

**JAGUAR LAND ROVER SERVICIOS MÉXICO, S.A. DE C.V.**  
**(formerly Servicios GDV México, S.A. de C.V.)**

**Financial Statements**

**31 December 2017 and 2016**  
**with Report of Independent Auditors**

**JAGUAR LAND ROVER SERVICIOS MÉXICO, S.A. DE C.V.**  
**(formerly Servicios GDV México, S.A. de C.V.)**

**Financial Statements**

**31 December 2017 and 2016**

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## **REPORT OF INDEPENDENT AUDITORS**

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

### ***Opinion***

We have audited the accompanying financial statements of Jaguar Land Rover Servicios México, S.A. de C.V. (formerly Servicios GDV México, S.A. 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 Servicios México, S.A. de C.V. (formerly Servicios GDV México, S.A. 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.

### ***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.

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- 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.

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 SERVICIOS MÉXICO, S.A. DE C.V.**  
**(formerly Servicios GDV México, S.A. de C.V.)**

**Statements of Financial Position**

(Amounts in Mexican pesos)

	<b>As at 31 December</b>	
	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Current assets:		
Cash	<b>Ps. 973,725</b>	Ps. 161,108
Jaguar Land Rover México, S.A.P.I. de C.V. (Note 2)	<b>9,525,128</b>	9,034,804
Other accounts receivable	<b>1,000</b>	-
Prepaid insurance	<b>148,067</b>	530,074
Total current assets	<b>10,647,920</b>	9,725,986
Leasehold improvements (Note 3)	<b>609,209</b>	1,195,693
Deferred income tax (Note 8)	<b>1,498,968</b>	1,007,260
Security deposits	<b>541,037</b>	509,083
Total assets	<b>Ps. 13,297,134</b>	Ps. 12,438,022
<b>Liabilities and equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	<b>Ps. 277,061</b>	Ps. 409,304
Taxes payable	<b>3,334,945</b>	2,372,570
Employee profit sharing (Note 4)	<b>295,284</b>	67,097
Short-term employee benefits (Note 4)	<b>5,614,056</b>	6,630,514
Total current liabilities	<b>9,521,346</b>	9,479,485
Long-term liabilities:		
Labor obligations (Note 5)	<b>1,830,098</b>	1,200,236
Total liabilities	<b>11,351,444</b>	10,679,721
Equity (Note 7):		
Share capital	<b>50,000</b>	50,000
Retained earnings	<b>1,895,690</b>	1,708,301
Total equity	<b>1,945,690</b>	1,758,301
Total liabilities and equity	<b>Ps. 13,297,134</b>	Ps. 12,438,022

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

**JAGUAR LAND ROVER SERVICIOS MÉXICO, S.A. DE C.V.**  
**(formerly Servicios GDV México, S.A. de C.V.)**

**Statements of Income**

(Amounts in Mexican pesos)

	<b>As at 31 December</b>	
	<b>2017</b>	<b>2016</b>
Revenue:		
Service revenue (Note 2)	<b>Ps. 48,270,240</b>	Ps. 42,309,501
Other income	<b>27,311</b>	41,495
	<b>48,297,551</b>	42,350,996
Operating expenses:		
Service	<b>47,404,672</b>	40,500,337
Other	<b>43,868</b>	54,717
	<b>47,448,540</b>	40,555,054
Operating income	<b>849,011</b>	1,795,942
Net financing cost/(income):		
Foreign exchange loss/(gain), net	<b>422</b>	( 37,774)
Income before income tax	<b>848,589</b>	1,833,716
Income tax (Note 8)	<b>661,200</b>	937,567
Net income	<b>Ps. 187,389</b>	Ps. 896,149

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

**JAGUAR LAND ROVER SERVICIOS MÉXICO, S.A. DE C.V.**  
**(formerly Servicios GDV México, S.A. de C.V.)**

**Statements of Changes in Equity**

**For the Years Ended 31 December 2017 and 2016**

(Amounts in Mexican pesos)

