

Jaguar Land Rover México, S. A. P. I. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Jaguar Land Rover México, S. A. P. I. de C. V.

Financial Statements

December 31st, 2019 and 2018

(with report of Independent Auditors)

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Report of independent auditors

To the Board of Directors and Shareholders
Jaguar Land Rover México, S.A.P.I. de C. V. .:

Opinion

We have audited the financial statements of Jaguar Land Rover México, S.A.P.I. de CV (the Company), which includes the statements of financial position as of December 31, 2019 and 2018, the income statements, changes in stockholders' equity and cash flows for the years ended on those dates, and notes that include a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements reasonably present, in all material aspects, the financial position of Jaguar Land Rover México, S.A.P.I de C.V., as of December 31, 2019 and 2018, as well as its results and its cash flows for the years ended on those dates, in accordance with the Mexican Financial Reporting Standards (NIF).

Basis of opinion

We have carried out our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are described below in the Auditors' Responsibilities for Auditing the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are applicable to our audit of the financial statements in Mexico and we have fulfilled the other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained provides a sufficient and adequate basis for our opinion.

Emphasis paragraphs

We draw attention to notes 3 (n) and 7 of the financial statements, which describe that the services that the Company carried out significant operations whit its related companies during 2019 and 2018. Our Opinion has not been modified in relation to this matter.

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Responsibilities of the Administration and those responsible for the governance of the entity in relation to the financial statements

Management is responsible for the preparation and fair presentation of the accompanying financial statements in accordance with NIF, and for the internal control that Management deems necessary to allow the preparation of financial statements free of material deviation, due to fraud or error.

In preparing the financial statements, Management is responsible for evaluating the Company's ability of continuing operations, disclosing, as appropriate, matters related to business continuity and using the business continuity accounting basis except if the administration intends to liquidate the Company or to cease its operations, or there is no other realistic alternative.

Those charged with governance of the entity are responsible for supervising the Company's financial reporting process.

Auditors' responsibilities in auditing the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material deviation, due to fraud or error, and to issue an audit report containing our opinion. Reasonable assurance is a high degree of assurance but does not guarantee that an audit conducted in accordance with ISAs will always detect a material deviation when it exists. Deviations may be due to fraud or error and are considered material if, individually or in aggregate, they can reasonably be expected to influence the economic decisions users make based on the financial statements.

As part of an audit in accordance with ISAs, we apply our professional judgment and maintain an attitude of professional skepticism throughout the audit. Also:

- We identify and evaluate the risks of material deviation in the financial statements, due to fraud or error, we design and apply audit procedures to respond to such risks and we obtain sufficient and adequate audit evidence to provide a basis for our opinion. The risk of not detecting a material deviation due to fraud is higher than in the case of a material deviation due to error, since fraud may involve collusion, falsification, deliberate omissions, intentionally erroneous manifestations or circumvention of internal control.
- We obtain knowledge of the internal control relevant to the audit in order to design audit procedures that are appropriate depending on the circumstances and not in order to express an opinion on the effectiveness of the Company's internal control.
- We evaluate the adequacy of the accounting policies applied, the reasonableness of the accounting estimates and the corresponding information disclosed by the Administration.

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- We conclude on the appropriateness of the use, by the Administration, of the accounting base of the business continuity and, based on the audit evidence obtained, we conclude on whether or not there is a material uncertainty related to facts or conditions that may generate doubts significant on the Company's ability to continue as with its operation. If we conclude that there is material uncertainty, we are required to draw attention in our audit report to the relevant information disclosed in the financial statements or, if such disclosures are not appropriate, to express a modified opinion. Our conclusions are based on the audit evidence obtained to date in our audit report. However, future events or conditions may cause the Company to cease its operations.
- We evaluate the overall presentation, structure and content of the financial statements, including the information disclosed, and whether the financial statements represent the underlying transactions and events in a way that achieves a fair presentation.

We communicate with those in charge of governance of the entity regarding, among other things, the scope and timing of the planned audit and the significant audit findings, including any significant deficiencies in internal control that we identified in the course of our audit.

KPMG CARDENAS DOSAL, S. C.

C.P.C. María del Rocío Becerra Ortega

Mexico City, Julio 31st 2020.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Jaguar Land Rover México, S. A. P. I. de C. V.

Statement of financial position

December 31, 2019 and 2018

(Pesos)

Assets	<u>As of December 31</u>		Liabilities and shareholders' equity	<u>As of December 31</u>	
	<u>2019</u>	<u>2018</u>		<u>2019</u>	<u>2018</u>
Current assets			Current liabilities:		
Cash and equivalents (note 4)	\$ 195,198,551	96,140,462	Suppliers and other accounts payable	17,906,048	18,245,663
Accounts receivable, net (note 7)	83,687,337	22,458,717	Accrued liabilities	908,689	613,597
Inventories, net (note 8)	459,836,231	367,588,452	Provisions (note 12)	18,870,113	30,678,295
Advanced payments (note 9)	937,644	2,182,308	Income taxes	0	7,674,759
Recoverable taxes (note 16)	<u>33,764,215</u>	<u>15,921,236</u>	Related Parties (note 7)	519,908,163	275,238,205
Total current assets	773,423,978	504,291,175	Customers advance	977,886	1,173
			Contract obligations, short-term (note 13)	<u>59,668,809</u>	<u>57,425,248</u>
Furniture and equipment, net (note 10)	795,731	569,138	Total current liabilities	618,239,708	389,876,940
Deferred income taxes, net (note 15)	45,977,904	39,605,519	Employee benefits (note 14)	1,162,608	1,026,098
Intangible assets, net (note 11)	1,883,830	2,020,197	Contract obligations, long-term (note 13)	<u>63,103,506</u>	<u>37,387,991</u>
			Total liabilities	<u>682,505,822</u>	<u>428,291,029</u>
			Equity (note 17):		
			Capital stock	38,407,700	38,407,700
			Retained earnings	<u>101,167,921</u>	<u>79,787,300</u>
			Total equity	139,575,621	118,195,000
			Commitments and contingent liabilities (note 21)		
			Subsequent event (note 22)		
	<u>\$ 822,081,443</u>	<u>546,486,029</u>		<u>\$ 822,081,443</u>	<u>546,486,029</u>

See notes to the financial statements

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Jaguar Land Rover México, S. A. P. I. de C. V.

Profit and Loss Statement

Years ended December 31, 2019 and 2018

(Pesos)

	<u>2019</u>	<u>2018</u>
Net sales (note 18)	\$ 1,923,786,999	1,609,683,137
Cost of goods sold (notes 7 and 19)	<u>1,755,523,723</u>	<u>1,425,478,505</u>
Gross profit	<u>168,263,276</u>	<u>184,204,632</u>
General expenses:		
Sale (note 19)	76,451,855	94,899,711
Management (note s 7 and 19)	57,377,797	53,428,008
Other income (note 20)	(11,601,522)	(4,810,593)
Other expenses (note 20)	2,092,454	3,775,850
Total expenses	124,320,584	147,292,976
Operating profit	<u>43,942,692</u>	<u>36,911,656</u>
Financing result:		
Interest expense, net	(6,081,408)	(3,858,635)
Exchange gain (loss), net	<u>(93,112)</u>	<u>287,875</u>
Financing result, net	<u>(6,174,520)</u>	<u>(3,570,760)</u>
Profit before income taxes	<u>37,768,172</u>	<u>33,340,896</u>
Income tax (note 15):		
Over tax base	22,759,936	31,049,602
Deferred	(6,372,385)	<u>(15,737,771)</u>
Total income taxes	<u>16,387,551</u>	<u>15,311,831</u>
Net profit	<u>21,380,621</u>	<u>18,029,065</u>

See notes to the financial statements.

