacturing work culture by implementing the Draxton To Lean (D2Lean) initiative.

Thanks to our solid business relationship with our customer and partner ZF in the Evercast joint venture, where GIS has 70% participation, in February 2019 we extended our agreement to continue supplying brake system auto parts through 2033. For this, we are increasing the production foundry capacity from 52,000 to 78,000 tons/yr with the installation of a third molding line that will start operations in the second half of 2020.

Draxton's successful global implementation of best practices has enabled Evercast to improve its productivity, energy consumption, and cost indicators. As a result, we continue to increase ZF's confidence in us, for whom we successfully launched 26 part numbers for OEMs such as Ford, FCA, and VW.

GISederlan, our 50/50 joint venture with Fagor Ederlan, continued to grow in 2019.. Among other factors supporting this growth were the ramp up of our customer BMW for whom we launched the third line for the machining and assembly of bi-metal brake discs, for whom we are its only supplier outside Germany. In 2019, GISederlan also started mass production for other customers such as Ford and Dana, while securing new machining projects for Seohan.

IN 2020, DRAXTON MEXICO WILL FOCUS ON CONSOLIDATING THE IMPLEMENTATION OF THE GLOBAL ENGINEERING MODEL.



: DRAXTON EUROPE & ASIA

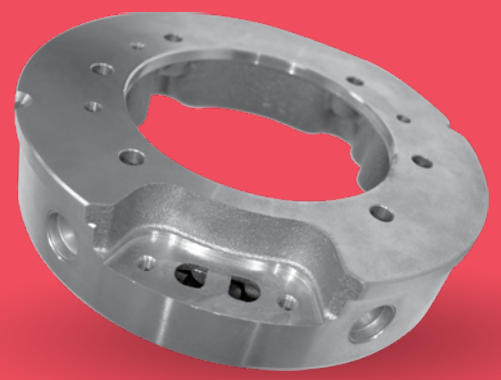
With a presence in four European countries (Spain, Italy, the Czech Republic and Poland) and a production facility in China, during 2019 Draxton faced vehicle production contraction in Europe by 4% and China by 8% vs 2018.

Draxton Europe and Asia responded to this challenge with an efficiency and productivity program, coupled with a rightsizing strategy in all its plants, allowing it to increase EBITDA margins compared to 2018, despite the decline in annual sales.

In addition, we were awarded 65 new projects, including machining programs for commercial vehicles with our customer Volvo Trucks, in addition to the nomination of an important iron caliper program from Mando for our plant in Brno, Czech Republic, and for the truck brake compressor crankshafts for our plant in Barcelona for Knorr-Bremse.

In 2019, we continue to develop new key components for electric vehicles. These are highly complex innovative products, such as the Stator Carrier for Volvo, the first component that uses a lathing process that includes CNC, assembly and internal cleaning; as well as a machined differential case for ZF. Both developments for full electric vehicles.

We also launched innovative concepts in our aluminum casting technology at our in Wroclaw, Poland, which resulted in a significant increase in productivity, which has allowed us to secure key projects for customers like ZF, Renault/Nissan, and Ford.



Additionally, we continued to implement innovations in the ductile iron casting process for the development of brackets and calipers, safety parts for brake systems, which allow us to make our products more competitive.

We have also launched the production of high silicon ductile iron supports for commercial vehicle. Involving greater complexity and requirements in its production process, this material is among Draxton's new solutions for the production of auto parts with high mechanical properties. Currently, 10% of Draxton's new developments in Europe are manufactured with this material.

In light of the relevance of these new products, we designed a marketing strategy for Draxton Innovative Materials so that our current and potential customers in Europe and China get to know their advantages and use them in their future platforms.

Operating in a very competitive and increasingly sophisticated market, Draxton China is a highly successful company with business connections with local OEMs like Chery and Great Wall. With our experience and technological developments, we believe that we have the potential to continue growing in China, which currently represents 5% of Draxton's global sales. In 2019, we established business relationships with seven new customers in the region, which will help us increase our growth potential and profits.

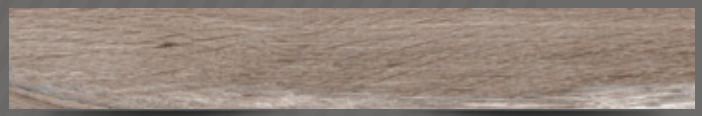
WE'VE BEGUN THE PRODUCTION OF HIGH SILICON DUCTILE IRON COMMERCIAL VEHICLE SUPPORTS.

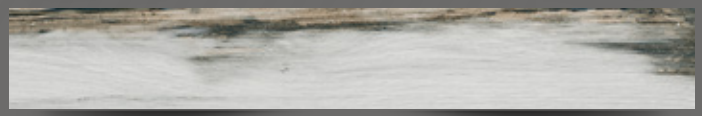
ECONOMIC PERFORMACE

VITROMEX

Consolidation of our focus on service and attention to our distributors through an exceptional sales force.

VITROMEX®





WE DESIGN,

PRODUCE AND MARKET the widest variety of ceramic and porcelain tiles for floors and walls.

4 PRODUCTION FACILITIES

- Chihuahua, Mexico.
- San Luis Potosí, Mexico.
- San José de Iturbide, Mexico. (2)

APPLICATIONS

- Residential
- Comercial

BRANDS

VITROMEX®
MI ESPACIO, MI MUNDO

ARKO®
INNOVATION DESIGN

: VITROMEX

2019 was key in repositioning Vitromex. After announcing the operational restructuring plan and its systematic execution, the business ended the year with a revenue growth higher than that of the industry, thus confirming that recovery is well under way.

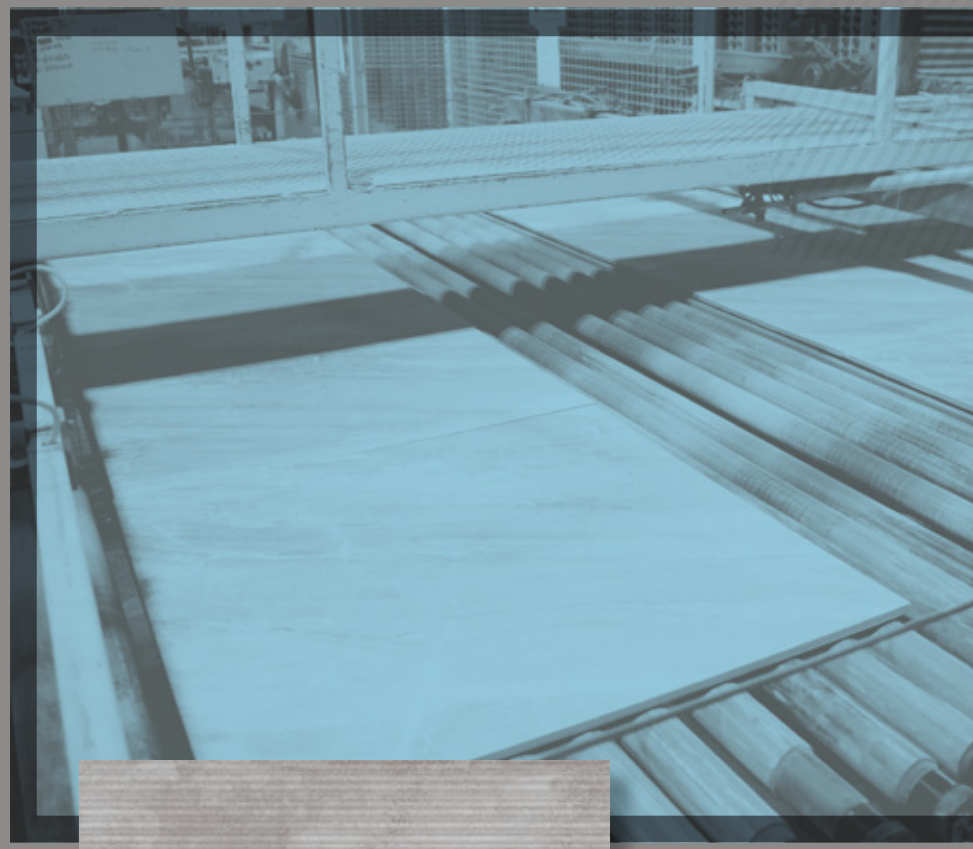
Although deceleration of the Ceramics Industry in Mexico worsened, caused by uncertainty and weakness in the domestic economy, Vitromex's plan has begun to bear fruit.

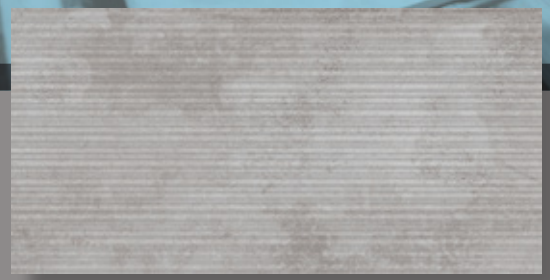
Consolidation of our focus on service and attention to our distributors through an exceptional sales force, as well as improvements in the sales planning and production process, allowed the business to adapt the product portfolio, align the production program, and deliver orders more quickly. This substantially increased the level of service to our customers.

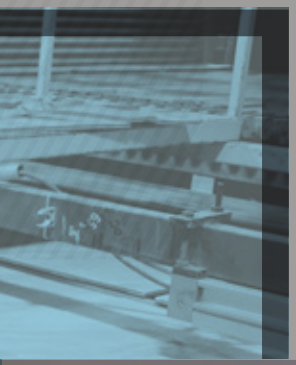
We also implemented actions in the operational restructuring plan, including the strengthening of our technical, operational and commercial structure. We closed operations at the Saltillo plant, rationalized inventory, and simplified the product portfolio by around 45%, and finally, we launched a new clay called Vitroker into the market. These measures resulted in Vitromex reporting growth in Mexico, both in volume as well as in revenues, over 2018.

With a clear focus on the market, in 2019 we launched the product line México Lindo, which was well accepted. We also reconfigured the product portfolio of the Arko brand, so that we are now focused on three formats: 30X60, 60X60 and 60X120 centimeters, and we launched products by segment, format, and type.

After closing the plant in Saltillo, conversion of the production lines at Vitromex's plants in San José Iturbide, Guanajuato, has allowed us to improve the efficiency of our production capacity which, in addition to the alignment of the entire organization, helped increase our levels of quality, efficiency and productivity, and this has been reflected in a significant improvement in costs.







We will continue closely following up on the Performance Indicators System that measures discipline factors and adherence to cost-reduction processes, and we will continue working to standardize glazes and thickness-optimization designs to reduce product thickness. With these actions we defined the bases for improving the efficiency of our production lines, which will improve manufacturing costs.

The good results in Mexico were offset by the contraction we faced in displaced volumes in the United States. To regain market share in the US, we finished renovating the portfolio, focusing on the economic segment (OPP), and in the regions and channels where Vitromex has been successful. Similarly, our focus on operating excellence has significantly improved service quality, which will allow us to begin gradually recovering volumes starting in the second half of 2020.

It is important to point out that Vitromex's profitability recovery plan is based on opportunities in the domestic market and in repositioning in the United States, but especially on the operating improvements we are making at our facilities.

In 2020, we will face the challenge of competing in a no-growth market. We anticipate that by realigning capacity, we will be able to operate more leanly. We are aware that price will be a decisive factor, both for distributors as well as for the end consumer, thus we will continue focusing our efforts on reducing costs through savings, efficiency and productivity strategies. Furthermore, we will differentiate ourselves by offering our clients exceptional service.

We have implemented a new Sales and Operating Planning (S&OP) process through which we better align our production capacities to changes in demand. However, we are optimistic about the rollout and implementation of Vitromex's new Operations System (SOVx), and with our talented workforce we believe that this will be the basis for cementing the culture of operating discipline that we require to attain positive results in this business.

WE ALSO RECONFIGURED THE PRODUCT PORTFOLIO OF THE ARKO BRAND, SO THAT WE ARE NOW FOCUSED ON THREE FORMATS: 30X60, 60X60 AND 60X120 CENTIMETERS.

ECONOMIC PERFORMANCE

CINSA

We expanded our portfolio of aluminum products, and in order to communicate products attributes, we improved the packaging design.

CINSA

KITCHENWARE

WE DESIGN, PRODUCE AND MARKET kitchen products: frying pans, pots, pressure cookers, among others, in vitrified steel, with or without antistick and in aluminum.

TABLEWARE

WE DESIGN AND PRODUCE ceramic tableware for domestic and institutional use.

5 PRODUCTION FACILITIES

- Saltillo, Mexico. (4)
- Villa de Reyes, Mexico.

APPLICATIONS

- Residential
- Institutional

BRANDS

CINSA

Santa Anita

COOK NOW

: CINSA

The kitchenware and tableware business closed 2019 with a slightly better results compared to the second and third quarters. During the year there was a drop in customers consumption compared to 2018, and a tendency to acquire lower-priced articles. Despite this, we made significant progress in the modern channel. That improvement, however, was not enough to offset the drop in volumes in the wholesale and promotional channels in Mexico, which resulted in an 11% decrease in sales in comparison with the prior year.

In the export market, Cinsa optimized its product portfolio, renewed seasonal sales promotions, and increased distribution in California, thus moving forward in the process of replacing direct sales with respect to third party sales in in the United States.

Cinsa optimized its product portfolio, renewed seasonal sales promotions.

With a clear focus on design, we launched a new line of matte colors for the institutional and décor channels in the domestic market. We expanded our portfolio of aluminum products, and in order to communicate products attributes, we improved the packaging design. Moreover, to support our business partners, Cinsa invested in distribution, it maintained 2018 prices, and increased the frequency of promotions.

In 2020, Cinsa will concentrate on recovering sales volumes in its wholesale and promotional channels, and on maintaining the positive trend in the retail and export channels. One of its priorities will be to optimize its distribution costs and to reduce operating costs through the businesses' increased productivity.

WITH A CLEAR FOCUS ON DESIGN, WE LAUNCHED A NEW LINE OF MATTE COLORS .

ECONOMIC OVERVIEW

FINANCIAL INFORMATION

Grupo Industrial Saltillo, S. A. B. de C. V. and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENT

As of and for the years ended December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of
Grupo Industrial Saltillo, S.A.B. de C.V.:
(Thousands of pesos)

Opinion

We have audited the consolidated financial statements of Grupo Industrial Saltillo, S.A.B. de C.V. and subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, the consolidated statements of income and comprehensive income, of changes in equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Grupo Industrial Saltillo, S.A.B. de C.V. and subsidiaries, as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico, and we have fulfilled the other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

The key audit matters are those that, in our professional judgment, have been most relevant in our audit of the consolidated financial statements of the current period. These matters have been addressed in the context of our audit of consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment testing long-lived assets with a defined used life (Vitromex)

See notes 11, 12 and 13 to the consolidated financial statements.

The key audit matter	How the key audit matter was addressed in our audit
The property, machinery and equipment and intangible assets with a defined useful life (long-lived assets) for $16,204,562 which represent 68% of consolidated total assets, include $2,180,895 corresponding to the subsidiary Manufacturas Vitromex, S.A. de C.V., which constitutes a cash-generating unit (CGU Vitromex). The management carries out the long-lived assets impairment testing when there are triggering events that the carrying amounts of such assets may not be recoverable. In the determination of estimated fair value are used several key assumptions, including estimates of future volumes and sales prices, operating costs and weight-average cost of capital (discount rate). As of December 31, 2019 the Group Management carried out an impairment test of long-lived assets of the CGU Vitromex. We have identified the impairment testing of long-lived of defined useful life of the CGU Vitromex as a key audit matter due to the complexity and the required significant judgment for determinate the estimated fair value.	Our audit procedures for this key audit matter included the following, among others: • We involved our specialists to assist us in evaluating of the discount rates used and compares it with available public information of comparable companies. • We evaluated the assumptions applied to key data such as volumes and sales prices, operating costs, inflation, and long-term growth rates, which included comparing data with public information of comparable companies, as well as our evaluation based on our knowledge of the customer and the industry. • We perform a sensitivity analysis, which included evaluating the effect of reasonably possible reductions in projected cash flows, to evaluate the impact on the fair value of the CGU.

Impairment testing of goodwill

See note 13 to the consolidated financial statements.

The key audit matter	How the key audit matter was addressed in our audit
As of December 31, 2019 the Group has recognized goodwill for $3,830,927. The annual goodwill impairment test is considered as a key audit matter due to the complexity of the calculations and the significant judgments necessary in determining the assumptions to be used to estimate the recoverable amount. The recoverable amount of the cash-generating units (CGUs) is based on the greater of the value in use or fair value less the costs of sale, derived from the projected discounted cash flow models. These models use several key assumptions, including future volumes and prices sales, operating costs, terminal values growth rates and the weighted-average cost of capital (discount rate).	Our audit procedures for this key audit matter included the following, among others: • We involved our specialists to assist us in evaluating the adequacy of the discount rates used, which included comparing the weighted-average cost of equity to the average of the sectors of the relevant markets wherein the CGUs operate. • We evaluated the assumptions applied to the key data such as volumes and sales prices, operating costs, inflation and long-term growth rates, which included comparing that data to external sources as well as our evaluation based on our knowledge of the customer and industry. • Conduct our own sensitivity analysis, which included assessments of the effects of possible reasonable reductions in growth rates and projected cash flows. • Assess the adequacy of the disclosures in the financial statements, including key disclosures of significant assumptions and judgments.

Determining of control for consolidation and step up acquisition

See note 14 to the consolidated financial statements.

The key audit matter	How the key audit matter was addressed in our audit
On January 1, 2019, the Group (through its subsidiary Industria Automotriz Cifunsa, S.A. de C.V.) and Kelsey Hayes Company, signed an agreement to amend certain bylaws of Evercast, S.A. de C.V. (Evercast) until then a joint venture. Group Management performed the analysis and assessment about the modification to the bylaws of Evercast and concluded that acquired the control over this entity, therefore from that date it consolidates its financial information. During 2019 Group Management concluded the determination of fair values of the assets acquired and liabilities assumed from Evercast. We consider Evercast acquisition as a key audit matter due to the materiality and complexity of the step acquisition, particularly obtaining control and determining the fair values of net assets acquired and the impact in accuracy, completeness and presentation of the consolidated financial statements, from the date in which the Group acquired the control over Evercast.	Our audit procedures for this key audit matter included the following, among others: • We evaluated the agreement to modify the joint venture bylaws, as well as the minutes of Evercast and other supporting documentation related of obtaining of control over the entity. • We inspected the agreements and relevant documents about this transaction, for purpose of concluding about the identification of the acquirer and acquired, the consideration transfered, the date of obtaining control, among others. • We involved our specialists to assist us in evaluating the methodology used for the identification and determination of the fair values of the net assets acquired done by Group Management, and in particular, the key assumptions used for determining the fair values of the customer relationships (intangible asstet) • Assess the adequacy of the disclosures in the financial statements, including key disclosures of significant assumptions and judgments.

Other information

Management is responsible for other information. The other information comprises the information included in the Group's annual report for the year ended December 31, 2019, which must be submitted to the National Banking and Securities Commission and to the Mexican Stock Exchange, (the "Annual Report") but does not include the consolidated financial statements and our auditor´s report thereon. The annual report is estimated to be available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when available and, in so doing, consider whether the other information is materially inconsistent with the consolidated financial statements or with our knowledge obtained in the audit, or whether it appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material error in that other information, we are required to report that fact to those charged with governance of the entity.

Responsibilities of Management and those Charged with Governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has not realistic alternative but to do so.

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

Auditors´ responsibilities for the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonability 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 provide significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during of our audit.
We also provided those charged with the governance a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear our independence and where applicable, related safeguards.

From the matters communicated those charged with governance, we determine those matters that were of most significant in the audit of the consolidated financial statements of the current period and therefore key audit matters. We describe these matters in our audit report, unless the legal or regulatory provisions prohibit publicly disclosing the matter or, under extremely infrequent circumstances, we determine that a matter should not be communicated in our report because it is reasonable to expect that the adverse consequences of doing so would surpass the public interest benefits thereof.

KPMG Cárdenas Dosal S. C.

C.P.C. Luis Gabriel Ortiz Esqueda

Monterrey, N.L. February 17, 2020.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2019 and 2018

(In thousands of pesos)

	Note		2019	2018
Assets				
Current assets				
Cash and cash equivalents	6	$	1,673,780	1,080,600
Assets held for sale	7		15,661	2,578,947
Trades and other accounts receivable, net	8		2,678,485	3,122,431
Recoverable taxes	9		307,783	245,483
Related parties	28		135,507	205,051
Inventories, net	10		1,817,559	2,071,849
Prepaid expenses			25,625	32,773
Derivative financial instruments	21		2,147	-
Total current assets			6,656,547	9,337,134
Non-current assets				
Long-term spares parts	11		286,127	300,609
Property, machinery and equipment, net	11		9,605,495	8,572,760
Right-of-use asset, net	12		257,708	-
Intangible assets, net	13		6,055,232	5,828,944
Other assets			2,679	3,461
Related parties	28		37,690	-
Permanent investments	14		122,743	1,127,708
Derivative financial instruments	21		1,704	14,105
Deferred tax assets	20		810,403	691,471
Total non-current assets			17,179,781	16,539,058
Total assets		$	23,836,328	25,876,192

The consolidated statements of financial position should be read along with the notes to the consolidated financial statements which are a part thereof.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2019 and 2018

(In thousands of pesos)

	Note		2019	2018
Current liabilities				
Current installments of long-term debt	16	$	2,530	222,010
Current installments of long-term other liabilities	17		22,063	33,578
Current installments of lease liability	18		79,038	-
Tax consolidation liability	20		180,051	186,269
Trades and other accounts payable	15		3,971,205	3,985,953
Taxes payable and others			176,348	3,467
Deferred income	24		35,793	27,172
Derivative financial instruments	21		732	3,502
Related parties	28		5,731	5,965
Liabilities related with assets held for sale			-	554,658
Total current liabilities			4,473,491	5,022,574
Non-current liabilities				
Long-term debt, excluding current installments	16		5,329,150	7,043,920
Other long-term liabilities	17		82,796	266,427
Lease liability	18		181,288	-
Deferred tax liabilities	20		805,485	908,913
Long term liability for tax consolidation	20		157,719	310,696
Employee benefits	19		234,399	202,372
Derivative financial instruments	21		35,694	-
Total non-current liabilities			6,826,531	8,732,328
Total liabilities			11,300,022	13,754,902
Stockholders' Equity	22			
Capital stock		$	3,343,895	3,343,895
Additional paid-in capital			236,350	236,350
Reserve for repurchase of own shares			343,001	368,203
Reserve for cumulative translation effect			610,004	1,042,242
Reserve for valuation effects of financial instruments			(51,955)	(164,905)
Reserve for actuarial measurements of benefits plan			(12,527)	102,886
Reserve for fixed asset revaluation surplus			707,332	706,893
Income tax on comprehensive income items			(243,664)	(244,819)
Retained earnings			6,957,320	6,688,749
Controlling interest			11,889,756	12,079,494
Non-controlling interest			646,550	41,796
Total stockholders' equity			12,536,306	12,121,290
Total liabilities and stockholders' equity		$	23,836,328	25,876,192

The consolidated statements of financial position should be read along with the notes to the consolidated financial statements which are a part thereof.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

As of December 31, 2019 and 2018

(In thousands of pesos except profit per share)

	Note		2019	2018
Revenues	24	$	17,129,099	17,585,149
Cost of sales			14,049,035	14,095,369
Gross profit			3,080,064	3,489,780
Administration and selling expenses	26		2,513,729	2,565,151
Other income and expenses, net	25		(239,905)	(150,819)
Total operating activities before restructuring expenses			806,240	1,075,448
Other restructuring expenses	1e)		206,074	-
Total operating activities			600,166	1,075,448
Financial income	27		(83,094)	(96,678)
Financial costs	27		570,541	413,734
Exchange gain, net	27		(29,703)	(264,802)
Net financial cost			457,744	52,254
Share of profit of equity-accounted investees	14		(272,481)	131,274
Income before taxes			414,903	1,154,468
Income taxes	20		102,049	531,701
Net income from continuing operations			312,854	622,767
Income from discontinued operations, net of taxes	7		579,240	72,029
Consolidated net income			892,094	694,796
Non-controlling interest			84,458	2,138
Net income from controlling interest		$	807,636	692,658
Earnings per share "EPS":				
Basic and diluted earnings per share	23	$	2.34	1.97

The consolidated statements of income should be read along with the notes to the consolidated financial statements which are a part thereof.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

As of December 31, 2019 and 2018

(In thousands of pesos)

	Note		2019	2018
Net income		$	807,636	692,658
Other comprehensive income items				
Items that are or will be reclassified to results				
Foreign currency translation differences for foreign operations			(432,238)	(366,007)
Net changes in fair value of derivative financial instruments			112,950	(394,236)
Net change in fair value of land and buildings	11		439	302,833
Items not reclassified to results				
Actuarial (losses) gains from defined benefit plans	19		(115,413)	62,702
Income tax on the other comprehensive income			1,155	(51,970)
Other items			-	20,595
Other comprehensive income for the year, net of taxes			(433,107)	(426,083)
Total comprehensive income – Company shareholders		$	374,529	266,575
Non-controlling interest			177,481	2,294
Total comprehensive income		$	552,010	268,869

The consolidated statements of comprehensive income should be read along with the notes to the consolidated financial statements which are a part thereof.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

As of December 31, 2019 and 2018

(In thousands of pesos)

		Attributable to Company Stockholders			
	Note	Capital stock	Additional paid-in capital	Reserve for repurchase of own shares	Reserve for cumulative translation effect
Balance as of January 1, 2018		$ 3,343,895	236,350	445,458	1,408,249
Net income		-	-	-	-
Other comprehensive income		-	-	-	-
Foreign currency translation differences		-	-	-	(366,007)
Fixed assets revaluation		-	-	-	-
Non – derivative financial instruments for investment in equity instruments		-	-	-	-
Initial recognition of IFRS 9 Impairment of receivables		-	-	-	-
Financial instruments of foreign exchange hedge		-	-	-	-
Actuarial gains from defined benefit plan		-	-	-	-
Total other comprehensive income		-	-	-	(366,007)
Transactions with stockholders of the Company recognized directly in capital stock					
Repurchase of own shares	21b	-	-	(139,361)	-
Increase of reserve for repurchase of own shares	21b	-	-	62,106	-
Dividends paid to shareholders	21f	-	-	-	-
Total transactions with stockholders of the Company		-	-	(77,255)	-
Balance as of December 31, 2018		$ 3,343,895	236,350	368,203	1,042,242

The consolidated statements of changes in stockholders' equity should be read along with the notes to the consolidated financial statements which are a part thereof.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

As of December 31, 2019 and 2018

(In thousands of pesos)

Attributable to Company Stockholders							
Reserve for effect of valuation of financial instruments	Reserve for actuarial remeasurements of benefits plan	Reserve for surplus for revaluation of fixed assets	Income tax on comprehensive items	Retained earnings	Total controlling interest	Non-controlling interest	Total stockholders' equity
229,331	40,184	404,060	(192,849)	6,431,504	12,346,182	39,502	12,385,684
-	-	-	-	692,658	692,658	2,136	694,794
(214,252)	-	-	-	39,399	(174,853)	-	(174,853)
-	-	-	-	-	(366,007)	-	(366,007)
-	-	302,833	(88,046)	-	214,787	158	214,945
(179,798)	-	-	53,939	-	(125,859)	-	(125,859)
-	-	-	948	(18,804)	(17,856)	-	(17,856)
(186)	-	-	-	-	(186)	-	(186)
-	62,702	-	(18,811)	-	43,891	-	43,891
(394,236)	62,702	302,833	(51,970)	713,253	266,575	2,294	268,869
-	-	-	-	-	(139,361)	-	(139,361)
-	-	-	-	(62,106)	-	-	-
-	-	-	-	(393,902)	(393,902)	-	(393,902)
-	-	-	-	(456,008)	(533,263)	-	(533,263)
(164,905)	102,886	706,893	(244,819)	6,688,749	12,079,494	41,796	12,121,290

The consolidated statements of changes in stockholders' equity should be read along with the notes to the consolidated financial statements which are a part thereof.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

As of December 31, 2019 and 2018

(In thousands of pesos

		Attributable to Company Stockholders			
	Note	Capital stock	Additional paid-in capital	Reserve for repurchase of own shares	Reserve for cumulative translation effect
Balance as of January 1, 2019		$ 3,343,895	236,350	368,203	1,042,242
Business acquisition					
Net income		-	-	-	-
Other comprehensive income		-	-	-	-
Foreign currency translation differences		-	-	-	(432,238)
Fixed assets revaluation		-	-	-	-
Non – derivative financial instruments for investment in equity instruments		-	-	-	-
Financial instruments of foreign exchange hedge		-	-	-	-
Actuarial gains from defined benefit plan		-	-	-	-
Total other comprehensive income		-	-	-	(432,238)
Transactions with stockholders of the Company recognized directly in capital stock					
Repurchase of own shares	21b	-	-	(157,000)	-
Increase of reserve for repurchase of own shares		-	-	131,798	-
Dividends paid to shareholders	21f	-	-	-	-
Total transactions with stockholders of the Company				(25,202)	
Balance as of December 31, 2019		$ 3,343,895	236,350	343,001	610,004

The consolidated statements of changes in stockholders' equity should be read along with the notes to the consolidated financial statements which are a part thereof.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

As of December 31, 2019 and 2018

(In thousands of pesos)

Attributable to Company Stockholders							
Reserve for effect of valuation of financial instruments	Reserve for actuarial remeasurements of benefits plan	Reserve for surplus for revaluation of fixed assets	Income tax on comprehensive items	Retained earnings	Total controlling interest	Non-controlling interest	Total stockholders' equity
(164,905)	102,886	706,893	(244,819)	6,688,749	12,079,494	41,796	12,121,290
						467,077	467,077
-	-	-	-	807,636	807,636	84,458	892,094
-	-	-	-	-	-	121,020	121,020
-	-	439	-	-	(432,238)	(27,997)	(460,235)
-	-	-	-	-	439	-	439
105	-	-	-	-	105	-	105
112,845	-	-	(33,957)	-	78,888	-	78,888
-	(115,413)	-	35,112	-	(80,301)	-	(80,301)
112,950	(115,413)	439	1,155	807,636	374,529	177,481	552,010
-	-	-	-	-	(157,000)	-	(157,000)
-	-	-	-	(131,798)	-	-	
-	-	-	-	(407,267)	(407,267)	(39,804)	(447,071)
		-		(539,065)	(564,267)	(39,804)	(604,071)
(51,955)	(12,527)	707,332	(243,664)	6,957,320	11,889,756	646,550	12,536,306

The consolidated statements of changes in stockholders' equity should be read along with the notes to the consolidated financial statements which are a part thereof.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW

As of December 31, 2019 and 2018

(In thousands of pesos)

	Note		2019	2018
Cash flows from operating activities:				
Net income		$	807,636	692,658
Adjustments for:				
Depreciation and amortization	11,12,13		1,553,237	1,279,542
Share of profit of equity-accounted investees	14		9,892	(131,274)
Non-controlling interest			84,458	2,294
Write off and amortization of debt issue cost			84,262	-
Deferred income taxes of assets held for sale			-	9,108
Gain on sale of assets held for sale	7		(616,782)	(16,183)
Impairment of non in use assets			-	34,302
Financial cost, net			400,855	467,288
Gain on sale of property, plant and equipment	11		65,619	-
Interest remediation previously held before the control change of joint venture			(282,373)	-
Provision of employee statutory profit sharing			9,875	14,427
Amortization of prepaid expenses			57,276	87,895
Tax by incorporation regime			32,958	1,234
Deferred income tax expense	20		102,049	535,878
Unrealized foreign exchange rate			(121,373)	(280,115)
Cash flows provided by operating activities before accruals			2,187,589	2,697,054
Change in inventories			408,174	(17,461)
Change in trades and other accounts receivable			1,307,749	508,917
Change in prepaid expenses of current assets			(50,127)	(52,272)
Assets and liabilities for leases			8,459	-
Change in trades and other accounts payable			(234,682)	(81,006)
Change in other long-term payables			-	95,884
Related parties			14,863	(221,570)
Change in accruals and employee benefits	19		(83,385)	1,553
Cash flows used in operating activities before income taxes			3,558,640	2,931,099
Income taxes paid			(843,933)	(569,459)
Net cash flows provided by operating activities			2,714,707	2,361,640
Cash flows from investment activities:				
Resources from the sale of assets held for sale			-	28,450
Acquisition of property, machinery and equipment	11		(899,818)	(742,210)
Business acquisition, net of received cash			773	-
Increase in joint venture			(95,334)	-
Acquisition of intangible assets	13		(170,321)	(115,933)
Interest received			83,094	22,483
Related parties			(37,690)	-
Business sale income			2,775,933	-
Net cash flows used in investment activities			1,656,637	(807,210)
Cash flows from financing activities:				
Loans obtained	16		3,432,241	4,656,374
Repurchase of own shares	22		(157,000)	(139,361)
Loans paid			(5,978,811)	(3,531,474)
Other liabilities			(195,146)	(2,359,020)
Interest paid			(393,957)	(560,240)
Financial instruments			156,023	4,974
Financial leases (only financial leases in 2018)			(96,046)	(11,539)
Dividends paid	22		(407,090)	(393,732)
Dividends paid Non-controlling interest			(39,804)	-
Net cash flows provided by financing activities			(3,679,590)	(2,334,018)
Net increase in cash and cash equivalents			691,754	(779,588)
Cash and cash equivalents at the beginning of the year			1,080,600	1,775,437
Exchange fluctuation effect on cash and cash equivalents			(98,574)	84,751
Cash and cash equivalents as of December 31	6	$	1,673,780	1,080,600

The consolidated statements of cash flows should be read along with the notes to the consolidated financial statements which are a part thereof.

