JAGUAR LAND ROVER MÉXICO, S.A.P.I. DE C.V.
(formerly GDV Imports México, S.A.P.I. de C.V.)

Financial Statements

31 December 2017 and 2016
with Report of Independent Auditors

JAGUAR LAND ROVER MÉXICO, S.A.P.I. DE C.V.
(formerly GDV Imports México, S.A.P.I. de C.V.)

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Contents:

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
Jaguar Land Rover México, S.A.P.I. de C.V. (formerly GDV Imports México, S.A.P.I. de C.V.)

Opinion

We have audited the accompanying financial statements of Jaguar Land Rover México, S.A.P.I. de C.V. (formerly GDV Imports México, S.A.P.I. de C.V.), which comprise the statement of financial position as at 31 December 2017, and the statement of income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Jaguar Land Rover México, S.A.P.I. de C.V. (formerly GDV Imports México, S.A.P.I. de C.V.) as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with Mexican Financial Reporting Standards.

Basis for audit opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. We are independent from the Company within the meaning of the Code of Ethics for Accounting Professionals of the International Ethics Standards Board for Accountants (IESBA) and the ethical requirements applicable to our audit of the financial statements in Mexico established by the Code of Ethics of the Mexican Institute of Public Accountants (IMCP, Spanish acronym), and have fulfilled our other responsibilities under those relevant ethical requirements and the Code of Ethics of the IESBA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Sergio E. Montes Garza.

Our audit opinion and the accompanying financial statements and footnotes have been translated from the original Spanish version into English for convenience purposes only.

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

Sergio E. Montes Garza

Mexico City
15 June 2018

JAGUAR LAND ROVER MÉXICO, S.A.P.I. DE C.V.
(formerly GDV Imports México, S.A.P.I. de C.V.)

Statements of Financial Position

(Amounts in Mexican pesos)

		As at 31 December 2017		2016
Assets				
Current assets:				
Cash and cash equivalents (Note 2)	**Ps.**	**228,051,539**	Ps.	113,603,527
Trade receivables, net (Note 3)		**11,574,545**		54,467,617
Incentives receivable (Note 4)		**28,199,118**		44,051,814
Inventories, net (Note 7)		**273,841,071**		381,464,190
Recoverable taxes		**34,964,180**		28,407,181
Prepaid expenses (Note 6)		**1,534,439**		12,412,778
Total current assets		**578,164,892**		634,407,107
Furniture and equipment, net (Note 8)		**745,145**		949,453
Intangible assets (Note 9)		**2,633,868**		2,844,250
Deferred income tax (Note 14)		**23,867,748**		31,778,588
Total assets	**Ps.**	**605,411,653**	Ps.	669,979,398
Liabilities and equity				
Current liabilities:				
Bank loans (Note 10)	**Ps.**	**-**	Ps.	72,757,724
Jaguar Land Rover Limited		**-**		250,846,744
Suppliers and other accounts payable		**11,738,382**		17,023,365
Taxes payable		**4,117,014**		9,464,335
Related parties (Note 5)		**414,218,995**		9,034,804
Provisions and accrued liabilities for warranties (Note 12)		**73,073,480**		93,836,222
Employee benefit obligations		**333,056**		-
Trade advances		**-**		1,065,813
Total liabilities		**503,480,927**		454,029,007
Equity (Note 13):				
Share capital		**38,407,700**		38,407,700
Retained earnings		**63,523,026**		177,542,691
Total equity		**101,930,726**		215,950,391
Total liabilities and equity	**Ps.**	**605,411,653**	Ps.	669,979,398

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

JAGUAR LAND ROVER MÉXICO, S.A.P.I. DE C.V.
(formerly GDV Imports México, S.A.P.I. de C.V.)

Statements of Income

(Amounts in Mexican pesos)

		For the year ended 31 December 2017		2016
Net sales	Ps.	**841,860,314**	Ps.	1,192,290,563
Other income (Note 1p)		**7,172,510**		17,444,740
		849,032,824		1,209,735,303
Cost of sales		**729,723,397**		995,903,620
		119,309,427		213,831,683
Operating expenses:				
Selling		**23,416,225**		42,274,548
Administrative		**65,890,508**		59,359,250
Other (Note 1p)		**4,714,877**		2,691,384
		94,021,610		104,325,182
Operating income		**25,287,817**		109,506,501
Net financing income/(cost):				
Finance expense, net	(	**4,327,352)**	(	6,803,909)
Foreign exchange gain/(loss), net		**4,903,773**	(	22,504,084)
		576,421	(	29,307,993)
Income before income tax		**25,864,238**		80,198,508
Income tax (Note 14)		**9,750,943**		24,501,940
Net income	Ps.	**16,113,295**	Ps.	55,696,568

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

JAGUAR LAND ROVER MÉXICO, S.A.P.I. DE C.V.
(formerly GDV Imports México, S.A.P.I. de C.V.)

Statements of Changes in Equity

For the Years Ended 31 December 2017 and 2016

(Amounts in Mexican pesos)

(Note 13)

		Share capital		Retained earnings		Total equity
Balance as at 31 December 2015	Ps.	38,407,700	Ps.	169,698,481	Ps.	208,106,181
Net income		-		55,696,568		55,696,568
Dividends declared		-	(	47,852,358)	(	47,852,358)
Balance as at 31 December 2016		38,407,700		177,542,691		215,950,391
Net income		**-**		**16,113,295**		**16,113,295**
Dividends declared		**-**	**(**	**130,132,960)**	**(**	**130,132,960)**
Balance as at 31 December 2017	**Ps.**	**38,407,700**	**Ps.**	**63,523,026**	**Ps.**	**101,930,726**

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

JAGUAR LAND ROVER MÉXICO, S.A.P.I. DE C.V.
(formerly GDV Imports México, S.A.P.I. de C.V.)