Notes to the financial statements

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(Figures in Mexican pesos)

Jaguar Land Rover México, S. A. P. I. de C. V.

Statement of Changes in Shareholders' Equity

December 31, 2019 and 2018

(Pesos)

		Capital stock	Retained earnings		Total shareholders' equity
			Legal reserve	To be applied	
Balance as of January 1st, 2018	\$	38,407,700	7,681,540	54,076,695	100,165,935
Net profit		-	-	18,029,065	18,029,065
Balance as of December 31, 2018		<u>38,407,700</u>	<u>7,681,540</u>	<u>72,105,760</u>	<u>118,195,000</u>
Net profit		<u>-</u>	<u>-</u>	<u>21,380,621</u>	<u>21,380,621</u>
Balance as of December 31, 2019	\$	<u>38,407,700</u>	<u>7,681,540</u>	<u>93,486,381</u>	<u>139,575,621</u>

See notes to the financial statements.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

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Jaguar Land Rover México, S. A. P. I. de C. V.

Cash flow statements

Years ended December 31, 2019 and 2018

(Pesos)

	<u>2019</u>	<u>2018</u>
Operating activities:		
Profit before income taxes	\$ 37,768,172	33,340,896
Depreciation and amortization	378,362	789,678
Interest receivable	(3,798,660)	(5,219,641)
Interest payable	<u>9,880,068</u>	<u>9,078,276</u>
Sub-total	44,227,942	37,989,209
Customer accounts receivable	(61,228,620)	(10,884,172)
Incentives receivable	-	28,199,118
Recoverable taxes	(6,604,664)	(5,992,104)
Inventories	(92,247,779)	(93,747,381)
Advanced payments	1,244,664	(647,869)
Suppliers	(339,615)	6,507,281
Accrued liabilities	295,092	(807,481)
Provisions	(11,808,182)	12,653,756
Accounts payable to related parties	244,669,958	(121,678,605)
Paid income tax	(41,673,010)	-
Customers advance	976,713	-
Employee benefits	136,510	1,026,098
Contract obligations	<u>27,959,076</u>	<u>39,454,575</u>
Net cash flows from operating activities	<u>105,608,085</u>	<u>(107,927,575)</u>
Investing activities:		
Acquisition of property, machinery and equipment	(468,588)	-
Charged interest	<u>3,798,660</u>	<u>5,219,641</u>
Net cash flows from investing activities	<u>3,330,072</u>	<u>5,219,641</u>
Cash to be used for financing activities	<u>108,938,157</u>	<u>(102,707,934)</u>
Financing activities:		
Interest paid	(9,880,068)	(9,078,276)
Loans principal payments	<u>-</u>	<u>(20,124,867)</u>
Net cash flows from financing activities	<u>(9,880,068)</u>	<u>(29,203,143)</u>
Net increase (decrease) of cash and cash equivalents	99,058,089	(131,911,077)
Cash and cash equivalents:		
At the beginning of the year	<u>96,140,462</u>	<u>228,051,539</u>
At the end of the year	\$ <u>195,198,551</u>	<u>96,140,462</u>

See notes to the financial statements.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

(1) Company Activity and special business transactions

Jaguar Land Rover México, S. A. P. I. de C. V. (the Company), has as its main activity the performance of purchase and sale transactions of luxury cars and components for the domestic market under the Jaguar and Land Rover brands. The Company was incorporated on April 17, 2008.

The operating period and the fiscal year for the Company, run from January 1 to December 31.

The Company has an employee who is the General Director, and the administrative services required by the Company are provided by the related party, Jaguar Land Rover Servicios Mexico, S.A. de C. V., for a consideration (note 8).

(2) Authorization and basis for presentation

Authorization-

The financial statements and the notes thereto were authorized on July 31, 2020, by the Director of Finance, Mr. Luis Reyes. In accordance with the General Law of Commercial Companies ("LGSM") and the bylaws of the Company, the shareholders have the authority to amend the financial statements after they have been delivered.

Basis for presentation-

a) Compliance Representation

The accompanying financial statements were prepared in accordance with the Mexican Financial Reporting Principles (the Mexican NIFs).

b) Assumptions and Estimates

Preparation of the financial statements require that Management carry out estimates and assumptions which affect the recorded amounts of assets and liabilities and the disclosure of contingent assets and liabilities on the date of the financial statements, together with the recorded amounts of income and expenses during such period. Effective results may differ from such estimates and assumptions.

Assumptions

The information based on estimates made in the application of accounting policies that have the most material effect on the amounts recognized in the financial statements is described in the following notes:

- Notes 18 and 13- Revenue Recognition: Determining if the revenue for the sale of vehicles and spare parts, as well as the incentives to distributors, are verified over time or at a specific time;
- Note 12 – Measurement of obligations for defined benefits: key actuarial assumptions;
- Note 15- Income taxes (Income Tax (ISR)) - Deferred taxes;
- Note 12- Provisions: key assumptions to determine the expected expense.

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Notes to the financial statements

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Assumptions and estimates uncertainty

The information on assumptions uncertainties that would have a significant risk in the event of resulting in a material adjustment to the amount of assets and liabilities in the following year, is included in the following notes:

— Note 16– Income Tax: Recognition of deferred tax assets.

Determination of fair value

Some of the Company's accounting policies and disclosures require to calculate the fair values of both financial and non-financial assets and liabilities.

When measuring the fair value of any asset or liability, the Company shall apply observable market data if at all is possible. Fair values are classified at different levels within a fair value level that is based on the input data used in the valuation techniques, as shown below:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: input data different from quoted prices included in Level 1, which are observable for assets or liabilities, either directly (i.e., prices) or indirectly (i.e., from prices).

Level 3: data or inputs to calculate assets or liabilities that are not based on observable market data (unobservable input data).

If the input data used to calculate the fair value of an asset or liability are classified at levels other than the fair value level, then the calculated fair value is classified at the same level of the fair value level as the lowest observability variable that is material for the total calculation.

During 2019 and 2018, the Company did not make transfers between levels of the fair value hierarchy level.

c) Functional currency and report currency-

The above-mentioned financial statements are shown in Mexican Pesos, which is the same as the registered currency and the functional currency.

For disclosure purposes in these notes, any reference to Pesos or “\$”, means Mexican Pesos, and any reference to Dollars, means Dollars currency of the United States of America, and any reference to Sterling Pounds, means Sterling Pounds of the United Kingdom.

d) Presentation of the statement of earnings

Taking into consideration that the Company is a commercial company, its regular costs and expenses are based on functionality, allowing to know the gross profit margin thereto.

Additionally, the operating income item herein is the result of decreasing net sales, other income, cost of goods sold and expenses, considering that such item contributes to a better understanding of the economic performance and financial position of the Company.

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Notes to the financial statements

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The Company presents the comprehensive result in a single statement that includes only the items that make up the net profit or loss called as the "Statement of Earnings", because during the year and the immediately preceding fiscal year presented for comparative purposes, the Company did not generate Other Comprehensive Results (ORI).