GRUPO INDUSTRIAL SALTILLO, S.A.B. DE C.V. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018 (In thousands of pesos)

1 Reporting entity, acquisitions and other relevant events

Grupo Industrial Saltillo, S.A.B de C.V. (GISSA Group and/or the Company) was incorporated in United Mexican States as a corporation whose shares are listed in the Mexican Stock Exchange and are listed under the symbol GISSA. The address registered of the Company is Isidro Lopez Zertuche No. 1495 Zona Centro C.P. 25000, in Saltillo, Coahuila de Zaragoza, Mexico.

The consolidated financial statements of the Company for the years ended December 31, 2019 and 2018 include those of the Company and its subsidiaries (overall the "Company" and individually "entities of the Company").

The Company through the subsidiary companies participates in three business segments: (i) Auto parts (mainly composed of Industria Automotriz Cifunsa, S.A. de C.V., Automotive Components Europe, S.L. [Spain, Czech Republic and Poland] and Infun S.A. [Spain, Italy and China]), which are primarily engaged in the foundry and manufacturing of parts in gray, nodular iron and aluminum for brake systems, engine, transmission and suspension for the car industry, (ii) Construction (mainly composed of Manufacturas Vitromex, S.A. de C.V. and until 2019 also Calentadores de America, S.A. de C.V. (see note 7), which are primarily engaged in manufacturing and marketing ceramic and water heaters, and marketing of lines of malleable iron and nipples of steel and (iii) Home Products (mainly composed of Cinsa, S.A. de C.V.) engaged in manufacturing and marketing enameled steel kitchen items and ceramic dinnerware for home and institutional use.

Additionally, the Company, at December 31, 2019 and 2018 in its auto part segment, has entered into joint ventures with Fagor Ederlan, S. Coop. with a 50% share in the following joint ventures: Ineder Projects, S.L., Infun-Ederlan Auto Parts (Wuhu) Co., Ltd. y Gisederlan, S.A. de C.V.

Until December 31, 2018, the Company, in its auto part segment, entered into joint ventures with TRW Automotive Holdings Corp, with a 70% share in Evercast, S.A. de C.V. ("Evercast"); at that date, that investment qualified as joint venture. However, from January 1, 2019, due a change in the bylaws of this agreement, without changes in the shareholding, the Company assumed the control over Evercast (see note 14).

Relevant events

2019

a) Under the agreement signed on February 3, 2014 among GIS through its subsidiary Industria Automotriz Cifunsa, S.A. de C.V. (IACSA) and Kelsey Hayes Company subsidiary of TRW Automotive Holding Corp., the incorporation of Evercast, S.A. de C.V.; both entities maintained joint control over Evercast, from the date of its incorporation until December 31, 2018. However, on January 1, 2019, GIS and TRW signed an agreement to reform certain bylaws of Evercast, with the modification Evercast is considered a subsidiary of GIS, because it acquires control over it, so, from the date of amendment of the bylaws, GIS consolidates the financial information of Evercast, S.A. de C.V. in its financial statements.

b) On January 14, 2019, the Company signed an Agreement with Ariston Thermo S.p.A. for the sale of its Water Heater Business (Calorex). The sale included the subsidiaries Calentadores de América S.A. de C.V., Fluida S.A. de C.V. and Water Heating Technologies Corp., dedicated to the manufacture and commercialization of water heaters and products for the conduction of fluids. The transaction was authorized by the Federal Economic Competition Commission and was completed on April 30, 2019. The price of the transaction amounted to $2,775,933 under the agreement for the sale of shares among the parties, due to the movement of working capital, debt assumed and transferred cash. The Company recognized a gain in the sale of $616,782, net of taxes. (See note 7).

Derived from this Agreement and in accordance with the contractual obligations that Grupo Industrial Saltillo, S.A.B. de C.V. has in its bank loans, the Company engaged a derivative financial instrument called Forward Plain Vanilla, where through this instrument it was committed to buying dollars in the future at a fixed exchange rate, since part of the net income from sale was destined to the prepayment of financial obligations denominated in dollars for $ 67.5 million dollars.

c) On August 27, 2019, the Company prepaid, in full, the balance of "GISSA 17-2" Stock Certificates, for an amount of $400 million plus $2.9 million for accrued interest not paid on the principal balance, at the date of prepaid.

d) On September 11, 2019, the Company signed a syndicated loan for up to $245 millions of dollars. The resources from the long-term debt were used for the total payment of the previous syndicated loan with a balance of $187.5 millions of dollars plus interest corresponding to the credit and expenses related to the contracting of the same.

e) On July 25, 2019, the Company reported about the restructuring of operations of the ceramic floor and wall tiles business, Vitromex. The business is executing an operational restructuring process in which it highlights: (i) reinforcement of the technical, commercial and operational team; (ii) pasta development, with technical and design advantages, called Vitroker in San José Iturbide; (iii) closing of its Saltillo Plant to reduce both fixed and production costs by relocating products to the most efficient plants and; (iv) resizing of the commercial strategy, based on differentiation and market approach as well as emphasis on exports to key customers.

With this rationalization, the proper sizing of the operation and the efficient use of the production plants is achieved, operating them at a higher level of use. The suspension of operations in the Saltillo plant, was recognized in the consolidated statement of income, amounting to $ 206 million pesos, mainly associated with write-off of fixed assets and severance payments.

2018

f) On June 18, 2018, the Company signed a long-term Senior Secured Credit Agreement for Grupo Industrial Saltillo, S.A.B. de C.V. in the amount of USD 250 million, plus a USD 50 million line of credit, undrawn at the close of this fiscal year. It has an outstanding balance of USD $235 million equal to $4,625 million of pesos, of which $69.1 million of pesos are subtracted as closing costs for contracting the loan, which will be amortized during the life thereof through the effective interest method.

2 Basis of preparation

(a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Financial Accounting Standards Board ("IASB)", adopted by public entities in Mexico in accordance with the amendments to the Rules for Public Companies and other Participants of the Mexican Securities Market, set forth by the National Banking and Securities Commission.

On February 17, 2020, Manuel Rivera Garza (Chief Executive Officer), Jorge Armando Mercado Pérez (Chief Financial Officer) and Ramón Hernández Hernández (Controllership Director) authorized the issuance of the accompaying consolidated financial statements and related notes thereto.

In accordance with General Corporations Law and the Company's bylaws, the stockholders are empowered to modify the financial statements after its issuance. The accompanying financial statements will be submitted for authorization from the next Stockholders Meeting for approval.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the defined benefit liability to employees which is measured at present value and the following major items of consolidated statement of financial position, which were measured at fair value:

- The assets of the defined benefit plan;
- Land and buildings;
- Derivative financial instruments.

(d) Presentation of consolidated statements of cash flows

The Company presents costs and expenses in the consolidated statements of income according to their function, to arrive at the gross profit margin. Additionally, the "total operating activities" line item is included, which results from subtracting the cost of sales and expenses from revenues as this line item is considered to provide a better understanding of the Company's economic and financial performance.

The item "Other income, net" in the consolidated statements of income includes mainly income and expenses that are not directly related to the Company's main activities, such as the results from sale of assets, among others.

The Company chose to present the comprehensive income in two statements: the first statement includes only the items comprise the the net income or loss and is called "Consolidated Statement of Income", and the second statement brings forward net income or loss reported in the Consolidated Statement of Income and includes OCI and equity in the OCI of other entities, which is called "Consolidated Statement of Comprehensive Income".

(d) Presentation of consolidated statements of cash flows

The consolidated statements of cash flows of the Company are presented using the indirect method.

(e) Functional and reporting currency

The Company's accompanying consolidated financial statements are presented in Mexican pesos ("pesos" or "$") because it represents the national currency of Mexico and periodic reports to the Mexican Stock Exchange are carried out in such currency.

Moreover, to determine the functional currency of each subsidiary of the Company, management assesses the economic environment in which it primarily generates and disburses cash. For this, factors related to sales, costs, sources of financing and cash flows generated by the operation are considered. Because some of the Company's subsidiaries have identified the peso, dollar, euro, zloty and renminbi as functional currency, the financial information has been translated in accordance with the guidance in IAS 21 "Effect of Changes in Foreign Exchange Rate" to consolidate the financial statements, considering the methodology described in note 3 b).

As of December 31, 2019 and 2018, the peso/dollar exchange rates were $18.85 and $19.68, respectively. Furthermore, the peso/euro exchange rates were $21.10 and $22.63, respectively; and the exchange rate peso/Renminbi was $2.71 and $2.86, respectively; and the exchange rate peso/Zloty was $4.99 and $5.24, respectively. Unless otherwise indicated, all financial information presented in pesos has been rounded to the nearest thousand. When referring to "US $" or dollars it refers to amounts expressed in thousands of United States of America or USA, when referring to "EUROS €" or euros it refers to amounts expressed in thousands of euros of the European Union and when referring to "Renminbi RMB" it refers to amounts expressed in thousands of Renminbi of the People's Republic of China and when referring to "Zloty" it refers to amounts expressed in thousands of Zlotys of the Republic of Poland.

As mentioned in note 30, from the year ended on December 31, 2020, the Company will issue its consolidated financial statements in dollars.

(f) Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires Management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the useful lives of property, machinery and equipment, fair values of land and buildings, impairment of goodwill and long-lived assets; valuation allowances for accounts receivable, other accounts receivable, inventory and, deferred income tax assets; valuation of derivative financial instruments, labor liabilities related to defined benefits and contingencies. Actual results could differ from those estimates and assumptions.

3 Summary of mainly accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Company.

(a) Principles of consolidation

The consolidated financial statements include the financial statements of Grupo Industrial Saltillo, S.A.B. de C.V. and of the entities controlled by the Company and subsidiaries. All intercompany balances and transactions, and the unrealized income and expenses, have been eliminated in consolidation. Unrealized income derived from transactions between group entities in which there are investments accounted for under the equity method are eliminated against the investment to the extent of the Company's interest in the subsidiary. Unrealized losses are eliminated the same way as the unrealized income to the extent that there is no evidence of impairment.

(i) Joint venture

A joint venture is a contractual arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control in a business, which exists when decisions about the relevant activities require the unanimous consent of the parties sharing control. The results and assets and liabilities of the joint ventures are incorporated into the financial statements using the equity method. When the Company carries out transactions with its joint venture, the resulting gain or loss from such transactions are recognized in the consolidated financial statements of the Company only to the extent of participation in the joint venture that relates to GISSA.

(ii) Permanent investments

Permanent investments, which are investment in associates and joint venture are measured applying equity method.

(iii) Structured entity

The Company has incorporated a structured entity for operating purposes (financing of suppliers). The Company has no direct or indirect shares in such entity. A structured entity is consolidated if, based on the evaluation of the economic substance of the relationship with the Company and the risks and benefits of the structured entities, the Company concludes that it controls the structured entities. The structured entity controlled by the Company was incorporated under terms that impose strict limitations on the power of decision making of the management of structured entities, resulting in the Company receiving most of the benefits related to the operations and net assets of the structured entities, and keeping most of the residual or ownership risks related to the structured entities or the assets.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currency are translated to the respective functional currencies of the Company's entities at the exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency gains or losses from monetary items are the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for payments and effective interest during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary asset and liability transactions denominated in foreign currency and valued at fair value are retranslated to the functional currency at the exchange rate on the dates the fair value was determined. The differences arising from this translation are recognized in income. The non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate on the date of the transaction.

(ii) Translation of financial statements of subsidiaries in foreign currency

The financial statements of foreign operations to be consolidated are translated to the reporting currency, include surplus, initially identifying whether the functional currency and the recording currency of the foreign operations are different.

In order to translate foreign currency into a functional currency, which is the case for Mexican entities of the auto parts segment, the translation is made using the following exchange rates: 1) closing for monetary assets and liabilities, 2) historical for nonmonetary assets and liabilities and stockholders' equity, and 3) that of the date they were accrued for income, costs and expenses, except for those arising from nonmonetary items that are translated at the historical exchange rate of the nonmonetary item. Translation effects are recognized in the income statement of the period.

If the functional currency differs from the reporting currency, which is the case for entities in the United States of America and those of the auto parts segment in Mexico, the conversion of its financial statements is carried out using the following exchange rates: 1) closing date for assets and liabilities; and 2) historical for stockholders' equity and 3) the date on which they were accrued for income, costs and expenses. The conversion effects are recorded in stockholders' equity.

The financial statements of the foreign subsidiaries, determined in their functional currency, are converted into pesos at the year-end exchange rate for the balance accounts, and at the exchange rates of each month within the period for the income statement. The functional currency is the one in which each consolidated entity has its main generation and disbursement of cash. The corresponding effect per conversion is included under "Other equity reserves" and is presented in the statement of comprehensive income for the period as part of the result per conversion until the net investment abroad is dispose.

(c) Financial instruments

(i) Financial assets and liabilities

The Company classifies and measures its financial assets according to the Company's business model for managing its financial assets, as well as the characteristics of the contractual cash flows of said assets. In this manner, financial assets can be classified at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss. Management determines the classification of its financial assets at the time of initial recognition. Purchases and sales of financial assets are recognized on the settlement date. Financial assets are fully canceled when the right to receive the related cash flows expires or is transferred, and the Company has also transferred substantially all the risks and benefits derived from its ownership, as well as control of the financial asset.

The effective interest method is a method used to calculate the amortized cost of a debt instrument (either as an investment or as an obligation) and to allocate interest income or expenses during the relevant period.

a) Financial assets at amortized cost

Financial assets at amortized cost are those that i) are held within a business model whose objective is to hold the asset in order to collect contractual cash flows and ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. To determine the classification, the Company evaluates management's objectives for management of the financial assets and reviews the contractual clauses of the financial assets.

b) Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are those whose business model is based on both collecting contractual cash flows and selling financial assets, also, the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. As of December 31, 2019 and 2018, the Company does not maintain financial assets to be measured at fair value through other comprehensive income.

c) Financial assets held at fair value through profit or loss

Financial assets at fair value through profit or loss, in addition to those described in point (i) of this section, are those that do not meet the criteria of fair value through other comprehensive income or amortized cost since i) they have a business model different from those that seek to collect contractual cash flows and to sell the financial asset, or ii) the cash flows they generate are not solely payments of principal and interest on the principal amounts outstanding.

Despite the above classifications, the Company can make the following irrevocable choices in the initial recognition of a financial asset:

a. Present the subsequent changes in the fair value of a capital instrument in other comprehensive income, provided that such investment (in which no significant influence, joint control or control is held) is not maintained for trading purposes; that is, a contingent consideration recognized as the result of a business combination.

b. Designate a debt instrument to be measured at fair value through results, if doing so eliminates or significantly reduces an accounting mismatch that would arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases.

As of December 31, 2019 and 2018, the Company has not made any of the irrevocable designations described above.

Furthermore, the Company continuously evaluates the business model of its financial instruments to determine if there are changes related to their classification. When there are changes in the business model of financial assets previously classified under one of the three categories established by IFRS 9, the Company makes the corresponding reclassifications and measures the financial assets prospectively under the new requirements applicable. During the reporting period, the Company did not reclassify any of its financial assets.

Non-derivative financial liabilities

Financial liabilities are classified at fair value with changes through profit or loss and measured at amortized cost.

The Company has the following non-derivative financial liabilities: loans, finance lease liabilities, interest payable, suppliers and liabilities with related parties, principally.

Such financial liabilities are initially recognized at fair value plus costs directly attributable to the transaction. After the initial recognition, these financial liabilities are valued at their amortized cost using the effective interest method.

The Company has not designated from its origin, any financial liability to be measured at fair value through profit or loss.

Derecognition of financial liabilities

The Company derecognizes financial liabilities if, and only if, its contracted obligations are discharged, canceled or expired. The difference between the carrying value and the consideration paid of the derecognized liability is recognized directly in profit or loss.

Also, when the Company carries out a refinancing transaction and the previous liability can be derecognized, the costs incurred in the refinancing are recognized immediately in the income statement at the date of extinction of the last financial liability.

However, if the refinancing transaction does not modify the conditions of the original loan by more than 10%, the Company recognizes an adjustment to the amortized cost of the financial liability with its corresponding effect on the income statement at the time in which the refinancing becomes effective.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset, and the net amount is presented in the consolidated statement of financial position when the right to offset the amounts recognized is legally enforceable, and there is an intent to settle on a net basis or to realize the asset and settle the liability simultaneously.

(ii) Derivative financial instruments and hedging activities

The Company and its subsidiaries contract derivative financial instruments to hedge their exposure to exchange rate risks and interest rates resulting from their operating, financing and investment activities. In accordance with its policy, the Company does not conserve or issue derivative financial instruments for trading purposes. However, the derivatives that do not meet the requirements for hedge accounting are accounted for as trading instruments.

In the initial hedge designation, the Company formally documents the relationship between the hedging instruments and the hedged items, including the objectives and risk management strategy to carry out the hedging transaction, as well as the methods that will be used to evaluate the effectiveness of the hedging operation and the possible sources of ineffectiveness. The Company carries out an assessment at the beginning of the hedging operation and also on an ongoing basis, if the hedging instruments are expected to be "highly effective" to offset changes in the fair value or cash flows of the respective items hedged during the period for which the hedging is designated, and if the actual results of each hedge are within the range of effectiveness established by the Company, which is 80%-125%. In the case of cash flow hedging of a projected transaction, the transaction must be very likely to occur and present exposure to changes in cash flows that could affect the reported net result.

The Company rebalances hedging relationships in accordance with the provisions of IFRS 9 when a hedging relationship does not comply with the effectiveness requirements related to the hedge ratio, but the risk management strategy for this hedge remains the same. In these cases, the Company adjusts the coverage ratio of the hedge relationship so that it meets the effectiveness criteria once again. However, if the risk management strategy for the hedge is no longer the same, the hedging relationship is discontinued.

Implicit derivative instruments that are not hosted in a financial asset are separated from the main contract and are accounted for separately if the economic characteristics and risks of the host contract and the implicit derivative are not closely related. A separate instrument with the same terms as the embedded derivative meets the definition of a derivative, and the combined instrument is not valued at fair value through profit or loss. When dealing with embedded derivatives hosted in financial assets, the financial instrument as a whole follows the accounting treatment according to the classification and measurement for financial assets established in IFRS 9.

Derivative instruments are initially recognized at their fair value; the costs attributable to the transaction are recognized in profit or loss as incurred. After the initial recognition, the derivatives are measured at their fair value, and the changes in said value are accounted for as follows:

Cash flow hedging

When a derivative is designated as a hedging instrument in the variability of cash flows attributable to a particular risk related to a recognized asset or liability or a projected transaction that could affect the annual results, the effective portion of the change in the fair value of the derivative is recognized in the comprehensive income account and presented in the reserve for hedge in the stockholders' equity. The amount recognized in the comprehensive income account is eliminated and included in the same period in which the results are affected by the cash flows hedged under the same line as the hedged item in the comprehensive income statement. Any ineffective portion of the change in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the hedging criteria for the accounting treatment, it expires, is sold, terminated, exercised, or its designation is revoked (because it no longer complies with the risk management strategy), then the hedge accounting treatment is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in the reserve for hedging in equity remains there until the forecasted transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognized in the comprehensive income account is transferred to the carrying amount of the asset when it is recognized. If the projected transaction is no longer expected to occur, then the balance of other comprehensive income items is recognized immediately in profit or loss. In other cases, the amount recognized in other comprehensive income items is transferred to profit or loss in the same period in which the results are affected by the hedged item.

Foreign net investment hedge

When a derivative or non-derivative financial instrument is designated as a hedging instrument in the foreign currency exposure that arises from the Company's participation of the net assets in foreign operations, the effective portion is recognized in the comprehensive income account, and the ineffective portion is recognized immediately in profit or loss.

Exchange gains and losses on the translation of net assets in a foreign operation are recognized in Other Comprehensive Income, while those of the loan are recognized in the income statement, creating a mismatch in foreign currency translations. This mismatch is eliminated with accounting on net investment in a foreign operation, because the gains and losses on the loan are also recognized in Other Comprehensive Income, insofar as they are effective.

The effect will be reclassified in the income statement when the operation is arranged abroad (either entire or partially).

Embedded derivatives

The Company and its subsidiaries review, by procedure, the contracts that they enter into with a value higher than USD 50 or a term longer than 90 calendar days, in order to identify the possible existence of implicit derivatives, and proceed to determine the applicability or not, of its segregation from the respective host contracts, excluding the financial assets of this analysis, whichever the case may be. If the segregation of these embedded derivative financial instruments is required, the Company and its subsidiaries recognize these in the balance sheet at their fair value and in the income statement the change in their fair values, in accordance with current regulations and it is at the discretion of the Company, the possibility of designating these embedded derivatives under any of the hedge accounting models.

At the fiscal year end 2019 and 2018, the Company does not have contracts that meet the characteristics necessary to segregate an implicit derivative.

Although at the end of the year there were no current positions of this type of derivatives, in 2018, the Company contracted Capital Guaranteed Investment instruments, which are not derivative financial instruments because they do not comply with the characteristics described in the International Financial Reporting Standards. These instruments are hybrid contracts that contain two types of agreements: 1) a guest contract, which is not a derivative instrument, but rather a debt contract that corresponds to the investment of a principal guaranteed amount, and its return on the due date, and for which fixed or variable interest rates are not paid at market conditions and 2) an implicit derivative contract. This implicit derivative was linked to the exchange rate behavior, where a return is accrued based on the amount of capital guaranteed according to its behavior.

Other derivatives that are not held for trading

When a derivative financial instrument is not held for trading and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

At December 31, 2019 and 2018, the Company, and its subsidiaries did not have trading derivative instruments in compliance with its policies.

(d) Capital stock

(i) Common shares

Common shares are classified in stockholders' equity. The incremental costs directly attributable to the issue of common shares and options on shares are recognized as a deduction of stockholders' equity, net of tax effects.

(ii) Repurchase of shares

When capital stock recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve and are presented as a deduction from equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to retained earnings.

(e) Property, machinery and equipment

(i) Recognition and measurement

Land and buildings are measured at fair value every three years based on periodic appraisals made by independent appraisers. The increase in carrying amount of the assets as consequence of the revaluation is recognized directly in revaluation surplus in the comprehensive income account, unless a decrease previously recognized in the income and loss statement, in which case the reversal amount is recognized directly in income. The decrease in carrying amount of the assets as a consequence of the revaluation is recognized directly in income and loss statement when there is no previous revaluation; when there is a previous revaluation, the decrease in fair value is recognized in revaluation surplus until depletion and the remainder is recognized in income and loss statement. When a revalued asset is sold or retired, the revaluation surplus amount of the asset is transferred to accumulated earnings.

Items of machinery and equipment, furniture and fixtures, transportation equipment and computer equipment are valued at cost less accumulated depreciation and accumulated impairment losses. The cost includes expenses directly attributable to the acquisition of the asset and, in the case of qualifying assets, the capitalized loan costs according to the accounting police of the Company. The computer programs acquired that are an integral part of the functionality of the corresponding fixed assets are capitalized as part of this equipment. The depreciation of these assets starts when the assets are in place and under the necessary conditions for operation.

When the components of an item of property, machinery and equipment have different useful lives, they are recorded as separate components (major components) of property, machinery and equipment.

Gains and losses for the sale of an item of property, machinery and equipment are determined by comparing the proceeds from the sale to the carrying amount of property, machinery and equipment and are recognized net within "other income and expenses" in the statement of income.

(ii) Subsequent costs

Spare parts

The key spares part maintained as stock that qualify to be classified as fixed assets are capitalized as part of the equipment for which they were acquired, once they are used.

The replacement cost of these items is recognized in the carrying amount if it is likely that the future economic benefits flow to the entity and the cost can be determined reliably. The carrying amount of the part replaced is retired. Expenditures for maintenance and ordinary repairs that keep the assets in efficient working order, without increasing the useful life, are not capitalized and are recognized in income as incurred.

(iii) Restoration costs

When the Company has a legal obligation, at the end of the use of assets, to restore the site for those assets on which there is this obligation, the restoration cost is estimated and included in the initial cost of the asset and this is the present value of future cash flows expected to incur for such obligation, a liability for the obligation at present value is also recognized. At December 31, 2019 and 2018 the provision for restoration costs is presented under de heading of sundry creditors of the consolidated statement of financial position and amounts to $2,158 and $3,000 respectively.

(iv) Depreciation

Depreciation is calculated on the amount susceptible to depreciation, corresponding to the cost of an asset, or another amount that replaces the cost, less the residual value.

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of an item, after deducting the estimated costs of disposal, if the asset were already of the age and condition expected at the end of his life useful. The Company has established a zero residual value for fixed assets, to the exclusion of the transportation equipment, based on the decision of the Company's management not to sell machinery and equipment that can be used by its competitors and should only be sold as scrap.

Depreciation is recognized in the income and loss statement using the straight-line method according to the estimated useful life of each component of an item of property, machinery and equipment, since this better reflects the usage patter expected of the future economic benefits included in the asset. Leased assets are depreciated for the duration of the lease or the useful life of the assets, whichever is lower, unless there is reasonable certainty that the Company will acquire ownership of the leased assets at the end of the lease.

The average estimated useful lives for the current periods are indicated below:

• Buildings	50 years
• Machinery and equipment	14 years
• Furniture and equipment	10 years
• Transportation and computer equipment	4 years
• Other components	3 years

The useful lives and residual values are reviewed at year-end and adjusted when necessary.

(f) Intangible assets

(i) Goodwill

This value represents the excess of acquisition cost over the fair value of identifiable net assets acquired determined at the date of acquisition. These are considered indefinite useful life and are subject to annual impairment tests.

(ii) Patents, brands and customer relationship and other intangibles

Other intangible assets that are acquired by the Company, and that have defined useful lives, are recorded at cost or fair value less accumulated amortization and accumulated impairment losses. Patents and trademarks with indefinite useful lives are recorded at cost or fair value and are subject to annual impairment tests, and at any time when there is an indication of impairment. Customer relationships with a defined useful life are recorded at their fair value.

(iii) Development costs

Expenditures corresponding to research activities, undertaken with the expectative of gaining new scientific or technical knowledge and understanding, are recognized in the income and loss statement as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognized in income as incurred.

Capitalized development costs is measured at cost less accumulated amortization and accumulated impairment losses.

(iv) Subsequent expenditures

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the corresponding asset. Any other expenditures, including those corresponding brands and goodwill internally generated, are recognized in income as incurred.

(v) Amortization of intangibles

The amortization is calculated on the cost of the asset or other amount that replaces cost, less the residual value.

The amortization is recognized in the income and loss statement under the straight-line method based on the estimated useful life of the intangible assets, other than goodwill, from the date they are available for use, this reflects the expected usage pattern of the future economic benefits included in the asset.

The estimated useful lives for the current and comparative periods are as follows:

• Development costs	50 years
• List of clients	14 years
• Non –compete agreements	10 years
• Software for internal use	4 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if necessary.

(g) Inventories

Inventories are recorded at cost or net realizable value, whichever is lower. The cost of inventories is determined by the average cost method, and includes the expenditures incurred due to the acquisition of inventory, production or transformation costs and other costs incurred to place them in the current site and actual condition. In the case of inventory of finished goods and work in process inventories includes a proper portion of the overall production expenses based on the normal operation capacity.

The net realizable value is the estimated sales price in the normal course of operations, less the estimated termination costs and selling expenses.

(h) Business combinations

Business combinations are recognized through the purchase method, allocating the price paid to take control of the entity to the assets acquired and liabilities assumed based on their fair values at the acquisition date. The acquired intangible assets are identified and recognized at fair value. The unallocated portion of the purchase price represents the goodwill, which is not amortized and is subject to periodic impairment assessments, may be adjusted for any correction of the value of assets acquired and/or liabilities assumed within twelve months after of the purchase. The expenses associated with the purchase are recognized in the income statement as incurred.

Management uses professional judgment to determine whether the acquisition of a group of assets constitutes a business combination. For this, the Company evaluates all qualitative aspects of the transaction. Such a determination could have a significant impact on how assets acquired and liabilities are accounted for, both upon initial recognition and subsequent years.

(i) Impairment

(i) Financial assets

IFRS 9 requires the application of the expected credit loss model for the non-derivative financial asset impairment assessment and recording. This involves the use of considerable judgment on how changes in economic factors affect the expected credit loss (ECL).

The impairment loss is a weighted estimate of the probability of expected loss. The amount of impairment loss is measured as the present value of any lack of liquidity (the difference between the contractual flows that correspond to the Company and the cash flows that management expects to receive).

The impairment estimate of accounts receivable is calculated under an expected loss model that includes the recognition of impairment losses over the life of the asset. Because accounts receivable do not have a significant financing component and their term is less than one year, an impairment estimation model was established under a simplified approach of expected losses.

The Company selected a collective model to calculate the expected loss of its accounts receivable. In the estimation of impairment under the collective model, a weighted probability of default was established to calculate the expected loss based on historical customer information. The Company also considers reasonable and sustainable information that is relevant and available without excessive cost of effort; this includes both qualitative and quantitative data, as well as a qualitative analysis based on the Company's historical experience and its credit risk judgment to incorporate the adjustment of the future expectations in the model.

At each reporting date, the Company evaluates reasonableness to determine whether there was objective evidence of impairment, as well as macroeconomic variables that could affect the collection of outstanding balances by its customers. Specific objective evidence that financial assets are impaired include, default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not consider under other circumstances; indications that a borrower or issuer will enter bankruptcy; adverse changes in the payment status of borrowers or customers; and evident information indicating that there was a measurable decrease in the expected cash flow of a group of financial assets.

The Company recognizes, in the period results, decreases or increases in the estimate for expected credit losses at the end of the period, as a gain or loss due to impairment of value.

The Company evaluates the impairment model and the inputs used for it at least once every three months, to ensure that they remain current based on the current situation of the portfolio.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recovery value of goodwill and indefinite-lived intangible assets or not yet available for use, is estimated each year on the same date.

The recoverable amount of an asset or cash-generating unit is the greater of the value in use and fair value less costs of sale. In assessing value in use, the estimated future cash flows are discounted to present value using a after-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For purposes of impairment tests, assets that cannot be individually tested are integrated into more groups of assets that generate cash inflows for continuous use and that are mostly independent of cash inflows from other assets or groups of assets. (the "cash generating unit"). For goodwill impairment test purposes, acquired in a business acquisition is distributed to the group of cash generating unit expected to benefit from the synergies of the combination. This distribution is subject to an operating segment limit test and reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is any indication that an operating asset might be impaired, then the recovery value of the cash-generating unit to which the corporate asset belongs is determined.

An impairment loss is recognized if the carrying amount of an asset or the cash-generating unit is greater than recovery value. Impairment losses are recognized in the income and loss statement, except for revalued assets. Impairment losses recorded in relation to the cash-generating units are distributed first to reduce the carrying value of any goodwill distributed to the units and then to reduce the carrying value of other assets in the unit (group of units) on an apportionment basis.

Impairment losses with respect to goodwill are not reversed. For other assets, impairment losses recognized in previous periods are assessed as of the reporting date to identify indications that the loss had been reduced or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recovery value. An impairment loss is only reversed to the extent that the carrying amount of the asset is not greater than the carrying amount that would have been determined net of depreciation or amortization, had no impairment loss been previously recognized.

When the asset or the cash-generating unit is updated through the revaluation model, the reversal of the impairment loss determined is recorded in income for up to the amount that had been previously recognized in the statement of comprehensive income; and the difference, if any, is recorded in the revaluation surplus.

(j) Employee benefits

(i) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The assumptions and estimates are establishing jointly with independents actuaries. These assumptions include demographic hypothesis, discount rates and expected increases in remunerations and future permanence, among other. The Company's net obligation with respect to defined benefit pension plans and senior premium (see description below) is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the services cost pending to recognized and the fair value of the assets of plan are deducted. The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid. The calculation is made annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit for the Company, the asset recognized is limited to the total unrecognized prior service costs and the present value of the available economic benefits, in the form of future plan reimbursements or future reductions to plan contributions. To calculate the present value of the economic benefits, are considered the minimum funding requirements that apply to any plan of the Company. An economic benefit is available for the Company if it can be realized during the life of the plan, or upon settling the obligations of the plan.