Statements of Cash Flows

(Amounts in Mexican pesos)

	For the year ended 31 December 2017	2016
Operating activities		
Income before income tax	**Ps. 25,864,238**	Ps. 80,198,508
Items not affecting cash flows:		
Depreciation and amortization	**1,627,834**	2,188,462
Accrued interest expense	**4,334,931**	6,647,687
Fees accrued on line of credit	**-**	167,160
Unrealized foreign exchange loss	**4,928,909**	2,127,550
	36,755,912	91,329,367
Changes in operating assets and liabilities:		
Decrease/(increase) in:		
Inventories	**107,623,119**	63,544,264
Trade receivables	**42,893,072**	16,834,147
Recoverable taxes	**(6,556,999)**	(26,816,713)
Prepaid expenses and incentives receivable	**26,731,034**	17,652,158
(Decrease)/increase in:		
Income tax paid	**(21,497,176)**	(54,190,147)
Taxes payable	**14,309,752**	20,228,569
Suppliers and other accounts payable	**127,095,994**	(196,445,043)
Provisions and accrued liabilities for warranties	**(20,429,687)**	13,923,219
Accounts payable to related parties	**490,325**	(6,316,816)
Trade advances	**(1,065,813)**	(608,184)
Net cash flows from/(used in) operating activities	**306,349,532**	(60,865,179)
Investing activities		
Purchase of fixed assets	**(95,949)**	(32,061)
Purchase of licenses	**(1,117,195)**	(1,475,493)
Net cash flows used in investing activities	**(1,213,144)**	(1,507,554)
Financing activities		
Dividends paid to shareholders	**(130,132,960)**	(47,852,358)
Bank loan repayment	**(76,295,744)**	-
Loans obtained from related parties	**20,124,867**	-
Bank loans obtained	**-**	71,932,350
Interest expense	**(4,384,539)**	(6,647,687)
Loan origination commissions paid	**-**	(167,160)
Net cash flows (used in)/from financing activities	**(190,688,376)**	17,265,145
Net increase/(decrease) in cash and cash equivalents	**114,448,012**	(45,107,588)
Cash and cash equivalents at beginning of year	**113,603,527**	158,711,115
Cash and cash equivalents at end of year	**Ps. 228,051,539**	Ps. 113,603,527

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

JAGUAR LAND ROVER MÉXICO, S.A.P.I. DE C.V.
(formerly GDV Imports México, S.A.P.I. de C.V.)

Notes to Financial Statements

31 December 2017 and 2016

(Amounts in Mexican pesos)

1. Nature of Operations and Summary of Significant Accounting Policies

I. Description of the business

Jaguar Land Rover México, S.A.P.I. de C.V. (formerly GDV Imports México, S.A.P.I. de C.V.) (the Company) is primarily engaged in buying and selling luxury Jaguar and Land Rover brand automobiles and components for the domestic market. The Company was incorporated on 17 April 2008.

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

On 15 June 2018, the accompanying financial statements and these notes were authorized by the Company's Finance Director, Alejandro Mejía, for their issue and subsequent approval by the Board of Directors and shareholders, who have the authority to modify the Company's financial statements. Information on subsequent events covers the period from 1 January 2018 through the above-mentioned issue date of the financial statements.

II. Relevant Events

On 2 October 2017, through a unanimous shareholder resolution, the Company's shareholders agreed to execute and comply with the Company's obligations and transactions pursuant to the share acquisition agreement between Jaguar Land Rover Limited and Jaguar Land Rover Holdings Limited as the buyers of the shares in the agreement and the shareholders of GDV Imports México, S.A.P.I. de C.V. as the sellers of the shares and accordingly, since that date Jaguar Land Rover Limited and Jaguar Land Rover Holdings Limited have been shareholders of the Company.

At an extraordinary shareholders' meeting held on 26 December 2017, the shareholders agreed to change the name of the Company to Jaguar Land Rover México, S.A.P.I. de C.V.

III. Summary of Significant Accounting Policies

a) Compliance with Mexican Financial Reporting Standards

The accompanying financial statements have been prepared in accordance with Mexican Financial Reporting Standards (Mexican FRS).

b) Basis of preparation

The annual rate of inflation in Mexico for 2017 and 2016, as determined based on the National Consumer Price Index (NCPI) published by the National Statistical and Geographical Information Agency (INEGI), was 6.77% and 3.36%, respectively, while the cumulative inflation rate for the three prior years was 12.26% and 9.57%, respectively. Under Mexican FRS, this cumulative inflation rate represents the necessary condition for considering Mexico as having a non-inflationary economic environment, which means that the financial statements should be prepared on a historical-cost basis.

The amounts shown in the accompanying financial statements and these notes are in Mexican pesos, except where otherwise indicated

c) Revenue recognition

Sales

The Company recognizes its revenue following the guidelines of International Accounting Standard 18 (IAS 18) *Revenue,* issued by the International Accounting Standards Board (IASB), which it has applied on a supplementary basis since its incorporation because Mexican FRS do not specifically address revenue recognition.

Revenue from the sale of goods is recognized when all of the following conditions have been satisfied:

(i) The entity has transferred to the buyer the significant risks and rewards of ownership of the goods
(ii) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
(iii) The amount of revenue can be measured reliably
(iv) It is probable that the economic benefits associated with the transaction will flow to the entity
(v) The costs incurred or to be incurred in respect of the transactions can be measured reliably

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

d) Use of estimates

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

These assumptions mostly refer to:

- Useful life estimates of furniture and equipment
- Useful life estimates of intangible assets

e) Cash and cash equivalents

Cash and cash equivalents principally consist of bank deposits and highly liquid investments with maturities of less than 90 days. These investments are stated at cost plus uncollected accrued interest, which is similar to their market value.

f) Trade receivables and other accounts receivable

Accounts receivable represent an entity's right to receive amounts owed to it arising from sales, incentives or other types of transactions.

Accounts receivable are classified as either short-term or long-term depending on the length of their terms. Accounts receivable that are due within one year of the reporting date are classified as short-term. All other accounts receivable are classified as long-term.

Other accounts receivable represent amounts owed to an entity arising from transactions that are unrelated to its normal operations, such as incentives, sales of fixed assets, tax overpayments and which the entity expects to receive within one year of the reporting date. Other accounts receivable are presented as part of current assets.