(3) Summary of the main accounting policies

The accounting policies shown below have been applied consistently in the preparation of the financial statements and have been applied consistently by the Company.

a) Cash and cash equivalents

Cash and cash equivalents include deposits in bank accounts, foreign currencies and other same day funds. As of the date of the financial statements, interest earned and profits or losses in valuation are included in the results for the year as an integral part of the financing results.

b) Financial instruments**i. Initial recognition and calculation**

Financial assets and liabilities – including accounts receivable and payable – are initially verified when such assets are purchased, or when the liabilities are contractually issued or assumed.

Financial assets and financial liabilities are initially calculated and verified at their fair value, although in the case of financial assets or liabilities not calculated at fair value with changes therein, they are carried through comprehensive income, transaction costs directly attributable to purchase thereof or issue, when subsequently calculated at redeemed cost. Accounts receivable without a significant financing component are initially calculated at the transaction price.

ii. Classification and subsequent calculation*Financial assets*

During the initial verification, financial assets are classified in the following categories according to the business model and the nature of the existing flows thereof, such as:

- Accounts receivable, which includes the *accounts receivable* from related parties deriving from the sale of goods and services and *other accounts receivable* from activities other than the sale of goods and services.

The financial assets are classified based both on the business model and on the nature of the existing flows thereof. According to the business model, a financial asset or certain type of financial assets (portfolio) can be managed under:

- A model which endeavors to recover the existing flows (represented by the amount of capital and interest).
- A business model which endeavors both to recover the existing flows as in the previous model, and to obtain a profit by means of a sale transaction of the financial assets, which involves moving a combined processing model of such financial assets.

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- A model which endeavors to obtain maximum returns by purchase and sale of the financial assets.

The financial assets are not reclassified after their initial recognition, unless the Company changes its business model, in which case any financial assets affected are reclassified to the new category when a change in the business occurs.

The reclassification of investments in financial instruments between categories is prospectively applicable as from the date of change in the business model, without amending any profit or loss previously recognized, such as interest or losses due to impairment.

Financial assets are calculated at their redeemed cost if the following conditions are met, and may not be classified at fair value and changes through results thereof:

- The financial asset is retained within a business model the purpose of which is to maintain the financial assets to recover contractual cash flows; and
- The conditions of the financial asset result, on specified dates, in cash flows represented solely by principal and interest over the amount of pending principal (Only Payment of Principal and Interest).

Financial assets: Evaluation of the business model –

The Company evaluates the purpose of the business model in which a financial asset is kept at portfolio level, since this is what best reflects the way the business is managed, and information delivered to the Management. Such information includes:

- policies and goals for the portfolio and the performance of such policies. They include whether the strategy of Management is focused on collecting revenue from interest, maintaining a specific interest rate profile or coordinating the term of the financial assets with that of the liabilities being financed by such assets or the anticipated outgoings of cash, or carry cash flows through the sale of assets;
- how portfolio yield is evaluated and how this is reported to Company Management;
- the risks affecting the yield of the business model (and the financial assets of the business model) and, specifically, the way such risks are handled;
- how the business managers are compensated (i.e. if compensation is based on the fair value of the assets handled or on the existing cash flows obtained); and
- frequency, volume, and opportunity of sales in previous periods, the reasons for such sales and expectations on the activity of future sales.

Transfers of financial assets to third parties in transactions that do not qualify for cancellation are not considered sales for this purpose, consistent with the Company's permanent acknowledgment of assets.

Financial assets –

The Company classified its financial assets in one of the following categories:

- accounts receivable;
- held-to-maturity;

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For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

(Continuous)

- at fair value through profit or loss, and within this category as provided hereinbelow:

Financial assets: Post calculation and profit or loss –

Financial assets at fair value including changes in profit/loss	Calculated at fair value with changes, including interest income, in profit or loss.
Financial assets held-to-maturity	Calculated at redeemed cost using the effective interest method.
Loans and receivables	Calculated at redeemed cost using the effective interest method.
Financial assets available-for-sale	Calculated at fair value and changes thereto, which were not considered as losses due to impairment of income, interest and foreign currency differences in debt instruments, were verified in other comprehensive income within shareholders' equity. When such assets were cancelled, the cumulative gain or loss verified in other comprehensive income in shareholders' equity was reclassified to profit or loss.

Financial liabilities: Classification, post calculation, gains and losses

Financial liabilities are initially recognized at their fair value and subsequently at redeemed cost. Financial liabilities arising from financial debt instruments are initially verified at the fair value of the liability they represent (at fair value) and will subsequently be remeasured under the accrued redeemed cost method and the effective interest rate, where expenses, premiums and discounts related to the issuance are amortized through the effective interest rate. Interest income and exchange gains and losses are verified as profit or loss. Any gain or loss due to cancelation of accounts is verified in profit or loss.

iii. Written-off accounts

Financial assets

The Company may cancel a financial asset when the contractual rights over the cash flows of the financial asset expire, or when the Company Assigns the rights to receive the contractual cash flows in a transaction in which any risks and benefits are substantially transferred, or in which the Company does not transfer or retain substantially all the risks and benefits related to the property and does not retain control over the financial assets.

The Company engages in transactions in which it assigns the assets verified in its statement of financial position but retains all or substantially all risks and benefits of the financial assets transferred. In such events, the financial assets assigned are not cancelled.

Financial liabilities

The Company writes-off financial liabilities when its contractual obligations are paid or canceled or have expired. The Company also writes-off a financial liability when its conditions are modified, and the cash flows of the modified liability are substantially different. In such a case, a new financial liability is verified based on the new conditions at fair value.

At the time of cancelation of a financial liability, the difference between the carrying amount of the expired financial liability and the consideration paid (including the non-cash assets transferred or liabilities assumed) is verified in profit or loss.

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iv. Offsetting

Assets and a financial liabilities shall be subject to offsetting, so that its net amount is evidenced in the statement of financial position, when and only when the Company then has, the legally right to offset the amounts verified. and intends to settle for the net amount, or to realize the asset and settle the liability simultaneously.

Financial assets with credit impairment

On the date of the financial statements, the Company evaluates whether the financial assets recorded at redeemed cost have credit impairment. A financial asset has "credit impairment" when one or more events have had a detrimental impact on the estimated future cash flows of the financial asset.

Evidence that a financial asset has credit impairment includes the observable data mentioned below:

- significant financial difficulties of the issuer or the borrower;
- a breach of the agreement due to a default or event for default of more than 90 days;
- restructuring of a loan or advances in terms that the Company would not consider otherwise;
- It is likely that the borrower goes bankrupt or in a financial reorganization; or
- the active market disappears for the financial asset, due to financial difficulties.

Presentation of estimates for expected credit losses in the statement of financial position

The loss estimates for financial assets calculated at amortized cost are deducted from the gross carrying amount of the assets.

Penalties

The gross carrying amount of a financial asset is written off (partially or totally) to the extent that there is no realistic possibility of recovery. For customers, the Company normally has a policy for writing off the gross value in books when the financial asset has a maturity of 30 days based on the historical experience of recoveries of similar assets. For corporate customers, the Company conducts an assessment regarding the time and amount of the cancellation based on whether there is a reasonable expectation of recovery. However, the financial assets adversely affected may be subject to legal action to comply with the Company's procedures for the recovery of the amounts owed.

c) Inventories and sales cost-

Inventories are evaluated at cost or net sales value, the lowest. The net sales value is the estimated sale price minus the remaining sale costs. The cost of inventories of vehicles and spare parts is generally based on the specific identification method and average costs, respectively; and includes the costs incurred in the acquisition of inventories, transportation to their current location and preparation thereof.