When the plan benefits are improved, the portion of improved benefits related to prior services by the employees is recognized in the income and loss statement under the straight-line method during the average period until the right to the benefits is acquired. To the extent that the right to the benefits is immediately realized, the expense is recognized immediately in the statement of income.

The Company recognizes actuarial re-measurements from defined benefit plans in the comprehensive income account in the period they occur.

Additional pension plan granted by the Company in accordance with applicable law, the Company grants seniority premiums in retirement or replacement retirement pension, which represents the right of the employee to receive remuneration retirement corresponding to a number of days' wages (12) for each year of service, once certain conditions have been fulfilled for their calculation and payment, specified in the Act or in accordance with the terms of the benefit plan.

(ii) Defined contribution benefit plans

The costs of these plans are recognized in operating results as incurred. The liabilities for these plans are settled through contributions to the employees' retirement accounts, and no prospective obligations are generated. For unionized employees, the Company provides compensation in the legal retirement age.

(iii) Termination benefits

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense only if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(iv) Short-term benefits

The short-term employee benefit obligations are valued on a base with no discount and are charged to income as the respective services are rendered.

A liability is recognized for the amount expected to be paid under the short-term cash bonus plans, vacations, year-end bonus, employee participation in profits if the Company has a legal or assumed obligation to pay these amounts as a result of prior services provided by the employee, and the obligation can be reliably estimated.

(k) Provisions

A provision is recognized if, as a result of a past event the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(l) Income tax

Income taxes include current and deferred tax. Current income taxes of the year are determined in accordance with the tax provisions in force in the country where each subsidiary operates. The effect on income from income taxes recognizes the amounts generated in the year, as well as deferred income taxes, determined in accordance with the tax laws applicable to each subsidiary, except those corresponding to a business combination, or items recognized directly in stockholders' equity or in the comprehensive income account.

Deferred income taxes are recorded according to the asset-liability method, which compares book and tax values of the assets and liabilities of the Company and deferred taxes (assets or liabilities) are recognized with respect to the temporary differences between such values. No taxes are recognized for the following temporary differences: the initial recognition of assets and liabilities in a transaction other than a business acquisition and that does not affect the accounting or tax result, and differences related to investments in subsidiaries and joint ventures to the extent that it is likely that they will not be reversed in the foreseeable future. Additionally, no deferred taxes are recognized for taxable temporary differences derived from the initial recognition of goodwill. The deferred taxes are calculated using the rates expected to apply to the temporary differences when reversed, based on the enacted laws as of the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset the tax assets and liabilities incurred, and correspond to income tax by the same tax authority and to the same tax entity or over different tax entities but intend to settle tax assets and liabilities incurred on net base or tax assets and liabilities materialize simultaneously.

A deferred tax loss carryforward asset, tax credits and deductible temporary differences are recognized to the extent that it is likely that taxable income may be available in the future against which they can be applied. The deferred assets are reviewed as of the reporting date and are reduced to the extent that the realization of the corresponding tax benefit is no longer probable.

The management periodically evaluates the positions exercised in tax returns with respect to situations in which the applicable legislation is subject to interpretation. Provisions are recognized when appropriate based on the amounts expected to be paid to the tax authorities.

The statutory rates of the countries where the Company mainly conducts operations are as follows:

Country	2019	2018
	%	%
Mexico	30	30
United States of America	21	21
Spain	25	25
Poland	19	19
Czech Republic	19	19
Italy	24	24
China	25	25

(m) Revenues

(i) Products sold

Revenue comprises the fair value of the consideration received or to be receivable for the sale of goods and services in the normal course of business and it is presented net of the amount of variable considerations that include the estimated number of customer returns, rebates and similar discounts, and payments made to customers in order to stock the products in attractive and advantageous spaces in their facilities.

A comprehensive model is used to record revenue from contracts with customers that introduces a five-step approach to revenue recognition: (1) identification of the contract; (2) identification of the performance obligations in the contract; (3) determination of the price of the transaction; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize the revenue when the entity satisfies a performance obligation.

Contracts with customers consist of purchase orders, which costs are comprised of promises to produce, distribute and deliver products based on the established contractual terms and conditions that do not entail a significant judgment to be determined. When there are payments related to obtaining contracts, they are capitalized and amortized over the term of the contract.

On revenue from the sale of goods and products, the performance obligations identified in the customer's contracts are not separable and are met at a point in time. On the other hand, the terms of payment identified in most sources of income are short-term, with variable considerations focused primarily on discounts and product discounts granted to customers, without financial components or significant guarantees. On the other hand, the guarantees that the Company grants to its customers are solely to ensure that the goods or services granted to the customer comply with the specifications established in the corresponding contracts.

The Company recognizes income from the sale of goods and products when the control of the products sold has been transferred to the customer; this is based on the time of delivery of the promised goods to the customer in accordance with the incoterm negotiated. An account receivable is recognized when the performance obligations have been met, recognizing the corresponding income; net sales reflect the units delivered at list price, net of promotions and discounts, as described in the following subsection.

(ii) Customer rebates

Customer rebates and incentives are recognized as a deduction to income or as a sales expense, according to their nature. They consist primarily of discounts to customers for the sale of products based on i) sales volumes, ii) prompt payment discounts for all distributors, iii) commercial agreements with customers, and iv) product promotions at the points of sales. Therefore, the price is allocated directly to the production, distribution, and delivery performance obligations, including the effects of variable considerations.

The Company recognizes an estimate for the amount of these discounts at the time when it believes that it is likely that the flows to be received from the sale will be lower than the invoiced price, provided that said price does not contemplate the discounts negotiated with the customer at the beginning.

(n) Financial income and costs

Financial income includes interest income on funds invested, gains on the sale of financial assets available for sale and changes in the fair value of financial assets at fair value through income or loss, and exchange gains. Interest income is recognized in the income and loss statement as accrued, using the effective interest method.

Financial costs include interest expenses on loans, financial cost of benefit employees, discount effect due to the passage of time over accruals, dividends of preferred shares classified as liabilities, exchange losses, changes in fair value of financial assets at fair value through income or loss and impairment losses recognized in financial assets. The loan costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in income using the effective interest method.

Exchange gains and losses are reported on a net base.

(o) Earnings per share

The Company presents information on basic earnings per share (EPS) corresponding to common shares. Basic EPS is calculated by dividing net controlling income by the weighted average of common shares in circulation during the year. The Company has no equity instruments that are potentially dilutive, so the basic EPS and the diluted EPS are the same.

(p) Segment information

The operating segments are defined as the components of a company, oriented to the production and sale of goods and services, subject to risks and benefits other than those associated to other business segments. The Company is structured in three reportable segments: auto parts, construction and home products.

The subsidiaries of the Company are grouped according to the business segments in which they operate. For internal and organizational purposes, each business manages and supervises all activities of the respective business, which refer to production, distribution and marketing of the products. Consequently, Company management internally evaluates the results and performance of each business for the decision-making process. Following this approach, in the day-to-day operation, the economic resources are assigned based on the operation of each business.

Transactions between segments are determined based on prices comparable to those that would be used with or between independent parties in comparable operations at market value.

(q) Assets held for sale

Non-current assets obtained as payment in lieu of debts incurred by customers that became delinquent, such as houses, warehouses, land and other assets were classified as held for sale, because they are expected to obtain an economic benefit through the sale of them and not by their use. The Company considers that these assets are ready to be sold under their current conditions and it is highly probable that their sale will take place, as it is committed to a sale plan and efforts have been made to locate a buyer immediately before be classified as held for sale, assets, or components of a group of assets held for sale, are revalued in accordance with the accounting policies of the Company. Subsequently, the assets or group of assets available for sale are usually recorded at lower of carrying value and fair value less costs of sale (see note 7). Any impairment loss of a group of assets held for sale is first distributed to goodwill and later to the remaining assets and liabilities on an apportionment basis, except that no losses are distributed in inventories, financial assets, deferred tax assets, employee benefit assets, investment properties, which are continued being valued according to the Company's accounting policies. The impairment losses in the initial classification of assets available for sale and the subsequent revaluation gains or losses are recognized in the income and loss statement. No gains that surpass any accumulated impairment loss are recognized.

(r) Contingencies

Due to their nature, contingencies can only be resolved when one or more future events or one or more uncertain facts that are not entirely under the control of the Company occur or do not occur. The evaluation of these contingencies significantly requires the exercise of judgments and estimates on the possible outcome of those future events. The Company evaluates the likelihood of loss of litigation and contingencies according to estimates made by the legal advisors. These estimates are periodically reviewed.

(s) Leases

Classification and valuation of leases under IAS 17, effective as of December 31, 2018

The Company as a lessee

Until December 31, 2018, the Company classified its leases as financial or operating depending on the substance of the transaction rather than the form of the contract.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor were classified as operating leases. Payments made under operating leases (net of incentives received by the lessor) were recorded in the consolidated statement of income based on the straight-line method during the lease period.

Leases in which the Company assumes substantially all the risks and rewards of ownership were classified as finance leases. Financial leases were capitalized at the beginning of the lease to the lower between the fair value of the leased property and the present value of the minimum payments. If its determination was practical, to discount the minimum payments at the present value, the interest rate embedded in the lease was used, otherwise, the incremental loan rate of the lessee should be used. Any initial direct cost of the lessee was added to the original amount recognized as an asset. Each lease payment was allocated between the liability and the financial charges until a constant rate in the current balance was achieved. The corresponding lease obligations were included in the current portion of non-current debt and non-current debt, net of financial charges. Interest on financial costs was charged to the profit of the year during the lease period, in order to produce a constant periodic interest rate on the remaining balance of the liability for each period. Property, plant and equipment acquired under financial lease were depreciated between the shorter of the useful life of the assets and the lease term.

Classification and valuation of leases under IFRS 16, effective as of January 1, 2019

The Company as a lessee

The Company evaluates whether a contract is or contains a lease agreement, at the beginning of the contract term. A lease is defined as a contract in which the right to control the use of an identified asset is granted, for a specific term, in exchange for an amount consideration. The Company recognizes a right-of-use asset and a corresponding lease liability, according to all lease contracts in which it operates as a lessee, except in the following cases: short-term leases (defined as leases with a term of lease less than 12 months); leases of low-value assets (defined as leases of assets with an individual market value of less than US $5,000 (five thousand dollars)); and, the lease contracts whose payments are variable (without any fixed contractually defined payment). For these contracts that exclude the recognition of a right-of-use asset and a lease liability, the Company recognizes income payments as a straight-line operating expense during the term of the lease.

The right-of-use asset consists of the lease payments discounted at present value; direct costs to obtain a lease; lease prepayments; and the obligations of dismantling or removal of assets. The Company depreciates the right-of-use asset during the shortest period of the lease term and the useful life of the underlying asset; in this sense, when a purchase option in the lease is probable to be exercised, the right-of-use asset depreciates in its useful life. Depreciation begins on the start date of the lease.

The lease liability is measured in its initial recognition by discounting at present value the future minimum rent payments according to a term, using a discount rate that represents the cost of obtaining financing for an amount equivalent to the value of rents of the of contract, for the acquisition of the underlying asset, in the same currency and for a term similar to the corresponding contract (incremental loan rate). For this, the Company uses a three-level model, with which it determines the three elements that compose the discount rate: (i) reference rate, (ii) credit risk component and (iii) adjustment for underlying asset characteristics. In this model, management also considers its policies and practices to obtain financing, distinguishing between that obtained at the corporate level (that is, by the holding), or at the level of each subsidiary.

When the contract payments contain non-lease components (services), the Company has chosen, for some asset classes, not to separate them and measure all payments as a single lease component; however, for the rest of the asset classes, the Company measures the lease liability only considering the payments of components that are rents, while the services implicit in the payments are recognized directly in results as operating expenses.

The Company defines the term of the leases as the period for which there is a contractual payment commitment, considering the non-cancelable period of the contract, as well as the renewal and early termination options that are probably to be exercised. When the Company participates in lease contracts that do not have a definite forced term, a defined renewal period (if it contains a renewal clause), or annual automatic renewals, it estimates the term of the contracts considering their rights and limitations contractual, its business plan, as well as management's intentions for the use of the underlying asset.

After initial recognition, the lease liability is measured by increasing the carrying amount to reflect interest on the leasing liability (using the effective interest method) and reducing the carrying amount to reflect the rent payments made.

When there are modifications to the lease payments for inflation, the Company remits the lease liability from the date on which the new payments are known, without reconsidering the discount rate. However, if the modifications are related to the term of the contract or to the exercise of a purchase option, the Company evaluates the discount rate in the liability remediation again. Any increase or decrease in the value of the lease liability after this remedy is recognized by increasing or decreasing to the same extent, as the case may be, the value of the right-of-use asset.

Finally, the lease liability is written off at the time in which the Company liquidates all of the rents of the contract. When the Company determines that it is probable that it will exert an early exit from the contract that merits a cash outflow, such consideration is part of the re-measure of the liability cited in the preceding paragraph; however, in those cases in which the early termination does not imply a cash outlay, the Company cancels the lease liability and the corresponding right-of-use asset, recognizing the difference between two immediately in the consolidated statement of income.

(t) Changes in accounting policies and disclosures

The Company adopted the new Standards and Interpretations in effect as of January 1, 2019, included in the annual improvements to IFRS, as described below:

IFRS 16 *Leases*

The Company adopted this standard with the recognition of all effects until that date, without previous year modification.

The Company applied the exemptions that allow for the non-recognition of an asset and liability as was described previously in the accounting police, for lease contracts with terms under 12 months (provided they have no lease-purchase or term renewal options) and contracts where the acquisition of an individual contract asset is less than US $5,000 (five thousand dollars). Therefore, for some lease contracts, payments will continue to be recognized as expenses within operating income.

Additionally, the Company applied the following practical expedients provided by IFRS 16 for the transition date

- Accounting as lease the payments made in conjunction with the rent and representing services (for example, maintenance and insurance).
- Create portfolios of contract that are similar in term, economic environment and asset characteristics, and use a funding rate by portfolio for measuring the leases.
- For leases classified as financial leases at December 31, 2018 and without updating components of minimum payments by way of inflation, maintain the right-of-use asset balance and the corresponding lease liability in the date of adoption of IFRS 16.
- Do not revise the conclusions previously reached for service contracts that were analyzed until December 31, 2018 under IFRIC 4, *Determining whether an arrangement contains a lease*, and in which it had been concluded that there was no implicit lease.

As of January 1, 2019, the Company recognized a right-of-use asset for $309,234 and a lease liability for $299,616. The resulting difference between the right-of-use asset and the lease liability is caused from prepayments that were reclassified to the right-of-use asset.

The weighted average incremental rate on which the minimum payments of the lease agreements within the scope of IFRS 16 were discounted at present value was 5.38%.

The Company took the actions required to implement the changes that the standard represents in terms of internal control, tax and system matters, as of the date of adoption.

The following is a reconciliation of the total commitments for operating leases as of December 31, 2018 and the lease liability at the date of initial adoption:

Operating lease commitments as of December 31, 2018	$ 497,123
Lease liability as of December 31, 2018	327,454
(-) Optional exceptions	(27,838)
Lease liability as of January 1, 2019	$ 299,616

IFRIC 23, Uncertainty over Income Tax Treatments

This interpretation clarifies the application of recognition and measurement criteria established by IAS 12, Income Taxes, when there are uncertainties in income taxes. Uncertain tax treatments are those where there is uncertainty that the taxation authority will agree to the tax treatment under current tax legislation. In such cases, the entity shall recognize and measure its current or deferred tax asset or liability by applying the requirements of IAS 12 according to taxable profit (loss), tax bases, unused tax losses, unused tax credits and tax rates applying this Interpretation.

In assessing how an uncertain tax treatment affects the determination of fiscal gain (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, the Company assumes that the amounts will be inspected that the authority is entitled to examine and will have full knowledge of all related information when conducting such inspections.

The Company applied IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. The Company did not have impacts in its consolidated financial statements due the adoption of such Interpretation, derived from the fact that it does not hold uncertain tax positions with a probability of loss.

Newly IFRS and interpretations issued, not effective in the reporting period

The Company has reviewed the following newly IFRS and improvements issued by the IASB not effective during the reporting period, and in its evaluation process, does not visualize potential impacts due to its adoption, considering that they are not of significant applicability:

- IFRS 17, Insurance contracts [(1)]
- Improvements to the IFRS 3, Business definition [(2)]
- Improvements to the IAS 1 and IAS 8 – Materiality definition [(2)]
- Improvements to the IFRS 9, IAS 39 and IFRS 7 – Reform of the reference rate [(2)]

(1) Effective for annual periods beginning on January 1, 2021

(2) Effective for annual periods beginning on January 1, 2020

4 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value of for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods which are mentioned in the subsequent paragraphs: where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, machinery and equipment

The fair value land and buildings is based on market values in the normal course of business and according to the accounting policies of the Company. The market value of land and buildings is the estimated amount for which a property could be exchanged on the valuation date between a buyer and a seller willing to do so in a transaction based on prices comparable to those that would be used with or between independent parties in comparable operations after the proper commercialization work in which each of the parties would have acted voluntarily and with full knowledge of the cause.

(b) Non-derivative financial liabilities

The fair value determined for disclosure purposes is based on the present value of future principal and interest cash flows, discounted at the market interest rate on the measurement rate. Regarding the liability component of the convertible instruments, the market interest rate is determined with reference to similar liabilities with no conversion option. In the case of financial leases, the market interest rate of financial leases is determined based on reference to similar leases.

5 Operating segments

The Company has three reportable segments that must be reported, which are the Company's business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Company's CEO (the Chief Executive Officer) reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Company's reportable segments:

- Auto parts, which is mainly engaged in the manufacture and sale of auto parts products in gray and nodular iron for the automotive industry;
- Construction, which is mainly engaged in the manufacture and marketing of ceramic coatings.
- Home products, wares, which is dedicated to the manufacture and marketing of articles for porcelain kitchen and tableware and ceramic tableware for domestic and institutional use.

Then, information related to the profit or loss of each one of the operating segments is listed, as well as by geographical region for the Auto parts segment. Performance is measured based on the income of each segment before income tax, and included in the management reports reviewed by the Company's Chief Executive Officer. Each segment's profit is used to measure performance since management considers this information is the most appropriate to evaluate the profits or loss of certain segments as compared to other entities operating in the same line of business as the Company.

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(a) *Operating segment information*

Year ended Dec 2019		Auto parts America	Auto parts Europe/Asia	Construction	Home products	Corporate and eliminations [2]	Consolidated
Export sales	$	6,119,880	6,203,395	364,553	136,235	-	12,824,063
Domestic sales	$	-	-	3,079,138	1,248,819	(109,925)	4,218,032
Service sales	$	-	-	-	-	87,004	87,004
Net sales	$	6,119,880	6,203,395	3,443,691	1,385,054	(22,921)	17,129,099
Operating income	$	955,612	634,453	(710,351)	(38,343)	(241,205)	600,166
Net income	$	515,022	367,112	(689,771)	(71,509)	686,782	807,636
Total assets	$	6,314,497	6,138,202	4,369,591	1,364,172	5,649,866	23,836,328
Total liabilities	$	1,819,264	2,465,021	1,465,498	460,916	5,089,323	11,300,022
Depreciation and amortization	$	472,968	478,016	267,922	76,112	258,219	1,553,237
EBITDA [1]	$	1,428,580	1,112,469	(442,429)	37,769	17,014	2,153,403

Year ended Dec 2018		Auto parts America	Auto parts Europe/Asia	Construction	Home products	Corporate and eliminations [2]	Consolidated
Export sales	$	5,061,114	7,281,955	523,878	162,591	-	13,029,538
Domestic sales	$	-	-	2,947,860	1,401,970	(90,163)	4,259,667
Service sales	$	-	-	-	-	295,944	295,944
Net sales	$	5,061,114	7,281,955	3,471,738	1,564,561	205,781	17,585,149
Operating income	$	665,882	721,371	(391,652)	66,738	13,109	1,075,448
Net income	$	382,807	538,829	(563,986)	(5,086)	340,094	692,658
Total assets	$	4,379,663	6,947,190	4,556,837	1,064,771	8,927,731	25,876,192
Total liabilities	$	1,146,545	3,413,106	1,772,575	363,388	7,059,288	13,754,902
Depreciation and amortization	$	300,289	451,708	227,203	41,383	225,013	1,245,596
EBITDA [1]	$	966,171	1,173,079	(164,449)	108,121	238,122	2,321,044

(1) EBITDA: Total operating activities + depreciation and amortization

	2019	2018
Total operating activities	$600,166	$1,075,448
Depreciation and amortization	$1,553,237	$1,245,596
EBITDA	$2,153,403	$2,321,044

(2) Corporate and eliminations include mainly assets and liabilities related to goodwill, loans and other long-term liabilities, among others.

(b) Main clients

In 2019 and 2018, revenue from a customer of the Auto parts Segment represented approximately 16.1% and 7%, respectively, in both periods, of the total revenues of the Company.

6 Cash and cash equivalents

Cash and cash equivalents include the following:

		2019	2018
Bank balances	$	1,083,956	475,200
Investments at immediate realization value		589,824	605,400
Total de efectivo y equivalentes de efectivo	$	1,673,780	1,080,600

7 Assets held for sale and discontinued operations

At December 31, 2018, the Company was in discussions for the sale of its Water Heater Business (Calorex); On January 14, 2019, the Company signed an agreement with Ariston Thermo S.p.A. for the sale of Calentadores de América, S.A. de C.V., Fluida, S.A. de C.V. and Water Heating Technologies, Corp. The transaction was completed on April 30, 2019 with a price of $2,775,933 under the agreement for the sale of shares among the parties, due to the movement of working capital, assumed debt and transferred cash. The Company recognized a gain in the sale of $616,782, net of taxes.

Due the Water Heater Business represented an operating segment, within the reportable Construction segment, management decided to qualify the results and cash flows as "Discontinued operations" in accordance with the IFRS 5 "Non-current assets held for sale and Discontinuous Operations". In addition, as of December 31, 2018, the assets and liabilities of the aforementioned subsidiaries were presented separately as assets held for sale and as liabilities directly related to assets held for sale, including a goodwill for $ 337,304 associated with the Business to be willing. Below is the detail of the assets and liabilities presented in these lines:

Statements of Financial Position		2018
Assets:		
Cash and cash equivalents	$	13,189
Trades and other accounts receivables		952,249
Inventories		687,779
Property, machinery and equipment		340,078
Non-current other assets		566,709
Total assets	$	2,560,004
Liabilities		
Trades and other accounts payable	$	552,595
Deferred taxes		2,063
Total liabilities	$	554,658
Total stockholder's equity	$	2,005,346
Total liabilities and stockholder's equity	$	2,560,004

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Consolidated held-for-sale assets include assets relating to other subsidiaries for $15,661 and $18,943 as of December 31, 2019 and 2018, respectively, which relate to properties in the process of being sold, which were not part of Calorex transaction.

In addition, the caption of discontinued operations in the consolidated income statements for the quarter ended on April 30, 2019 and for the year ended on December 31, 2018, as shown below:

Statements of Income		2019	2018
Revenues	$	642,351	2,688,520
Gross profit		162,207	754,308
Income from operating activities		(39,909)	114,437
Financial cost, net		10,405	27,946
Share of profit of equity-accounted investees		(53)	(199)
Income before taxes		(50,261)	86,690
Income taxes		(12,720)	14,661
Net income	$	(37,541)	72,029
Gain in sale of discontinued operation, net of income taxes		616,781	-
Profit from discontinued operations, net of income taxes		579,240	72,029
EPS (discontinued operations)	$	1.66	0.20

Finally, cash flows related with Calorex transaction for the four months ended on April 30, 2019 and for the year ended on December 31, 2018, are shown below:

Statements of Cash Flows		2019	2018
Cash flows from operating activities:			
Net income	$	(37,541)	72,029
Cash flows provided by operating activities before changes in accruals		(20,071)	150,817
Net cash flow provided by (used in) operating activities		(57,637)	183,084
Cash flow used in investment activities		(15,841)	(45,207)
Cash flow, net (used in) provided by financing activities		151,988	(146,978)
Increase (decrease) net of cash and cash equivalents		78,510	(9,101)
Cash and cash equivalents at the beginning of the year		13,189	22,290
Cash and cash equivalents as of December 31		91,699	13,189

8 Trades and other accounts receivable

Trades and other accounts receivable include the following:

		2019	2018
Trades receivable	$	2,676,229	3,067,408
Other non-commercial accounts receivable		117,507	145,696
		2,793,736	3,213,104
Less:			
Allowance for doubtful accounts		(52,769)	(49,542)
Other non-commercial accounts receivable		(62,482)	(41,131)
		(115,251)	(90,673)
Total trades and other accounts receivable	$	2,678,485	3,122,431

In the normal course of business, the Company provides discounts and rebates to its customers by volume, which are provided as a result of the implementation of various sales programs, so estimates of discounts based on periods and conditions are made previously agreed with customers, through contractual agreements.

Note 20 discloses the Company's exposure to credit and a sensitivity analysis for financial assets and liabilities.

9 Recoverable taxes

Recoverable taxes include the following:

		2019	2018
Recoverable value added tax	$	91,275	103,711
Recoverable income tax		216,508	141,772
Total recoverable taxes	$	307,783	245,483

10 Inventories

Inventories include the following:

		2019	2018
Finished goods	$	1,141,657	1,282,113
Raw material		770,649	730,853
Work in process		221,543	220,376
Material in transit		26,337	22,749
		2,160,186	2,256,091
Less: allowance for obsolete and slow-moving inventory		(342,627)	(184,242)
Total	$	1,817,559	2,071,849

As of December 31, 2019 and 2018, the raw material, supplies and changes in finished goods and work in process recognized as part of cost of sales amounted to $11,590,921 and $12,092,929, respectively.

The estimates expenses for obsolescence and slow inventory movements for the years ended December 31, 2019 and 2018 were $158,385 and $42,060, respectively.

11 Property, machinery and equipment

The reconciliation of the beginning and ending balances of property, machinery and equipment are presented below:

		Land and buildings	Machinery and equipment	Furniture and equipment	Transportation equipment	Computer equipment	Investments in process	Total
Balance as of January 1, 2018	$	4,824,734	10,353,285	64,529	47,269	75,811	1,143,311	16,508,939
Additions		33,665	325,270	3,987	4,973	13,096	303,093	684,084
Transfers		102,747	1,054,719	1,940	522	3,823	(1,163,751)	-
Disposal		(17,367)	(65,173)	(2,554)	(3,217)	(78)	-	(88,389)
Revaluation		1,005,542	-	-	-	-	-	1,005,542
Reclassification of assets held for sale		(53,327)	-	-	-	-	-	(53,327)
Effect of changes in exchange rates		(122,393)	(303,318)	(1,325)	(1,457)	(1,395)	2,804	(427,084)
Balance as of December 31, 2018	$	5,773,601	11,364,783	66,577	48,090	91,257	285,457	17,629,765

		Land and buildings	Machinery and equipment	Furniture and equipment	Transportation equipment	Computer equipment	Investments in process	Total
Balance as of January 1, 2019	$	5,773,601	11,364,783	66,577	48,090	91,257	285,457	17,629,765
Additions		44,641	246,883	1,714	28,118	6,133	768,060	1,095,548
Transfers		27,634	312,823	1,925	2,531	9,324	(354,237)	-
Disposal		(1,573)	(383,701)	(4,668)	(9,748)	(1,528)	-	(401,218)
Business acquisition		275,536	1,096,103	9,183	-	3,077	88,854	1,472,753
Effect of changes in exchange rates		(123,457)	(535,441)	(2,043)	(2,159)	(4,031)	(24,249)	(691,380)
Balance as of December 31, 2019	$	5,996,382	12,101,450	72,688	66,832	104,232	763,885	19,105,469

		Land and buildings	Machinery and equipment	Furniture and equipment	Transportation equipment	Computer equipment	Investments in process	Total
Accumulated depreciation and impairment								
Balance as January 1, 2018	$	1,629,172	5,883,165	53,430	32,507	36,912	-	7,635,186
Depreciation of the period		340,705	595,223	5,894	7,447	9,698	-	958,967
Disposals		(4,558)	(46,914)	(2,507)	(1,466)	(78)	-	(55,523)
Revaluation		717,276	-	-	-	-	-	717,276
Reclassification of assets held for sale		(54,114)	-	-	-	-	-	(54,114)
Effect of changes in exchange rates		(56,307)	(86,106)	(339)	(1,097)	(938)	-	(144,787)
Balance as December 31, 2018	$	2,572,174	6,345,368	56,478	37,391	45,594	-	9,057,005
Balance as January 1, 2019	$	2,572,174	6,345,368	56,478	37,391	45,594	-	9,057,005
Depreciation of the period		143,257	955,397	5,310	11,403	14,408	-	1,129,775
Disposals		(931)	(313,430)	(3,834)	(7,543)	(948)	-	(326,686)
Transfers		7,430	-	-	-	-	-	7,430
Effect of changes in exchange rates		(85,392)	(277,366)	(1,123)	(1,372)	(2,298)	-	(367,551)
Balance as December 31, 2019	$	2,636,538	6,709,969	56,831	39,879	56,756	-	9,499,973
Net book values								
As December 31, 2019	$	3,359,844	5,391,481	15,857	26,953	47,476	763,885	9,605,496
As December 31, 2018	$	3,201,427	5,019,415	10,099	10,699	45,663	285,457	8,572,760

As of December 31, 2019 and 2018, the depreciation in profit or loss represented $1,129,775 and $958,967 respectively and was included on the operating expense.

As of December 31, 2019 and 2018, there are no liens on the fixed assets.

(a) Revaluation of land and buildings

The Company with the support of an independent appraiser, carried out appraisals of land and buildings, which in accordance with the accounting policy describe in note 3, are valued at their fair value. At December 31, 2018 it was determined that the fair value was $3,201,427 with an impact on the surplus in stockholders' equity of $302,833. During 2019 there were no significant changes in the fair value.

(b) Investments in process

Investments in progress comprise investments in machinery and equipment earmarked for new production projects. At December 31, 2019 and 2018, the investments in progress accounted for $763,884 and $285,457, respectively. At December 31, 2019 they relate mainly to investments in the auto parts segment in Cifunsa del Bajío and Tisamatic (Security spare parts), in Evercast (Expansion project of line 3), and the construction segment via Manufacturas Vitromex (Project for improvement plant processes (Fire control systems, gas meters, sprayers and others). At December 31, 2018 they relate mainly to investments in the foundry segment in Cifunsa plant (Security spare parts, Ovens and DISA Project, and the construction segment via Manufacturas Vitromex (Project for improvement plant processes (Fire control systems, gas meters, sprayers and others).

(c) Long-term spare parts

As of December 31, 2019 and 2018, long-term spare parts are the following:

Long-term spare parts [1]	$	257,183	276,065

(1) It is mainly composed of spare parts and safety parts of the machinery and equipment of some subsidiary companies, mainly in the auto parts segment.

12 Right-of-use asset, net

The Company leases several fixed assets, including buildings, machinery, transport equipment and computer equipment, among others. The average lease term is 4 years.

The right-of-use asset recognized in the consolidated statement of financial position as of December 31, 2019, is integrated as follows:

	Lands and buildings	Machinery and equipment	Transport and computer equipment	Total
Opening balance as of January 1, 2019	$ 144,307	$ 86,008	$ 78,919	$ 309,234
Ending balance as of December 31, 2019	107,902	81,706	68,100	257,708
Depreciation expense in 2019	$ 19,927	$ 38,868	$ 31,410	$ 90,205

Recorded amounts in consolidated income statements for the year ended in December 31, 2019:

Expense of lower value lease	$ 61,252
Expense of short-term lease	$ 12,598

Additions to the book value, net of right-of-use asset for leases as of December 31, 2019 amount to $45,038.

As of December 31, 2019, the Company has commitments for an amount of $309, due short-term leases agreements.