Accounts receivable and other accounts receivable are measured at net realizable value and are adjusted following the principles of the accrual basis of accounting, which includes the recognition of allowances for doubtful accounts. Long-term receivables and other long-term receivables are measured at their discounted net realizable value.

g) Allowance for doubtful accounts

The Company's policy is to provide for doubtful accounts on the balance of accounts receivable, while also taking into consideration its past collection experience and accounts specifically identified as potentially uncollectible.

h) Inventories

Inventories are valued at the lower of either their cost or net realizable value. The cost of inventories includes all purchase costs incurred in bringing each product to its present location and condition. The balance of inventories presented in the statement of financial position does not exceed their net realizable value.

The net realizable value of inventories is their estimated selling price in the ordinary course of business, less estimated costs of completion and selling costs.

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

i) Prepaid expenses

Prepaid expenses are recognized as assets as of the date the payment is made, provided that it is probable that the future economic benefits associated with the item will flow to the Company. At the time the goods or services are received, prepaid expenses are either capitalized or recognized in profit or loss as an expense, depending on whether there is certainty that the acquired goods or services will generate future economic benefits.

The Company periodically evaluates its prepaid expenses to determine the likelihood that they will cease to generate future economic benefits and to assess their recoverability. Unrecoverable prepaid expenses are recognized as impairment losses in profit or loss.

j) Furniture and equipment

Furniture and equipment is recognized at cost, net of accumulated depreciation and accumulated impairment losses, if any. The cost of acquiring furniture and equipment includes the costs initially incurred to acquire or build the asset, plus costs subsequently incurred to replace the asset or enhance its service capability. For furniture and equipment made up of components with different useful lives, the major individual components are depreciated over their individual useful lives. Repair and maintenance costs are expensed as incurred.

Depreciation of furniture and equipment is determined on the assets' carrying amounts on a straight-line basis (since management considers that this method best reflects the use of these assets) over the estimated useful lives of the assets, as follows:

	Rates
Automotive equipment	25%
Computer equipment	30%
Office furniture and equipment	10%

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

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

For the years ended 31 December 2017 and 2016, there were no indicators of impairment in the value of the Company's fixed assets.

k) Intangible assets

Licenses and software are initially recognized at cost. Amortization is calculated on a straight-basis over the estimated useful lives of the related assets. The amortization period ranges from 1 to 20 years, depending on the type of license. For the years ended 31 December 2017 and 2016, there were no indicators of impairment in the value of the Company's intangible assets.

l) Provisions, contingent liabilities and commitments

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

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

Trade advances in foreign currency are translated using the exchange rate prevailing on the day of the initial transactions, and are not adjusted for subsequent changes in exchange rates. Trade advances are recognized as current liabilities and recognized as expenses as the products are sold or the services are rendered.

m) Product warranties

The Company extends warranties for possible manufacturing defects for a period of three years or 100,000 km, whichever comes first. Accordingly, at each sale date, a warranty provision is created based on the Company's estimated warranty costs and warranty claim experience. Costs incurred to cover obligations under extended warranties are charged to cost of sales as accrued.

n) Exchange differences

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

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

See Note 11 for the Company's foreign currency position at the end of each period and the exchange rates used to translate foreign currency denominated balances.

o) Comprehensive income

Comprehensive income represents the increase or decrease in earned capital from net income or loss for the year, plus components of other comprehensive income (OCI). For the years ended 31 December 2017 and 2016, the Company's comprehensive income is the same as its net income for the year, since during the year the Company did not record any items that constitute component elements of comprehensive income.

p) Income tax

Current income tax

Current income tax is recognized as a current liability, net of prepayments made during the year.

Deferred income tax

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

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

q) Statement of income presentation

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

Although not required to do so under Mexican FRS, the Company includes operating income in the statement of income, since this item is an important indicator for evaluating the Company's operating results.

An analysis of other income and other expenses for the years ended 31 December 2017 and 2016 is as follows:

		2017		2016
Other income:				
Vehicle leases	**Ps.**	**41,064**	Ps.	10,083,920
Fees earned from armoring services		**1,028,593**		1,101,658
Cancellation of balances		**3,691,758**		5,403,754
Reimbursement of expenses		**1,985,453**		-
Other sundry income		**1,575,307**		855,408
	Ps.	**8,322,175**	Ps.	17,444,740
Other expenses:				
Purchase of furniture for dealerships	**Ps.**	**-**	Ps.	1,119,760
Donation of vehicles		**569,641**		-
Training		**326,480**		-
Movements of units		**146,485**		-
Other sundry expenses		**4,821,937**		1,571,624
	Ps.	**5,864,543**	Ps.	2,691,384

r) Concentration of risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The credit risk in accounts receivable is mitigated by the fact the Company has a broad customer base that is geographically diverse. The Company continuously monitors its customer accounts and it requires no collateral to guarantee collection of its receivables.

The Company has two key foreign suppliers that it relies on for its business. In the event that either of these suppliers were to stop selling goods to the Company, the Company's financial performance could be adversely affected. The Company's principal car and spare parts supplier is Jaguar Land Rover Limited, who has been the Company's principal shareholder since 2 October 2017.

s) New accounting pronouncements

Improvements to Mexican FRS for 2018

The new accounting standards effective for annual periods beginning on or after 1 January 2018 that will give rise to changes to financial statement valuations, disclosures and presentation are as follows:

Mexican FRS B-2 *Statement of Cash Flows*

Entities must now include disclosures related to changes in liabilities reported within financing activities that may or may not have required the use of cash or cash equivalents. In addition to the required disclosures, entities also need to include a reconciliation of beginning and ending balances for these items.

These improvements are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted for annual periods beginning on or after 1 January 2017.

Mexican FRS C-6 *Property, Plant and Equipment* and Mexican FRS C-8 *Intangible Assets*

These accounting standards establish that the method used for the depreciation or amortization of an asset should reflect the pattern of consumption of the expected future economic benefits and not the pattern of generation of expected future economic benefits.

The standards also establish that the use of a depreciation or amortization method based on the amount of revenue earned from the use of the assets is no longer appropriate, since the amount of that revenue can be dependent on factors other than the pattern of consumption of the economic benefits of the asset. However, unlike Mexican FRS C-6, Mexican FRS C-8 does allow entities to use a revenue-based depreciation or amortization method under certain circumstances.