(Note 7)

	<b>Share capital</b>		<b>Retained earnings</b>		<b>Total equity</b>	
Balance as at 31 December 2015	Ps.	50,000	Ps.	812,152	Ps.	862,152
Comprehensive income for 2017		-		896,149		896,149
Balance as at 31 December 2016		50,000		1,708,301		1,758,301
Comprehensive income for 2017		-		<b>187,389</b>		<b>187,389</b>
Balance as at 31 December 2017	<b>Ps.</b>	<b>50,000</b>	<b>Ps.</b>	<b>1,895,690</b>	<b>Ps.</b>	<b>1,945,690</b>

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

**JAGUAR LAND ROVER SERVICIOS MÉXICO, S.A. DE C.V.**  
**(formerly Servicios GDV México, S.A. de C.V.)**

**Statements of Cash Flows**

(Amounts in Mexican pesos)

	<b>As at 31 December</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating activities</b>		
Income before income tax	Ps. 848,589	Ps. 1,833,716
Plus items not affecting cash flows:		
Amortization	586,483	586,483
Net periodic benefit income/(expense) of labor obligations	629,862	( 1,749,143)
	<b>2,064,934</b>	<b>671,056</b>
Changes in operating assets and liabilities:		
(Increase)/decrease in:		
Jaguar Land Rover México, S.A.P.I. de C.V.	( 490,324)	6,316,815
Prepaid expenses and other	349,053	( 81,094)
(Decrease)/increase in:		
Accounts payable and accrued liabilities	( 132,243)	17,738
Taxes payable	( 619,360)	( 633,282)
Employee profit sharing payable	295,284	67,097
Employee profit sharing paid	( 67,097)	( 299,400)
Employee benefits	( 1,016,458)	( 4,375,047)
Employee benefits paid	-	( 704,692)
Income tax paid	428,828	( 922,237)
Net cash flows from operating activities	<b>812,617</b>	<b>56,954</b>
Net increase in cash	<b>812,617</b>	<b>56,954</b>
Cash at beginning of year	<b>161,108</b>	<b>104,154</b>
Cash at end of year	<b>Ps. 973,725</b>	<b>Ps. 161,108</b>

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

**JAGUAR LAND ROVER SERVICIOS MÉXICO, S.A. DE C.V.**  
**(formerly Servicios GDV México, S.A. 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 Servicios México, S.A. de C.V. (formerly Servicios GDV México, S.A. de C.V.) (the Company) was incorporated on 22 December 2010. The Company is primarily engaged in rendering all types of services, including, but not limited to, supervisory and consulting services, personnel selection, hiring and management services, and accounting and tax services. The Company provides its services exclusively to Jaguar Land Rover México, S.A.P.I. de C.V. (formerly GDV Imports México, S.A.P.I. de C.V.) (related party).

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 ordinary shareholders' meeting held on 26 December 2017, the shareholders agreed to change the name of the Company to Jaguar Land Rover Servicios México, S.A. 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

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

### **c) Revenue recognition**

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 is recognized by reference to the stage of completion of the service at the end of the reporting period. Revenue from a given transaction may be measured reliably when all the following conditions have been met:

- (i) The amount of revenue can be measured reliably
- (ii) It is probable that the economic benefits associated with the transaction will flow to the entity
- (iii) The stage of completion of the transaction at the end of the reporting period may be measured reliably
- (iv) The costs incurred or to be incurred in respect of the transactions can be measured reliably

### **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.

The key assumptions used as at 31 December 2017 and 2016 to calculate those estimates that may represent a significant risk of requiring a material adjustment to the carrying amount of assets or liabilities affected in future periods are as follows:

### **e) Retirement benefits**

#### ***Defined benefit plans (pension benefits)***

The cost of defined benefits and the present value of these labor obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, and mortality, disability and employee turnover rates, as well as certain financial and demographic assumptions. Due to the complexities involved in the valuation and the underlying assumptions, and the

long-term nature of the valuation, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Additional information on the assumptions used is provided in Note 5.