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13 Intangible assets

Intangible assets are mentioned below:

		Goodwill	Patents and trademarks	Development costs	Customer relationship	Security deposits and other	Total
Cost							
Balance as January 1, 2018	$	3,700,858	-	256,373	2,377,226	124,285	6,458,742
Acquisitions		-	100,463	38,635	-	7,397	146,495
Reclassifications		(39,399)	-	-	-	-	(39,399)
Effect of changes in exchange rates		23,402	(1,245)	(1,065)	(18,159)	(1,869)	1,064
Balance as December 31, 2018	$	3,684,861	99,218	293,943	2,359,067	129,813	6,566,902
Balance as January 1, 2019	$	3,684,861	99,218	293,943	2,359,067	129,813	6,566,902
Acquisitions		-	-	169,913	-	3,607	173,520
Business acquisition		171,897	-	17,522	257,055	-	446,474
Effect of changes in exchange rates		(22,624)	(250)	(12,819)	(20,216)	(4,540)	(60,449)
Balance as December 31, 2019	$	3,834,134	98,968	468,559	2,595,906	128,880	7,126,447
Amortization and impairment losses							
Balance as January 1, 2018	$	(3,207)	-	(80,926)	(282,256)	(84,940)	(451,329)
Amortization of the period		-	(5,477)	(47,540)	(232,275)	(1,337)	(286,629)
Balance as December 31, 2018	$	(3,207)	(5,477)	(128,466)	(514,531)	(86,277)	(737,958)
Balance as January 1, 2019	$	(3,207)	(5,477)	(128,466)	(514,531)	(86,277)	(737,958)
Amortization of the period		-		(72,029)	(258,724)	(2,504)	(333,257)
Balance as December 31, 2019	$	(3,207)	(5,477)	(200,495)	(773,255)	(88,781)	(1,071,215)
Net book values							
Balance as December 31, 2019	$	3,830,927	93,491	268,064	1,822,651	40,099	6,055,232
Balance as December 31, 2018	$	3,681,654	93,741	165,477	1,844,536	43,536	5,828,944

(a) Customer relationships

- GISSA has recognized an intangible asset in books for the customer relationship, from the acquisition of Grupo INFUN in the amount of $1,931,890 amortizable to 10 years, according to the evaluation of the Purchase Price Allocation, ("PPA"). As of December 31, 2019 and 2018 there is an accumulated depreciation of $579,567 and $386,378, respectively.

- ACE Group has recognized an intangible in books for the customer relationship that amounts to $356,269, amortizable to 10 years, in accordance with the Purchase Price Allocation ("PPA"). As of December 31, 2019 and 2018 there is an amortization of $167,983 and $128,153, respectively.

- Due from the acquisition of control of Evercast, since January 1, 2019, the Company recognizes an intangible asset for customer relationship of $257,049, amortizable in 10 years, according with the estimate of the management and purchase price allocation. As of December 31, 2019 the accumulated amortization of this assets amounts to $25,705.

(b) Recoverability of development costs

The carrying amount of development costs as of December 31, 2019 and 2018 before amortization includes $181,705 related to the updating project of the accounting software for the Company. These costs include both the value of the licenses of $47,136, such as costs of implementing such software of $134,569. The implementation was carried out in different stages from 2014 to 2017. The useful life estimated by the Company for the implementation costs and licenses is 7 years, the amortization for 2019 and 2018 is related to the software in operation.

(c) Impairment tests for cash-generating units that include goodwill, other intangibles assets, brands and patents.

For impairment test purposes of goodwill, other intangibles assets, as well, brands and patents are determined at level to the cash-generating units (CGU) of the Company that represent the lowest level therein at which are monitored by the management, which are not greater than the operating segments of the Company reported in note 5. Draxton México CGU'S (before Tisamatic), ACE, INFUN and Evercast are part of the auto parts sector.

Then the total carrying amount of goodwill that was allocated to each cash-generating unit and related impairment losses that were recognized are as follows:

		Goodwill	
		2019	2018
INFUN unit	$	3,041,087	3,038,315
ACE unit		343,115	368,509
Draxton México unit		274,830	274,830
Evercast unit		171,895	-
	$	3,830,927	3,681,654

The impairment test of the CGU's was based on the methodology of use value of assets, discounting the future expected cash flows from continued use of the assets, the pre-tax discount rates and the long-term growth rates used are the following:

Groups of CGU's	Discounting rates	
	2019	2018
Mexico auto parts	11.01%	11.13%
Europe auto parts	11.53%	11.49%
Asia auto parts	10.32%	10.53%

- The cash flows were projected based on past experiences, actual operating results and the five-year business plan for Construction, Consumption and Auto parts, respectively.
- The investments in machinery and equipment are considered only to keep the current manufacturing capacities which cover the amounts the volumes forecast in the projections of 5 and 7 years, respectively.
- The cost of domestic intermediate goods purchased in pesos is estimated to increase according to domestic inflation. The cost of imported intermediate goods will be similar but according to the inflation of the U.S.A. other costs are estimated to increase in proportion to inflation of the country.

- The discount rate was calculated based on the weighted average cost of capital, which was based on a) a possible debt leveraging range of 33% at a market interest rate of 4.43% for auto parts and; b) capital of 67% with a market cost of 17.02% per cash-generating unit.

The values assigned to the key assumptions represent the management evaluation of future tendencies in the business and are based on both external and internal sources.

If the discount rate used increases a percentage point (11.53 + 1, 11.01 + 1 and 10.32 + 1) according to the CGU), the value obtained as flow is sufficient to cover even the assets analyzed.

As of December 31, 2019 and 2018, according to our analysis, we have no evidence that indicates the need to recognize impairment of recognized intangible assets.

14 Permanent investments

Gisederlan, S.A. de C.V. (Gisederlan) is a company machining iron components in the auto parts sector. The shareholding of Industria Automotriz Cifunsa, S. A. de C. V. in the company is 50% and the remaining 50% is held by Ederlan Subsidiaries, S. L. U.

Ineder Projects, S.L. (Ineder) is a company engaged in the processing of iron components for the automotive parts sector. The shareholding of Industria Automotriz Cifunsa, S. A. de C. V. in the company is 50% and the remaining 50% is held by Ederlan Subsidiaries, S. L. U.

Gisederlan and Ineder has been structured through a separate vehicle, consequently has been classified as a joint venture that will be accounted as an investment using the equity method. The prior mentioned based on the documentation established in the Shareholders' Agreement, in which were designated the relevant decision making is jointly and irrevocably on matters that most significantly affect the performance of the companies, so none of the investors holds unilaterally control.

In other hand, Evercast, S.A. de C.V., ("Evercast") is a nodular iron foundry company to manufacture and machine parts of brake systems. The shareholding of Grupo Industrial Saltillo, S.A.B. de C.V. through its subsidiary Industria Automotriz Cifunsa, S.A. de C.V. (IACSA), in Evercast it is 70% and the remaining 30% belongs to Kelsey Hayes Company who is a subsidiary of TRW Automotive Holdings Corp., a customer of the Company's auto parts sector. As mentioned in Note 1, as of January 1, 2019, derived from changes in the clauses to the Evercast shareholders agreement, GIS now maintains the majority of the substantive rights on the investment, thus Evercast is considered a subsidiary and consolidated since that date; previously, the investment had been classified as a joint venture and was measured under the equity method.

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The following is a condensed information of the entities, which was prepared in accordance with IFRS:

		Evercast	Gisederlan		Ineder	
		2018	2019	2018	2019	2018
Revenues	$	1,574,317	500,539	250,913	65,703	122,321
Profit (loss) from continuing operations		255,049	9,578	(29,749)	(6,298)	(5,999)
Net financial income		17,099	22,028	12,713	6,873	8,279
Net income (loss)		216,824	(6,175)	(26,780)	(13,582)	(14,225)
Current assets		1,053,563	242,383	179,950	128,959	151,742
Noncurrent assets		1,442,509	651,479	572,164	120,419	159,614
Total assets		2,496,072	893,862	752,114	249,378	311,356
Current liabilities		232,110	191,170	218,630	126,138	124,083
Noncurrent liabilities		707,037	392,894	400,362	187,550	244,675
Total liabilities		939,147	584,064	618,992	313,688	368,758
Total stockholders' equity	$	1,556,925	309,798	133,122	(64,310)	(57,401)

At December 31, 2019 and 2018 the investment in shares measured under the equity method is as following:

	%	Investment 2019	Investment 2018
Evercast, S.A. de C.V.	70	-	1,089,848
Gisederlan, S.A. de C.V.	50	154,899	66,561
Ineder Projects, S.L.	50	(32,156)	(28,701)
Total		122,743	1,127,708

	%	Participación en resultados 2019	Participación en resultados 2018
Evercast, S.A. de C.V.	70	-	151,777
Gisederlan, S.A. de C.V.	50	(3,088)	(13,390)
Ineder Projects, S.L.	50	(6,804)	(7,113)
		(9,892)	131,274
Interest remeasurement before acquisition of control.		282,373	-
TOTAL		(272,481)	131,274

The translation effect recognized in 2019 and 2018 amounted to $78,972 and $70,945, respectively.

At December 31, 2018, the fair value of land and buildings was $193,024, with an impact on stockholders' equity surplus of $15,241.

Control acquisition of Evercast

When the Company obtains control over an investment previously measured under the equity method, in accordance with IAS 28 I*nvestments in associates and joint ventures*, in consolidated income statement, any difference between the fair value and the carrying amount of the investment, to subsequently make the purchase price allocation ("PPA") in accordance with IFRS 3 *Business Combinations*. Therefore, the Company recognized a Remediation of interest previously held before the change of control in joint ventures of $ 282,374, which, as of January 1, 2019, generated a carrying amount of the investment of $1,089,849, which was the basis to perform the PPA with the purchase method.

As it is an acquisition of control that arises from changes in the shareholders' agreement, there was no cash flow in the transaction.

In accordance with IFRS 3, which grants a period of twelve months to complete the allocation of the purchase price from the date of acquisition, to the date of presentation of the consolidated financial statements, the Company concluded the process of completing the allocation of the purchase price to the net assets identified in the transaction. This allocation was carried out with the support of independent appraisers to determine the fair values of the net assets acquired as of January 1, 2019, which are presented below:

Identified acquired assets and assumed liabilities:	
Cash and cash equivalents	$772
Inventories	133,692
Other current assets	926,103
Current assets	1,060,567
Property, machinery and equipment	1,454,254
Intangible assets	187,011
Customers relationship	257,055
Other non-current assets	23,585
Total assets	$2,982,472
Liability and stockholders' equity	
Suppliers and others	$223,120
Debt	$641,724
Deferred income tax	157,310
Total liabilities	1,022,154
Identified net assets	$1,960,319
Goodwill	$171,897

The results of the acquired operations have been included in the consolidated financial statements since the acquisition date, therefore, the consolidated statements of results, comprehensive income and cash flows for the year 2018 are not comparable with those of the year 2019.

As described previously, the shareholding of GIS through its subsidiary Industria Automotriz Cifunsa, S.A. de C.V. (IACSA), in Evercast is 70% and the remaining 30% belongs to Kelsey Hayes Company who is a subsidiary of TRW Automotive Holdings Corp. At the date of acquisition, the non-controlling interest in Evercast amounted to $121,020, which was determined through a fair value measurement.

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Below, Evercast information from January 1, 2019 (acquisition date) included in the consolidated statement of comprehensive income for the year ended December 31, 2019, are showed:

		Evercast
Revenues	$	1,747,639
Operating result		336,453
Comprehensive income		262
Net income		274,435

15 Trades and other accounts payable

Trades and other accounts and short-term accumulated expenses payable include:

		2019	2018
Trades payable	$	2,563,600	2,838,083
Provisions [2]		227,339	231,281
Nacional Financiera, SNC		18,648	96,308
Advances from customers		89,176	100,329
Sundry creditors [1]		1,072,442	719,952
		3,971,205	3,985,953

(1) **Sundry creditors.-** This concept includes, without limitation; withholdings to third parties of Value Added Taxes and Income Taxes, balances pending payment to the Mexican Institute of Social Security, INFONAVIT, FONACOT and others. Additional in 2017 a Judicial resolution of the German Court towards Infun, S.A. as debtor and in favor of the Kreditanstalt für Wiederaufbau (Credit Institute for Reconstruction), for an amount of $ 12,260, which during the 2018 fiscal year was liquidated.

(2) **Provisions -** Following is the movement of provisions as of December 31, 2019 and 2018:

		Wages and other payments to personnel	Contingencies provision	Others	Total
Balance as January 1, 2018	$	206,175	69,496	167,271	442,942
Provision created during the year		1,973,920	22,738	715,974	2,712,632
Provision used during the year		(2,070,892)	(30,626)	(822,775)	(2,924,293)
Balance as December 31, 2018	$	109,203	61,608	60,470	231,281
Balance as January 1, 2019	$	109,203	61,608	60,470	231,281
Provision created (canceled) during the year		2,792,112	(16,705)	1,509,031	4,284,438
Provision used during the year		(2,815,295)	(11,739)	(1,458,120)	(4,285,154)
Annual present value effect		-	-	191	191
Foreign exchange differences		-	(74)	(3,343)	(3,417)
Balance as December 31, 2019	$	86,020	33,090	108,229	227,339

(a) Wages and other payments to personnel

The balance of this provision is related to personnel services. This provision includes mainly accruable vacations, savings funds, productivity bonus, year-end bonus, among others.

(b) Liability for contractual obligations assumed

As of December 31, 2019 and 2018, there is a provision of $33,092 and $61,608, respectively, which is generated by the contractual obligations assumed by the sale of a subsidiary Company during the year 2012.

(c) Others

As of December 31, 2019 and 2018, there is a provision of $215,965 and $60,470, respectively that includes mainly replacement of tools, energy, as well as for various provisions related with services and obligations of strategic investment projects of the Company.

Note 20 disclose the Company's exposure to exchange and liquidity risk related to trades and other accounts payable and a sensitivity analysis for financial assets and liabilities

16 Loans

a) The activity of the loans as of December 31, 2019 and 2018 is presented below:

		2019	2018
Balance as January 1	$	7,265,930	6,236,834
New long-term debt		3,485,970	4,736,331
Payments of loans		(5,978,811)	(3,592,832)
Business acquisition		649,536	-
Net investment hedge		(105)	184,311
Unrealized exchange gain		(121,373)	(295,162)
Write off of debt issuance costs		84,262	(83,511)
New debt issuing costs		(53,729)	79,959
Balance as December 31	$	5,331,680	7,265,930

b) Long-term loans

As of December 31, 2019 and 2018, the bank loans is presented below:

Financial Institution	Rate	Currency	Maturity date	Unpaid balance in pesos	Contracting cost [1]	Outstanding balance before contracting cost 2019	Outstanding balance before contracting cost 2018
Syndicated loan with Citigroup Global Markets Inc. as Lead Arrenger Banco Nacional de Mexico, S.A. as Admin Agent, HSBC Bank USA as Collateral Agent with an opening balance of $235 MUSD, which was paid in advance during 2019.	LIBOR 3M plus a spread that goes from 1.70% to 2.45%	USD	2023	-	-	-	4,556,377

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Syndicated loan with HSBC Bank USA, National Association, as Administrative Agent and Collateral Agent, HSBC Bank USA, HSBC Securities (USA) Inc., as Lead Arranger and Bookrunner with an outstanding balance of $180 MUSD.	LIBOR 3M plus a spread that goes from 1.55% to 2.15%	USD	2025	3,392,136	47,380	3,344,756	-
Bilateral loan with Comerica Bank with an outstanding balance of MUSD 33[2].	LIBOR 3M plus a spread 2.50%	USD	2023	621,892	4,840	617,052	-
Listed Securities under the ticker symbol GISSA 17 with an unpaid balance of $1,375 million MXN.	Fixed of 9.64% annual	MXP	2027	1,375,000	12,105	1,362,895	1,360,798
Listed Securities under the ticker symbol GISSA 17-2 with an unpaid balance of $400 million MXN, which was paid in advance during 2019.	TIIE 28D + 1.00%	MXP	2020	-	-	-	396,784
CaixaBank, Santander, Banco Popular Español, Banco Bilbao Vizcaya Argentaria, Bankinter with an outstanding balance of $23.8 MEUR which was paid in advance during 2019.	Euribor 6M + 1.95%	EUR	2023	-	-	-	529,449
Center for Industrial Technology Development, Public Business Entity with an outstanding balance of $14 thousand EUR.	Preference	EUR	2027	304	-	304	4,626
Banco Bilbao Vizcaya Argentaria, S.A. with an outstanding of $1.5 MEUR which was paid in advance during 2019.	Fixed of 1.50% annual	EUR	2020	-	-	-	34,450

Center for Industrial Technology Development, Public Business Entity with an outstanding balance of $316 thousand EUR.	Preference	EUR	2026	6,673	-	6,673	7,561
Banco Santander, S.A. with an outstanding balance of $3.9 MEUR which was paid in advance during 2019.	Fixed of 1.55% annual	EUR	2023	-	-	-	90,428
Bankinter, S.A. with an unpaid balance of $1.2 MEUR which was paid in advance during 2019	Fixed of 1.85% annual	EUR	2020	-	-	-	26,046
Banco Santander, S.A. with an outstanding balance of $9.3 MEUR which was paid in advance during 2019.	Fixed of 1.55% annual	EUR	2023	-	-	-	210,272
Bankinter, S.A. with an unpaid balance of $2.2 MEUR which was paid in advance during 2019.	Fixed of 1.75% annual.	EUR	2020	-	-	-	49,139
					Grand total	**5,331,680**	**7,265,930**
					Current installment	**2,530**	**222,010**
					Long-term debt	**$ 5,329,150**	**$ 7,043,920**

(1) The outstanding balances of the loans are presented net of the costs of contracting said credits, which will be amortized according to the effective interest method for the life thereof. These balances are presented in the consolidated statements of financial position to comply with current IFRS.

(2) The loan comes from Evercast subsidiary, which was acquiered the control since January 1, 2019.

Bank loans establish certain obligations to do and not to do, among which are that there should be no indicated of going concern, can not merge, liquidate or dissolve all their assets, make changes in their accounting policies or reporting practices (in all cases with some exceptions), except as required in the applicable IFRS. Some loans require quarterly financial statements along with a certificate of compliance signed by a Company official.

As of December 31, 2019 and 2018, the Company has complied with the obligations to do and not to do, and financial obligations (if any), established in the different debt contracts mentioned above.

The long-term Senior Secured Credit Agreement of Grupo Industrial Saltillo, S.A.B. de C.V. for USD $195 million, which include a line of credit for USD 50 million, undrawn at year end, had an outstanding balance of USD $180 million or its equivalent of $ 3,345 million of pesos which $47.4 million of pesos is subtracted for contracting expenses of said credit which will be amortized during the life of the same; these balances are presented in the consolidated statements of financial position to comply with current IFRS.

Issuance of Bonds Listed Securities of Grupo Industrial Saltillo, S.A.B. de C.V. con ticker symbol GISSA 17 has a balance of $1,375 million pesos of which $14.2 million pesos are deducted for contracting expenses of this credit, which will be amortized for the life thereof under the effective interest method. This presentation in the Balance Sheet is made to comply with the information standards in force.

Maturities of long-term debt are listed below:

2021	$ 154,367
2022	421,031
2023	794,179
2024	1,179,606
2025 and thereafter	2,779,967
	$ 5,329,150

The Company and its subsidiaries have lines of credits for the issue of letters of credit for up to a total of USD 102.5 million, of which USD 46.5 million may also be used for short-term loans. At December 31, 2019, the drawn balance amounts to USD 8.4 million.

17 Other long-term liabilities

a) Other financings

Some of the GIS subsidiaries entered into financing agreements with various institutions for the condition of technological development projects, which do not meet the necessary requirements to be deemed bank debts and, therefore, are classified in accounting under other long-term liabilities.

As of December 31, 2019 and 2018, the other long-term liabilities include the following:

Financial Institution	Rate	Maturity date	Unpaid balance in pesos	Contracting cost	Unpaid balance before contracting cost 2019	Unpaid balance before contracting cost 2018
Center for Industrial Technology Development with an outstanding balance of $566 thousand EUR	No interest	2 – 11 years	11,934	627	11,307	15,545
Ministry of Industry, Tourism and Commerce with an outstanding balance of $432 thousand EUR	No interest	October 30, 2024	9,123	338	8,785	11,217
Society for the Promotion and Industrial Reconversion with an outstanding balance of $189 thousand EUR	No interest	12 months	3,988	-	3,988	1,901
Center for Industrial Technology Development with an outstanding balance of $2.5 MEUR	No interest	10 – 15 years	51,695	-	51,695	61,035

Center for Industrial Technology Development with an outstanding balance of $404 thousand EUR	No interest	9 – 14 years	8,544	-	8,544	9,850
Center for Industrial Technology Development with an outstanding balance of $413 thousand EUR	No interest	11 years	8,723	-	8,723	10,818
Other liabilities (1)					11,817	156,734
				Grand total	**104,859**	**267,100**
				Current installment	**22,063**	**22,492**
				Other long-term liabilities	**$ 82,796**	**$ 244,608**

(1) The balance of this account chiefly comprises the variable compensation scheme for officers of the automotive parts sector.

From the outstanding balance of the financings granted to Fuchosa, S.L.U. by the Center for Industrial Technology Development for $566 thousand Euros, or the equivalent in pesos of $11.9 million of pesos is subtracted $627 thousand of pesos for adjustments to the aforementioned loans according to their own characteristics.

From the outstanding balance of the financing granted to Fuchosa, S.L.U., by the Ministry of Industry, Tourism and Commerce for $432 thousand Euros or the equivalent in pesos of $9.1 million is subtracted $338 thousand pesos for adjustments to the aforementioned loans according to their own characteristics.

The maturities of long-term creditors are listed below:

2021	$	22,436
2022		12,573
2023		12,787
2024		12,175
2025 and thereafter		22,825
	$	82,796

Note 20 discloses the Company's exposure to interest rate risk, exchange rate and liquidity risk and a sensitivity analysis for financial assets and liabilities.

Financial leases

Certain subsidiaries of GISSA helded financial leasing contracts for the acquisition of various fixed assets, which have the necessary characteristics according to the regulations in which they are reported, to be considered as such. According to the regulations in force until December 31, 2018, these leases are considered as financial leases.

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The financial leases of the Company are detailed below:

	Outstanding balance in pesos	Contracting cost	Outstanding balance before contracting costs 2019	Outstanding balance before contracting costs 2018
Draxton Brno s.r.o., has some leases for the acquisition of fixed assets. At 31 December 2018, the unpaid balance of these instruments is EUR $55 thousand euros.	1,251	-	-	1,251
European Brakes and Chassis Components SP. Z.O.O., has some leases for the acquisition of fixed assets. At 31 December 2018, the unpaid balance of these instruments is EUR $1.4 million euros	31,671	18	-	31,654
Grand total			**-**	**$ 32,905**
Current installments			**-**	**11,086**
Long-term financial leases			**-**	**$ 21,819**

Of the unpaid balance of the financial leases of European Brakes and Chassis Components SP. Z O.O. for $ 1.4 million Euros or its equivalent in pesos of $31.6 million, $18 thousand pesos are subtracted for contracting cost of one of the leases which will be amortized during the used-life of the same; This presentation in the Balance Sheet is made to comply with the information standards in force.

Until December 31, 2018, the Company classified and measured the following contracts as operating leases:

a) Automotive Components Europe, S.L. and subsidiaries, Calentadores de América, S.A. de C.V., Cifunsa del Bajío, S.A. de C.V., Cinsa, S.A. de C.V., Infun, S.A. and subsidiaries, Manufacturas Vitromex, S.A. de C.V., and Tisamatic, S.A. de C.V., have operating leasing contracts, primarily for forklift equipment with defined lifetimes. As of December 31, 2018 these leasing expenses were approximately $35,635 thousand dollars.

b) Asesoría y Servicios GIS, S.A. de C. V., Aximus S.A. de C.V., Azenti, S.A. de C.V., Cifunsa del Bajío, S.A. de C.V., Infun, S.A. and subsidiaries, Manufacturas Vitromex, S.A. de C.V., Tisamatic, S.A. de C.V., have leasing contracts for computer equipment with defined lifetimes. For the fiscal year 2018 these leasing expenses were approximately $18,975.

c) Automotive Components Europe, S.L. and subsidiaries, Asesoria y Servicios GIS, S.A. de C.V., Aximus, S.A. de C.V., Azenti, S.A. de C.V., and Infun, S.A. and subsidiaries have leasing contracts for cars and transportation equipment with defined lifetimes. For the fiscal year 2018 these leasing expenses were approximately $27,308.

d) Automotive Components Europe, S.L. and subsidiaries, Cifunsa del Bajío, S.A. de C.V., Cinsa, S.A. de C.V., Infun, S.A. and subsidiaries and Tisamatic, S. de R.L. de C.V., have operating leasing for machinery and equipment. For the fiscal year 2018 these leasing expenses were approximately $18,906.

e) Automotive Components Europe, S.L. and subsidiaries and Infun, S.A. and subsidiaries have operating leasing contracts for office equipment. For the fiscal year 2018 these leasing expenses were approximately $300.

f) Automotive Components Europe, S.L. and subsidiaries, Asesoría y Servicios GIS, S.A. de C.V., Calentadores de América, S.A. de C.V., Cinsa, S.A. de C.V., Infun, S.A. de C.V. and subsidiaries and Manufacturas Vitromex, S.A. de C.V., have leasing contracts for fornitures with defined lifetimes. For the fiscal year 2018 these leasing expenses were approximately $26,615

The future minimum annual payments (in thousand) for these operating leases by currency are as follows:

Year	Pesos	Dollars	Euros	Czech Crowns	Zloty
2019	34,409	3,859	1,101	2,941	1,098
2020	20,022	3,089	742	2,468	1,096
2021	10,191	717	386	2,010	917
2022	3,993	56	196	1,466	556
2023	377	-	17	1,074	556
2024	-	-	4	1,074	556
2025	-	-	4	1,074	556
2026	-	-	-	1,074	556
2027	-	-	-	1,074	556
2028	-	-	-	1,074	34,998
	68,992	**7,721**	**2,450**	**15,329**	**41,445**

18 Lease liability

As indicated in Note 3, the Company adopted IFRS 16, Leases since January 1, 2019. Due to such adoption, the lease liabilities corresponding to the contractual obligations were recognized, whose balances as of December 31, 2019 are detailed as follow:

		December 31, 2019
Current		
In dollars	$	27,228
In Mexican pesos		19,184
In euros		27,795
Other currencies		4,831
Current lease liability	$	79,038
Non-current:		
In dollars		25,866
In Mexican pesos		26,804
In euros		32,877
Other currencies		95,741
Non-current lease liability	$	181,288

As of December 31, 2019, according to the opening balance, the changes in the lease liability from financing activities in accordance with the cash flow are integrated as follows:

		2019
Initial effect of IFRS 16, *Leases*	$	299,616
Additions/new contracts		54,118
Write-offs		(21,182)
Interest expense of lease liabilities		11,904
Lease payments		(96,046)
Exchange rate fluctuation		11,916
Final balance	$	260,326

The total minimum future payments of leases that include unearned interest are analyzed as follows:

		December 31, 2019
- Less than 1 year	$	89,429
- More than 1 year and less than 5 years		119,921
- More than 5 years		185,972
Total	$	395,322

19 Employee benefits

a) Defined benefit plans

		2019	2018
Present value of defined benefit obligations without foundingr	$	234,399	202,372
Present value of defined benefit obligations with founding		160,894	191,828
Total present value of defined benefit obligations		395,293	394,200
Plan assets at fair value		(160,894)	(191,828)
Net projected liabilities in the statement of financial position	$	234,399	202,372

The Company has implemented a defined benefit pension plan that substantially covers all of its trusted personnel. Benefits of the pension plan are calculated based on the years of service and the amount of compensation of employees. Likewise, it recognizes the obligations arising from payments that seniority bonuses should make to their employees and workers when they reach an advanced age.

The defined benefit plans in Mexico usually expose the Company to actuarial risks such as interest rate risk, longevity and salary. However, none of these is considered to have had unusual behaviors during periods reported.

During the period there were no amendments, curtailments and settlements in the plans of benefits granted to employees.

(i) Composition of plan assets

		2019	2018
Equity securities	$	101	121
Share investment companies		29,224	34,843
Public debt securities		103,539	123,445
Private debt securities		28,030	33,419
	$	160,894	191,828

(ii) Changes in the present value of defined benefit obligations (DBO)

		2019	2018
Defined benefit obligations as of January 1	$	394,200	452,795
Benefits paid by the plan		(87,567)	(54,292)
Labor cost of current service and financial cost		37,548	61,919
Disincorporation of Calentadores de America and Fluida (April 30) and step closing of Vitromex plant		(35,667)	-
Actuarial remeasurements recognized in the comprehensive income account		86,779	(66,222)
Defined benefit obligations as of December 31	$	395,293	394,200

(iii) Change in the present value of plan assets

		2019	2018
Fair value of plan assets as of January 1	$	191,828	189,274
Benefits paid by the plan		(46,398)	(47,751)
Contributions made during the year		16,700	39,386
Expected return on plan assets		15,864	14,439
Actuarial remeasurements recognized in the comprehensive income account	$	(17,100)	(3,520)
Fair value of plan assets as of December 31		160,894	191,828

(iv) Cost recognized in income

		2019	2018
Current service cost	$	4,954	28,864
Interest on obligation		32,594	33,053
Expected return on plan assets		(15,864)	(14,439)
	$	21,684	47,478

The cost is recognized in the following line items of the statement of income:

		2019	2018
Cost of sales	$	4,954	28,864
Financial cost		16,730	18,614
	$	21,684	47,478

(v) Actuarial remeasurements recognized in the comprehensive income account

		2019	2018
Accumulated amount as of January 1	$	102,886	40,184
Recognized during the year		(103,879)	62,702
Business disincorporation		(11,534)	-
Accumulated amount as of December 31	$	(12,527)	102,886

(vi) Actuarial assumptions

The main actuarial assumptions as of the reporting date (expresses as weighted average):

	2019	2018
Discount rate as of December 31	7.00%	9.25%
Expected rate of return on plan assets	7.00%	9.25%
Rate of compensation increase	4.00%	4.00%

Assumptions on future mortality are based on statistics published and mortality rates. Currently the retirement age in Mexico is 65. Current longevities that underlie the values of liabilities in the defined benefit plans are:

	2019	2018
Longevity upon retirement of current pensioners:		
Men	21.88	21.88
Women	24.43	24.43
Longevity upon retirement of current members whose age is:		
Men	24.28	24.28
Women	26.23	26.23

Reasonably possible changes in the relevant actuarial assumptions presented at balance sheet date, when the other assumptions remain constant, would have affected the defined benefit obligation in the amounts included in the table (vii) below.

(vii) Sensitivity analysis

The principal actuarial assumptions at the reporting date (expressed as weighted averages):

	Defined obligation benefits	
	Increase	Decrease
Discount and return rates (change of 1%)	362,594	433,214
Future compensation increase (change of 1%)	425,158	369,344

Although the analysis does not consider the distribution of expected cash flows under the plan, it does provide an approximation of the sensitivity of the assumptions presented.

b) Defined contribution plan

The consolidated cost of defined contribution plans for the years ended December 31, 2019 and 2018 was approximately $6,591 and $6,740, respectively. The Company periodically contributes the amounts offered in the plan to individual employee accounts, and there are not any remaining liabilities at the date of the financial statements.

20 Income tax (IT)

The Company determined the income tax for each subsidiary based on the applicable tax law in its respective country.

The Company determined until December 31, 2013 the income tax on a consolidated basis. From 1 January 2014 a new option scheme for groups of companies, same as was adopted by the Company and its subsidiaries in Mexico are established.

As of December 31, 2019 there is an income tax payable of $180,051 and $157,719 in the short and long term, respectively, as well $310,696 as long-term payable and $186,269 short-term payable as of December 31, 2018 corresponding to the income tax deferred derived from the consolidation process.