These improvements are effective for annual periods beginning on or after 1 January 2018.

The following new standards are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted:

Mexican FRS C-3 *Accounts Receivable*

In 2013, Mexican FRS C-3 *Accounts Receivable* was unanimously approved by the Mexican Financial Reporting Standards Board's (*Consejo Mexicano de Normas de Información Financiera, A.C.* or CINIF) issuing board.

The principal accounting changes contained in Mexican FRS C-3 are as follows:

a) This new accounting standard establishes that accounts receivable that arise as a result of a contract represent a financial instrument. Although certain accounts receivable arising as the result of a legal right or stemming from tax balances often have characteristics of a financial instrument, they are not actually financial instruments.

b) An entity's assessment regarding the non-recoverability of trade accounts receivable should be recognized from the time the balance is due from the counterparty based on the expected credit loss. This amount should be recognized in an entity's statement of income as part of an existing expense caption, or in a separate expense caption when the amount of the expected loss is material.

c) From initial recognition, the value of accounts receivable should be adjusted to reflect the time value of money. Whenever the time value of money is material on the basis of the term of the account receivable, the account receivable should be adjusted to present value. The effect of present value is considered material whenever the agreed upon term of full or partial payment of the account receivable is more than one year, since it is assumed that the account receivable represents a financing transaction.

d) Mexican FRS C-3 requires entities to present an analysis of the beginning balance and ending balance of their bad debt estimates in their financial statements.

This standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted for annual periods beginning on or after 1 January 2016, provided that the new standard is adopted together with Mexican FRS C-20 *Financial Assets*.

In 2017, the Company performed a detailed impact assessment regarding the new financial reporting standards related to financial instruments. The assessment was conducted based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018. Nevertheless, overall the Company does not expect any significant impact from the new standards on its statement of financial position and equity.

Other adjustments

In addition to the major adjustments described above, on adoption of Mexican FRS C-3, other items of the primary financial statements such as deferred taxes, assets held for sale and liabilities associated with them, investments in associate and joint venture will be affected and adjusted as necessary.

Furthermore, exchange differences on translation of foreign operations would also be adjusted.

Mexican FRS C-9 *Provisions, Contingencies and Commitments*

In 2014, Mexican FRS C-9 *Provisions, Contingencies and Commitments* was unanimously approved by the CINIF's issuing board.

The new Mexican FRS C-9 *Provisions, Contingencies and Commitments* superseded Mexican accounting Bulletin C-9 *Accrued Liabilities, Provisions, Contingent Assets and Liabilities and Commitments*. The most important changes contained in the new Mexican FRS C-9 are as follows:

a) the accounting treatment for financial liabilities is no longer addressed in Mexican accounting Bulletin C-9, since this matter is now addressed in the new Mexican FRS C-19 *Financial Liabilities*, and

b) the definition of liability has been modified to eliminate the "virtually certain" criteria and include the term probable "outflow of resources".

This standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted for annual periods beginning on or after 1 January 2016, provided that the new standard is adopted together with Mexican FRS C-19 *Financial Liabilities*.

Nevertheless, overall the Company does not expect any significant impact from the new standards on its statement of financial position and equity.

Other adjustments

In addition to the major adjustments described above, on adoption of Mexican FRS C-9, other items of the primary financial statements such as deferred taxes, assets held for sale and liabilities associated with them, investments in associate and joint venture will be affected and adjusted as necessary.

Furthermore, exchange differences on translation of foreign operations would also be adjusted.

Mexican FRS C-16 *Impairment of Financial Assets*

In 2015, Mexican FRS C-16 *Impairment of Financial Assets* was unanimously approved by the CINIF's issuing board.

The main requirement of this standard is that expected credit losses associated with impairment in receivable financial instruments should be recognized when due to an increase in the credit risk an entity has concluded that it will not recover a portion of the future cash flows of the receivable financial instrument.

This standard also requires that expected credit loss be recognized based on the entity's historical credit loss experience, current circumstances, and reasonable and sustainable forecasts of different future quantifiable events that could reduce the future cash flows earned from the Company's financial assets.

An important change regarding the recognition of receivable financial instruments under Mexican FRS C-16 is that in accordance with the new standard, entities should determine not only the amount that they expect to recover, but also the timing of the recovery of the receivable financial instrument, since the recoverable amount must be discounted to present value in order to reflect the time value of money. The expected credit loss is determined by comparing the carrying amount of the receivable financial instrument against the recoverable amount determined following these guidelines. In the case of receivable financial instruments with a high risk of default, the amortized cost considers the expected credit loss and future interest income is calculated based on the amortized cost to arrive at the theoretical recoverable amount on the expected date of recovery.

Early adoption of this standard is permitted for annual periods beginning on or after 1 January 2016, provided that the new standard is adopted together with Mexican FRS C-2 *Investments in Financial Instruments*; Mexican FRS C-3 *Accounts Receivable*; Mexican FRS C-9 *Provisions, Contingencies and Commitments*; Mexican FRS C-19 *Financial Liabilities*; and Mexican FRS C-20 *Financial Assets*.

In 2017, the Company performed a detailed impact assessment regarding the new financial reporting standards related to financial instruments. The assessment was conducted based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018. Nevertheless, overall, the Company does not expect any significant impact from the new standards on its statement of financial position and equity, except for the effect of applying the impairment requirements under Mexican FRS C-16.

Mexican FRS D-1 *Revenue from Contracts with Customers* and Mexican FRS D-2 *Costs of Contracts with Customers*

Mexican FRS D-1 *Revenue from Contracts with Customers.* One of the overriding aims of the release of Mexican FRS D-1 *Revenue from Contracts with Customers*, is to achieve more consistent revenue recognition practices by eliminating the supplementary application of International Accounting Standard 18 (IAS 18) *Revenue* and its interpretations, since this practice generally led to the application of a wide range of differing application criteria among entities in Mexico.