The cost of goods sold represents the cost of the inventories at the time of sale, and increased, if applicable, by the reductions in the net sales value of the inventories during the year.

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The Company records the required estimates to recognize decreases in the value of its inventories due to deterioration, obsolescence, slow-turnover and other events that reflect that the use or sale of the items that are part of the inventory will be lower than the recorded value.

d) Advanced payments

Advanced payments mainly include advances for advertising and marketing transactions.

Advanced payments are verified for the amount paid at the time such payment is made, provided that the associated future economic benefit is estimated to flow to the Company. Once any good or service is received, the Company recognizes the amount related to the advanced payments as an asset or expense for the period, depending on whether there is certainty that the purchased good will generate a future economic benefit.

The Company periodically evaluates the ability of the advanced payments in connection with the capacity to generate future economic benefits, as well as the recoverability thereof, the amount that is considered non-recoverable is verified as an impairment loss in profit or loss for the year.

e) Furniture and equipment

Furniture and equipment are initially verified at their purchase value, net of accumulated depreciation and accumulated impairment losses. The purchase value of the equipment, furniture and fixtures includes the costs that were initially incurred to be purchased or built, as well as those incurred later to replace them or increase their potential service. If a piece of furniture and fixtures is composed of several components with different estimated useful lives, the individual major components are depreciated over their specific useful lives, repair and maintenance costs are verified in the income statement as incurred.

Depreciation of equipment, furniture and fixtures is determined using the straight-line method (when considered by the Company's management that such method best reflects the application of such assets) and based on its estimated useful life, using the following annual depreciation rates:

	<u>Rates</u>
Computers and fixture	30%
Office furniture and equipment	10%

Equipment and furniture are cancelled at the time of sale or when it is not expected to obtain future economic benefits for use or sale thereof. Any gain or loss at the time of cancelation of the asset (calculated as the difference between the net income from the sale of the asset and its book value), is included in the income statement when the asset is cancelled.

During the years ended December 31, 2019 and 2018, there were no signs of impairment.

f) Intangible assets

Licenses and software are registered at their acquisition cost. Amortization is calculated under the straight-line method based on the estimated useful life thereof; the amortization period varies from 1 to 20 years depending on the license. During the years ended on December 31, 2019 and 2018, there were no signs of impairment.

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(Figures in Mexican pesos)

g) Impairment of the recovery value of furniture and equipment

The Company considers the net book value of machinery and equipment, to determine if such value exceeds the recovery value thereof. The recovery value represents the amount of potential net income that is reasonably expected to be obtained due to use or sale of said assets. If it is determined that the net book value exceeds the recovery value, then the Company shall record the estimates and assumes the effect on the results for the year.

h) Provisions

Provisions are determined by discounting the expected future cash flows using a pre-tax rate that reflects the evaluations corresponding to the time value of the money quoted by the market, as well as the specific risk of the corresponding liability. The reversion of any discount is verified as a financial cost.

Guarantees	Provisions are verified for guarantees when vehicles, spare parts or underlying services are sold, based on historical information on guarantees and evaluating possible results versus their associated probabilities
Expenses	Provisions are verified for expenses for those present obligations in which the transfer of assets or performance of services is virtually unavoidable and arises as a consequence of past events.

i) Employee benefits-**Short-term direct benefits**

Benefits to direct employees in the short term are verified in the results of the period in which the services rendered by them are accrued. A liability is verified for the amount that is expected to be paid if the Company has a legal or assumed obligation to pay this amount as a result of the past services provided and the obligation can be estimated reasonably.

Post-employment benefits***Defined benefit plans***

Net obligation of the Company corresponding to the defined benefit plans for seniority premium and termination of the employment relationship, is calculated separately for each plan, estimating the amount of future benefits that employees have earned in the current year and in previous years, discounting such amount.

The calculation of obligations for defined benefit plans is made annually by actuaries, using the projected unit credit method. If figures result in a possible asset for the Company, the verified asset is limited to the present value of the economic benefits available in the form of future reimbursements of the plan or reductions in future contributions to it. To calculate the present value of the economic benefits, any minimum financing requirement should be considered.

Labor cost of the current service, which represents the cost of the employee benefit period for having completed one more year of working life based on the benefit plans, is verified in operating costs and expenses. The Company determines the net interest expense (income) on the net liability (assets) for defined benefits of the period, multiplying the discount rate used to measure the benefit obligation defined by the net liability (asset) defined at the beginning of the annual period reported, taking into account changes in the net (active) liability for defined benefits during the period as a result of estimates of contributions and benefits paid.

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Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Any changes to the plans that affect the cost of past services are verified in profit or loss immediately in the year in which the change occurs, with no possibility of deferral in subsequent years. Likewise, the effects of liquidation or reduction of obligations in the period, which significantly reduce the cost of future services and/or significantly reduce individuals subject to the benefits, respectively, are verified in profit or loss for the year.

Remeasurements (formerly actuarial gains and losses), resulting from differences between projected and actual actuarial assumptions at the end of the period, are verified within the period in which they are incurred in profit or loss for the year.

j) Exchange variations

Transactions in foreign currency are recorded at the exchange rate applicable on the date of execution. Assets and liabilities in foreign currency are reported at the exchange rate on the date of the statement of financial position.

The exchange variations between the date of execution and those of payment collection thereof, as well as those derived from the conversion of any balance in foreign currency on the date of the financial statements, are applied to results.

k) Income taxes-

Income taxes for the year

The income tax due in the fiscal year is determined in accordance with current tax provisions and is presented as a current liability net of any advance made during such year.

Deferred income taxes

Deferred income taxes are recorded in accordance with the asset and liability method, which compares the accounting and tax values of the same. Deferred income taxes (assets and liabilities) are verified for future tax consequences attributable to temporary differences between the values reflected in the financial statements of the existing assets and liabilities and their corresponding tax bases, and in the case of income taxes, for tax losses to be amortized and other tax credits to be recovered. Assets and liabilities for deferred income taxes are calculated using the rates established in the applicable law, which will be applied to the taxable profit in the years in which it is estimated that the temporary differences will be reversed. The effect of changes in tax rates on deferred income taxes is verified in the results of the period in which said changes are approved.

Taxes payable and deferred are presented and classified as profit or loss for the year, except those that originate from a transaction verified in other comprehensive income or directly as a concept of shareholders' equity.

l) Income from agreements with customers

Revenue is calculated based on the obligation to fulfill the provisions of certain agreement with a customer. The Company recognizes income when control over the goods or services is assigned to the customer.

The information on the nature and timing of satisfaction of obligations to be fulfilled, including the material terms of payment and the corresponding revenue recognition policies is shown below:

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Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Product type	Nature and opportunity of satisfaction of the obligations to be fulfilled, including the material terms of payment	Revenue recognition policy
Luxury cars and spare parts	The customer has control of the car or of the spare parts when the products are invoiced. Invoices are issued at the time of delivery to the distributor. Invoices are generally payable within 30 days.	Revenues related to the sale of vehicles and parts are recognized when they are invoiced
Included services	The Company offers a five-year package for maintenance (after-sales services). Invoices are delivered at the time vehicle is billed.	Charges derived from these services are deferred as an obligation by contract and are verified at the time when the consumer performs his rights, or when they expire. On the other hand, costs related to these services are verified in the period in which they are incurred. Services are verified in income when they are provided

m) Business concentration-

Concentrations arise when several counterparties conduct similar business activities, or activities in the same geographic region, or have economic features that would cause their ability to fulfill contractual obligations to be adversely affected due to changes in any economic, political or other conditions. The concentrations show the sensitivity of the Company's performance due to the changes that affect a specific industry.

To avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines focused on maintaining a diversified portfolio. The identified credit risk concentrations are controlled and managed as appropriate.

Credit risk in accounts receivable is diversified, due to the customer base and its geographical dispersion. Ongoing evaluations of customers' credit conditions are carried out and no collateral is required to secure recovery thereof.

The Company purchases most of its inventories from Jaguar Land Rover Limited, a related company and main parent. The Company's products are sold to many customers, without there being a significant concentration of such sales to a specific customer. On the other hand, the Company receives most of the administrative services required for its operation, from Jaguar Land Rover Servicios Mexico, S.A. de C. V. which is a related company.

n) Financing result (RF)

Financing result includes financial income and expenses that are integrated as follows:

- Interest income;
- Interest cost;
- gain or loss in foreign currency for financial assets and financial liabilities.

Transactions in foreign currency are recorded at the exchange rate in effect on the dates of execution or liquidation. Monetary assets and liabilities in foreign currency are converted at the exchange rate in effect on the date of the statement of financial position. Any exchange difference incurred in relation to assets or liabilities assumed in foreign currency are recorded as profit or loss for the year.

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(Figures in Mexican pesos)

o) Cash flow statements-

The Company has resolved to present the statements of cash flows according to the indirect accounting method.

p) Contingencies

The significant liabilities losses related to contingencies are verified when there is a probability that their effects materialize and there exist reasonable elements for their quantification. If such reasonable elements do not exist, their disclosure is included qualitatively in the notes to the financial statements. Income, profits or contingent assets are verified until as there is certainty of their sale.

(4) Cash and cash equivalents

As of December 31, 2019, and 2018, cash is described below:

	2019	2018
Cash and bank accounts	\$ 108,827,951	\$ 22,087,152
Investments (i)	86,370,600	74,053,310
	\$ 195,198,551	\$ 96,140,462

(i) Overnight investment with daily availability if capital and interest.

(5) Foreign currency position

As of December 31, 2019, and 2018, the Company does not have monetary assets and liabilities denominated in foreign currency.

As of December 31, 2019, and 2018, the amounts of \$93,112 and \$287,875 corresponding to foreign exchange gains and losses were recorded, respectively.

The exchange rates of the conversion processes in relation to the reporting currency as of December 31, 2019 and 2018, are as mentioned below:

<u>Country of Origin</u>	<u>Currency</u>	<u>Exchange Rate</u>	
		2019	2018
United States of America	US Dollar	18.8452	19.6829

As of December 31, 2019, the Company did not have instruments to protect against exchange risks.

(6) Financial Instruments-**a) Fair amounts-**

The Company has investments in financial assets and financial liabilities not measured at fair value since their carrying amount approximates to fair value.

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Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

b) Management risk-

The Company is exposed to the following financial risks due to its operation with financial instruments:

- credit risk,
- liquidity risk
- market risk

Financial risk management policies

The Board of Directors is responsible for the implementation and supervision of the Company's risk management policies. The Board of Directors is responsible for developing and supervising the Company's risk management policies.

The Company's risk management policies are provided to identify and evaluate the risks faced by the Company, to determine adequate risk limits and controls, and to monitor risks and compliance of limits. Policies and systems for risk management are reviewed periodically to reflect changes in market conditions and in the Company's activities.

The Company, through training and administration procedures, endeavors to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversees how the Administration monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management strategy in relation to the risks faced by the Company. The Company Committee is assisted in connection with the supervision activities from the Internal Audit department. The Internal Audit department conducts periodic reviews of risk management controls and procedures, the results of which are reported to the Committee.

Credit risk

Credit risk represents the potential loss that a financial instrument issuer may cause to the counterparty, by not fulfilling its obligations.

The accounting book amount of financial assets represents the maximum exposure to credit risk.

Accounts receivable.

The Company's exposure to credit risk is mainly affected by the individual aspects of each distributor. However, management also considers the factors that may affect the credit risk of its distributor base, including default risk of the industry and the sectors in which the distributor operates.

The Company has established a credit policy under which each new distributor is analyzed individually with respect to its solvency before offering the Company's standard payment and delivery conditions. The Company's review includes external ratings when available, financial statements, information from credit agencies, industry information and, in some cases, bank references. Sales limits are established for each distributor and reviewed regularly. Any sale that exceeds these limits requires the approval of the risk management committee.

The Company limits its exposure to credit risk related to accounts receivable by determining payment terms between 1 and 15 days. As of December 31, 2019, and 2018, accounts receivable are integrated as follows:

(Continuous)

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

	2019	2018
Accounts receivable from customers	\$ 83,837,133	\$ 22,608,513
Impairment of accounts receivable	(149,796)	(149,796)
	\$ 83,687,337	\$ 22,458,717

Credit loss assessment expected for accounts receivable from customers

The Company distributes the exposure of the credit risk ratings to a database that is determined to be predictive of the risk of loss (including, but not limited to, external ratings, audited financial statements, accounts and cash flow projections of management). and press information available about customers) and the application of experience and credit judgment. Credit risk ratings are defined using qualitative and quantitative factors that are indicative of the risk of default.

The expected credit loss is calculated for each distributor based on the default status and the actual credit loss experience of the last year. Such rates are multiplied by scale factors to reflect the differences between the economic conditions during the period in which the historical data were collected, the current conditions and the Company's view of the economic conditions during the expected life of the accounts receivable.

The following table shows information on the exposure to credit risk and expected credit losses for accounts receivable from customers as of December 31, 2019 and 2018:

December 31, 2019	Weighted average loss rate	Gross book value	Allowance for loss	Credit impairment
Current (not due)	0%	-	-	
1 - 30 days due	0%	76,273,925	-	No
31 - 60 days due	0%	6,279,922	-	No
61 - 90 days due	0%	905,229	-	No
More than 90 days due	100%	378,057	149,796	Yes
		83,837,133	149,796	
December 31, 2018	Weighted average loss rate	Gross book value	Allowance for loss	Credit impairment
Current (not due)	0%	-	-	No
1 - 30 days due	0%	20,750,135	-	No
31 - 60 days due	0%	1,603,125	-	No
61 - 90 days due	0%	4,266	-	No
More than 90 days due	100%	250,987	149,796	Yes
		22,608,513	149,796	

(Continuous)

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Liquidity risk

The liquidity risk represents the possibility that the Company faces some problems in complying with its obligations related to its financial liabilities that are settled through the delivery of cash or another financial asset. The Company's approach to managing its liquidity is to ensure, as far as possible, that it will have enough liquidity to cover liabilities at the date of maturity, both in regular events and under extraordinary conditions, without incurring unacceptable losses or jeopardizing the reputation of the Company.

The Company's intention is to maintain the level of its cash and cash equivalents in amounts exceeding the expected cash outflows for financial liabilities. The Company also monitors the level of expected cash inflows for accounts receivable together with the expected cash outflows by suppliers and other accounts payable. As of December 31, 2019, the cash flows expected from accounts receivable with maturities of 1-15 days amounted to \$ 83,687,337.