According to the law in force at December 31, 2013, the Company during 2019 and 2018 paid $187,421 and $180,997 as a result of applying the 15%, 20% and 25% respectively to the elimination of the effects of fiscal consolidation in 2009, 2010, 2011, 2012 and 2013. Regarding to the effects of fiscal consolidation arising after 2004, these should be considered in the sixth year after its occurrence, and to be paid over the next five years in the same proportion (25% 25%, 20%, 15% and 15%). Taxes payable resulting from changes in the law will increase inflation in terms of the Law on Income Tax. Also derived from the tax reforms effective from January 1, 2010 and 2014, the Company has evaluated each of the effects of the consolidation regime and has determined that the impacts are properly recognized and disclosed in its financial statements consolidated

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The tax expense for the years ended December 31, 2019 and 2018 includes the following:

		2019	2018
Current IT	$	444,274	438,722
Deferred income tax		(339,396)	134,829
Recognition of IT for leaving the consolidation regime		9,512	23,901
Income tax on dividends received from subsidiaries abroad		-	(90,382)
Others		(12,341)	24,631
Total income tax	$	102,049	531,701

The tax expense attributable to pre-tax income differed from the amounts calculated at the different rates of subsidiaries to pretax income, as a result of the following items:

		2019	2018
Net income from continuing operations	$	312,853	622,767
Income tax expense		102,049	531,701
Income before taxes		414,902	1,154,468
Expected expense		124,471	346,340
Increase (decrease) of:			
Effect of inflation, net		(75,201)	4,267
Long-term consolidation liability inflation		8,465	23,901
Current-year losses and property, machinery and equipment for which no deferred tax asset are recognized		158,165	171,753
Share of profit of equity method investees		2,968	(39,382)
Effect from the difference in foreign jurisdiction rates		(20,853)	(28,730)
Non-deductible items		51,669	47,382
Interest remeasurement before control acquisition		(84,712)	-
Currency translation		(74,057)	53,939
Other, net		11,134	(47,769)
Income tax expense	$	102,049	531,701

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(a) Deferred tax assets and liabilities recognized

		Assets		Liabilities		Net	
		2019	2018	2019	2018	2019	2018
Property, machinery and equipment	$	-	-	327,129	474,342	327,129	474,342
Intangible assets		-	-	612,055	676,591	612,055	676,591
Assets held for sale		-	(141,114)	-	-	-	(141,114)
Other assets		(119,704)	(53,939)	-	-	(119,705)	(53,939)
Provisions and employee benefits		(538,171)	(422,243)	-	-	(538,171)	(422,243)
Tax losses		(286,224)	(316,195)	-	-	(286,224)	(316,195)
Tax (assets) liabilities, net	$	(944,099)	(933,491)	939,184	1,150,933	(4,916)	217,442
Of which:							
Tax (assets) liabilities in Mexico, net		(1,046,167)	(748,419)	231,337	419,326	(814,830)	(329,093)
Tax (assets) liabilities abroad, net	$	102,068	(185,072)	707,847	731,607	809,914	546,535

(b) Change in temporary differences during the period

		January 1, 2019	Recognized in income	Other comprehensive income	Business acquisition	31 de diciembre de 2019
Property, machinery and equipment	$	474,342	(183,503)	18,995	17,295	327,129
Intangible assets		676,591	(146,439)	-	81,903	612,055
Assets held for sale		(141,114)	141,114	-	-	-
Other assets		(53,939)	(99,722)	33,957	-	(119,705)
Provisions and benefit to employees		(422,243)	(80,816)	(35,112)	-	(538,171)
Tax losses		(316,195)	29,970	-	-	(286,224)
Tax (assets) liabilities, net	$	217,442	(339,396)	17,840	99,198	(4,916)

		January 1, 2018	Recognized in income	Other comprehensive income	December 31, 2018
Property, machinery and equipment	$	556,435	(164,875)	82,782	474,342
Intangible assets		690,616	(14,025)	-	676,591
Assets held for sale		(139,374)	(1,740)	-	(141,114)
Other assets		-	-	(53,939)	(53,939)
Provisions and benefit to employees		(464,073)	23,021	18,809	(422,243)
Tax losses		(608,643)	292,448	-	(316,195)
Tax (assets) liabilities, net	$	34,961	134,829	47,652	217,442

In assessing the recoverability of deferred tax assets, the Company's management considers the probability that they could not be recovered, in whole or in part, final realization of deferred assets depends on generating taxable income in the periods in which temporary differences are deductible.

As of December 31, 2019 and 2018, the Company has not recognized deferred tax assets of approximately $330,409 and $178,085, respectively, related to tax losses from Mexican Companies which are estimated will not be used, which can expire partially or fully between 2020 and 2029. As of December 31, 2019, the tax losses carryforward and the year in which the right to use them will expire are as follows:

Origin year	Expiration year		Updated amount as of December 31, 2019
2010	2020	$	190
2011	2021		282
2012	2022		233
2013	2023		300,676
2014	2024		329,163
2015	2025		161,017
2016	2026		124,725
2017	2027		340,111
2018	2028		412,119
2019	2029		386,929
		$	2,055,445

As of December 31, 2019 the companies that are part of the ACE Group have tax loss carryforwards of approximately $1,325 million pesos, which generated a deferred tax asset of $331. The Company expects to realize all of these losses in a term not exceeding five years.

(c) Long term liability for consolidation purposes

		2019	2018
Deferred liability for consolidation purposes	$	496,965	632,611
Liability for consolidation purposes update		8,465	23,901
Payments of deferred liability, tax regime for group companies		(4,732)	(7,154)
Accumulated payments of deferred liability for tax consolidation		(187,421)	(180,995)
Optional deferred tax regime for group companies		24,493	28,602
Total		*337,770*	*496,965*
Liabilities for short-term fiscal consolidation		(180,051)	(186,269)
Deferred liability for consolidation purposes	$	157,719	310,696

21 Financial instruments

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade receivables and investment instruments and derivate financial instruments.

The Company designates, from a business and credit risk profile stance, significant customers with which it has accounts receivable, distinguishing between those requiring an individual credit risk assessment. For the rest of the customers, the Company classifies them according to the type of market where they operate (domestic or foreign), in line with internal business and internal risk management. Each of the Company's subsidiary is responsible for managing and analyzing credit risk of each of their new customers prior to fixing payment terms and conditions. If wholesale customers are rated independently, these are the ratings used. Where there is no independent rating, the Company's risk control evaluates the customer's creditworthiness, considering its financial position, past experience and other factors. Maximum credit risk exposure is provided by the balances of these line items, as shown in the consolidated statement of financial position.

Individual risk limits are determined based on internal and external ratings in accordance with limits set forth by management. During the years ended December 31, 2019 and 2018, credit limits established by the Company's policies were not exceeded.

Additionally, the Company performs a qualitative assessment of economic projections with the aim of determining the potential impact on the likelihood of default and the recovery rate assigned to its customers.

During the year ended December 31, 2019 and 2018, there have been no changes in estimation techniques or assumptions.

Investments

The Company limits exposure to credit risk by investing only in liquid instruments and with counterparties of good credit quality. Therefore, management does not expect any of the counterparties to default on obligations.

The carrying amount of financial assets represents the maximum credit exposure. Maximum credit risk exposure as follows:

		Carrying amount	
		2019	2018
Cash and cash equivalents	$	1,083,915	475,200
Investments held to maturity		589,824	605,400
Accounts receivable		2,676,229	3,067,408
	$	4,349,968	4,148,008

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Then, the maximum credit risk exposure for trade receivables as of December 31, 2019 and 2018 by geographical region is shown below

		Carrying amount	
		2019	2018
Domestic	$	1,334,029	1,666,907
United States of America		328,992	391,378
Other Latin American countries		49,968	36,192
Euro Zone countries		570,420	551,079
Other regions		392,820	421,852
	$	2,676,229	3,067,408

Then, the maximum credit risk exposure for trades receivable as of December 31, 2019 and 2018 by type of client is shown below:

		2019	2018
Wholesale customers	$	2,416,223	2,818,384
Self-service		165,073	176,174
Promotions		5,649	8,622
Catalog		29,407	21,762
Other		59,877	42,466
	$	2,676,229	3,067,408

A breakdown of trade accounts receivable, showing overdue balances, but not impaired according to their antiquity at the reporting date, is presented below:

		Gross 2019	Impairment 2019	Gross 2018	Impairment 2018
Curren	$	2,330,582	(8,198)	2,696,627	(972)
0 to 30 days overdue		151,733	(3,657)	229,002	(6,021)
31 to 120 days overdue		125,566	(15,438)	95,161	(4,087)
Over 120 days overdue		68,348	(25,476)	46,618	(38,462)
	$	2,676,229	(52,769)	3,067,408	(49,542)

Change in allowances for doubtful account, trades discounts and rebates with respect to trade accounts receivable during the year was as follows:

		Allowance for doubtful accounts		Allowance for discounts and rebates		Total	
		2019	2018	2019	2018	2019	2018
Balance at beginning of year	$	49,542	91,508	41,131	37,064	90,673	128,572
Initial IFRS 9 impacts		-	25,119	-	-	-	25,119
Increase during the year		33,406	14,897	103,124	86,141	136,530	101,038
Amounts written off against trade accounts receivable		(1,733)	(70,383)	(10,483)	(11,335)	(12,216)	(81,718)
Reduction due to reversal		(28,446)	(11,599)	(71,290)	(70,739)	(99,736)	(82,338)
Ending balance	$	52,769	49,542	62,482	41,131	115,251	90,673

The Company's exposure to credit risk is mainly affected by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, which includes the risk of default in the industry and country in which customers operate, as these factors may influence credit risk. In 2019 and 2018, the Company's products were marketed with a large number of customers, without significant concentration in any specific customer.

Model and input used in the calculation of the expected credit loss (ECL)

The estimate of accounts receivable impairment is calculated under an expected loss model that considers the recognition of impairment losses during the life of the contract. The Company defined collective models for estimating the expected impairment loss based on the type of business and the specified collection situation.

In estimating impairment under this model, a weighted likelihood of default was defined for each business channel. For its definition, the Company used historical portfolio and recovery behavior information, as well as macroeconomic factor that may affect the risk level of accounts receivable. Based on this analysis and the business management, default is generally defined as an asset over 90 days past due. It is worth mentioning that the Company adjusts the model to the portfolio's behavior over time and for each particular entity, as may be an adjustment to the recovery rate for any payment agreement with customers and claims arising from payment defaults, etc.

Annually, the Company reviews the definition of the expected loss model as well as the parameters and, if necessary, makes the corresponding adjustments so that the estimate of impairment shows results that reflect the portfolios expected behavior.

Additionally, the Company's credit area will conduct periodic follow-ups of accounts receivable, considering customer default or noncompliance, as well as timely information of the customers' financial position. Such information adds an external component to foresee a change in future behavior.

Definition of default

The Company considers that a financial asset is impaired when the following conditions are met:

- The customer has over 90 days past due balances and has not made payment arrangements for settling its invoices. This, depending on the business channel and region being analyzed; and
- The Company has documentation evidencing that all the legal requirements for recovering the debt or unpaid amounts have been exhausted.

In assessing if a customer is in default, the Company considers certain indicators such as:

- Quantitative – Number of days in arrears and lack of payment of another obligation by the same issuer for the Company; and
- Qualitative – Downgrade the credit rating published by a well-known rating agency

Input used in the assessment to determine if a financial instrument is in compliance and its significance may vary over time to reflect changes in circumstances.

Elements of the ECL model

Key factors in measuring ECL are as follows:

- Probability of default (PD);
- Recovery rates;
- Loss given default;
- Exposure to default;
- "Forward looking" factor

The above parameters arise from internally-developed statistical models and historic data.

PD estimates are estimates at a particular date and are calculated using information from historic events of default over the past 2 years. These statistical models are based on data prepared internally, which comprise quantitative factors.

The loss given default is the amount of potential loss after default. The Company determines the loss given default parameters based on the records of historical recovery rates and considers the insurance policies backing up the portfolio.

Exposure to default represents the exposure to credit risk or non-payment. The Company derives exposure to default from actual exposure to its counterparty and potential changes in the actual amount allowed in view of the contract, including amortization. Exposure to default of a financial asset is its gross carrying amount.

On each reporting date, the Company qualitatively assesses if there are macroeconomic variables that might affect the collection of open balances with customers. This information includes the qualitative analysis based on the Company's historic experience and the expert credit judgment for incorporating the forward-looking adjustment in the model.

The recovery rate is a percentage that based on the historic behavior of the portfolios of each business segment and the execution of insurance policies taken out commonly result in a recovery after an account has been deemed to be in default.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with financial liabilities that are settled by delivering cash or other financial assets. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking the Company's reputation.

The following are the short-term contractual maturities of financial liabilities, including the estimated interest payments and excluding the impact of the compensation agreements. The cash flows included in the maturity analysis are not expected to be presented much before or for sensitively different amounts.

2019		Carrying amount	Contractual cash flows	0-6 months	6-12 months
Non-derivative financial liabilities					
Bank loans and interest	$	2,530	2,530		2,530
Trades and other accounts payable		3,789,917	3,985,953	3,107,7321	682,185
Finance leases		79,038	89,429	-	89,429

2018		Carrying amount	Contractual cash flows	0-6 months	6-12 months
Non-derivative financial liabilities					
Bank loans and interest	$	222,010	222,010	-	222,010
Trades and other accounts payable		3,985,953	3,985,953	3,266,001	719,952
Finance leases		11,086	11,086	-	11,086

Capital management

The Company's management monitors the mix of debt and equity instruments of the investment portfolio based on market index. Significant investments within the portfolio are managed individually and all purchase and sale decisions are approved by the Risk Management Committee.

The main goal of the Company's investment strategy is to maximize return on investment with the purpose of complying in part with the company's defined non-funded benefit obligations; management receives the support of external advisers in this sense. In accordance with this strategy, certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on the basis of fair value.

The Company does not enter into commodity contracts other than to meet the Company's intended use and sale requirements; these contracts are not settled in net terms.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the company's income or the value of the financial instruments held. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Risk hedging

The Company and its subsidiaries have a risk management committee comprised by Company officers. Such committee is charged with providing proper and timely follow-up of financial indicators, price behavior and trends as well as the futures of such indicators, supported by publications, specialized information services, financial intermediaries and other references useful to such end.

In managing market risks, the Company contracts derivatives and also incurs financial obligations. All these transactions are valued by the Risk Management Committee based on the procedure in place. Generally, the Company seeks applying hedge accounting in order to mitigate volatility in income.

Pursuant to the Treasury Investment Policy approved by the Board of Directors, as amended to date, the Company and its subsidiaries may only execute financial transactions in instruments of the fixed-income Money Market. Except for investments in instruments with guaranteed capital where only the yield is at risk, investments in variable-income instruments or derivative instruments or the so called exotic or alternative investments are not allowed.

The Company engage independent professional services for making prospective effectiveness tests as well as sensitivity analyses of derivative financial instruments (DFI) classified as hedge instruments, as applicable.

In the case of currency risk hedges, interest rate and commodities (where derivatives are used as hedging instruments) the methodology for assessing and measuring effectiveness is a Cash Flow Monetary Compensation Analysis, which compares cash flows of positions to be hedged in accordance with various scenarios using the hypothetical derivative method and the cash flows of derivatives contracted under the same scenarios.

At year end, effectivity tests revealed that hedging was highly effective.

This same methodology is applied for the case of interest rate risk hedging.

At year end, effectivity tests revealed that hedging was highly effective.

Derivative Financial Instruments – Risk hedging

In transactions with derivative financial instruments recorded as risk hedges and which therefore establish a hedge relationship, the Company formally documents the hedge objective, the risk management strategy, the hedged caption or transaction, the nature of the risk being hedged and the methodology for measuring the hedge effectiveness as well as sources of ineffectiveness.

The Company conducts prospective and retrospective effectiveness tests to at all times oversee that the hedge relationships have high effectiveness according to accounting standards. Where an effectiveness is detected, the Company records such ineffective amount in income.

The Company and its subsidiaries have executed open-ended contracts with its related parties for conducting derivative transactions associated with its gas consumption, where the Company and its subsidiaries become accountable before their related party of benefits and/or, as applicable, payment obligations relating to derivative transactions which, in turn, are contracted and downloaded by the related parties using derivative financial instruments, agreed upon with financial institutions recognized for executing such transactions.

Derivative financial instruments

The fair value of forward exchange future contracts is determined based on the market list price, if any. Otherwise, the fair value of a forward contract is estimated by discounting the difference between the contractual price and the current "forward" price, during the remaining contract term, using a free-risk interest rate for the reference amount.

The fair value of interest rate swap contracts is determined based on recognized market prices and, when not listed on an organized market, this value is determined on the basis of technical bases and valuation inputs accepted by the financial sphere. In both cases, it is determined based on quotations provided by brokers. Such quotations are subject to reasonableness tests, discounting estimated future cash flows on the basis of individual contract terms and maturity and using market interest rates for similar instruments on the date of measurement.

The fair values of derivatives reflect the credit risk of the Company and the counterparty, previously considering the guarantees and collateral delivered or received.

At December 31, 2019 and 2018, the fair value of the portfolio of derivative financial instruments amounts to $(32,575) and $10,603 respectively.

Below, we detail the current portfolio in effect as of December 31, 2019 and 2018 of derivative financial instruments and their fair values:

Derivative financial instruments classified and designated for hedging purposes

a) Cross Currency Swap

At December 31, 2019 and 2018 the Company had executed some cash flows exchange contracts called Cross Currency Swap. These types of transactions represent hedge mechanisms. that seek to match the currencies of financial obligations to the Company's inflows. According to accounting regulations, these transactions are deemed hedge transactions.

With a view to mitigating the risk associated with the variability of transactions (assets/liabilities) in foreign currency, the entity has decided to use derivative financial instruments for hedging purposes. The entity has decided to hedge with derivative financial instruments seeking to make transactional costs efficient. Therefore, a decision was made to contract three Cross Currency Swaps where GIS receives US dollars and pays Euros.

For accounting purposes, the Company has designated the aforementioned Currency Swaps EUR/USD jointly with the exchange fluctuation of a portion of debt in USD (jointly, a hybrid hedge instrument is formed, leaving a synthetic debt in Euros) under the net investment hedges model abroad for hedging a portion of the net assets of a subsidiary with Euros (functional currency).

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The Cross Currency Swaps EUR/MXN that the Company maintains are with the purposes to mitigation the risk due to the variability of the operations (assets) in foreign currency. The entity has decided to hedge with derivative financial instruments, contracting four Cross Currency Swap where GIS receives MXN and pays EUR.

For accounting purposes, the Company has designated such EUR / MXN Currency Swaps under the net investment hedge model abroad to cover a portion of the net assets of a subsidiary with a functional EUR currency.

	Debt USD	CCS EUR/USD	CCS EUR/USD	CCS EUR/USD	CCS EUR/MXN	CCS EUR/MXN	CCS EUR/MXN	CCS EUR/MXN
Bank	Citibanamex	Citibanamex	Santander	Scotiabank	Citibanamex	Santander	Scotiabank	Scotiabank
Delivery notional	95,000,000	26,946,915	40,344,271	17,950,099	150,000,000	325,000,000	100,000,000	50,000,000
Notional currency	USD	EUR	EUR	EUR	MXN	MXN	MXN	MXN
Receive notional	NA	30,000,000	45,000,000	20,000,000	7,028,065	15,228,189	4,703,116	2,343,567
Notional currency	NA	USD	USD	USD	EUR	EUR	EUR	EUR
Financial statement caption where the hedge instrument is located		Derivative Financial Instruments	Derivative Financial Instruments	Derivative Financial Instruments	Derivative Financial Instruments	Derivative Financial Instruments	Derivative Financial Instruments	Derivative Financial Instruments
Delivery rate	LIBOR 3M + 1.90	1.7970%	1.7000%	1.5800%	3.4600%	3.1400%	2.9200%	2.9000%
Receive rate	NA	LIBOR 3M + 1.90	LIBOR 3M + 1.90	LIBOR 3M + 1.90	9.6400%	9.6400%	9.6400%	9.6400%
Fair value as of December 2019 (thousand MXN)	NA	(12,617)	(11,541)	(5,118)	(3,232)	(2,728)	(458)	21
Maturity	sep-25	sep-25	sep-25	sep-25	oct-24	oct-24	oct-24	oct-24
Change in fair value to measuring the ineffectiveness of the hedging instrument	14,580	(8,055)	(6,718)	(1,919)	(2,884)	(1,313)	352	414
Amount recognized in OCI	-	(12,674)	(11,631)	(5,160)	(3,232)	(2,728)	(458)	21
Ineffectiveness recognized in P&L	-	-	-	-	-	-	-	-
Reclassification of OCI to P&L (thousand MXN)x	-	57	90	41	-	-	-	-
Carrying amount of the covered exposure (exposure)	174,093 EUR	174,093 EUR	174,093 EUR	174,093 EUR	174,093 EUR	174,093 EUR	174,093 EUR	174,093 EUR
Change in fair value to measuring the ineffectiveness of the hedging instrument	32,071	32,071	32,071	32,071	10,755	10,755	10,755	10,755
Coverage ratio	49%	49%	49%	49%	17%	17%	17%	17%

The risks identified in these derivative operations are those related to variations in both interest rates payable in EUR in 2018 and in variations in exchange rates for capital payable in 2019 and 2018. The risk of Company is mitigated every time it receives operating flows in Dollars and Pesos and pays in Euros. With the above, it seeks to tie financial obligations with these flows.

Possible sources of ineffectiveness may be mainly caused by the amount of net investment abroad of subsidiaries, credit risk and cross currency basis spread.

For the evaluation of effectiveness, the Company determined that the coverage is highly effective, giving a result of 103% (2019) of effectiveness for the coverage of EUR/MXN and 99% (2019) and 100% (2018) for the coverage of EUR/USD. The method used by the Company is the compensation of flows using a hypothetical derivative, which consists in comparing the changes in the fair value of the hedging instrument with the changes in the fair value of the hypothetical derivative that would result in a perfect coverage of the item covered.

b) Hedging Interest Rate (Interest Rate Swap)

At 31 December 2019 were signed some contracts are exchange flows denominated interest rate swaps with the purpose to mitigate the risk due to the variability of the interest rate paid on liabilities incurred in foreign currency.

These types of operations represent hedging mechanisms to seek to fix the interest rate of financial obligations. These operations according to accounting regulations are considered as a hedging operation. For accounting purposes, the Company has designated such Rate Swaps under the cash flow hedging model to cover a portion of the interest payment of the foreign currency debt USD

The risks identified in these derivative transactions are those related to the variations in the market price of interest rate EURIBOR and TIIE. The company's risk is limited to paying a higher interest than the market rate if the EURIBOR and/or TIIE rate is lower than agreed, however, as already mentioned, the cash flow hedge is highly effective.

	Swap IRS USD	Swap IRS USD	Swap IRS USD
Bank	Citibanamex	Santander	Scotiabank
Delivery notional	30,000,000	45,000,000	10,000,000
Notional currency	USD	USD	USD
Receive notional	30,000,000	45,000,000	10,000,000
Notional currency	USD	USD	USD
Financial statement caption where the hedge instrument is located	Derivative Financial Instruments	Derivative Financial Instruments	Derivative Financial Instruments
Delivery rate	1.6780%	1.7150%	1.6500%
Receive rate	LIBOR 3M	LIBOR 3M	LIBOR 3M
Fair value as of December 2019 (thousand MXN)	257	484	942
Maturity	sep-25	sep-25	sep-25
Change in fair value to measuring the ineffectiveness of the hedging instrument	1,669	1,104	477
Amount recognized in OCI	250	476	368
Ineffectiveness recognized in P&L	-	-	-
Reclassification of OCI to P&L (thousand MXN)	6.70	8.62	5.81
Carrying amount of the covered exposure (Total exposure)	180,000 USD	180,000 USD	180,000 USD
Change in fair value to measuring the ineffectiveness of the hedging instrument	(8,383)	(8,383)	(8,383)
Coverage ratio	47%	47%	47%

For the evaluation of effectiveness, the Company determined that the coverage is highly effective, giving a average result of 98% of effectiveness. The method used by the Company is the compensation of flows using a hypothetical derivative, which consists in comparing the changes in the fair value of the hedging instrument with the changes in the fair value of the hypothetical derivative that would result in a perfect coverage of the item covered.

Additionally, the Company maintained a portion of a derivative at fair value through the income statement because in December 2019 an advance payment of a portion of the covered debt was made, so the portfolio was rebalanced and at December 31, 2019, the Company had not disposed of the interest rate swap ratio. The fair value corresponding to this portion of the derivative is $566, which is equivalent to 1.7% of the total fair value as of December 31, 2019.

c) Forwards currency (FX Forward)

The Company is exposed to the risk of changes in the exchange rate derived from forecasted transactions of the natural flow of the business (purchase of raw material) in a foreign currency. Therefore, the Company designates Currency Forwards under the cash flow hedging model to cover the exchange rate fluctuation of a forecasted transaction in a foreign currency.

	Forward PLN/EUR	Forward CZK/EUR
Total notional	10,350,000	95,160,000
Notional currency	PLN	CZK
Fair value as of December 2019	$ 2,147	$ (732)
Maturity	June and September 2020	July and December 2020
Change in fair value to measuing the ineffectiveness of the hedging instrument	2,147	(732)
Amount recognized in OCI	2,785	365
Ineffectiveness recognized in P&L	-	-
Reclassification of OCI to P&L	1,941	(1,414)
Forecast of the hedged item (exposure)	10,350,000	95,160,000
Change in fair value to measuring the ineffectiveness of the hedging instrument	(2,147)	732
Fair value as of December 2018	1,753	339
Coverage effectiveness	100%	100%
Coverage ratio	-	-

In the evaluation of effectiveness, the Company determined that the coverage is highly effective, giving a average result of 100% of effectiveness at the end of 2018. The method used by the Company is the compensation of flows using a hypothetical derivative, which consists in comparing the changes in the fair value of the hedging instrument with the changes in the fair value of the hypothetical derivative that would result in a perfect coverage of the item covered.

In accordance with the notional amounts described and the way in which the flows of derivatives are exchanged, the average coverage ratio during 2018 was 25% of purchases in USDMXN.

The source of the ineffectiveness may be caused mainly by the credit risk, the difference in the settlement date of the hedging instruments and the items hedged and that the budget would be less than the hedging instruments.

Below is a breakdown of the position in derivative financial instruments and hedging transactions as of December 31, 2018:

	Forward PLN/EUR	Forward USD/MXN	Forward CZK/EUR
Total notional	33,950,000	4,419,000	279,157,000
Notional currency	PLN	USD	CZK
Financial statement caption where the hedge instrument is located	Derivative Financial Instruments	Derivative Financial Instruments	Derivative Financial Instruments
Fair value at December 2018 (Thousands of MXP)	1,755	(186)	338
Average strike	4	20	26
Maturity	June and September 2020	January, February and March 2019	July and December 2020
Change in the fair value for measuring the ineffectiveness of the hedge instrument	(4,634)	(224)	(4,854)
Amount recognized in OCI	1,755	(183)	338
Ineffectiveness recognized in the income statement (IS)	-	(3)	-
Reclassification from OCI to IS	-	-	-
Forecast of exposed line item (Exposure)	54,788,382	1,472,917 Monthly average	294,912,000
Change in the fair value for measuring the ineffectiveness of the hedge instrument	4,634	891,199	4,854
Hedge ratio	1	-	-
Fair value at December 2017 (Thousands of MXN)	6,389	-	5,192

At December 31, 2017, there was a MXN/USD exchange rate forward with a fair value of 225,420, maturing in April 2018.

	Swap IRS MXN	Swap IRS EUR
Total notional	400,000,000	13,296,654
Notional currency	MXN	EUR
Financial statement caption where the hedge instrument is located	Derivative Financial Instruments	Derivative Financial Instruments
Delivery rate	7.53% Fija	-
Receive rate	TIIE	Euribor
Fair value at December 2018 (Thousands of MXN)	7,500	(3,316)
Maturity	October 2020	September 2023
Change in the fair value for measuring the ineffectiveness of the hedge instrument	3,608	47
Amount recognized in OCI	7,500	(3,316)
Ineffectiveness recognized in the IS	-	-
Reclassification from OCI to IS	-	-
Carrying amount of hedged item (Exposure)	400,000,000	9,300,398
Financial statement caption where the hedge instrument is located	Long-term debt, excluding current installments	Long-term debt, excluding current installments
Change in the fair value for measuring the ineffectiveness of the hedge instrument	(3,608)	(47)
Hedge ratio	1	1
Fair value at December 2017 (thousands of MXN)	3,892	(3,363)

	CCS EUR/USD	Debt USD	Debt USD
Total notional	60,561,800	60,561,800	174,438,200
Notional currency	USD	USD	USD
Delivery rate	Libor + 2.20%	N/A	N/A
Total notional	52,000,000	N/A	N/A
Notional currency	EUR	N/A	N/A
Receive rate	Euribor + 2.465%	Libor + 2.20%	Libor + 2.20%
Financial statement caption where the hedge instrument is located	Derivative Financial Instruments	Long-term debt, excluding current installments	Long-term debt, excluding current installments
Fair value at December 2018 (thousands of MXN)	4,512	N/A	N/A
Maturity	June 2023	June 2023	June 2023
Change in the fair value for measuring the ineffectiveness of the hedge instrument	(11,528,400)		136,812
Amount recognized in OCI	4,512	42,986	136,812
Ineffectiveness recognized in the IS	-	-	-
Reclassification from OCI to IS	-	-	-
Carrying amount of hedged item (Exposure)	52,000,000 EUR		247,071,875 USD
Change in the fair value for measuring the ineffectiveness of the hedge instrument	11,528,400		(136,812)
Hedge ratio	-		1

Net foreign investment hedges, without

As of the third quarter of 2018, the operation of net investment hedge abroad is designated that covered the exchange fluctuation of investments in USD using as a hedging instrument a portion of a liability in USD. This is due to the fact that, in line with the risk management strategy, an advance payment of the debt was made and it was decided to hire forwards to cover said payment.

As of September 2019, the Company designated a portion of the exchange fluctuation of its new credit in USD as a hedging instrument for its net investments in foreign operations in USD in order to mitigate the variations in the exchange rates that originate between the functional currency of the subsidiaries in USD and the functional currency of the holder that maintains such investments.

This operation, according to accounting regulations, is considered as a hedging operation. For accounting purposes, the Company has designated said portion of the credit under the coverage model of Net Investment Abroad to cover the exchange rate variability generated when revaluating investments.

Since the exchange rate hedging relationship is clear, the method that the Company used to evaluate effectiveness consisted of a qualitative effectiveness test comparing the critical terms between the hedging instruments and the hedged items, giving a result of 100% effective at the end of 2019 and 2018. The coverage will be effective as long as the notional debt designated as a hedging instrument is equal to or less than the value of the net assets of the hedged foreign operation. On the other hand, when the value of the net assets of the foreign operation is lower than the notional value of the designated debt, the Company rebalances the hedging relationship and recognizes the ineffectiveness in the income statement.

	USD Debt
Bank	Citibanamex
Delivery notional	85,000,000
Notional currency	USD
Receive notional	-
Notional currency	-
Delivery rate	LIBOR 3M + 1.90
Receive rate	-
Fair value as of December 2019	-
Maturity	sep-25
Amount recognized in OCI	
Ineffectiveness recognized in IS	0
Reclassification of OCI to P&L	0
Carrying amount of the covered exposure	308,076 USD
Coverage ratio	28%

Derivative financial instruments classified as for trading purposes (not designated for hedge accounting)

At December 31, 2019 and 2018, the Company and its subsidiaries did not maintain portfolios of derivative financial instruments not qualifying for hedging purposes and should, therefore, had to be classified as for trading purposes.

Guaranteed Capital investments.

Grupo Industrial Saltillo, S.A.B. de C.V., ("GIS" or "The Company") in compliance with its policies, periodically enters intro guaranteed capital investments.

During 2018, the Company and its subsidiaries entered into guaranteed capital investments, which do not qualify as financial instruments and derivatives that do not meet the characteristics described in IFRS; These instruments are hybrid contracts containing two types of contracts: 1) host contract, which is not a derivative, but a debt contract and corresponding to the investment of a guaranteed principal and its return to the due date and in which not necessarily a fixed interest rate or variable is paid to market conditions and 2) a contract with an embedded derivative. Such embedded derivative was linked to the behavior of the exchange rate, where according to their performance behavior builds based on the amount of guaranteed capital.

During 2018 the Company and its subsidiaries entered investments of this type, which according to their characteristics and maturity dates, expired during that period. These positions had different terms ranging up to 8 calendar days. Intermediaries of these positions were Monex Casa de Bolsa, S.A. de C.V. and Banco Santander (México), S.A.

These investments had guaranteed capital returns were linked to performance of the peso / dollar. These positions were maturing naturally in accordance with the agreed conditions. At year-end 2018 GIS not have current positions.

The maximum value of the aforementioned investments for the year 2018 was $9.5 million of dollars and $50 million of pesos.

1.Recognition.

In the event that current positions are taken, it would proceed with the following recognition:

The host contract to be a debt contract is accordingly an asset, in this case, a non-derivative financial asset.

2. Classification of financial assets.

This type of investment cannot be measured at their amortized cost, because there is a possibility that no cash flows received from interest.

Such investments from being unable to measure the cost of depreciation are then measured at fair value through profit and loss.

3. Measurement.

Certificates of deposit and investments with guaranteed capital are measured and recognized on the balance sheet at fair value and subsequent changes in fair value must be recognized in the income statement as gains or losses on market valuation.

For purposes of accounting records, the figures reported in the statement issued by the counterparty are used.

As of December 2019 and 2018 the company and its subsidiaries do not have current positions.

Foreign Currency Risk

The Company is exposed to currency risk by conducting various sales, purchases and loans originating from other than the functional currency. The Company is exposed to currency risk through the following currencies:

Mexican Pesos, American Dollars, Euros, Czech Crowns, Polish Zlotys and Chinese Renminbi.

Interest on loans, as well as loan principal are denominated in currencies that match the cash flows arising from underlying transactions of each company, which may be, mainly, US dollars, Mexican pesos, Euros or Chinese renminbi depending on project financing requirements. This offers a natural economic hedge and so no derivative contracts are executed to such effect. However, the Company unfailingly analyzes such exposure and the markets for determining the need for hedging interest and exchange rates or entering into any cross currency or other type of swap.