The critical aspects of the new revenue recognition model that will likely result in significant changes for entities are described below:

a) Under Mexican FRS D-1, revenue is recognized upon transfer of control, while IAS 18 requires revenue from sales of goods to be recognized when the risks and rewards of ownership have been transferred to the buyer, and revenue from services to be recognized when the service has been provided;

b) Mexican FRS D-1 includes the concept of performance obligations, while IAS 18 includes few requirements of this kind for revenue recognition and only stipulates that revenue may be recognized for separately identifiable components of a single transaction, without providing any guidance regarding exactly what a separately identifiable component is;

c) Mexican FRS D-1 includes the concept of allocation of the transaction price to performance obligations based on stand-alone selling prices, in contrast to the previously applied accounting standard, which includes no general requirements regarding the allocation of the transaction price to performance obligations;

d) Mexican FRS D-1 introduces the concept of a conditional account receivable, which is an account receivable that requires satisfaction of another obligation within the same contract;

e) Mexican FRS D-1 allows the recognition of a right to payment, which is an entity's unconditional right to an amount of consideration without the need to first satisfy a performance obligation. Under the previously applied accounting standard, this right to payment is disclosed but not recognized. In these cases, the entity may only recognize the revenue after control of the promised good or service has been transferred to the customer; and

f) Mexican FRS D-1 addresses the identification of transaction price. Under the previously applied accounting standard, the amount of revenue arising from a transaction is the fair value of the consideration received or receivable, but this standard provided no guidance regarding how to apply this fair value principle. Mexican FRS D-1 sets out the requirements and provides guidance for estimating variable considerations, and it addresses other aspects, like the existence of significant financing components, non-cash considerations and considerations payable to a customer (including customer credit).

Mexican FRS D-1 eliminates the supplementary application of IAS 18 *Revenue* and its interpretations.

Mexican FRS D-1 *Revenue from Contracts with Customers* and Mexican FRS D-2 *Costs of Contracts with Customers* were unanimously approved by the CINIF's issuing board in 2015 and will be effective for annual periods beginning on or after 1 January 2018. Mexican FRS D-1 establishes a new five-step model to account for revenue arising from contracts with customers. Under Mexican FRS D-1, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard supersedes all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. During 2017, the Company performed a preliminary assessment of Mexican FRS D-1 and D-2, which was continued with a more detailed analysis completed in 2017.

The Company is primarily engaged in selling automobiles and spare parts and it earns all of its revenue is from its sale of automobiles and spare parts and incentives that it buys or receives from its related party Jaguar Rover Limited. The Company currently recognizes the revenue from its sale of automobiles at the time the dealership in question agrees to purchase a given number of automobiles from the Company.

a) Revenue from sales of automobiles and spare parts

The Company sells automobiles and spare parts to a total of nine authorized dealerships in Mexico that sell Jaguar-brand automobiles.

b) Incentive revenue

The Company obtains other revenue from incentives provided by Jaguar Land River Limited related to commercial activities and marketing initiative aimed at promoting the Jaguar brand. After the Company provides evidence to Jaguar Land Rover Limited that it invested in marketing activities, such as magazine and newspaper advertising, the related party provides an incentive to the Company so that the Company may continue promoting the brand in the market.

The Company concludes that the transfer of ownership of the vehicles takes place when the vehicles are billed and shipped to the customers. Consequently, in accordance with Mexican FRS D-1, the Company will continue to recognize revenue as it has in accordance with paragraph 45.9.1 of this standard.

Mexican FRS D-2 *Costs of Contracts with Customers.* Like Mexican FRS D-1 issued in 2015, Mexican FRS D-2 *Costs of Contracts with Customers* is the result of the separation of Mexican accounting Bulletin D-7 *Construction Contracts and Contracts for the Manufacturing of Certain Capital Goods* into two separate standards. In effect, while the new Mexican FRS D-1 addresses the recognition of revenue from contracts with customers, Mexican FRS D-2 addresses the recognition of costs of contracts with customers.

In addition, Mexican FRS D-2 broadens the scope of Mexican accounting Bulletin D-7, since the latter standard only addressed the costs of construction contracts and contracts involving the manufacturing of certain capital goods, while Mexican FRS D-2 addresses costs of all types of contracts with customers.

Both Mexican FRS D-2 and Mexican FRS D-1 supersede Mexican accounting Bulletin D-7 *Construction Contracts and Contracts for the Manufacturing of Certain Capital Goods*, and Interpretation to Mexican FRS 14 *Real Estate Construction, Sales and Service Agreements*, except for matters regarding the accounting treatment for assets and liabilities related to these types of contracts, since this matter is addressed under other FRS.

Improvements to Mexican FRS for 2017

The new accounting standards effective for annual periods beginning on or after 1 January 2017 that give rise to changes to financial statement valuations, disclosures and presentation are as follows:

Mexican FRS B-13 *Events After the Reporting Period*

Mexican FRS B-13 had originally established that long-term liabilities that become due and payable as the result of an entity's breach of a contractual condition at the reporting date were to be reclassified to current liabilities at the reporting date, even when after the reporting date, the creditor has agreed not to demand payment from the entity.

However, based on recommendations received by the CINIF, Mexican FRS B-13 was amended to establish that if during the subsequent events period (i.e., from the reporting date to the date when the financial statements are authorized for issue) a debtor reaches an agreement with a creditor allowing the debtor to continue to make long-term payments against a liability contracted with long-term payment conditions, the entity may continue to recognize the debt as a long-term liability at the reporting date.

The CINIF indicated that in the case of bad debt arising after the reporting date, it is appropriate to maintain the long-term classification of the related financial assets or liabilities when a) the debt was originally contracted under long-term collection or payment conditions, and b) during the subsequent events period the debtor and creditor have reached an agreement for payment of the debt on a long-term basis. Mexican FRS B-13 was amended based on this conclusion, and changes were also made to the other standards that address this matter, which include Mexican FRS B-6 *Statement of Financial Position*; Mexican FRS C-19 *Financial Liabilities*; and Mexican FRS C-20 *Financial Assets*.

This new accounting rule established in Mexican FRS B-13 is considered a more appropriate accounting treatment for this type of subsequent event and it is consistent with US GAAP. This accounting change represents a new difference between Mexican FRS and International Financial Reporting Standards (IFRS) that the CINIF has classified as a Type B difference, which means that the CINIF believes that the guidance provided in Mexican FRS is more appropriate and the difference will only be eliminated if the respective accounting rule in IFRS is amended to converge with Mexican FRS.