Exposure to liquidity risk

The following are the remaining maturities of the financial liabilities as of the date of the financial statements. The following gross and undiscounted amounts include interest payments and exclude the impact of the compensation agreements:

December 31, 2019	Book Amount	Contractual Cash Flows				
		Total	12 Months or less	1-2 Years	2-5 Years	5 Years or more
Non-derivative financial liabilities						
Suppliers	\$ 17,906,048	(17,906,048)	(17,906,048)	-	-	-
Related Parties	519,908,163	(519,908,163)	(519,908,163)			
	\$ 537,814,211	(537,814,211)	(537,814,211)	-	-	-

December 31, 2018	Book Amount	Contractual Cash Flows				
		Total	12 Months or less	1-2 Years	2-5 Years	5 Years or more
Non-derivative financial liabilities						
Suppliers	\$ 18,245,663	(18,245,663)	(18,245,663)	-	-	-
Related Parties	275,238,205	(275,238,205)	(275,238,205)			
	\$ 293,483,868	(293,483,868)	(275,483,868)	-	-	-

Market risk

Market risk, such as variation in market prices, exchange rates, interest rates and commodities, may affect the Company's income.

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Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Currency risk

The Company is exposed to currency risk to the extent that there is an asymmetry between the currencies in which the transactions it carries out are denominated. Currencies in which such types of transactions are denominated mainly are the US dollar (USD) and the sterling pound (GBP).

Sensitivity evaluation

As of December 31, 2019, the Company does not have assets and liabilities denominated in foreign currency.

Interest rate risk

The Company adopts a policy to ensure that part of its exposure to interest rate risk is maintained on a fixed rate basis. This is achieved by subscribing fixed interest rate instruments and on the other, obtaining loans at a variable interest rate and using hedging instruments attributable to the interest rate risk.

The Company determines the existence of an economic relationship between the hedging instrument and the hedged item based on the reference interest rates, the terms, the dates of price and maturity reviews and the notional or nominal amounts.

The Company does not account for financial assets and liabilities at a fixed rate at fair value through profit or loss and does not designate derivatives as hedging instruments according to a fair value hedge accounting model. Therefore, a change in the interest rates at the date of the financial statements would not affect the result.

(7) Related parties-

a) Accounts payable to related parties as of December 31, 2019 and 2018 are as follows:

	2019	2018
Jaguar Land Rover Servicios México, S.A. de C.V. ⁽ⁱ⁾	\$ 5,581,393	7,148,516
Jaguar Land Rover Limited ⁽ⁱⁱⁱ⁾	514,326,770	266,714,671
Spark 44, LLC	-	1,375,018
	\$ 519,908.163	275,238,205

As of December 31, 2019, and 2018, balances payable to related parties correspond to balances of current accounts, without interest, payable in cash within a period of 60 days for which there are no guarantees.

As of December 31, 2019, and 2018, the following agreements with related parties had been entered:

- (i) Agreement entered with Jaguar Land Rover Servicios México, S.A. de C.V. (for the performance of administrative, accounting, legal, advisory, consulting and personnel supervision services. The term of such agreement is was from January 1 to December 31, 2019, and is extended automatically at the expiration date thereof.

The main expenses transactions with related parties for the year ended December 31, 2019 and 2018, are shown below:

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Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

	2019	2018
Administrative services received:		
Jaguar Land Rover Servicios México, S.A, de C.V. ⁽ⁱ⁾	\$ 44,538,635	\$ 41,816,988
Purchase of inventory:		
Jaguar Land Rover Limited	1,715,711,142	1,345,608,999
Other:		
Jaguar Land Rover Limited	(1,321,369)	11,620,704
Spark 44, LLC	4,365,212	1,375,018

(8) Inventories-

a) As of December 31, 2019, and 2018, inventories are integrated as shown below:

	2019	2018
Cars inventory	\$ 316,166,950	95,747,646
Cars in transit	91,597,804	231,999,351
Inventory of spare parts	47,650,093	42,713,660
Spare parts in transit	8,583,198	6,089,918
Inventory of advertising items	852,293	842,476
	464,850,338	377,393,051
Allowance for obsolescence and slow-turnover goods	(5,014,107)	(9,804,599)
	\$ 459,836,231	367,588,452

b) For the years ended December 31, 2019 and 2018, the allowance for obsolescence and slow-turnover amounts to \$3,553,731 and \$7,931,241, respectively.

c) During 2019 and 2018, the Company determined an estimate relative to the decrease in value of the Jaguar and Land Rover vehicles that are held for exhibition and demonstration, since such units, once sold on the market, will lose their price market value in the amount of \$1,460,376 and \$1,873,358, respectively.

(9) Advanced payments

a) As of December 31, 2019, and 2018, advanced payments are integrated below:

	2019	2018
Advanced amounts for advertising and marketing activities	\$ 850,826	\$ 2,104,561
Advance amounts for insurance	\$ 86,818	\$ 77,747
	\$ 937,644	\$ 2,182,308

For the year ended December 31, 2019 and December 31, 2018, the amortization expense of the insurance paid as advance was \$544,672 and \$572,345, respectively.

(Continuous)

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(Figures in Mexican pesos)

(10) Furniture and Equipment, net

a) As of December 31, 2019, and 2018, the concept of furniture and fixtures is integrated as follows:

		December 31 2019	December 31 2018	January 1st 2018
Investment:				
Furniture and office fixtures	\$	1,348,958	1,348,958	1,348,958
Computer devices		1,273,677	805,090	805,090
Other assets		1,159,462	1,159,462	1,159,462
		3,782,097	3,313,510	3,313,510
Accumulated depreciation:				
Furniture and office equipment	\$	960,992	826,096	691,200
Computer equipment		866,437	781,904	765,646
Other assets		1,158,937	1,136,372	1,111,519
		2,986,366	2,744,372	2,568,365
Furniture and fixtures, net		795,731	569,138	745,145

b) For the years ended December 31, 2019 and 2018, depreciation expense amounted to \$241,995 and \$176,007.

(11) Intangible assets

a) As of December 31, 2019, and 2018, intangible assets are integrated as follows:

	2019	2018
Licenses	\$ 8,792,393	\$ 8,792,393
Less:		
Accumulated amortization	6,908,563	6,772,196
Net	\$ 1,883,830	\$ 2,020,197

b) For the years ended December 31, 2019 and 2018, amortization expense amounted to \$136,637 and \$613,671, respectively.

(Continuous)

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

(12) Provisions

Provisions are integrated as shown below:

		Guarantees (i)	Expenses (ii)	Other	Total
Balances as of December 31, 2018	\$	3,611,338	24,025,303	3,041,654	30,678,295
Increases charged to profit or loss		5,159,221	109,131,520	12,396,855	126,687,596
Payments		(4,604,490)	(122,330,325)	(11,560,962)	(138,495,777)
Balances as of December 31, 2019	\$	4,166,069	10,826,498	3,877,546	18,870,113

- (i) The provision related to guarantees includes guarantees for services and loyalty warranty. The service warranty is calculated based on the vehicles that were sold within the last three years and that suffered some damage or were submitted to repairs incurred by distributor, to solve the customer's warranty. The loyalty warranty is calculated based on the vehicles sold in the last 4 years and that suffered some damage or had to be submitted to repairs and that the customer is no longer subject to the warranty for services.
- (ii) The provision relating to expenses is recorded for all the expenses and agreements that the Company has at year-end and for which they have been accrued during the year.
- (iii) Includes the amounts related to Road Side Assistance and employee benefits. The RSA amount is calculated with a fixed amount per car wholesaled. The employee benefits is the benefit accrued during the year.