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Following is the exposure to foreign exchange risk, show in presentation currency (values in thousands of pesos):

	2019				2018			
	USD	Zlotys	Euros	Rmb	USD	Zlotys	Euros	Rmb
Cash	$ 1,033,817	2,363	4,219	270	$ 854,961	3,993	2,875	235
Accounts receivable	653,393	486	442,211	390	938,461	726	18,905	402
Bank loans	(4,009,184)	(79,213)	(305,385)	-	(4,633,854)	-	(90,352)	-
Suppliers and other account payables	(835,530)	(83,491)	(147,331)	(188)	(1,064,170)	(92,138)	(99,843)	(183)
Related parties	(402,990)	-	590,906	17	(330,775)	-	342	6
Net exposure	$ (3,560,494)	(159,855)	584,620	489	$ (4,235,377)	(87,419)	(168,073)	460

The following exchange rates applied during the year:

	Exchange rate		Spot exchange rate at
	2019	2018	the date of the report
American dollar	18.85	19.68	18.65
Euro	21.10	22.63	20.24
Polish Zloty	4.99	5.24	4.73
Chinese Renminbi	2.71	2.86	2.66

Sensitivity analysis of exchange rates.

At December 31, 2019 and 2018, a 10% strengthening or weakening of foreign currencies, as noted below, would have decreased equity and income by the amounts shown below. This analysis is based on the variances of the exchange rates that the Company believes shall be reasonably possible at the end of the period being reported on. The analysis assumes that all other variables, especially interest rates, remain constant.

	Equity 2019	Income 2019	Equity 2018	Income 2018
American dollar (10% de strengthening)	(3,560)	(3,560)	(4,235)	(4,235)
American dollar (10% de weakening)	3,560	3,560	4,235	4,235
Euro (10% de strengthening)	585	585	(168)	(168)
Euro (10% de weakening)	(585)	(585)	168	168
Polish zotly (10% de strengthening)	-	-	-	-
Polish zotlys (10% de weakening)	-	-	-	-

Interest rate risk

Fluctuations in interest rates impact primarily loans by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The management has a risk management committee which discusses, among other things, whether each of the credits contracted either for working capital or to finance investment projects should be (according to market conditions and the functional currency of the Company) engaged in fixed or variable rate. See detail of loans in note 15.

The following exposure of the Company's bank loans subject to interest rates in thousands of pesos is presented, based on notional amounts at December 31, 2019 and 2018:

		Carrying amount	
		2019	2018
Short - term loans	$	2,530	222,010
Long - term loans		5,329,150	7,043,920
	$	5,331,680	7,265,930

The following exchange rates were applied during the period:

	Libor rate at reporting date
Libor 3M	1.69%
Euribor 1M	-0.31%
Euribor 6M	-0.29%

Sensitivity analysis of interest rate

	Equity 2019	Income 2019	Equity 2018	Income 2018
Libor (Aumento 50 BP)	(26,658)	(26,658)	(72,659)	(72,659)
Libor (Aumento 20 BP)	(10,663)	(10,663)	(29,064)	(29,064)
Libor (Disminución 50 BP)	26,658	26,658	72,659	72,659
Libor (Disminución 20 BP)	10,663	10,663	29,064	29,064

a) Comparison of fair values versus and carrying amounts of financial instruments measured at amortized cost -

The fair values of financial assets and liabilities along with the carrying amounts shown in the statement of financial position are presented below:

		Carrying amount 2019	Fair value 2019	Carrying amoun 2018	Fair value 2018
Liabilities measured at amortized Cost					
Stock market debt and bank loans	$	(5,331,680)	(5,392,943)	(7,265,930)	(7,149,076)

Fair value hierarchy

The table below analyzes financial instruments carried at fair value by valuation method on the fair value hierarchy.

The different levels are defined as follows:

- Level 1 data are listed prices in active (unadjusted) markets for identical assets and liabilities, which the Company has the ability to trade at the date of measurement. A price listed in an active market provides the most reliable evidence of fair value and is used without adjustments to determine fair value where available.
- Level 2 data are data other than prices listed in active markets that are observable directly or indirectly for the asset or liability and are used mainly to determine the fair value of shares, investments and loans that are not actively traded. Level 2 data includes stock prices, certain interest rates and yield curves, implied volatility, credit margins, and other data obtained, including data extrapolated from other observable data. In the absence of level 1 data, the Company determines fair values, through the interaction of applicable Level 2 data, the number of instruments and/or other relevant terms of the contracts, as applicable.
- Level 3 data are those that are not observable for the asset or liability. The Company uses these data to determine the fair value, when there are no level 1 or level 2 data, in valuation models such as discounted cash flows.

		Level 1	Level 2	Level 3	Total
December 31, 2019					
Derivative financial assets	$	-	3,851	-	3,851
Pasivos financieros derivados	$	-	36,426	-	36,426

		Level 1	Level 2	Level 3	Total
December 31, 2018					
Derivative financial assets	$	-	14,105	-	14,105
Derivative financial liabilities	$	-	3,502	-	3,502

22 Stockholders' equity and reserves

(a) Capital stock and additional paid-in capital

	Ordinary shares	
	2019	2018
Authorized shares - nominal value	356,051,240	356,051,240

Series "A" will represent the total number of common shares that will have full voting rights and enjoy all political and equity rights that law grants.

The updated amounts of the adjusted capital stock account (CUCA) and of the net taxable income account (CUFIN), of the legal entity Grupo Industrial Saltillo, as of December 31, 2019 and 2018 include the following:

		2019	2018
Capital Stock Account Updated (CUCA)	$	3,017,953	2,935,181
Net Taxable Income Account		4,158,184	3,786,355

(b) Reserve for repurchase of own shares

At the General Ordinary Stockholder Meeting held on April 30, 2019 and April 26, 2018 the stockholders authorized allocating an amount of up to $500 million pesos to repurchase and reallocate own shares, and also agreed that the product of the sale of these own shares, if any, made by the Company during this period, will be added to the maximum amount authorized for the purposes indicated previously.

As of December 31, the movements of the reserve for the repurchase of shares were as follows:

		2019	2018
Purchase	$	301,482	293,454
Sale		(144,482)	(154,093)
Allowance increase		(131,798)	-
	$	25,202	139,361

(c) Reserve for cumulative translation effect

The reserve for translation includes all of the translate differences between the recording and functional currency of the subsidiaries of auto parts segment, as well as the totality of differences in changes that derive from the conversion of financial statements of all the operations of the abroad company.

(d) Reserve for actuarial gains from the benefit plan

Actuarial gains reserve includes changes in the obligations of deferred compensation plans and changes in plan assets actuarial gains or losses.

(e) Reserve for fixed asset revaluation surplus

The reserve for revaluation includes the effect of the revaluation of land and buildings before the reclassification as an investment property.

(f) Dividends

At the General Ordinary Stockholders' Meeting held on April 30, 2019, was approved the proposal to pay a dividend for each one of the series "A" outstanding shares issued of $1.17 MXP, payable in a single exhibition starting May 10, 2019, against the delivery of coupon 9, of the titles of shares Issue 2013. The dividend amount totaled $407,267.

At the General Ordinary Stockholders' Meeting held on April 26, 2018, the stockholders approved the proposal to pay a dividend for each one of the series "A" outstanding shares issued of $1.12 MXP, of which $0.60 MXP would be paid as of May 7, 2018 and $0.52 MXP starting November 5, 2018, against the delivery of coupons 7 and 8, respectively, of the titles of shares Issue 2013. The dividend amount totaled $393,902.

As of December 31, 2019, there are dividends decreed and not paid to the stockholders for $1,215 that are represented by $177 during 2019, $170 during 2018, $148 during 2017, $152 during 2015, $152 during 2014, $266 during 2013 and $150 decreed during 2012.

23 Earnings per share

The basic earnings per share are calculated by dividing the income attributable to common and preferential stockholders by the weighted average of common and preferential shares in circulation, respectively, during the year. The Company has no common shares with potential dilutive effects.

A reconciliation of the weighted average number of shares is shown below:

		Shares	
		2019	2018
Promedio ponderado de acciones por el ejercicio terminado el 31 de diciembre		345,638,193	351,580,702
UPA (Pesos por acción)	$	2.34	1.97

24 Revenues

Revenues include the following:

		2019	2018
Sale of products	$	17,042,095	17,289,205
Revenues from services		87,004	295,944
Total revenues	$	17,129,099	17,585,149

As described in note 5, the Company operates in different segments engaged in the manufacture and marketing of grey and nodular iron auto parts; ceramic coverings and water heaters, malleable iron connection lines and steel nipples; as well as cookware and porcelain-on-steel tables as well as ceramic tableware for domestic and institutional use. All revenue related to the manufacture and marketing of products are recognized in a point in time when control over the goods is transferred to the customer. Moreover, service revenue relates chiefly to administrative services charged to non-consolidated entities, which are recognized over time, as provided to the customer.

As of December 31, 2019 and 2018 the Company has deferred income (liabilities for contracts with customer) for $35,793 and $27,172, respectively, representing the fair value of the portion of the consideration received regarding the development of new products and technology.

Last, as explained in note 3 n), given that the Company's performance obligations are not inseparable from each other, at December 31, 2019 and 2018 there are no performance obligations that have been partially met. All sales billed at year end, and for which the customer has not acquired control over the goods have been reversed in compliance with the Company's accounting guidelines.

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25 Other income, net

Other income, net include the following:

		2019	2018
Income from power outage		(172,870)	(124,621)
Loss (gain) on sale of assets held for sale		-	10,682
Update by tax refund		(7,783)	(1,934)
Other income		(59,252)	(34,946)
	$	(239,905)	(150,819)

26 Personnel costs

Personnel costs include the following:

	Note		2019	2018
Salaries and wages		$	1,021,024	1,099,711
Expenses related to defined benefit plans	19		21,648	47,478
Expenses related to long-term service benefit plans	19		6,591	6,740
		$	1,049,263	1,153,929

27 Financial income and costs

		2019	2018
Recognized in income	$		
Interest income in investments held to maturity		83,094	96,678
Exchange fluctuation		954,842	1,359,969
Fair value of derivative financial instruments		6,256	168,847
Financial income		1,044,192	1,625,494
Interest expenses		551,720	563,966
Loss exchange fluctuation		925,139	1,095,167
Labor liability financial cost		25,077	18,615
Financial costs		1,501,936	1,677,748
Net financial costs recognized in income	$	457,744	52,254

28 Related parties' transactions and balances

a) Compensation to key management personnel:

For the years ended December 31, 2019 and 2018, the total compensation for services rendered by our advisors and directors was approximately $109,566 and $106,553, respectively. This amount includes fees, wages, variable compensation, and retirement benefits.

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b) Operations and balances of the Company with associates are the following:

Balances receivable from and payable to related parties as of December 31, 2019 and 2018 include the following:

Accounts receivable		2019	2018
Evercast, S.A. de C.V. [1]	$	-	54,449
Infun-Ederlan Auto Parts (Wuhu) [2]		68,714	78,664
Gisederlan, S.A. de C.V. [1]		104,483	71,938
	$	173,197	205,051

Accounts payable		2019	2018
Gisederlan, S.A. de C.V. [4]	$	5,731	5,115
Evercast, S.A. de C.V. [4]		-	850
	$	5,731	5,965

Operations with related parties as of December 31, 2019 and 2018 include the following:

Evercast		2019	2018
Revenues from sales of goods [1]	$	-	129,449
Revenues from sales of raw material [2]		-	24,913
Services rendered [3]		-	259,545
Revenues from software licenses		-	238
Purchase of products [4]		-	728
Recovery of expenses		-	-
Financial cost [5]		-	7,002

Gisederlan		2019	2018
Revenues from sales of goods [4] [5]	$	267,153	156,685
Services rendered [1] [2]		64,038	36,399
Revenues from software licenses		740	890
Income from sale of fixed asset		-	10,100
Raw material purchase cost [4]		5,617	3,914
Financial cost [1] [2] [3]		(1,063)	2,919

(1) Carried out with Asesoría y Servicios GIS, S.A. de C.V.
(2) Carried out with Aximus
(3) Grupo Industrial Saltillo, S.A.B. de C.V.
(4) Carried out with Tisamatic, S.A. de C.V.
(5) Carried out with Cifunsa de Bajío, S.A. de C.V.
(6) These operations correspond to the collection and administration of financial resources, to related parties.

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Infun-Ederlan Auto Partes (WUHU)		2019	2018
Revenue from sale of raw material [1]	$	3,227	3,807
Interest income [1]		1,535	1,308

(1) Carried out with Infun, S.A

a) Pledge by Cinsa, S.A de C.V., Cifunsa del Bajio, S.A. de C.V., Manufacturas Vitromex, S.A. de C.V. and Tisamatic, S. de R.L. de C.V. to Grupo Industrial Saltillo, S.A.B. de C.V. in a long-term syndicated loan with HSBC Bank USA, National Association, as Administrative Agent and Collateral Agent, HSBC Bank USA, HSBC Securities (USA) Inc., as Lead Arranger and Bookrunner and other banks as participants of the syndication, for an original amount of $195 MUSD plus a Revolving Credit Line for MUSD $50 undrawn at the close of this fiscal year, which outstanding balance as of December 31, 2019 is MUSD $180.

b) Pledge by Grupo Industrial Saltillo, S.A.B. de C.V. of the shares of Automotive Components Europe, S.L. as security for the long-term syndicated loan of Grupo Industrial Saltillo, S.A.B. de C.V. with HSBC Bank USA, National Association, as Administrative Agent and Collateral Agent, HSBC Bank USA, HSBC Securities (USA) Inc., as Lead Arranger and Bookrunner and other banks as participants of the syndication, which outstanding balance at December 31, 2019 is MUSD $180 plus a Revolving Credit Line for MUSD $50 undrawn at the close of this fiscal year.

c) Pledge by Grupo Industrial Saltillo, S.A.B. de C.V. of the shares of Infun, S.A.U. as security for the long-term syndicated loan of Grupo Industrial Saltillo, S.A.B. de C.V. with HSBC Bank USA, National Association, as Administrative Agent and Collateral Agent, HSBC Bank USA, HSBC Securities (USA) Inc., as Lead Arranger and Bookrunner and other banks as participants of the syndication, which outstanding balance at December 31, 2019 is MUSD $180 plus a Revolving Credit Line for MUSD $50 undrawn at the close of this fiscal year.

d) Pledge by Grupo Industrial Saltillo, S.A.B. de C.V. of the shares of Altec Engineering, S.L. as security for the long-term syndicated loan of Grupo Industrial Saltillo, S.A.B. de C.V. with HSBC Bank USA, National Association, as Administrative Agent and Collateral Agent, HSBC Bank USA, HSBC Securities (USA) Inc., as Lead Arranger and Bookrunner and other banks as participants of the syndication, which outstanding balance at December 31, 2019 is MUSD $180 plus a Revolving Credit Line for MUSD $50 undrawn at the close of this fiscal year.

e) Collateral granted by Cinsa, S.A. de C.V., Cifunsa del Bajío, S.A. de C.V., Manufacturas Vitromex, S.A. de C.V. and Tisamatic, S de R.L. de C.V. to Grupo Industrial Saltillo, S.A.B. de C.V. on the Issue of Listed Securities with ticker symbol GISSA 17 with an outstanding balance as of December 31, 2019 of $1,375 million pesos.

f) Grupo Industrial Saltillo, S.A.B. de C.V. as Guarantor for Gisederlan, S.A. de C.V. (non-consolidated company being a joint business, but accounted for by the equity method) in a Bank Loan with Santander, S.A. (Spain) for up to 50% of the unpaid balance which, through December 31, 2019 has an unpaid balance of USD $8.5 million.

g) Industria Automotriz Cifunsa, S.A. de C.V. as joint obligor of Gisederlan, S.A. de C.V. (unconsolidated company, being a joint venture, but recognized under the equity method) in a Credit Agreement in Checking Account with BBVA Bancomer, S.A., for up to 50% of the outstanding balance, which as December 31, 2019 has an outstanding balance of MUSD $12.

h) Infun, S.A., Fundiciones Miguel Ros, S.A. and Casting Ros, S.A. as Guarantors for Ineder Projects, S.L. (non-consolidated company being a joint business, but accounted for by the equity method) in a Bank Loan with Santander, S.A. (Spain), which unpaid balance at December 31, 2019 is MEUR $2.

i) Casting Ros, S.A and Fundiciones Miguel Ros, S.A. as Guarantors for Infun, S.A. in a non-recourse factoring agreement with Santander Factoring and Confirming, S.A., E.F.C., for up to $5.5 million Euros, which unpaid balance at December 31, 2019 is MEUR $1.5.

j) Infun, S.A. as Guarantor for Infun For, S.A. in a non-recourse factoring agreement with Santander Factoring and Confirming, S.A., E.F.C., for up to $8.5 million Euros, which balance at December 31, 2019 is MEUR $5.7.

k) Grupo Industrial Saltillo, S.A.B. de C.V. as Joint Obligor for Cinsa, S.A. de C.V., Manufacturas Vitromex, S.A. de C.V., Tisamatic, S de R.L. de C.V. and Cifunsa del Bajío, S.A. de C.V. in a non-recourse factoring agreement with Santander, S.A. (Spain) for up to 5% of the amount drawn over the authorized line of US $48.2 million, which balance at December 31, 2019 is MEUR $18.3.

l) Automotive Components Europe, S.L., ACE 4C, AIE, Fuchosa, S.L.U., European Brakes and Chasis Components SP. Z O.O. and Draxton Brno s.r.o. as Accredited and joint obligor altogether up to the outstanding balance in the Confirming contract with Bankinter, S.A. and Banco Bilbao Vizcaya Argentaria, S.A. up to an amount of MEUR $17.5 which outstanding balance as of December 31, 2019 is MEUR $3.6.

m) Infun S.A.U., Fundiciones Miguel Ros, S.A., Casting Ros, S.A., Altec Enginering, S.L.U., Mainteniment Foneria, S.L. e Infun For, S.P.A. as Accredited and joint obligor altogether up to the outstanding balance in the Confirming contract with Bankinter, S.A. and Banco Bilbao Vizcaya Argentaria, S.A. up to an amount of MEUR $27 which balance as of December 31, 2019 is MEUR $4.3.

n) Grupo Industrial Saltillo, S.A.B. de C.V. as pledge in favor of Manufacturas Vitromex, S.A. de C.V., in a Line of Letters of Credit contract with Banco del Bajío, S.A., Institución de Banca Múltiple, S.A. up to an amount of MUSD $6.0 which balance as of December 31, 2019 is $ 2.8 MUSD.

o) Grupo Industrial Saltillo, S.A.B. de C.V as Joint Obligor in a current account line of credit agreement for factoring to suppliers with Nacional Financiera, S.N.C, for up to $550 million of pesos, which unpaid balance at December 31, 2019 amounts to $280 million of pesos.

p) Grupo Industrial Saltillo, S.A. B. de C.V. and its subsidiaries use various bank instruments for purchasing raw materials, spare parts, machinery and finished goods, specifically for their importation; such letters of credit issued to different providers have an unpaid balance at December 31, 2019 of US$8.4 million, which have been issued with various national banking institutions

q) At the end of 2019, Grupo Industrial Saltillo and its Subsidiaries have non-recourse portfolio factoring agreements with various financial institutions, with a balance at the end of the 2019 of $ 18.5 million dollars and €21.3 million Euros and of the year 2018 of €25.0 million Euros, which were written off the balance presented at the end of the year 2019 and 2018 respectively, according to what is mentioned in Note 3 subsection (c) point (i).

30 Contingencies

(a) Litigation

The Company is involved in a number of lawsuits and claims, arising from its ordinary course of business; those matters are not expected to have a significant impact on the Company's future financial position and results of operation.

In cases whose resolutions are considered likely and that will mean an outflow of cash or other resource from the Company, accruals have been recorded that represent the best estimate of these likely payments.

(b) Tax contingencies

i) Under tax laws in force, the authorities are empowered to review up to five tax years prior to the most recent income tax return filed.

ii) According to the Income Tax Law, companies conducting operations with related parties are subject to certain tax limitations and obligations as concerns the agreed pricing, which must be comparable to the prices agreed by or between independent parties engaged in similar operations.

If the tax authorities review prices and disallow the amounts determined, they could demand, in addition to the collection of the corresponding tax and accessories (update and surcharges), fines on the omitted contributions, which could be up to 100% about the updated amount of contributions.

31 Subsequent events

The Company's management has decided that, starting on f January 1, 2020 the presentation currency of the consolidated financial statements will change to United States of America dollars instead of Mexican pesos, in order to align the strategy Globalization of the Company and the reading of its financial information in a global reference currency. This change in the presentation of the consolidated financial information of Grupo Industrial Saltillo, qualifies as a change in accounting policy in accordance with the International Financial Reporting Standards and was approved by the Board of Directors, with the prior opinion of its Audit Committee. Therefore, in the financial statements for the year ending December 31, 2020, the information as of January 1, 2019 and for the year ending December 31, 2019, will be presented in dollars, meeting the accounting requirements for currency conversion.

ECONOMIC OVERVIEW

CORPORATE GOVERNANCE

: CORPORATE GOVERNANCE

Corporate Governance is a mechanism that regulates the links and relationships between shareholders, directors, and the company's top management, through the definition of strategic, operational, supervisory, and management roles.

At GIS, corporate governance is managed through the board of directors and four committees: Audit, Corporate Practices, Finance & Planning, and Steering. All four committees are made up of well-known executives, who contribute their knowledge and experience to help define and monitor the strategy of GIS and its companies.

These management bodies adhere to the provisions of Articles 24, 25, 28, 41, 42, and 43 of Mexico's Securities Market Law for their incorporation and function.

BOARD OF DIRECTORS

The board of directors are responsible for defining key aspects of the company, such as our corporate strategic vision, our philosophy, and our values. The board also oversees the implementation of our strategic vision and monitors operations with related parties.

The board promotes the use of information quality assurance mechanisms, as well as systems for the identification, analysis, administration, control, and proper disclosure of risks and the establishment of internal control methods.

Annually, the CEO of GIS presents the draft investment budget to the board of directors. This budget includes the acquisitions and improvements of production equipment to help fulfill the strategic plan, the development of operating and commercial activities that promote and maintain the competitiveness of businesses, always seeking to prioritize the quality of life of our employees in the workplace, as well as preservation and environmental improvement.

The company's board of directors are elected at the General Shareholders' Meeting. Each shareholder or group of shareholders holding 10% of the shares has the right to appoint a director, and all the shares have voting rights, without distinction, and participate in the election of directors. No director has a deciding vote, since all votes have the same bearing.

In GIS, corporate governance is manages through Board of Directors and four Committees.

Our board of directors is composed of 13 directors: five directors with an ownership stake and eight independent directors. The independent directors are people selected for their ability, experience and professional prestige, who can perform their duties free of conflicts of interest and without being subordinated to personal, property, or economic interests.

The board of directors seeks to appoint independent directors who meet the criteria of formal independence established by law, in addition to those directors that may be nominated by the shareholders.

Our independent directors are professionals with knowledge of and experience in the businesses and markets in which we operate, presenting a healthy diversity of criteria and points of view.

At the General Shareholders' Meeting, all independent directors and their alternates are nominated and approved by the highest governing body, who assess the independence of the candidates, in accordance with Article 26 of the Mexican Stock Market Law and based on the information that those individuals, being appointed or approved, have provided and recorded in the company's registers.

To evaluate the financial results and compliance with the company's strategic, social, and environmental goals and other activities, the board of directors meets at least six times a year, according to the pre-established schedule, and listens to the opinions of the pertinent committees.

In advance of the meeting, all the directors receive the draft minutes of the previous meeting, along with the information that will be discussed during the meeting. If additional information is required, they can request it from the CEO of GIS and contact the appropriate executives to express their opinion and cast their vote.

The members of the board of directors can participate in meetings through remote communication, whereby they can express their views and vote. This option is valid for all legal purposes.

At least 15 days before the date of the board meeting, directors representing a quarter of the board of directors may request to include topics they would like to discuss, in accordance with the regulations of the board of directors and Article 29 of the bylaws. The board of directors is responsible for preparing the agenda for the annual meeting.

Based on GIS's Integrity Process and the Code of Ethics, which governs the behavior and performance of all the company's employees and stakeholders, including the board of directors, the Audit Committee, the Corporate Practices Committee, and the Finance & Planning Committee monitor adherence to corporate governance practices and policies.

	COMMITTEE	TYPE
PEDRO ALONSO AGÜERA		Independent
LUIS ARIZPE JIMÉNEZ	Audit	Independent
LORENA CÁRDENAS COSTAS	Audit	Independent
FERNANDO CHICO PARDO	Planning and Finance	Independent
EUGENIO CLARIOND REYES-RETANA	Audit	Independent
ALEJANDRO DÁVILA LÓPEZ	Planning and Finance	Patrimonial
GUILLERMO ELIZONDO LÓPEZ	Planning and Finance	Patrimonial
FRANCISCO GARZA EGLOFF	Corporate Practices	Independent
CLAUDIO X. GONZÁLEZ LAPORTE	Corporate Practices	Independent
FERNANDO LÓPEZ ALANÍS	Planning and Finance	Patrimonial
ERNESTO LÓPEZ DE NIGRIS	Planning and Finance	Patrimonial
JUAN CARLOS LÓPEZ VILLARREAL	Planning and Finance	Patrimonial
MANUEL RIVERA GARZA[1]	Corporate Practices Planning and Finance	Independent

[1] Manuel Rivera Garza became the CEO of GIS on April 1, 2019.

AUDIT COMMITTEE

The Audit Committee is a body composed of three independent directors, whose chairman is appointed at the General Shareholders' Meeting. The remaining members are appointed by the board of directors.

This committee is responsible for evaluating internal control systems and the management of Internal Audit, identifying and responding to any major deficiencies, and following up on corrective or preventive measures adopted in the event of non-compliance with operational and accounting guidelines and policies. It is also responsible for evaluating the performance of external auditors and for describing and evaluating their services not related to the audit of financial statements.

The Audit Committee reviews and proposes the company's financial statements to the board of directors for approval. The committee also evaluates the effects of any modifications to the accounting policies approved during the fiscal year, monitors compliance with the resolutions of the General Shareholders' Meeting and the board of directors, and ensures compliance with the provisions of the Code of Ethics and the operation of the Whistleblower System.

CORPORATE PRACTICES COMMITTEE

This committee supports the board of directors in preparing the annual report presented to the shareholders and performs the activities stipulated in Mexico's Securities Market Law.

It is in charge of evaluating the performance of the key executives, as well as reviewing their compensation and the policies and guidelines on the use or enjoyment of the assets belonging to the company and the entities it controls by related individuals.

The Corporate Practices Committee is composed of three independent members of the board of directors, one of whom serves as the chair of the committee and is appointed at the shareholders' meeting. The remaining members are appointed annually by the board of directors at the proposal of the committee's chair.

The members of this committee interact with the board of directors through its meetings, which are held by invitation at least twice a year.

FINANCE & PLANNING COMMITTEE

This committee makes recommendations to the board of directors regarding projects presented by the CEO of GIS. To this end, the committee analyzes the strategic plans of the businesses, investments, and proposals for acquisitions and divestments.

Comprised of seven members of the board of directors, the Finance and Planning Committee evaluates and considers proposed investment and loan instruments to finance the group's expansions.

STEERING COMMITTEE

Comprised of the corporate CEO and the heads of the businesses, the leadership team of the Steering Committee meets once a month with GIS's CEO to present the monthly and cumulative results, as well as the strategies and tactics to be followed during the year to achieve the goals set by the board of directors.

Each year, this committee carries out long-term strategic planning and establishes its annual budget based on the metrics to be met, which are approved by the board of directors.

Its members are responsible for approving the policies for business management and submits changes or adjustments to the practices and policies it is authorized to approve to the board of directors, through the CEO.

The same system applies to all GIS businesses where there is a CEO and an executive team.

The Audit, Corporate Practices, Finance, and Steering Committees meet several times a year according to an agenda. The CEO submits the suggestions and recommendations of these committees to the board of directors for approval and consideration.

MANUEL RIVERA GARZA
CEO

JORGE ALBERTO RADA GARZA
COO & Draxton

JORGE MERCADO PÉREZ
CFO

LUIS FERNANDO SALDAMANDO ARVIZU
HRO

RICARDO SANDOVAL GARZA
Corporate Communications

CÉSAR CÁRDENAS RODRÍGUEZ
Vitromex

MARCELO RODRÍGUEZ SEGOVIA
Cinsa

THE PRACTICE OF OWNERSHIP RIGHTS OF INSTITUTIONAL INVESTORS

Under law and in accordance with the bylaws, shareholders have the right to participate in—and be duly informed of—decisions that involve fundamental changes in the company. In addition, they have the opportunity to participate effectively, as well as to vote, in shareholders' meetings through the forms, information, and agenda that the company makes available to them at least 15 days in advance.

All shares have voting rights, without distinction.

Shareholders representing at least 10% of the share capital may request that a General Shareholders' Meeting be convened, in accordance with the terms set forth in Article 50 of Mexico's Securities Market Law. The results of the voting must be disclosed in accordance with the applicable legal provisions. Details of the process are available on the GIS website, in the Bylaws section under the Corporate Governance heading on the Investor Relations page.

The vast majority of the company's shares is held in the portfolios of local investors and through intermediaries in the Mexican stock market. However, in order to facilitate preparation and voting at the meetings, the company publishes its call in advance of the minimum required by law.

The agenda for the shareholders' meeting outlines the specific proposal for the payment of dividends. Likewise, in the case of corporate restructuring, the company publishes a prospectus to explain the necessary details in a timely manner, to facilitate decision-making and the corresponding vote by shareholders.

: AUDIT COMMITTEE REPORT

To the Board of Directors of
Grupo Industrial Saltillo, S.A.B. de C.V.

In compliance with the provisions of Articles 42 and 43 of Mexico's Securities Market Law and the Regulations of the Audit Committee, I inform you about the activities carried out during the year ended December 31, 2019. In conducting our work, we took into account the recommendations established in the Code of Principles and Best Practices of Corporate Governance. We met at least quarterly and, based on a work schedule, carry out the activities described below.

RISK ASSESSMENT

We made sure that management, in compliance with its responsibilities, has carried out the process for identifying and assessing the main risks facing businesses and implementing activities and controls that may mitigate those risks.

INFORMATION TECHNOLOGIES: CYBERSECURITY AND DISASTER RECOVERY PLAN

Considering that, in 2019, cybersecurity risk continued to be a significant risk to the organization, the committee paid special attention to monitoring the progress of the main vulnerabilities identified during ongoing cybersecurity assessments and overseeing the proper implementation of information security initiatives that guarantee the continuity of operations within information processes.

We followed up on proposals to strengthen the Disaster Recovery Plan, implemented to restore system functionality after the August 13 incident. Preventive measures for the proper functionality and continuity of operations, in place since Q4 of 2019, were monitored.

INTERNAL CONTROL

We followed up on the progress made in the process of implementing and improving the internal control system presented by the management through quarterly reports prepared by the respective departments and, as a result, made suggestions and observations which have been taken into consideration for its improvement.

EXTERNAL AUDIT

We recommended that the board of directors hire external auditors and subsidiaries for fiscal year 2019. To this end, we ensured their independence and compliance with the requirements established by law and by the general provisions applicable to entities and issuers by the Mexican National Banking and Securities Commission that contract external audit services for basic financial statements, effective August 1, 2018. Together, we analyzed their approach and work schedule, as well as their coordination with the internal audit area.

We modified and submitted our regulations to the board of directors for approval in order to comply with the new provisions. We implemented the actions established in the aforementioned order, related to the responsibilities of the committee and to the requirements applicable to external auditors.

We reviewed the work schedule for the external audit and its coordination with the Internal Audit department.

We maintained constant and direct communication with them to know the progress of their work and their observations and to take note of their comments on the financial statements. We were informed of their findings and reports on the annual financial statements on a timely basis, and we followed up on the implementation of the observations and recommendations developed in the course of their work.

We approved the fees paid to external auditors for their audit services and other authorized services, ensuring that they do not interfere with their independence from the company.

Taking into account the views of management, we started the process of evaluating the performance of the external auditors for the 2019 financial year, which we will report at the appropriate time.

AUDIT INTERNA

In order to maintain its independence and objectivity in accordance with current applicable regulations and in agreement with general management, we decided that the Internal Audit department will report to the Audit Committee.

We reviewed and approved the annual audit program, ensuring that it has been prepared taking into account the operational and business risks in the different units of the group. As a result, we also approved the annual budget and the proposed organizational structure.

We received periodic reports regarding the progress of the approved work program, the variations that it may have undergone, and the motivations behind those variations.

We followed up on their observations, subsequent suggestions, and their timely implementation.

We ensured that annual training program was implemented for the department's staff.

During the year, Internal Audit services were evaluated by the heads of the business units and by the committee itself.

FINANCIAL INFORMATION, ACCOUNTING POLICIES, AND REPORTS TO THIRD PARTIES

We reviewed the company's quarterly and annual financial statements alongside those who prepared them and advised the board of directors to approve and authorize their release.