These improvements are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted for annual periods beginning on or after 1 January 2016.

The adoption of this new accounting standard had no effect on the Company's financial statements.

Mexican FRS C-4 *Inventories*

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

The adoption of this new accounting standard had no effect on the Company's financial statements.

2. Cash and Cash Equivalents

An analysis of cash and cash equivalents as at 31 December 2017 and 2016 is as follows:

		2017		2016
Cash and cash in banks	**Ps.**	**19,377,474**	Ps.	113,603,527
Investments		**208,674,065**		-
	Ps.	**228,051,539**	Ps.	113,603,527

3. Trade Receivables, net

a) Trade receivables are non-interest bearing and are generally for terms of between 30 and 60 days. An analysis of accounts receivable as at 31 December 2017 and 2016 is as follows:

	2017	2016
Trade receivables	Ps. 11,642,312	Ps. 54,535,384
Allowance for doubtful accounts	(67,767)	(67,767)
	Ps. 11,574,545	Ps. 54,467,617

4. Incentives Payable

The balance due from Jaguar Land Rover Limited as at 31 December 2017 and 2016 is Ps. 28,199,118 and Ps. 44,051,814, respectively, which corresponds to money provided by Jaguar to cover incentives extended to distributors and the Company's marketing expenses.

5. Related Parties

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

a) An analysis of balances due to related parties as at 31 December 2017 and 2016 is as follows:

		2017		2016
Jaguar Land Rover Servicios México, S.A. de C.V. (i)	Ps.	9,525,128	Ps.	9,034,804
Jaguar Land Rover Limited (iii)		404,693,867		-
	Ps.	414,218,995	Ps.	9,034,804

As at 31 December 2017 and 2016, balances payable due to related parties consist of unsecured current accounts that bear no interest and are payable in cash within 60 days.

b) As at 31 December 2017 and 2016, the Company has entered into the following agreements with its related parties:

(i) Agreement with Jaguar Land Rover Servicios México, S.A. de C.V. (formerly Servicios GDV México, S.A. de C.V.) for the Company to receive personnel, administrative, accounting, legal, consulting and supervisory services from the related party. The term of the agreement is from 1 January through 31 December 2017. For the years ended 31 December 2017 and 2016, the total amount of fees paid by the Company under this agreement was Ps. 48,270,240 and Ps. 42,309,501 respectively, and its account payable as at 31 December 2017 and 2016 is Ps. 9,525,128 and Ps. 9,034,804 respectively.

(ii) Agreement with Global Distribution Ventures LLC. for the Company to receive commercial consulting and supervisory services from the related party. Under this agreement, the Company agrees to cover all expenses related to the consulting services, including the costs of any related market studies and supervisory services related to sales of the Company's products in Mexico. As at 31 December 2017 and 2016, the total amount of fees paid by the Company under this agreement was Ps. 4,388,814 and Ps. 5,331,884 respectively. This agreement expired in October 2017.

(iii) Agreement with Jaguar Land Rover Limited for the purchase of automobiles and spare parts, with purchases under this agreement totaling Ps. 346,528,150 for the year ended 31 December 2017. The Company also has a loan of Ps. 20,124,867 that bears annual interest of 8.22% and has no formal maturity date. Accrued interest on the loan is Ps. 334,596 as at 31 December 2017. The loan was repaid in full on 9 February 2018.

c) An analysis of the Company's principal expense transactions with its related parties is as follows:

		2017		2016
Administrative services received:				
Jaguar Land Rover Servicios México, S.A. de C.V. (i)	**Ps.**	**48,270,240**	Ps.	42,309,501
Purchase of inventories				
Jaguar Land Rover Limited		**346,528,150**		-
Miscellaneous				
Jaguar Land Rover Limited		**15,840**		-
Intercompany loans				
Jaguar Land Rover Limited		**20,124,867**		-
Interest on loans				
Jaguar Land Rover Limited		**334,596**		-
Technical assistance received:				
Global Distribution Ventures, LLC (ii)		**3,573,091**		4,629,743
Reimbursement of expenses				
Global Distribution Ventures LLC (ii)		**815,935**		702,141

6. Prepaid Expenses

An analysis of prepaid expenses as at 31 December 2017 and 2016 is as follows:

		2017		2016
Advance payments for advertising and marketing services	**Ps.**	**1,534,439**	Ps.	11,889,319
Security deposits		**-**		437,307
Prepaid insurance		**-**		86,152
	Ps.	**1,534,439**	Ps.	12,412,778

Amortization expense of prepaid insurance for the year ended 31 December 2016 was Ps. 231,817.

7. Inventories

a) An analysis of the Company's inventories as at 31 December 2017 and 2016 is as follows:

		2017		2016
Vehicle inventory	**Ps.**	**120,635,922**	Ps.	167,532,887
Vehicles in transit		**114,026,532**		180,329,108
Spare parts inventory		**36,246,509**		34,746,924
Spare parts in transit		**8,448,138**		8,580,390
Advertising materials		**1,800,651**		-
		281,157,752		391,189,309
Allowance for obsolete and slow-moving inventory	**(**	**7,316,681)**	(	9,725,119)
	Ps.	**273,841,071**	Ps.	381,464,190

b) For the years ended 31 December 2017 and 2016, the allowance for obsolete and slow-moving inventories is Ps. 5,165,751 and Ps. 3,999,976, respectively.

c) In the years ended 2017 and 2016, the Company recognized an allowance for impairment in the values of its Jaguar and Land Rover vehicles that are under temporary lease for exhibition and demonstration in Canada and the United States of Ps. 2,150,930 and Ps. 5,725,143 respectively, since at the time these units are sold they will have lost much of their market value.

In 2017, the Company recognized an impairment loss in value of leased vehicles in the amount of Ps. 5,725,143, as a result of the sale of 18 units.

In 2016 the Company created an allowance for impairment in the values of its leased vehicles of Ps. 7,591,710.

d) For the years ended 31 December 2017 and 2016, the Company conducted testing of the net realizable value of its inventories and as a result it concluded that its inventories are not impaired.