#### **f) Cash**

Cash principally consists of bank deposits available for the Company's operations.

#### **g) 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.

#### **h) Leasehold improvements**

The cost of acquiring leasehold improvements includes the costs initially incurred to acquire or build the asset. Repair and maintenance costs are expensed as incurred.

Amortization of leasehold improvements is determined 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, which is 6 years.

The carrying amount of leasehold improvements is reviewed whenever there are indicators of impairment in the value of such assets.

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

#### **i) Leases**

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

#### **j) 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

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will be required to settle the obligation. Also, commitments are only recognized when they will generate a loss.

#### **k) Net defined benefit obligation**

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

The Company annually recognizes the liability for seniority premiums and termination benefits for so-called “pre-existing obligations” based on independent actuarial calculations applying the projected unit credit method, using financial assumptions net of inflation.

Remeasurements of the net defined benefit obligation, which comprise actuarial gains and losses and the return on plan assets, are immediately recognized in profit or loss.

Past service costs are recognized at the earlier of the following dates:

- When the plan amendment or curtailment occurs
- When the Company recognizes related restructuring costs

The latest actuarial calculation was prepared in December 2017.

#### **l) Compensated absences**

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

#### **m) Employee profit sharing**

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

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

#### **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.

#### **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.

#### **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.

#### **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.

#### **s) New accounting pronouncements**

##### **Mexican Financial Reporting Standard (Mexican FRS) D-5 *Leases* (effective as of 1 January 2019)**

In December 2017, the Mexican Financial Reporting Standards Board (*Consejo Mexicano de Normas de Información Financiera, A.C.* or CINIF) issued the new Mexican FRS D-5 *Leases*, which contains the following two critical lease accounting principles:

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- a) Lessees must recognize an asset representing the right to use the leased asset and a liability to make lease payments, unless the lease is a short-term lease or the underlying asset has a low value.
- b) Lessors must classify their lease agreements into operating leases or finance leases, depending on the degree to which substantially all of the risks and rewards of ownership of the underlying asset have been transferred to the lessee. Under a finance lease, the lessor derecognizes the underlying asset and recognizes a receivable. Under an operating lease, the lessor does not derecognize the underlying asset and instead recognizes lease payments received.

Mexican FRS D-5 sets out a single lessee accounting model that requires lessees to recognize assets and liabilities for all leases with lease terms of 12 months or more, unless the underlying asset has a low value. Lessees must recognize a right-of-use asset for the underlying asset and a liability representing the obligation to make lease payments.

The most important changes for lessees are as follows:

- At the lease commencement date, lessees must determine whether they obtain the right to control an identified asset or assets for a period of time.
- The new Mexican FRS D-5 eliminates the requirement for lessees to classify leases as operating leases or finance leases. Lessees now shall recognize a lease liability for the present value of the lease payments and an asset for an equal amount for the right to use the underlying asset.
- Lessees will no longer recognize operating lease expense on a straight-line basis, and will instead recognize the depreciation or amortization expense associated with the right-of-use asset and interest expense associated with their lease liabilities. The purpose of this change is to unify the treatment of lease expenses for all leases.
- In the statement of cash flows, payments arising from operating leases shall no longer be recognized within operating activities and instead shall be recognized within financing activities.
- The recognition of the gains or losses resulting from the transfer of an asset by a seller-lessee to another entity or from sale-leaseback transactions shall no longer be based on the classification of the sale-leaseback agreement; instead, the seller-lessee will only recognize a sale for the rights transferred to the buyer-lessor that will not be returned to it (the unguaranteed residual value).

The new accounting Bulletin D-5 *Leases* contains significant changes to lessee accounting, but no significant changes to lessor accounting compared to the former Mexican accounting Bulletin D-5 apart from additional disclosure requirements.