As part of this process, we took into account the opinions and observations of the external auditors and ensured that the criteria, accounting, and information policies used by management to prepare the financial information are adequate and sufficient and that they were applied consistently with the previous year. Consequently, the information presented by management properly reflects the company's financial situation, income, and cash flow for the year ended December 31, 2019.

We also reviewed the quarterly reports prepared by management to be presented to the Mexican Stock Exchange, shareholders, and the general public, verifying that they were prepared in accordance with the International Financial Reporting Standards using the same accounting criteria used to prepare the annual information. Our review included ensuring that there is a comprehensive process that provides reasonable assurance about its content. We ultimately recommended that the board approve its release each quarter.

We approved the incorporation into the company's accounting policies of the new accounting procedures that took effect in 2019, resulting from the adoption of the International Financial Reporting Standards.

We reviewed, analyzed, and gave our opinion on the following relevant operations:

- Restructuring of Vitromex, including the closure of the Saltillo plant
- Analysis of the recoverability of Vitromex assets
- Divestiture of Calorex
- Refinancing of $245 million in debt through a long-term syndicated loan with HSBC
- Opening of a line of credit with Santander for factoring in Mexico for $48.2 million
- Ordering of cross currency swaps to balance currency between EBITDA and debt, including an interest rate swap (IRS) to set the variable rate at a fixed rate
- Analysis of the recoverability of assets with an indefinite useful life – goodwill.
- Analysis of the recoverability of the group's deferred tax assets
- Staged business acquisition (PPA – Evercast).
- Changes in the corporate structure through the simplification of corporate entities

COMPLIANCE WITH REGULATIONS, LEGAL ASPECTS, AND CONTINGENCIES

We confirmed the existence and reliability of the controls implemented by the group to ensure compliance with the different legal provisions to which it is subject, ensuring that they are adequately disclosed in the financial information.

We periodically reviewed various fiscal, legal, and labor contingencies within the group, monitoring the effectiveness of the procedure for its identification and monitoring, as well as its proper disclosure and registration.

CODE OF CONDUCT

We ensured the existence of appropriate processes for compliance with the Code of Ethics, including its dissemination to staff, updates, and the application of penalties for violations.

We reviewed the complaints received through the system, the company implemented for this purpose, and ensured that they were addressed and corrected in a timely manner.

MANAGEMENT ISSUES

We held regular meetings between the committee and management to stay informed about the company's developments, activities, and relevant and unusual events. We also met with the external and internal auditors to discuss the progress of their work and any limitations they may have faced, and we sought to facilitate any private communication they might wish to have with the Committee.

We held executive meetings with exclusive members of the Committee to establish agreements and recommendations for management.

The chairman of the Audit Committee reported to the board of directors on a quarterly basis about ongoing activities.

The work that we carried out was duly documented in minutes for each of the meetings we carried out, which we later reviewed and approved.

Sincerely,

ING. LUIS ARIZPE JIMÉNEZ
Chairman of the Audit Committee

February 20, 2020

: CORPORATE PRACTICES REPORT

For the year ended December 31, 2019

February 19, 2020

To the Board of Directors of
Grupo Industrial Saltillo, S.A.B. de C.V. (the "Company")

On behalf of the Corporate Practices Committee, I present you the report of the activities carried out by the committee during the fiscal year ended December 31, 2019, in compliance with the provisions of Article 43 of Mexico's Securities Market Law and Article 40 of the company's bylaws.

During the fiscal year, in the performance of its functions, the committee provided its recommendations in the areas for which it is responsible, namely

1. The performance of key executives during the 2019 period was evaluated, as well as the payment of their fixed and variable compensation. Their goals for 2019 were revised accordingly.

2. The compensation for the CEO of GIS was approved.

3. The final package for the previous CEO was approved.

4. The guidelines for GIS wage and salary increases were reviewed, as well as the compensation of relevant executives. Their salary competitiveness was revised with respect to the relevant market.

5. Due to the complexity of the Vitromex situation, an extraordinary COVA CP bond design was approved for one-time use by eligible executives to ensure business continuity.

6. Updates to the directors' fees were reviewed and proposed.

7. The status and plan of succession for the CEO and relevant executives were reviewed through possible first-level scenarios.

8. The proposal for 2020 salary increases for GIS employees was reviewed.

9. To date, this committee has no knowledge of the board of directors or any individual director, relevant executive, or individual with power of command taking advantage of business opportunities for themselves or in favor of third parties related to the company or its subsidiaries or of any significant transactions being undertaken with related parties.

FRANCISCO GARZA EGLOFF
Chairman of the Corporate Practices Committee

ENVIRONMENTAL PERFORMANCE

: ENVIRONMENTAL PERFORMANCE

Sustainability hinges on economic, environmental, and social values. The UN's Sustainable Development Goals is the basis for determining the environmental aspects relevant to the operation of our businesses.

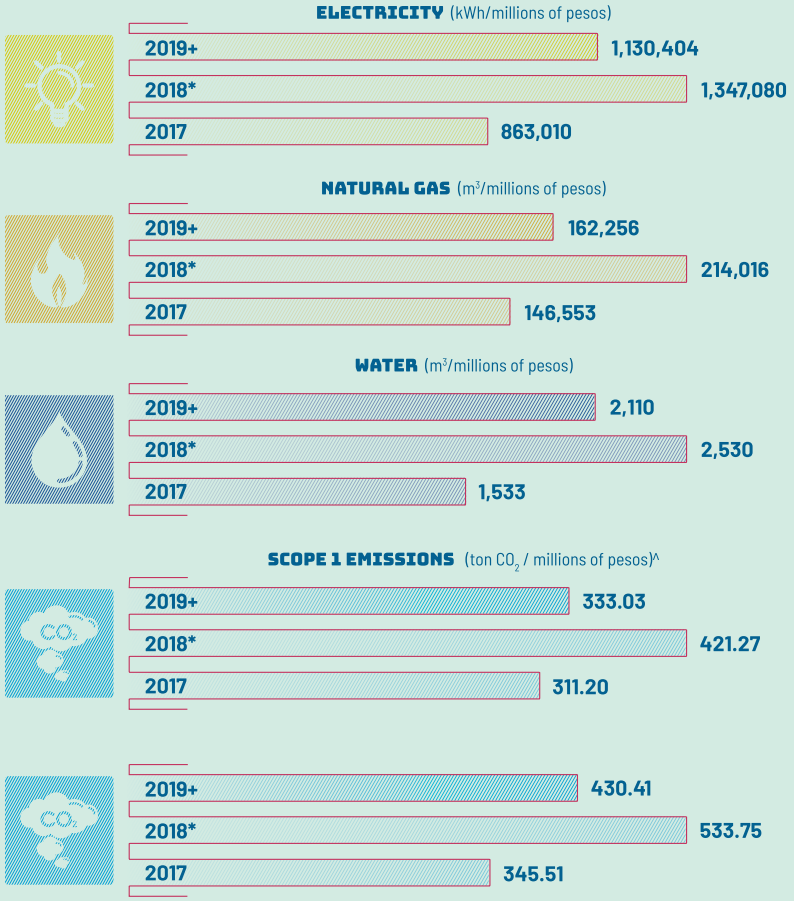
GIS values sustainable development. It is our springboard for designing actions aimed at promoting the care and use of energy resources, as well as the use of clean and efficient technologies that help preserve the ecosystem and generate savings, which also benefits our employees.

Each business has materially relevant priorities when it comes to the environment. The expectations and needs of our stakeholders center around three common areas of focus: energy consumption (electricity and natural gas), water management, and reducing emissions (CO_2)*.

Based on these three factors and the relationship between the use of these resources and the value generated with our products, we have adopted a transformation indicator that clarifies the relationship between use and the generated benefit.

*Note GRI 302, GRI 303, GRI 305

CONSUMPTION PER UTILITY



* The 2018 numbers include the resource consumption and financial results of Cinsa, Calorex, Draxton, Vitromex, and Evercast.
\+ The 2019 numbers include the resource consumption and financial results of Cinsa, Draxton, Vitromex, and Evercast.
^ In terms of electricity, country-specific factors are used for Scope 2 because there are variations for each supplier. For the fossil fuels in Scope 1, an average factor for all GIS facilities worldwide is used.

The reconfiguration that GIS has undergone recently due to the acquisition and divestiture of businesses, coupled with global economic and market conditions, has influenced the variability and consistency of environmental outcomes. However, we maintain our goal of strengthening a culture focused on the efficient use of resources to foster progress and well-being in the communities where we operate.

With the goal of using clean, affordable energy, our Draxton operations in Europe used more than 156 million kWh of electricity from 100% renewable sources.

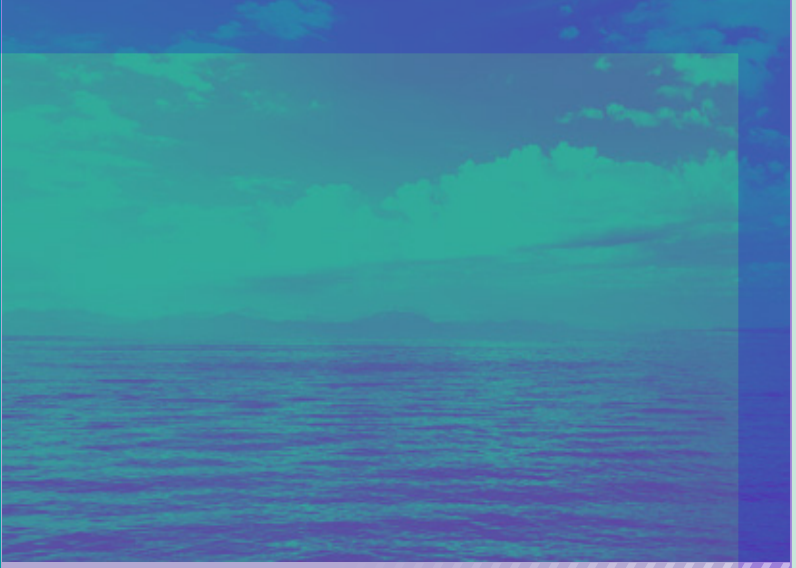
In Mexico, we used more than 228,000 m^3 of treated water, thereby reducing our dependence on natural water sources and helping to reduce the planet's water stress. To meet guidelines, we measure water consumption by specific source and monitor water released from our plants.

We understand that the first step in reducing emissions is to ensure that emissions are being calculated correctly. This is why eight of our plants in Mexico underwent a process to verify scope 1 and 2 greenhouse gas inventories. All of the plants obtained a positive opinion, indicating the reliability of the information and the validity of the calculation method used. In line with this measurement strategy, we are establishing systems to provide a more accurate inventory of scope 3 emissions.

In 2019, GIS facilities in Mexico reported as a conglomerate in the Carbon Disclosure Project (CDP) for the third time. The feedback we received confirms that we maintained positive and consistent results in the areas of climate change and water management.

For the third consecutive year, we supported students participating in the REDMIA (Reduction of Micro-Environmental Impact) project, which helps young people identify areas of opportunity and implement projects for the environment making sustainable use of natural resources and systematically measuring the generated benefits. For more information on this initiative and the participation of GIS, please visit www.redmia.com.mx.

GIS facilities in Mexico reported as a conglomerate in the Carbon Disclosure Project (CDP).



GIS formally joined the UN-backed "Clean Seas" campaign.

To achieve our sustainable development goals, GIS formally joined the UN-backed "Clean Seas" campaign to contribute to the goal of completely eliminating plastic sources that end up in the sea, with the goal of restoring the quality of underwater life.

We also continue our involvement in reforestation and adopt-a-tree campaigns. For all this to be possible, we count on the valuable support of GIS employees, who put our Vision and Mission into practice, along with Sustainable Development Goal #13: Climate Action.

One example is the reforestation of the Sierra Zapalinamé, in Saltillo, where companies, community organizations, and regional authorities came together to plant more than 10,000 trees, an activity involving 35 employees and their families. During our Safety and Environment weeks, we clean up public spaces and raise awareness about a number of topics, such as the use of solar panels. As an added benefit, our employees earned discounts toward the purchase of solar energy systems.

Investment projects that offer improved environmental performance are reviewed, weighted, and approved by the board of directors, based on the analysis and assessment of opportunities and risks identified by the operational leaders.

According to the evaluation criteria of the Internal Audit Department of GIS, no critical breach of Mexican environmental legislation was found in 2019 by Cinsa, Draxton, and Vitromex. There were also no spills of materials within our facilities that required a report to be issued to the competent authority.

+10,000 TREES

PLANTED IN THE SIERRA ZAPALINAMÉ IN SALTILLO.

: DRAXTON

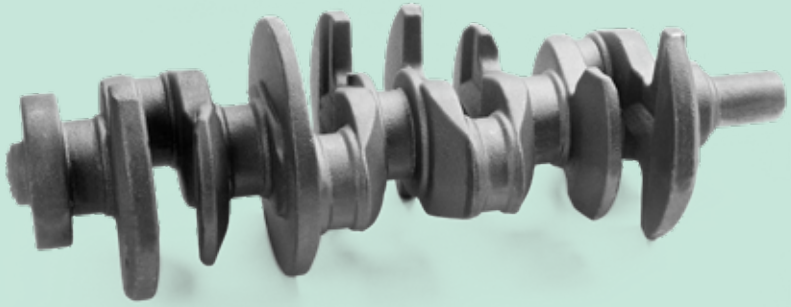
DRAXTON NORTH AMERICA

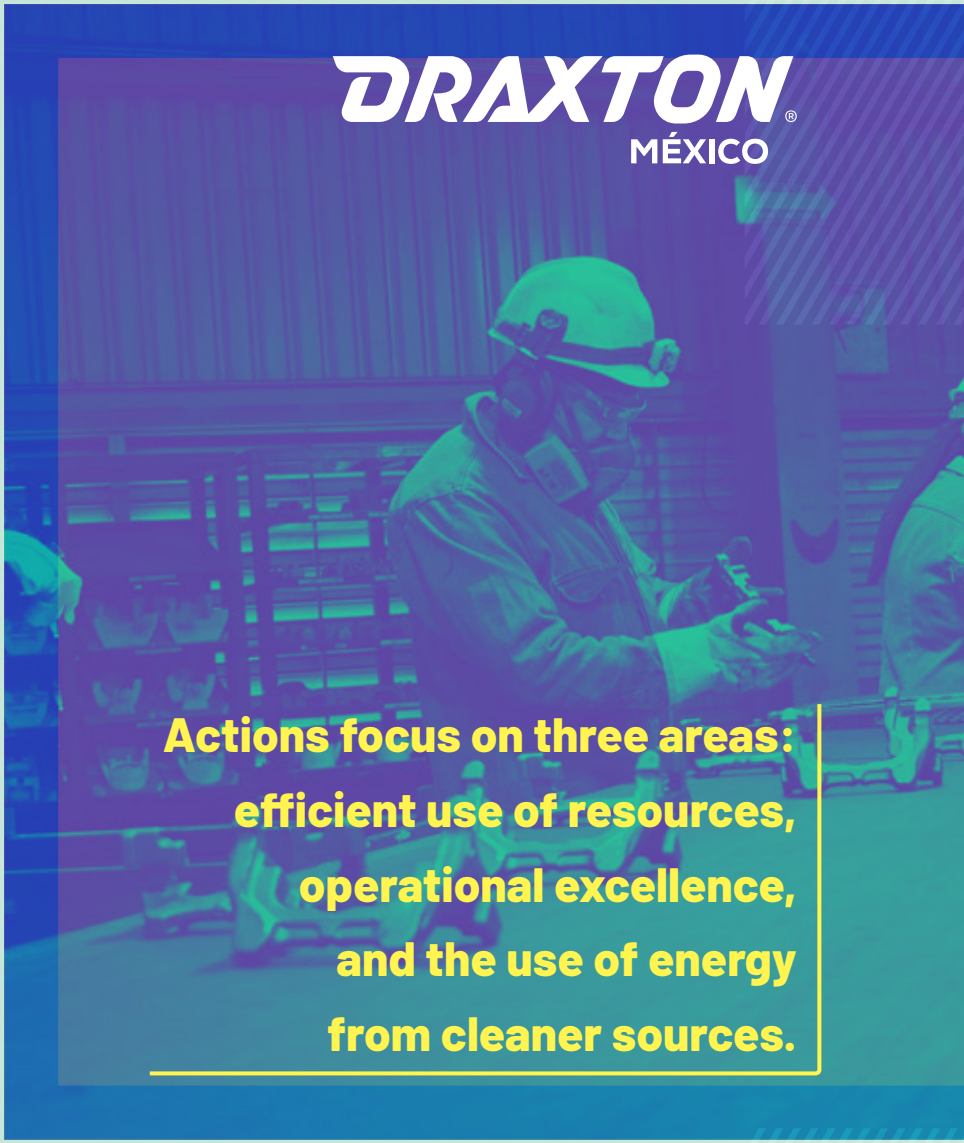
Draxton is a company dedicated to the casting of gray and ductile iron parts. Its main raw materials are metal consumables, which makes the company a major recycler of such materials, helping to convert them into products and extend their useful life. The company has operations in the cities of Saltillo, San Luis Potosí, and Irapuato in Mexico.

This business actions focus on three areas: efficient use of resources, operational excellence, and the use of energy from cleaner sources, with the goal of clean, affordable energy. In 2019, its three plants consumed more than 168 million kWh of clean energy from an efficient co-generation process that is certified and endorsed by Mexico's Energy Regulatory Commission.

More than 2,000 tons of waste were also recycled, thereby allowing the waste to be used for the production of new materials instead of being shipped to containment sites. We are therefore helping to achieve the objectives of responsible production and consumption.

Because waste generation is a material issue for Draxton, the casting area dust recovery project was awarded the State Workplace Merit Award by the government of the Mexican state of Guanajuato. The business also won the CLAUT Award, in the sustainability category, from the Automotive Cluster of Nuevo León.

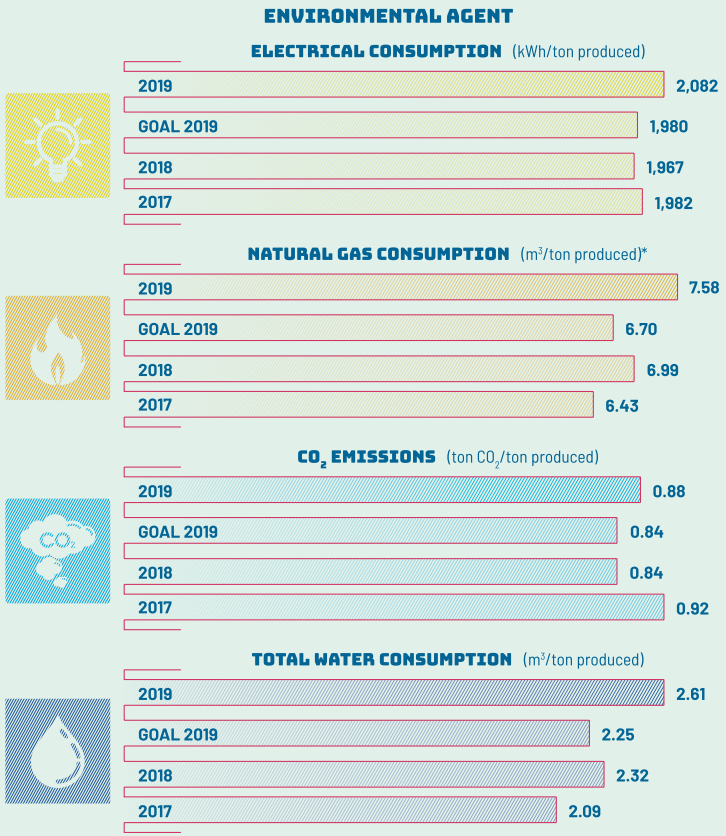




In 2018, the Saltillo and San Luis Potosí plants increased the consumption of treated water by 3%, totaling 141,000 m^3, which means that we avoided using that amount of water from aquifers, thereby reducing our environmental footprint.

Draxton's environmental performance is based on its environmental management system, which aligns with the ISO 14001:2015 standard. In 2019, the Irapuato, Saltillo, and San Luis Potosí plants obtained recertification without reports of major non-conformity findings. This shows a clear understanding of environmental risk and opportunity management. Similarly, no critical findings were found in the internal audit guidelines.

Constant variations in production scheduled in 2019, in response to the changing North American automotive industry, resulted in an increase in environmental indicators per unit of production, compared to 2018.



* Consumption of the Saltillo and Irapuato plants.

THE SALTILLO AND SAN LUIS POTOSÍ PLANTS USED 3% MORE TREATED WATER THAN THE PREVIOUS YEAR, TOTALING 141,000 M^3.

EVERCAST

Located in the Mexican state of Guanajuato, Evercast is a company specialized in the casting and machining of parts. The product of a joint venture between GIS and its client and partner ZF, this production unit was designed to work with a high level of sustainability.

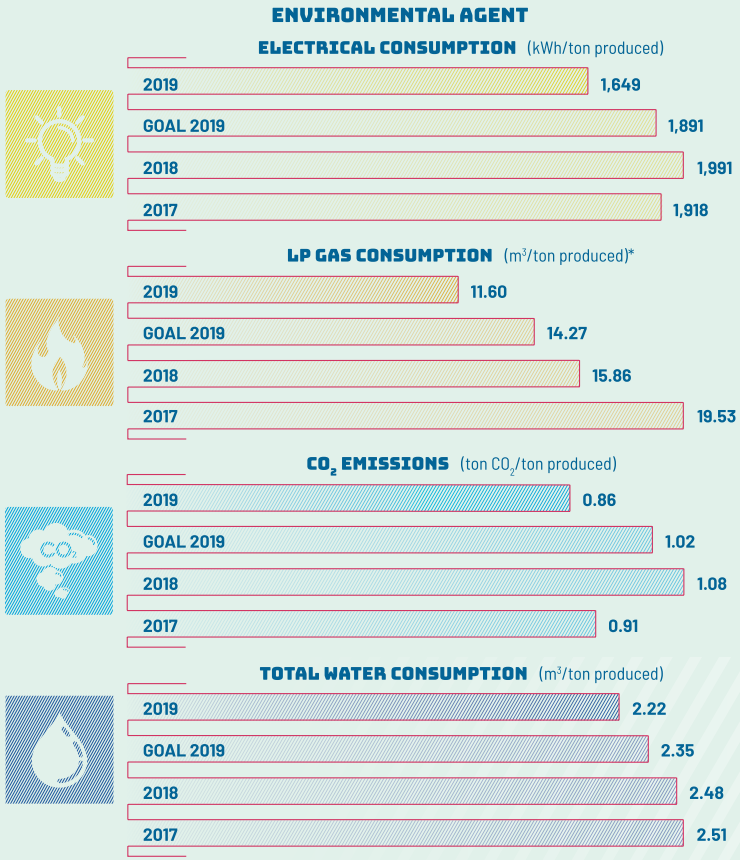
We started an expansion project in 2019 for the installation of a third casting line. This improvement represents an investment of more than $2 million in emission control equipment to maintain excellent environmental performance.

The integration of the casting and machining process ensures a closed cycle for all metal waste within the plant, and decreasing the movement of materials reduces the environmental impact. We invested more than $105,000 in a recovery system that separates a maximum amount of metal waste from the machining product. When added to the other actions, this boosted our annual waste recycling by 169 tons.

All environmental impact indicators applicable to the organization performed better than in 2018, thanks to greater efficiency and productivity. For example, LP gas consumption per ton was reduced by 26% due to improvements implemented to reduce the use of forklift equipment and optimize the preheating of pots.

We also consolidated the reuse of treated water to irrigate the plant's green areas, which allowed us to reduce the consumption of well water per unit produced by 10% and use more than 10,000 m3 of treated water.

We also earned our first ISO 14001:2015 recertification without any major findings being detected in the internal audit. These advances are the result of the use of technological tools to better manage regulatory environmental compliance.



GISEDERLAN

Together with Fagor Ederlan, we made a 50% investment in a joint venture for the machining of iron parts. We have two operations: GISederlan in San Luis Potosí, Mexico and Infunederlan in Wuhu, China

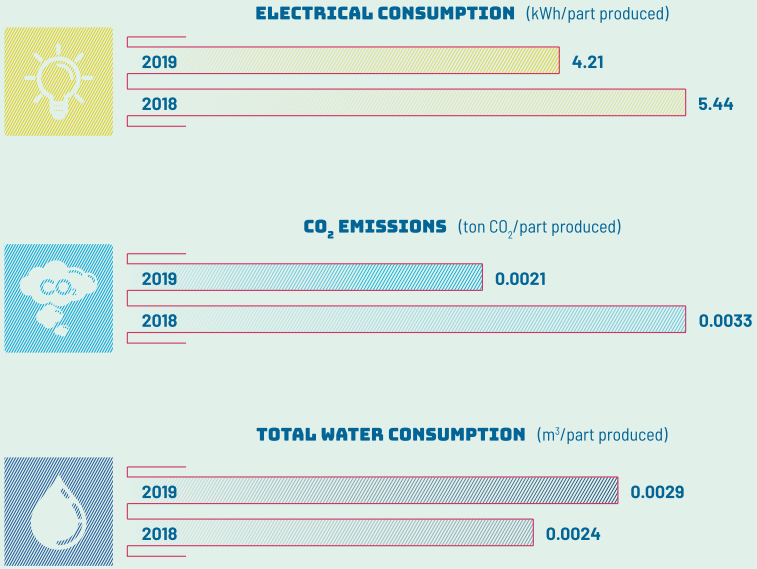
In Mexico, we achieved a 30% improvement in the electricity consumption indicator per part because we increased equipment use efficiency in 2019.

Overall, both plants reported an improvement of 22% in electricity use. In addition, they optimized their CO2 emission indicator by more than 35% per part produced. For its part, the plant in China implemented various projects to use resources more efficiently and reduce the generation of waste in machining equipment.

At the San Luis Potosí plant, we conducted audits to ensure compliance with environmental legislation. This unit also obtained certification of its environmental management system under the ISO 14001:2015 standard, while the Chinese plant maintained its certification under the same standard.

GISederlan®

ENVIRONMENTAL AGENT



IMPROVEMENT OF

30%

IN THE INDICATOR POWER CONSUMPTION PER PIECE

DRAXTON EUROPE & ASIA

With operations in Spain, Italy, the Czech Republic, Poland, and China, Draxton is a global supplier of auto parts for the manufacture of brake, engine, and chassis systems.

Increased electricity consumption from renewable sources at Draxton's plants in Europe allowed us to reduce our carbon footprint per ton produced. This represented an improvement of almost 9% compared to 2018. The Teruel and Atxondo plants, both in Spain, deserve special mention because 100% of the energy they use comes from clean sources, thereby promoting the use of affordable, non-polluting energy.

We invested more than €66,000 to optimize electricity consumption through the implementation of numerous projects, including the replacement of lights, the purchase of high efficiency equipment, automation, improvements in process controls, and the installation of energy monitoring systems.

In 2019, we consolidated the recycling project developed by the Lleida and Teruel plants in Spain. Applying circular economy concepts, the waste from one plant is reused as raw material by the other. In the same vein, the production units in Brno, Czech Republic and Atxondo, Spain implemented an initiative to recycle sand, which can be reused as a consumable in another process. Both projects are clear examples of GIS's commitment to protecting the environment.

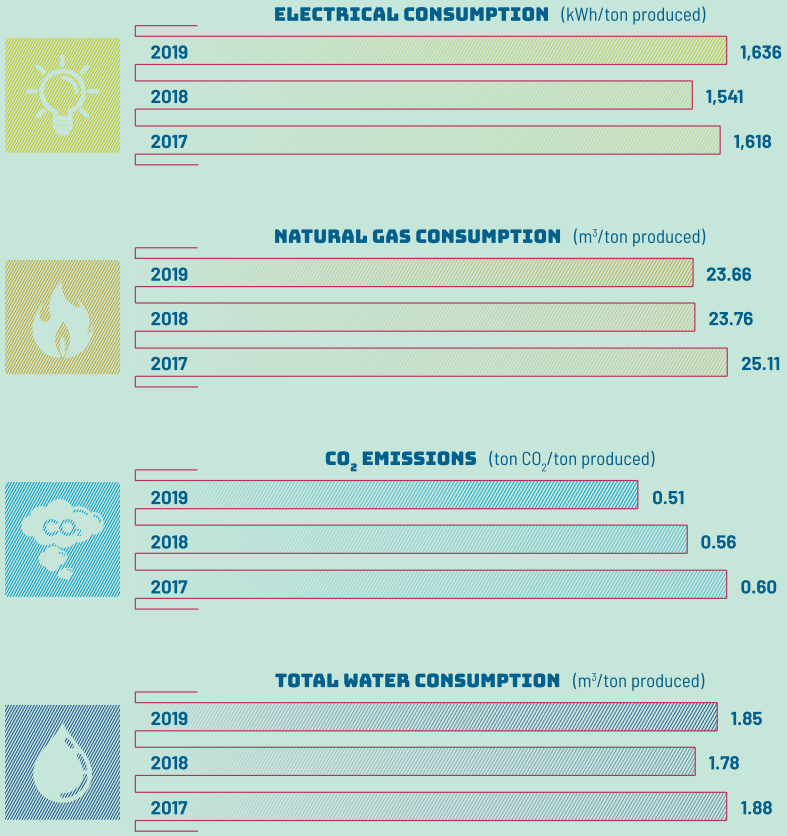
All our operations receive regular visits from the relevant authorities to verify compliance in waste management, wastewater, emergency response, and air emissions. As a result of these audits, the Draxton Europe and Asia plants were re-certified under ISO 14001:2015.

Controlling air emissions is one of the key elements of our climate initiative. We have invested more than €170,000 in projects aimed at improving, optimizing, and installing new equipment at Draxton Europe & Asia plants.

Air quality is one of the key elements of our climate initiative. We have invested more than €170,000 in projects aimed at improving, optimizing, and installing new equipment at Draxton Europe & Asia plants.

DRAXTON EUROPE & ASIA

ENVIRONMENTAL AGENT



: VITROMEX

Specializing in the production of ceramic and porcelain floor and wall coverings, Vitromex has four production units in Chihuahua, San Luis Potosí, and San José Iturbide, Guanajuato.

Because the main consumable for the manufacture of our products are stone materials, Vitromex is committed to help improve and preserve biodiversity in the communities where it operates. For that reason, our plants are located outside of protected areas to obtain stone resources, and we take measures to conserve and restore sources of materials.

In 2019, we planted 600 trees to help care for the ecosystem and conserve biodiversity, and we rescued native species found in sources of materials and mills. By doing this, we helped ensure their survival and reintegration into the natural environment.

Over the course of the year, Vitromex plants used more than 43,000 m^3 of treated water, thereby reducing the environmental impact of our operations, since we stopped consuming that same amount of water from aquifers and non-renewable sources. Through these measures, we help achieve the goal of sustainable development for clean water and sanitation.

Vitromex plants consumed more than 76 million kWh of clean energy from a co-generation process that is certified and endorsed by Mexico's Energy Regulatory Commission. We also invested more than $205,000 in numerous projects, including changes to the lighting system, which involved replacing obsolete lights with more efficient options.

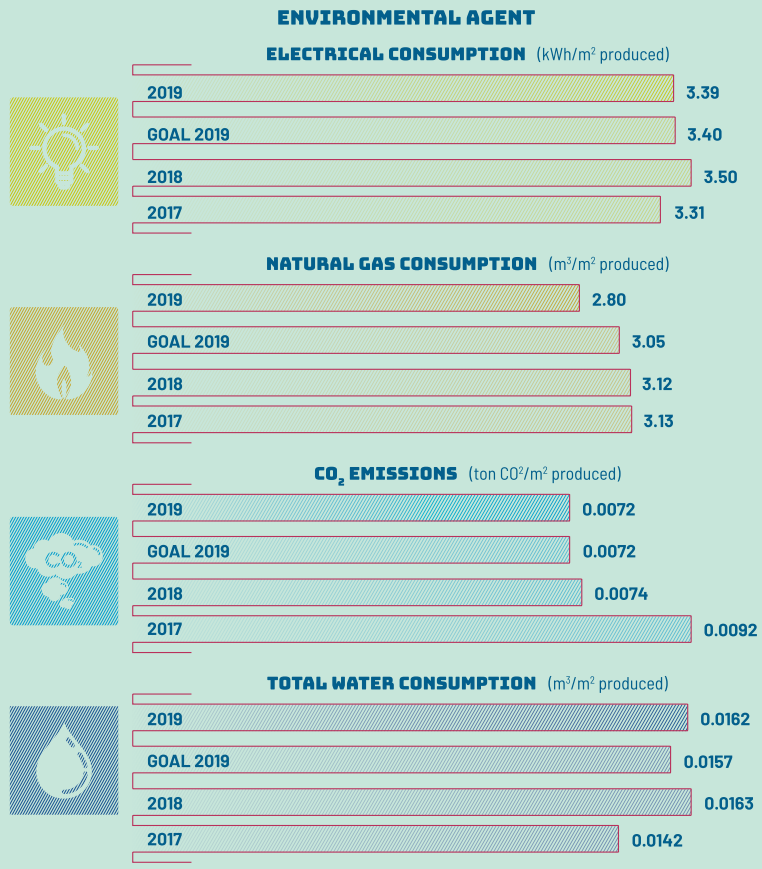
Emissions control equipment is a key element in ensuring environmentally-friendly operations, which is why we spent more than $180,000 on upgrading this equipment.