8. Furniture and Equipment, net

a) An analysis of furniture and equipment as at 31 December 2017 and 2016 is as follows:

		2017		2016
Office furniture and equipment	**Ps.**	**1,348,958**	Ps.	1,344,168
Computer equipment		**805,090**		776,868
Other assets		**1,159,462**		1,096,525
		3,313,510		3,217,561
Less:				
Accumulated depreciation		**2,568,365**		2,268,108

Furniture and equipment, net	**Ps.**	**745,145**	Ps.	949,453

b) Depreciation expense for the years ended 31 December 2017 and 2016 was Ps. 300,257 and Ps. 625,886, respectively.

9. Intangible Assets

a) An analysis of intangible assets as at 31 December 2017 and 2016 is as follows:

		2017		2016
Licenses	**Ps.**	**8,792,393**	Ps.	7,675,198
Less:				
Accumulated amortization		**6,158,525**		4,830,948
Net	**Ps.**	**2,633,868**	Ps.	2,844,250

b) Amortization expense for the years ended 31 December 2017 and 2016 was Ps. 1,327,577 and Ps. 1,562,576, respectively.

10. Bank Loans

An analysis of short-term bank loans as at 31 December 2017 and 2016 is as follows:

	2017	2016
Short-term:		
Banco Nacional de México, S.A.	**Ps.-**	Ps.72,757,724

On 25 November 2016, the Company signed a promissory note for Ps. 71,932,350 (USD 3,500,000) that bears interest at a rate of 2.7258% and matures on 24 January 2017. As at 31 December 2016, the loan principal is Ps. 72,559,594 and interest payable is Ps. 197,784 (USD 9,540).

In 2017 the Company repaid its loan of USD 3,500,000 (Ps. 76,295,744) with Banco Nacional de México, S.A.

Accrued interest on these loans as at 31 December 2016 was Ps. 2,138,319. As at 31 December 2016, interest paid on this financing was Ps. 2,138,319.

11. Foreign Currency Balances and Transactions

The financial statements as at 31 December 2017 and 2016 include the following foreign currency denominated assets and liabilities:

	U.S. dollars	
	2017	2016
Assets/(liabilities):		

Cash	USD	**557,003**	USD	4,918,920
Trade receivables		**-**		2,553,624
Debtors		**1,283,740**		2,020,059
Suppliers and other accounts payable		**(1,914,544)**		(12,099,796)
Bank loans		**-**		(3,509,540)
Net monetary liability position in U.S. dollars	**USD**	**(73,801)**	USD	(6,116,733)

The exchange rates used to translate the above amounts to Mexican pesos as at 31 December 2017 and 2016 were Ps. 19.7867 and Ps. 20.7314, respectively, per U.S. dollar.

	Pounds sterling			
		2017		2016
Assets:				
Debtors	**£**	**111,870**	£	84,858
Suppliers		**(634)**		**-**
Monetary asset position in pounds sterling	**£**	**111,236**	£	84,858

The exchange rates used to translate the above amounts to Mexican pesos as at 31 December 2017 and 2016 were Ps. 25.0125 and Ps. 25.6095, respectively, per pound sterling. As at 15 June 2018, the date of the audit report on these financial statements, the exchange rate was Ps. 20.6953 per U.S. dollar and Ps. 27.3774 per pound sterling.

During 2017 and 2016, the Company had the following foreign currency denominated transactions:

		2017		2016
U.S. dollars:				
Sales	**USD**	**26,599,420**	USD	58,118,035
Purchase of vehicles		**18,973,032**		44,077,156
Spare-parts purchases		**2,852,976**		4,329,011
Advisory services		**308,203**		250,000
Reimbursement of travel expenses		**44,945**		36,393
Interest on loans		**183,868**		116,083
Other (miscellaneous)		**19,873**		-
Pounds sterling:				
Spare parts warranties	**£**	**500,485**	£	1,156,679

12. Provisions and Accrued Liabilities for Warranties

An analysis of changes in provisions and accrued liabilities for warranties is as follows:

	As at 31 December 2016	**Arising during the year**	**Unused amounts reversed**	**Utilized**	**As at 31 December 2017**
Roadside assistance (i)	Ps.3,479,791	**Ps.1,726,492**	**Ps.-**	**Ps.2,643,334**	**Ps.2,562,949**
Incentives (ii)	62,995,442	**101,496,583**	**850,166**	**126,620,028**	**37,021,831**
Warranties (iii)	4,360,332	**737,425**	**1,680,654**	**411,129**	**3,005,974**
Free maintenance services (iv)	5,176,677	**4,497,009**	-	**605,730**	**9,067,956**

Obsolete inventory of distributors (v)	6,752,689	**2,759,055**	**177,274**	**2,967,414**	**6,367,056**
Performance bonus (vi)	8,250,513	**18,729,204**	**-**	**17,710,842**	**9,268,875**
Expense provisions (vii)	2,820,778	**3,587,639**	**32,224**	**597,354**	**5,778,839**
	Ps.93,836,222	**Ps.133,533,407**	**Ps.2,740,318**	**Ps.151,555,831**	**Ps.73,073,480**

(i) The roadside assistance provision is calculated based on the volume of automobile sales and towing costs over the last 3 years.

(ii) The incentives provision is calculated based on incentives provided to distributors and primarily consist of preferential exchange rates, discounts for cash payments, monthly 0% financing, and sales bonuses to distributors and sellers. The Company publishes these incentives in a monthly bulletin.

(iii) The warranty provision is calculated based on the number of vehicles repaired under warranty by the dealership over the last three years.

(iv) The free maintenance provision is calculated based on the number of Jaguar vehicles sold since 2014 to receive three years free maintenance services as of their purchase date.

(v) The allowance for obsolete inventories of distributors is determined by assessing each individual distributor's stock to determine what specific items are obsolete and have not been sold in 18 months. The Company then creates a provision for 70% of the value of the inventories classified as obsolete.