(13) Obligations by agreement

Obligations by agreement come from the following program:

- Car maintenance after-sales paid in advance by customers.
- Retail sales incentives is based on the policy and monthly bulletins.

Income from after-sales services is verified when the customer performs this right, or such right expires. Depending of maturity, the amounts of the agreements are classified in the short and long term. The profile of the enforceability of the obligations by such types of agreements is as follows:

		Prepaid Services	Sales Incentives	Total
2020	\$	10,389,613	49,279,196	59,668,809
2021 and after		63,103,506	-	63,103,506
	\$	73,493,119	49,279,196	122,772,315

The connection of balances of the obligations by agreement is shown below:

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Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

		Prepaid Services	Sales Incentives	Total
Beginning balance 2019	\$	41,955,384	52,857,855	94,813,239
Additions		36,454,400	179,725,613	211,263,348
Payments		(4,916,665)	(183,304,272)	(183,304,272)
Ending balance	\$	73,493,119	49,279,196	122,772,315

The contractual obligation is calculated based on the current incentives that the Company has towards its distributors, among the main ones are: discount in cash, financing for months without interest, bonus for the distributor and for the seller in the sale of a unit, such incentives are published in monthly bulletins. The above includes obligation for contract related to performance bonus.

The Company offers a five-year package for car maintenance services (after-sales services). Charges derived from these services are deferred as an obligation by contract and are verified at the time when the consumer performs his rights, or when such right expires. On the other hand, costs related to such services are verified in the period in which they are incurred.

Services are verified in income when they are provided.

(14) Employee benefits

The Company has a defined benefit plan for seniority premium and termination that covers its own personnel. The benefits are based on years of service and the amount of employee compensation. The Company's policy is to fund the pension plan to the extent that the obligations are due.

As of December 31, 2019, to take advantage of the existing conditions derived from new practices of Management in connection with retirement benefits, the Company considered an additional compensation component as part of the assumptions to determine the labor liability.

The components of the defined benefit cost for the years ended December 31, 2019 are shown below:

		Seniority Premium		Legal Compensation	
		2019	2018	2019	2018
Cost of Actual Service (CLSA)	\$	2,419	2,281	148,668	1,017,342
Net interest on PNBD*		228	-	85,175	-
Remeasurements of the PNBD or verified in profit or loss for the year		885	594	(100,865)	5,881
Cost of defined benefits	\$	3,532	2,875	132,978	1,023,223
Initial balance of PNBD	\$	2,875	-	1,023,223	-
Cost of defined benefits		2,647	2,875	233,843	1,023,223
Actuarial Loss (or Gain) on Obligations		885	-	(100,865)	-
Ending balance of PNBD	\$	6,407	2,875	1,156,201	1,023,223

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Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

	2019	2018
Discounts of labor commitments	7.23%	9.00%
Salary increase	5.00%	5.00%
Inflation rate	4.00%	4.00%

(15) Income taxes**a) Income Tax (ISR)**

For fiscal years 2019 and 2018, according to the Income Tax Law (LISR), the corporate tax rate of the Income Tax is 30%.

The Income Tax Law provides criteria and limits for the application of some deductions, such as the possible non-deductibility of payments made to related parties in case of non-compliance with certain requirements.

b) As of December 31, 2019, and 2018, the Income Tax charged to income is included as follows:

	2019	2018
Current income tax	\$ 22,759,936	31,049,602
Deferred income tax	(6,372,385)	(15,737,771)
Total	\$ 16,387,551	15,311,831

c) As of December 31, 2019, and 2018, the deferred income tax is integrated as follows:

	2019	2018
Deferred tax assets:		
Provisions and contract obligations	\$ 42,111,811	37,590,486
Allowance for bad debt	44,939	44,939
Allowance for obsolescence and slow movement	1,504,232	2,379,372
Advance from customers and fixed assets and intangibles	3,427,981	2,015,033
	47,088,963	42,029,830
Less: Allowance for deferred income tax assets	1,111,059	2,424,311
Deferred income tax, net	\$ 45,977,904	\$ 39,605,519

The estimate for deferred tax assets covers 100% of the assets that arise for the allowance for uncollectible accounts and the allowance for obsolescence and slow turnover.

The net change in the valuation allowance, for the years ended December 31, 2019 and 2018, was a reduction of \$1,313,252 and an increase of \$1,068,541 respectively. To evaluate the recovery of deferred assets, Management considers that part or all of them will not be recovered. The final sale of the deferred assets depends on the generation of taxable income during the periods in which the temporary differences are deductible. In carrying out this evaluation, Management considers the expected reversal of deferred liabilities, projected taxable income and planning strategies.

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Notes to the financial statements

For the years ended December 31, 2019 and 2018

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d) The following is a reconciliation between the tax rate established by law and the effective rate of income tax verified by the Company.

	2019	2018
"Expected" expense	\$ 11,330,451	10,002,269
Annual adjustment for inflation	2,732,005	3,298,569
Non-deductible expenses	451,624	909,236
Changes in the allowance of deferred assets of bad debt recovery	1,313,252	1,068,541
Other items	560,219	33,216
Income taxes expense	\$ 16,387,551	15,311,831
Effective rate	43%	46%

(16) Recoverable taxes

The concept of other taxes to be recovered is included in the items described in the following table:

	2019	2018
Income tax	\$ 11,238,315	-
Value added tax	22,525,900	15,921,236
Total	\$ 33,764,215	15,921,236

(17) Shareholders' equity

- a) Capital stock as of December 31, 2019 and 2018, is represented by common, registered shares, without par value, fully subscribed and paid, as shown below:

Series	Capital	Shares	Amount
I	Minimum, fixed	50,000	\$ 50,000
II	Variable	38,357,700	38,357,700
		38,407,700	\$ 38,407,700

b) In accordance with the provisions of the General Law of Commercial Companies, the Company must segregate from the net profit of each year at least 5% to increase the legal reserve until it reaches 20% of the capital stock. As of December 31, 2019, and 2018, the legal reserve amounts to \$7,681,540 which is included in retained earnings.

c) Profits distributed in excess of the balances of the CUFIN (Cuenta de Utilidad Fiscal Neta, by its initials in Spanish) account (Net Tax Profit Account), will be subject to the corporate Income Tax at the rate in effect on the date of distribution. Payment of such tax may be credited against the Income Tax.

d) Dividends paid to individuals and corporate entities resident abroad on profits generated as of 2014 are subject to a 10% withholding as an additional tax.

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(Figures in Mexican pesos)

(18) Revenue

During the years of 2019 and 2018, the Company's revenue is as follows:

	Luxury Cars	Spare parts	Warranties and Discounts	Total
2019	1,952,255,037	140,154,520	(168,622,558)	1,923,786,999
2018	1,609,365,227	125,589,976	(125,272,066)	1,609,683,137

As of December 31, 2019, revenues that are expected to be verified within the next five years related to performance obligations not yet paid, is \$73,493,119. Such revenues come from almost all short- and long-term maintenance and service agreements.