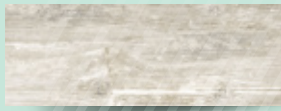
The operational restructuring plan implemented by Vitromex during the second half of 2019 allowed us to improve our energy performance and water consumption, compared to the previous year, a progress that must be continued through the following year. Natural gas consumption improved by more than 10% per square meter produced.

VITROMEX®

To ensure compliance with environmental regulations, we use technological control tools in all of our plants and undergo periodic audits by our customers.

The San Luis Potosí operation obtained Green Squared recertification from the Tile Council of North America, which recognizes the sustainability of coatings manufactured by Vitromex. It also maintained the Clean Industry certification granted by Mexico's Federal Agency of Environmental Protection (PROFEPA).



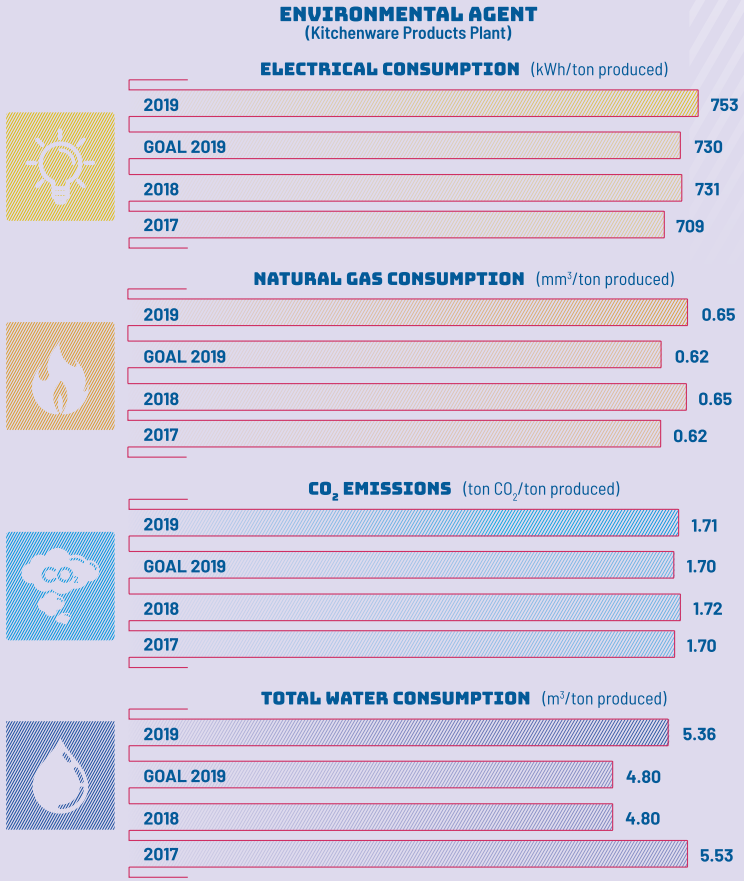


: CINSA

Cinsa has five operating units. Three of the plants produce pots, pans, and kitchen cookware made from glazed steel and aluminum. The fourth plant manufactures ceramic tableware, and the fifth assembles food processing products (PPA). Four are located in Saltillo, Coahuila, and the other is in the city of San Luis Potosí.

In 2018, the kitchen and table plants increased their consumption of treated water by 6%. This is a savings of 43,000 m3 of water from natural sources.

One of the key issues affecting Cinsa is the generation of waste in its production plants. Here, 100% of the steel scrap, which accounts for more than 2,000 tons of waste per year, is sent directly to Draxton's production units for reuse as a consumable for the manufacture of auto parts. With this process, more than 90% of waste from the kitchenware plants is recycled.



+90%

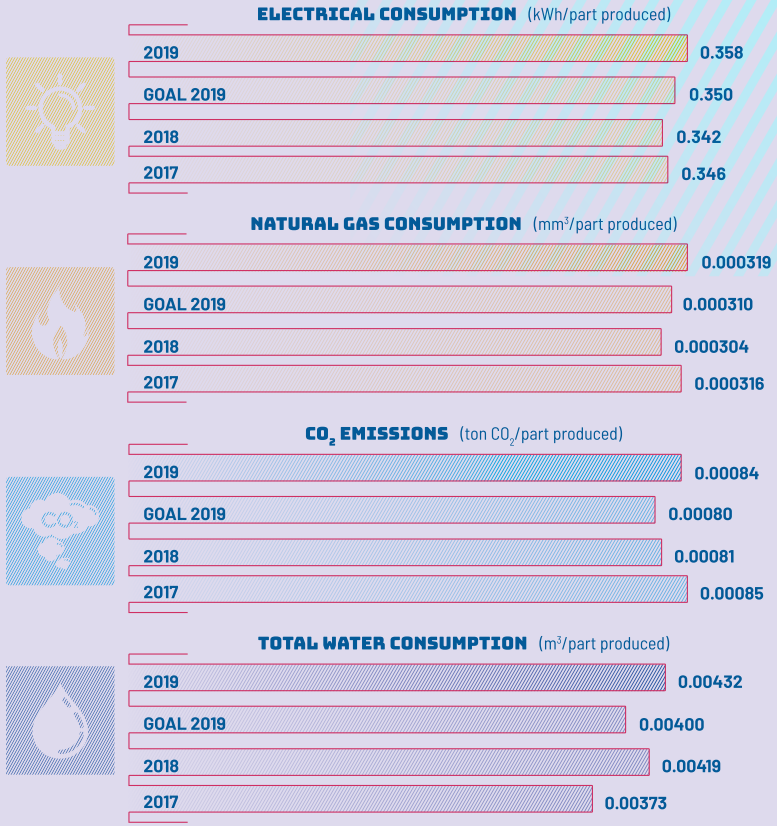
OF WASTE GENERATED IN KITCHENWARE PLANTS IS RECYCLED.

Based on the Sustainable Development Value, we planted pine trees to help reforest the region around the table plant. The goal is to improve the quality of green areas and also to promote nature conservation among our employees.

In 2019, the plant for Food Processing Products integrated environmental indicators to track their performance over time. With this data, its results could be added to the business's indicators.

The kitchenware and tableware plants recorded an increase in energy consumption per unit produced due to the change in products, models, and operating plans implemented as part of Cinsa's commercial and operating policy.

ENVIRONMENTAL AGENT
(Tableware Products Plant)



IN 2019, THE KITCHENWARE AND TABLEWARE PLANTS TOGETHER USED 6% MORE TREATED WATER IN THEIR OPERATIONS THAN IN THE PREVIOUS YEAR.

SOCIAL PERFORMANCE

: SOCIAL PERFORMANCE

GIS's mission is to create economic value by generating opportunities for progress and wellness for all the individuals and institutions we interact with, including the communities where we operate.

Based on this mission and motivated by the humanist and philanthropic philosophy of Grupo Industrial Saltillo's founder, Don Isidro López Zertuche, we carry on his legacy with the guidance of a model of social responsibility that prioritizes our employees and guides our actions as corporate citizens.

Because our employees are the most important factor at GIS, we strive for a safe working environment and fair treatment that promotes development and growth. We create a sense of pride, build organizational capacities, and foster a commitment to achieving the goals of each business, while continuously aiming to strengthen work-life balance.

We have continued the Life Mentoring program, through which we provide emotional counseling to promote the personal well-being of our employees. The goal is to promote each employee's development in the workplace and with their family. In 2019, we logged more than 90,000 interactions.

On June 29, 2019, we officially established the GIS Foundation, A.C., whose objective is to focus and enhance the Group's social investment in the communities where we operate. Our priority is education with an emphasis on three areas: the environment, health, and citizenship. We are guided by the UN's Sustainable Development Goals and the needs of the regions where we have presence.

At the end of the year, our employees totaled more than 3,000 hours of volunteering in various projects and activities, including reforestation, community support, and children's services. With this effort, we generate a positive impact on more than 5,000 people in Mexico.

An example is the launch of the Draxton District in the city of Saltillo, an initiative to contribute to the development of neighborhood within a one kilometer radius of the productive facility. We have successfully involved GIS volunteers, authorities, and universities in this project.

As part of our GIS Decalogue, we continue to work with stakeholders in our value chain, including employees, suppliers, customers, consumers, the government, and shareholders, to achieve the common goal of sustainability.

OUR EMPLOYEES

Our employees are the heart of GIS and out greatest asset. That's why we are always looking to help their well-being by promoting sustained, inclusive, and sustainable economic growth, full and productive employment, and quality work for all, as set out by the UN in its Sustainable Development Goal #8.

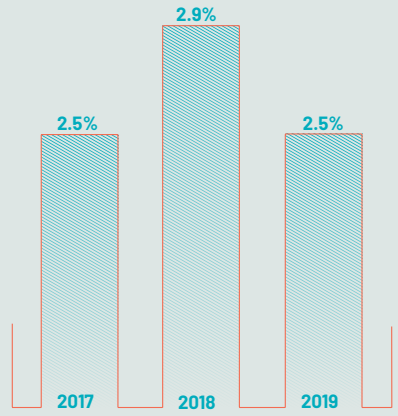
Our businesses can take on their challenges only with a prepared and committed team, so we've implemented a number of actions aimed at developing and recognizing the skills, abilities, and competencies of our 6,539 employees.

We offer benefits such as life insurance, health insurance, a pension fund, a savings fund, disability coverage, maternity or paternity leave, flexible working hours, and special offers with businesses, among other benefits. Together, these tangible and intangible benefits contribute to the overall progress of our employees.

CONTINUOUS TRAINING AND STAFF DEVELOPMENT

In line with the operational and management requirements of the industries in which we are involved and to strengthen the overall development of our employees, we invested more than $20 million pesos in training programs in Mexico, representing 2.5% of the total payroll. The decrease in this investment compared to 2018 is due to the challenges facing the business and especially the divestiture of the water heater business in April 2019.

INVESTMENT IN TRAINING/% OF PAYROLL MÉXICO



In June 2019, we added 25 employees to the second generation of GIS's Top Performance Program. Participants received more than 2,000 hours of training focused on developing skills, attitudes, and values.

In our Europe and Asia operations, we invested more than $4 million euros in training and programs for our plants located in China, the Czech Republic, Poland, and Italy. Also, in the businesses operating in Mexico and Europe, we hold competitions for creative activities, such as photography and drawing.

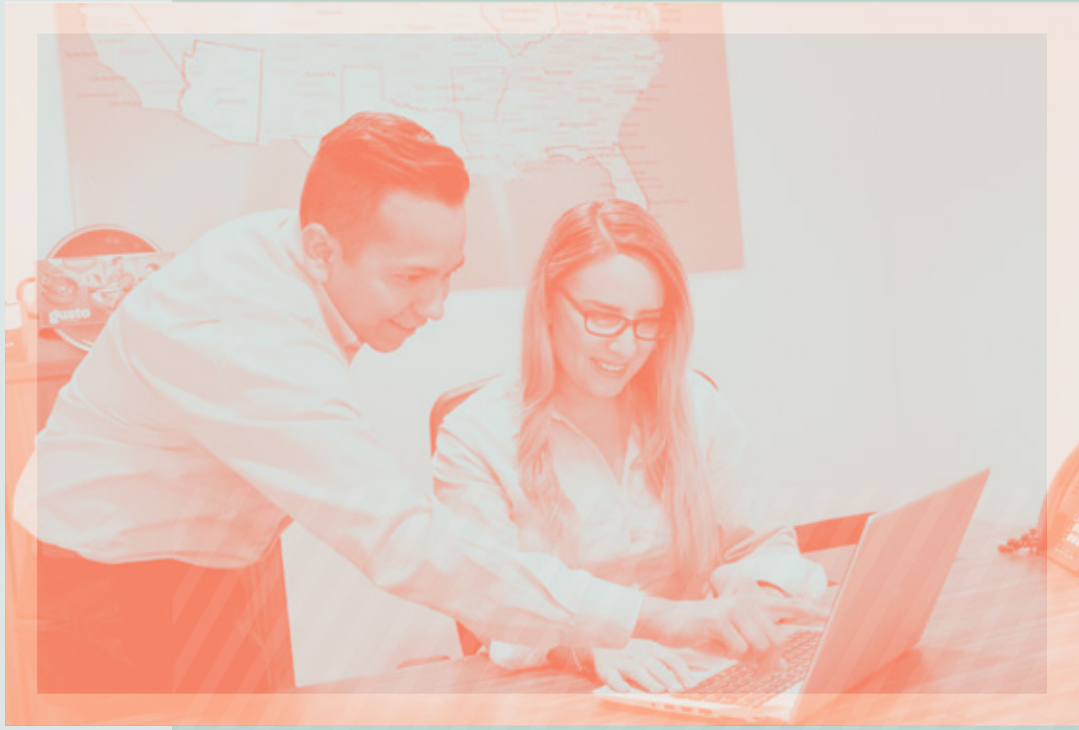
At Draxton Rovigo, 15- and 16-year-old technical school students were given the opportunity to participate in the working word to develop their professional skills. As a result of this initiative, the plant was recognized as part of the Italian School-Work Alternation program.

Knowing that achieving results stems from the foundation of economic value, we apply employee performance reviews to document annual goals and follow up twice a year through dialog and feedback sessions with their supervisors. This process, which is the basis for determining annual salary increases, involves 100% of non-union employees.

We also have a talent succession process aimed at strengthening the group's long-term sustainability. Here, employees are evaluated using various tools that measure their skills, abilities, and potential. Succession plans are established based on the results.

Encouraging the educational development of its employees, Evercast Irapuato helped six unionized employees to initiate the Open High School Program. Those who pass all the courses will receive their official certificate.

We also have our Accelerated Development Program, which offers critical experiences for young people with high potential. The idea is to build a talent pool for key positions in GIS business units.



Achieving results is the foundation for our company's economic value, which is why we at GIS have a Performance Management Process.

A GREAT PLACE TO WORK

Under GIS's certification as GPTW 2018-2019 (Great Place to Work), we continue to implement people-focused programs and actions to promote employee health, safety and work-life balance.

As for healthcare, IMSS prevention campaigns were carried out in all business units to detect high blood pressure, type 2 diabetes, and excess weight and to offer tetanus and flu vaccines. Over the course of the year, more than 3,200 employees were helped.

Also related to the UN's Sustainable Development Goal #3, more than 1,800 flu vaccines were administered during the winter season. In addition, 900 tetanus vaccines were administered, and 250 Pap smears and 300 mammograms were performed.

To further promote prevention, roughly 2,500 hours of physical activity were logged in all business in 2019, including activities such as yoga, functional training, running, and zumba.

As stated in our values, we are respectful of human rights. Our Code of Ethics clearly states that child labor and forced labor are prohibited. We comply with the Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work.

We listen to our employees through staff satisfaction assessments and Quality of Life Committees, made up of volunteer employees, who collect the concerns of their colleagues, propose actions to improve the working environment, and speak with company management.

Thanks to these committees, actions were taken to improve events organized for employees and their families, and maternity and paternity benefits were also promoted.

We are continuing to develop actions and initiatives to adapt our workspaces and the way we work to today's competitive business environment. Senior management is committed to promoting the development, training, recognition, and growth of our employees, which is critical to achieving our business goals.

ABOUT

2,500

HOURS OF PHYSICAL ACTIVITY WERE LOGGED IN ALL BUSINESS, WITH ACTIVITIES LIKE YOGA, FUNCTIONAL TRAINING, RUNNING, AND ZUMBA.

We recognize the loyalty and commitment of our employees and celebrate those who reach 5 to 40 years of seniority. In extraordinary cases, as in 2019, we pay tribute to employees celebrating 45 years of uninterrupted work.

We incentivize the outstanding results of our employees through our annual GIS Awards, a program that recognizes three people or teams from each business who exhibit outstanding results based on our pillars: Grow, Execute, and Cultivate. Nominations are made by a candidate's coworkers.

In addition, we award the GIS Award, our highest award, to an employee who stands out for their commitment to the organization and for their embodiment of our culture. In 2019, Marco Antonio Castor of Vitromex, who has a career of more than 40 years with GIS, was recognized for this award.

WE RECOGNIZE THE LOYALTY AND COMMITMENT OF OUR EMPLOYEES.

GIS AWARDS OUR HIGHEST AWARD FOR A HIGHLY COMMITTED EMPLOYEE.

LIFE MENTORING

Knowing that well-being and emotional peace of mind drive human development and the achievement of results, we have the Life Mentoring program to offer emotional support to all of our employees working in Mexico. The goal is to help identify and resolve personal situations that may limit human and professional potential.

In three years, we formed a group of 27 mentors who offer emotional support through counseling, which contributes to a better quality of life inside and outside the company.

In 2019, this program logged more than 90,000 interactions with employees. These approaches foster an environment of trust and support that has positive effects on a personal level and translates into higher productivity, better job performance, and a strong commitment to the organization.

All the above, boosted by the Life Mentoring program and the work of the Quality of Life Committees, the monitoring of the Integrity Process, and improvements to the workplace environment, allowed us to close 2019 with an average monthly voluntary rotation of 2% in Mexico, an indicator that shows an improvement of 0.5% compared to the previous year.

Life Mentoring
Taking care of you.

EMPLOYEES	2019	2018	2017
Organization	6,539	8,335	8,549
Non-operations employees	1,841	2,328	2,302
Operations employees	4,698	6,007	6,247

INTEGRITY PROCESS AND CODE OF ETHICS

With 17 years of experience and trust since GIS instituted the Integrity Process and the Code of Ethics, the organization has strengthened its independence and professionalism.

The GIS Code of Ethics is a behavioral guide that establishes guidelines to ensure the proper functioning of the group's business, its adherence to the policies, procedures, rules, laws, and regulations, and acceptance of the company's values.

Through the Integrity Process, GIS ensures compliance with the Code of Ethics. The process is administered by the Central Integrity Committee, composed of level one managers, and the Business Integrity Committees, which deal with compliance and issue recommendations to correct deviations based on criteria for determining penalties.

GIS's globalization efforts motivated the adaptation of the Code of Ethics to an international environment. This new version was introduced to all employees in Europe in early 2019, which included online training for all employees in each country's own language.

Through the Integrity Process, we received 146 complaints in 2019, of which 68% were anonymous. Of the total, 4.1% required a clarification of facts and 12.3% recommended termination or suspension. 36.3% of the complaints did not proceed, and for 37% of the cases, a call for attention was recommended. 10.3% of the total complaints received were still pending at the end of December 2019

INTEGRITY PROCESS	2019	2018	2017
Number of complaints/ Total employees	2.79%	3%	1.98%
Did not proceed	36.3%	23%	35%
Facts clarified	4.1%	11%	12%
Called to attention	37%	38%	19%
Suspended or terminated contract	12.3%	20%	16%
Escalation process	10.3%	8%	18%

With industrial, occupational, and environmental safety as a priority, we hold monthly meetings within each business, in which the Steering Committee also participates. We ended 2019 without any fatal accidents in our operations.

To promote a safety culture, GIS awards the "Isidro López Zertuche" Safety Prize, which went to Vitromex Plant 2 in San José Iturbide, Guanajuato, for the second consecutive year. The Draxton plant in Saltillo, Coahuila, stood out for achieving an accident rate of 0.22%, GIS's lowest in Mexico in 2019. Cinsa's Esvimex department, which celebrated 15 uninterrupted years without any accidents, also deserves recognition.

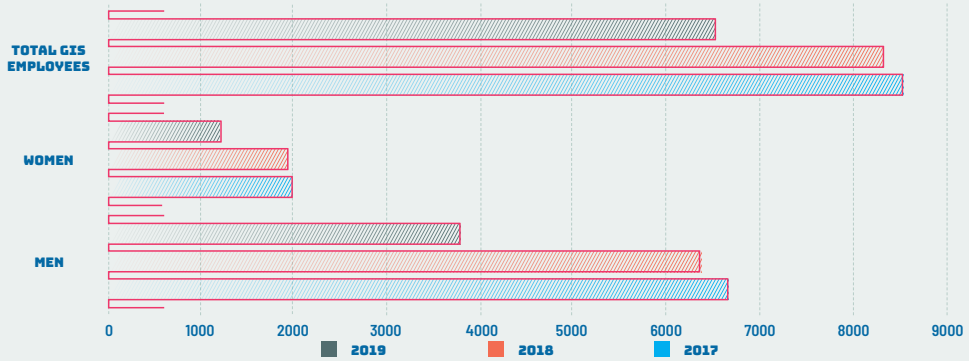
In all our production units in Mexico, we recognize those who reach their first anniversary with the company without missing any work. Also, in our businesses operating in Mexico and Europe, we hold competitions for photography and drawing.

The government of the state of Guanajuato awarded the Labor Merit Award to Draxton and Evercast for implementing projects aimed at improving the competitiveness, productivity, quality, safety, sustainability, gender equity, labor equality, organizational climate, and the development of workplace innovations.

By voluntarily and publicly making the commitment to work with socially responsibility and continuous improvement as part of its business culture and strategy, GIS and all its operations in Mexico were recognized for the ninth consecutive year with the distinction of being a Socially Responsible Company, awarded by the Mexican Center for Philanthropy and the Alliance for Corporate Social Responsibility. The organization was certified in the 6-10 year category.

Prioritizing human rights and the diversity of gender, beliefs, social class and political affiliation and for creating an inclusive environment for people with different abilities, GIS operations in Mexico had a total of 6,539 employees in 2019, of which 24% are women. The company works continuously to promote the equal participation of men and women (Sustainable Development Goal #5).

In our Europe and Asia operations, we had 1,527 employees last year. Of this total, 78% are men and 22% are women, which is 2% less than in 2018. Particularly noteworthy is the plant in Poland, where 32% of the employees are women.

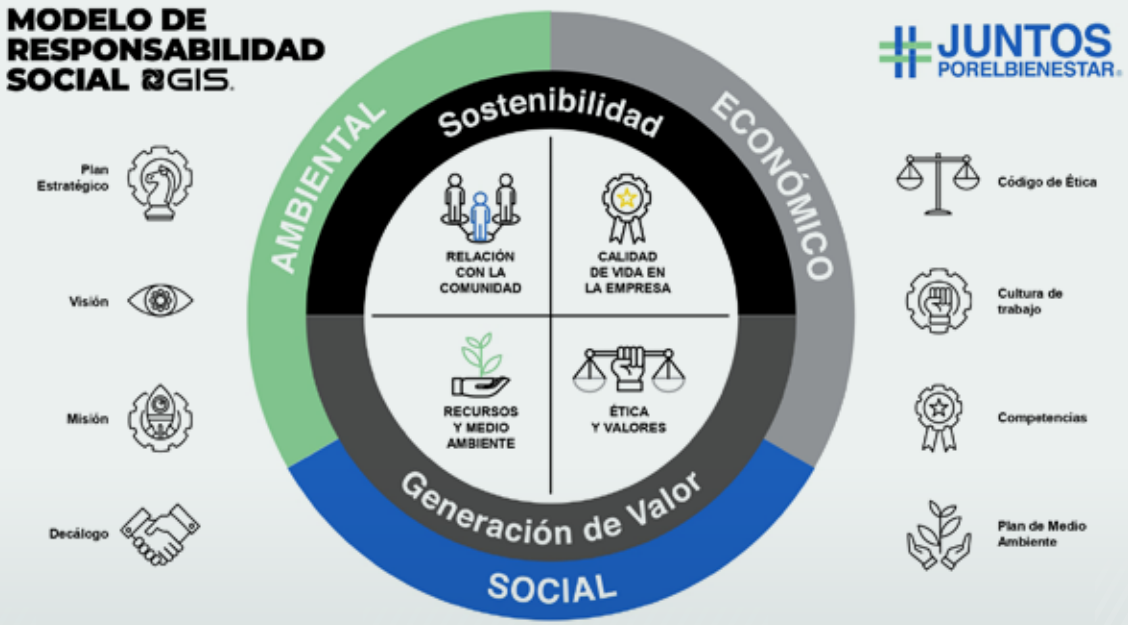


The decrease in the number of GIS employees is mainly due to the sale of the water heater business in April 2019.

OUR FAMILIES, COMMUNITIES, AND STAKEHOLDERS

In honor of the philosophy of our founder, Don Isidro López Zertuche, GIS has been a corporate citizen since its foundation, committed to the development of the communities in which we operate.

In 2019, we made significant progress in strengthening our reputation as a socially responsible company by developing initiatives that foster interaction between business units and their neighbors and by encouraging GIS employees to volunteer.



We have formed Social Responsibility Committees in all our business units in Mexico. Additionally, we created and taught a one-year certificate program in which 62 employees from various GIS companies received more than 5,300 hours of training.

To align the social, environmental, and economic objectives of our operations in Mexico, we held the First Annual Social Responsibility Meeting, which was attended by the committees representing all the businesses.

For community development, we focused our efforts on awarding scholarships to technical high school students at Intec Don Bosco and children at Casa Hogar San José. We also allocated resources to promote education on desert culture and environmental care and to support the Educational Opportunities Foundation.

In September 2019, we started the Draxton District Program in Saltillo, Coahuila. The goal is to connect the company with its neighbors by promoting the overall environmental, social, and economic development of the community. We started by understanding the problems and needs of the surrounding communities to seek solutions together. Various public institutions are also involved in this project.

The initiative is led by GIS, which has created alliances with the Mexican Ministry of the Environment, PROFAUNA, A.C., the Directorate of Ecology, the Autonomous University of Coahuila, Ignacio Zaragoza College, and the NGO Cañón de San Lorenzo, A.C., along with other agencies, departments, and institutions. The purpose is to strengthen the means for making progress, which is Sustainable Development Goal #17.

Across the Draxton District, we are implementing projects targeting elementary students, teens, adults, and senior citizens to ensure an inclusive, equitable, and quality education, thereby promoting lifelong learning opportunities for all (Sustainable Development Goal #4).

In 2019, Cinsa led the Materiality Strategic Alignment Project, whose purpose was to promote sustainability and prioritize the business's key economic, environmental, and social issues.

To help reduce the consumption of plastic containers (Sustainable Development Goal #12), we distributed more than 1,700 reusable bottles to non-union employees in all businesses. We also joined the project "Warriors for Life," led by the DIF of the municipality of Ramos Arizpe, Coahuila, to provide bottle caps to support those fighting cancer.

By strengthening the culture of social responsibility and integrating the committees into all businesses operating in Mexico, we had a positive impact on more than 5,000 people through 315 GIS employees who volunteered 3,072 hours during eight institutional events held in six cities.

These events include Christmas for All, benefiting children from different schools thanks to the voluntary donation of gifts by our employees. In 2019, we held the second such event everywhere in Mexico where we have productive operations.

We keep our employees informed and motivated through a monthly social responsibility newsletter and encourage volunteering through GIS Volunteering. We also promote awareness of the UN's Sustainable Development Goals by sharing infographics.

Volunteering activities:

#Yoteabrigo
Reforestation
Environmental education
#Yocuidomiplaneta
Academic excellence
Cleaning brigades
Grandparent's Day (community celebrations)
CAM

In Europe, we continue to support the Axtondo community through URGEBI, to benefit vulnerable people. We also participate in the Immigrant Fair in Wrocław, Poland and in sports and school tournaments in Rovigo, Italy.

We offer programs and events aimed at strengthening family and social ties because human development is one of our values.

We also offer activities that encourage employee involvement in holidays such as Three Kings' Day, Candlemas, Children's Day, Mother's Day, and Father's Day, along with monthly birthday events.

We hold the annual San Isidro 15K race, a sporting event held in Saltillo that has become a tradition in the community because of the founder of GIS's legacy. The 44th edition of the race was attended by more than 3,400 runners and around 130 GIS employees from all our businesses in Mexico. People with varying levels of ability are also involved in this competition.

To encourage teamwork, we held the InterGIS Tournament in Saltillo. Teams of men and women competed in soccer, volleyball, and softball tournaments. In 2019, we had more than 330 employees organized into 21 teams.

Our businesses promote sports activities throughout Mexico. An example is Evercast, which put together 10 teams with 90 employees for a soccer tournament from September to November 2019.

Cinsa's Occupational Health Department launched the Healthy Living campaign in Saltillo. Through various startup, medical review, and counseling programs, we raise awareness among employees of the importance of healthcare in the prevention of disease and to improve quality of life.

To promote knowledge about biodiversity, more than 1,700 employees and their families had the opportunity to visit, free of charge, the Desert Museum in Saltillo, a cultural institution that was founded 20 years ago with the help of GIS.

More than 15 years ago, we collaborated with the National Association for Self-Improvement, A.C. (ANSPAC) in Saltillo. In 2019, more than 50 employees and their wives who are mothers attended training and empowerment activities to learn techniques and activities for personal and family improvement.

In Mexico, GIS is a pioneer in the development and implementation of the Mexican Dual Training Program, whose purpose is to promote technical students to specific projects in companies. Since its inception in 2016, we have had 88 students in seven generations.

Also, through our auto parts businesses in Mexico, we signed agreements with the Universidad Autónoma de Nuevo León and the Instituto Tecnológico de Saltillo to collaborate on research and development projects related to casting and metallurgy. Our goal with this is to generate a pool of Mexican talent.

Draxton San Luis and Evercast Irapuato held an awards event for academic excellence to encourage the children of our employees who finished the academic year with an average of 9.5.

In Spain, we maintain our link with universities by supporting regional research projects carried out by students in higher and postgraduate education. We have been working with numerous schools, such as the IK4-AZTERLAN Technology Center, the Novia Salcedo Foundation, the University of Basque Country, the Institute of Secondary Education of Utrillas, and the Lazaro Carreter Institute.

Community involvement helps us to know and understand the community's needs. It also gives us the opportunity to help strengthen society, the company, and the industries in which we operate. GIS therefore encourages the participation of its employees in associations and community organizations.

In 2019, GIS executives got involved and served leadership positions in associations like Coparmex Nacional, Coparmex Coahuila Southeast, SumaRSE Network, and ARHCOS, among others.

Community associations in Mexico:
Coparmex / Mexican Confederation of Employers
Caintra / National Association of the Transformation Industry
SumaRSE Network / Socially Responsible Business Network
Coahuila Citizen's Civil Council
ANFAD / Association of Pewter and Aluminum Cookware Manufacturers

Community organizations in Europe and Asia:
Euskalit / Advanced management of best labor practices in Axtondo and Boroa, Spain
CUMI / Care for people with disabilities in Rovigo, Italy
FEAF / Spanish Federation of Casting Companies
FVEM / Biscayan Federation of Metal Companies
TABIRA / Casting Institute
AIC / Automotive Intelligence Center

Clusters:
Coahuila Energy Cluster
Chihuahua Mining Cluster
Nuevo León Automotive Cluster
Guanajuato Automotive Cluster

CUSTOMER FOCUS

One of GIS's key strengths is "Astonishing the Customer." We recognize that aligning all of our employees to meet the needs of our consumers, distributors, and customers is fundamental to the growth and development of the company.

This approach allows us to remain the preferred choice for our customers, in addition to strengthening our brands.

Vitromex and Cinsa undergo numerous customer audits each year to verify the compliance of our businesses in the areas of environmental and social responsibility, factors that are integral to the sustainability culture of our operations.

Our auto parts businesses focus on engineering, research, and development to meet the needs of customers with new casting materials that provide safety to brake and engine systems, while making vehicles more lightweight.

CERTIFICATIONS

BUSINESS	CERTIFICATION	DESCRIPTION	AWARDED BY:
DRAXTON MEXICO	IATF 16949	International standard of quality management systems for the automotive industry	International Organization for ISO Standards
	ISO 14001	International standard for environmental management systems	
	GPTW	Great Place to Work July 2018 - June 2019	Great Place to Work Institute
	ESR	Socially responsible company	CEMEFI
VITROMEX	ISO 9001:2015	International standard of quality management systems	International Organization for ISO Standards
	ONNCCE	Certification of technical documents of products	National Organization for Standardization and Certification of Construction and Building
	PTCA	Standard of porcelain coatings	Porcelain Coatings Certification Agency
	Green Squared	Certification of accreditation as sustainable coatings	Ceramic Council of North America
	Industria Limpia	National Environmental Certification SLP	PROFEPA
	ESR	Socially responsible company	CEMEFI
	GPTW	Great Place to Work July 2018 - June 2019	Great Place to Work Institute
	C-TPAT	Certification for security in the supply chain and borders E.E.U.U.	Office of Customs and Border Protection
CINSA	NOM	Official regulation on design and characteristics of products and processes	Official Journal of the Federation
	ANCE	Certification for product marketing	Association for Standardization and Certification, A.C.
	GPTW	Great Place to Work July 2018 - June 2019	Great Place to Work Institute
	ESR	Socially responsible company	CEMEFI

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