(vi) The provision for the performance bonus paid to automobile distributors is determined at a rate of 1.25% to 2.25% of total automobile purchases made by each distributor in Q4 2016. The amount of the performance bonus is calculated taking into account each distributor's performance related to meeting sales goals, and other objectives related to training requirements for technicians and sales distributors and improvement in customer service.

(vii) The Company recognizes a provision for all of its expenses and agreements at year-end closing, which have not been accrued during the year.

13. Equity

a) As at 31 December 2017 and 2016, the Company's share capital is represented by common registered shares, issued and outstanding, with no par value. An analysis is as follows:

Series	Share capital	Shares		Amount
A	Fixed minimum	**50,000**	**Ps.**	**50,000**
A	Variable	**28,128,980**		**28,128,980**
B	Variable	**6,392,950**		**6,392,950**
C	Variable	**3,835,770**		**3,835,770**
		38,407,700	**Ps.**	**38,407,700**

b) In accordance with the Mexican Corporations Act, the Company is required to appropriate at least 5% of the net income of each year to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of the value of the Company's share capital. As at 31 December 2017 and 2016, the legal reserve is Ps. 7,681,540 and is included as part of the caption Retained earnings.

c) At an ordinary shareholders' meeting held on 22 June 2017, the shareholders declared a cash dividend of USD 1,500,000 (equal to Ps. 27,190,500). This dividend was paid out on 22 June 2018.

d) At an ordinary shareholders' meeting held on 25 September 2017, the shareholders declared a cash dividend of USD 5,800,000 (equal to Ps. 102,942,460). This dividend was paid out on 25 September 2018.

e) At an ordinary shareholders' meeting held on 23 March 2016, the shareholders declared a cash dividend of USD 1,800,000 (equal to Ps. 31,204,968). This dividend was paid out on 23 March 2016.

f) At an ordinary shareholders' meeting held on 26 August 2016, the shareholders declared a cash dividend of USD 900,000 (equal to Ps. 16,647,390). This dividend was paid out on 26 August 2016.

g) Earnings distributed in excess of the Net taxed profits account (CUFIN) balance will be subject to the payment of corporate income tax at the statutory rate at that time. The payment of this tax may be credited against the Company's current income tax.

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

14. Income Tax

a) Income tax

The Mexican Income Tax Law (MITL) establishes a corporate income tax rate for Mexico of 30% for fiscal years 2017 and 2016.

The MITL establishes requirements and limits regarding certain deductions, including restrictions on the deductibility of payments made to related parties if they do not meet certain requirements.

b) An analysis of income tax recognized in the statement of income for the years ended 31 December 2017 and 2016 is as follows:

		2017		2016
Current income tax	**Ps.**	**1,840,103**	Ps.	28,629,193
Deferred income tax		**7,910,840**	(	4,127,253)
Total	**Ps.**	**9,750,943**	Ps.	24,501,940

c) An analysis of deferred taxes as at 31 December 2017 and 2016 is as follows:

		2017		2016
Deferred tax assets:				
Provisions	**Ps.**	**21,942,565**	Ps.	29,976,812
Allowance for doubtful accounts		**20,330**		20,330
Allowance for obsolete and slow-moving inventory		**1,549,725**		1,199,993
Trade advances and fixed and intangible assets		**1,925,183**		1,827,623
		25,437,803		33,024,758
Deferred tax liabilities:				
Insurance and bonds		**-**	(	25,847)
		-	(	25,847)
Less: Valuation allowance		**1,570,055**		1,220,323
Deferred tax asset, net	**Ps.**	**23,867,748**	Ps.	31,778,588

The Company's valuation allowance for deferred profit covers the full amount of the temporary differences in the allowance for doubtful accounts and a portion of the allowance for obsolete and slow-moving inventory.

d) For the years ended 31 December 2017 and 2016, the Company reported taxable income of Ps. 6,133,676 and Ps. 95,430,643, respectively, on which income tax payable was Ps. 1,840,103 and Ps. 28,629,193, respectively.

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

		2017		2016
Income before income tax	**Ps.**	**25,864,238**	Ps.	80,198,508
Permanent differences:				
Annual inflation adjustment		**3,752,593**		3,349,656
Non-deductible expenses		**3,441,701**		6,814,730
Change in valuation allowance		**2,266,102**		4,156,643
Income from tax incentives recognized in advance	**(**	**5,343,598)**	(	16,294,492)
Other items		**2,522,107**		3,448,088
Income before income tax, plus permanent items		**32,503,143**		81,673,133
Statutory income tax rate		**30%**		30%
Total income tax	**Ps.**	**9,750,943**	Ps.	24,501,940
Effective income tax rate		**38%**		31%

f) As at 31 December 2017 and 2016, the Company has the following tax balances:

		2017		2016
Restated contributed capital account (CUCA)	**Ps.**	**51,749,552**	Ps.	48,468,252
Net taxed profits account (CUFIN)		**217,586,495**		328,380,252

15. Contingencies and Commitments

a) The Ministry of Finance and Public Credit (Mexican tax authorities) has the power to review the Company's compliance with its tax obligations both as a taxpayer and withholder for a period of five years and as a result of such a review, the Company could be subject to future tax assessments for omitted taxes that might be determined by the tax authorities.

b) In accordance with the Mexican Income Tax Law, companies that carry out transactions with related parties are subject to tax restrictions and obligations with respect to the determination of the prices charged, since such prices should be similar to the prices that would have been used with or between independent parties in comparable transactions.

c) On 23 June 2015, the General Director of Inspection of Sources of Pollution of Mexico's Federal Environmental Protection Agency (PROFEPA) conducted an on-site inspection of the Company's facilities and reported a number of findings resulting from the inspection. Since the Company did not file any documentation to deny the PROFEPA's findings, on 8 August 2017, through official document PFPA03.2/2C27.1/0011/16/0015, the PROFEPA issued a fine of Ps. 3,652,000 against the Company. The Company has created a provision equal to the full amount of the fine of Ps. 3,652,000.

The Company filed a formal written communication with the PROFEPA on 23 January 2017 in which it requested the cancellation of the fine. The Company is currently waiting for a reply from the PROFEPA.

In order to guarantee the payment of the fine, the Company took out a bond of Ps. 154,297 on 10 March 2017. This bond was renewed on 16 February 2018.