(19) Costs and operating expenses

The main items that comprise costs and operating expenses as of December 31, 2019 and 2018 are shown hereinbelow:

		2019	
	Cost of Goods Sold	Sales Expenses	Administrative Expenses
Cost of vehicles and spare parts, net	1,682,449,612		
Transportation and storage	\$ 32,200,803	-	-
Customs and import expenses	19,988,075	-	-
Subscriptions and insurance	11,940,646	-	645,113
Advertising and marketing	-	65,748,808	-
Public relations	-	531,727	-
Customer Care Center	-	3,258,394	-
Training	-	6,043,507	126,986
Administrative services	-	-	44,538,635
Wages, salaries and benefits	-	-	4,172,746
Professional services	-	-	4,542,247
Employee benefits	-	-	136,510
Depreciation and amortization	-	-	378,362
Travel expenses	-	-	586,325
Social security expenses	-	-	255,651
Other	8,944,587	869,419	1,995,222
Total	\$ 1,755,523,723	76,451,855	57,377,797

(Continuous)

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

2018			
	Sales Cost	Sales Expenses	Administrative Expenses
Cost of vehicles and spare parts, net	\$ 1,382,265,339	-	-
Transportation and storage	23,937,412	-	-
Customs and import expenses	12,906,058	-	-
Subscriptions and insurance	4,910,449	-	648,355
Advertising and marketing	-	80,569,367	-
Public relations	-	5,896,979	-
Customer Care Center	-	4,421,672	-
Training	-	2,392,538	95,500
Administrative services	-	-	41,816,988
Wages, salaries and benefits	-	-	4,196,018
Professional services	-	-	3,159,150
Employee benefits	-	-	1,026,098
Depreciation and amortization	-	-	789,678
Travel expenses	-	-	259,259
Social security expenses	-	-	254,201
Other	1,459,247	1,619,155	1,182,761
Total	\$ 1,425,478,505	94,899,711	53,428,008

(20) Other income and other operating expenses

As of December 31, 2019, and 2018, the concept of other income and other expenses is composed as follows:

	2019	2018
Other income:		
Car rental	\$ 199,515	91,626
Shielding	966,971	829,597
Expenses reimbursement	5,449,257	2,420,361
Other	4,985,779	1,469,009
	\$ 11,601,522	4,810,593
	2019	2018
Other Expenses:		
Loss of Demo Units	\$ 1,086,468	-
Damage Claims	310,679	-
Movement and repair of units	249,018	234,558
Product displays	-	903,183
Training	-	108,406
Other expenses	446,289	2,529,703
	\$ 2,092,454	3,775,850

(Continuous)

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

(21) Contingencies and commitments

a) The Company has entered into agreements for the provision of services with related companies, wherein such companies undertake to provide the administrative services required for their operation. Such agreements have no expiration date. The amounts paid for this concept were of \$44,538,635 in 2019 and \$41,816,988 in 2018 and such amounts were included in the administrative expenses in the statements of comprehensive income.

b) There is a contingent liability derived from employee benefits; it is mentioned in Note 3 (h).

c) In accordance with the current tax legislation, the competent authorities have the power to review up to five fiscal years prior to the last income tax return filed.

d) In accordance with the Income Tax Law, companies that carry out transactions with related parties are subject to tax limitations and obligations, in terms of determining agreed prices, since they must be comparable to those that would be used with independent parties in comparable transactions. In the event that the tax authorities review the prices and reject the amounts determined, they could request, in addition to the applicable tax and corresponding legal accessories (adjustments and overdue interest), and fines on the omitted contributions, which could be up to 100% on the updated amount of contributions.

e) On November 28, 2018, the General Director of Inspection to Sources of Pollution of the Federal Attorney for Environmental Protection sanctioned the Company through according to the provisions of official communication No. PFPA03.2 / 2C27.1 / 00082/18/0027 providing a fine of \$ 15,000,063. On December 2018, the Company filed a judicial review against the abovementioned fine.

On January 20, 2020, the Federal Attorney for Environmental Protection resolved by means of an Administrative Resolution, the nullity of the administrative resolution in terms of official communication number PFPA03.2 / 2C27.1 / 00082/18/0027, in order for the authority to issue a new administrative resolution duly founded and motivated considering the economic conditions of the Company

(22) Subsequent event-

Coronavirus

On March 11, 2020, the World Health Organization declared the outbreak of the COVID-19 virus a pandemic. On March 30, 2020, the Mexican government declared the disease epidemic generated by COVID-19 as a health emergency due to force majeure, and on March 31, 2020, such government ruled, as an extraordinary action, the immediate suspension of the non-essential activities from March 30, 2020 to April 30 and until May 30, 2020, affecting the public, social and private sectors in Mexico and generating a significant impact on the production and supply chains of goods in the country. Due to the daily evolution of COVID-19, as well as its impact on the global economy and Mexico, for the year 2020 the Company estimates a decrease in sales volume of 40% for vehicles and 25% in spare parts, to date of delivery of financial statements. The pandemic and the actions of the Mexican government may materially and adversely affect the financial position, the results of its operations and the Company's future cash flows. The degree to which COVID-19 will affect the Company will depend on the development of future events that are uncertain and cannot be predicted, including, among others, the duration and spread of the outbreak, its severity, measures to contain the virus and deal with spread and impact thereof, and how fast and to what extent the Company's economic and operating conditions can resume and become to normality.

(Continuous)

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

(23) Regulatory pronouncements issued recently

The Mexican Council of Financial Information Standards, (Consejo Mexicano de Normas de Información Financiera, A. C.) (CINIF) has issued the NIF and Improvements that are mentioned below and that are applicable for annual periods.

Improvements to NIF 2019

On December 2019, the CINIF issued a document called "Improvements to NIF 2020", which contains specific amendments to some existing NIFs. The main improvements made to the NIF are: Include only those NIF that directly affect the Company.

NIF C-16 "Impairment of financial instruments receivable" - Provides that if the IFCPI was not derecognized due to the renegotiation, it is appropriate to continue valuing the financial instrument using the original effective interest rate, which should only be changed by the effect of renegotiation costs. This improvement shall be in force as from January 1, 2020, allowing early application for the 2019 financial year. The arising accounting changes must be recognized retrospectively.

NIF C-19 "Financial instruments payable" - Cancels the obligation to recalculate the effective rate against a variable interest rate of the financial instrument that does not produce effects of relative materiality. This improvement shall be in force as from January 1, 2020, allowing early application for the 2019 fiscal year. The arising accounting changes must be recognized prospectively.

NIF D-3 "Employee Benefits" - Establishes the basis for recognizing uncertain tax treatments in Workers' Participation in Profit (PTU), both caused and deferred, as well as the disclosure requirements in this regard. This improvement shall be in force as from January 1, 2020, allowing its early application for the 2019 financial year. The accounting changes that arise must be recognized retrospectively or partially retrospectively.

NIF D-4 "Income Taxes" - Provides the rules to recognize uncertain tax events for income taxes, both actual and deferred, as well as the disclosure requirements in this regard. It also includes rules to recognize income taxes from distribution of dividends. Such improvements shall be in force as from January 1, 2020, allowing its early application for the 2019 financial year. The accounting changes that arise must be recognized retrospectively or partially retrospectively.

NIF D-5 "Leases" - 1) incorporates the possibility of using a risk-free rate to discount future lease payments and thus recognize the lease liability of a lessee. 2) restricts use of the practical solution to prevent significant and identifiable non-lease components from being included in the calculation of right-of-use assets and lease liabilities. Improvements to this NIF shall be in force as from January 1, 2020, allowing early application for the 2019 financial year. The accounting changes that arise must be recognized retrospectively or partially retrospectively.

The Company's management considers that the adoption of such improvements to the NIF will not generate significant effects.