Mexican FRS D-5 supersedes Bulletin D-5 *Leases* and eliminates the need for the supplementary application of IFRIC Interpretation 4 *Determining whether an Arrangement contains a Lease* (IFRIC 4). Mexican FRS D-5 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under Bulletin D-5. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right to use the asset).

Lessees will be required to separately recognize the interest expense on the lease liability and the amortization expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under Mexican FRS D-5 is substantially unchanged from current accounting under Bulletin D-5. Lessors will continue to classify all leases using the same classification principle as in Bulletin D-5 and distinguish between two types of leases: operating and finance leases.

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

Mexican FRS D-5 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies Mexican FRS D-1. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Company will continue to assess the potential effect of Mexican FRS D-5 on its financial statements.

### **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.

8.

The adoption of these new standards had no effect on the Company's financial statements.

**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 CINIF's 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*.

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-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 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;

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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 Mexican FRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Company plans to adopt this new standard on the full retrospective method. During 2016, 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 providing administrative services to its related party Jaguar Land Rover México, S.A.P.I. de C.V.

***(a) Rendering of services***

The Company provides administrative services to its related party. The Company provides these services under a service agreement that is renewable annually.

Currently the Company recognizes revenue from each bundled service on a stand-alone basis and allocates the revenue corresponding to each service component using the relative fair value method. The Company recognizes its revenue on an accrual basis. Under Mexican FRS D-1, the transaction price should be allocated by reference to their relative standalone selling prices, which may have a bearing on the allocation of the transaction price and accordingly, the timing of the revenue recognition.

The Company has determined that the performance obligation is satisfied over time since the customer receives and consumes all of the benefits of the service simultaneously. Consequently, in accordance with Mexican FRS D-1, the Company will continue recognizing revenue from its service agreements and from the service components of its joint service agreements over time as the service is provided and not at a point in time.

Company management has analyzed the five-step revenue recognition model established under Mexican FRS D-1 and determined that the impact of the application of the new standard is immaterial.

### **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.

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

### **Mexican FRS D-3 *Employee Benefits***

#### **a) Discount rate for employee benefit obligation valuation**

Paragraph 45.5.9 of Mexican FRS D-3 previously established that the interest rate used to discount post-employment benefit obligations (funded or unfunded) was to be determined by reference to market yields on high-quality corporate bonds or when no such information was available, by reference to market yields on government bonds.

However, based on recommendations received by the CINIF, Mexican FRS D-3 was amended to allow entities to elect to use either the government bond rate or the corporate bond rate to determine the discount rate.

In its analysis regarding this topic, the CINIF clarified that paragraph 45.5.9 of Mexican FRS D-3 requires the use of corporate bond rates or government bond rates to determine the present value of these long-term employee benefit obligations because the credit risk associated with these instruments is nil or extremely low and consequently, both rates represent the time value of money, and that for this reason the CINIF concluded that either of the two rates should be reliable and appropriate for determining the discount rate.

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

#### **b) Treatment of remeasurements of the net defined benefit obligation**

Paragraph 45.4.4 c) of Mexican FRS D-3 previously established that the difference between the final net defined benefit obligation determined based on paragraph b) and the expected net defined benefit obligation determined based on paragraph a) should be recognized as a remeasurement of the net defined benefit obligation in other comprehensive income (OCI), as set forth in section 45.7 of the accounting standard.

The CINIF amended Mexican FRS D-3 to allow entities to elect to recognize the remeasurements referred to in paragraph 45.4.4 in either OCI, as previously required by the accounting standard, or in profit or loss at the time the remeasurements are determined.

The CINIF believes that the option to recognize remeasurements in either OCI or profit or loss is a more practical accounting treatment for this item.

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

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

## **2. Related Parties**

The balance with Jaguar Land Rover México, S.A.P.I. de C.V. is the result of the agreement for administrative personnel,

accounting, legal, consulting and supervisory services with the related party.

The agreement is for a one-year term and was renewed on 1 January 2017.

For the years ended 31 December 2017 and 2016, the Company obtained revenue from Jaguar Land Rover México, S.A.P.I. de C.V. of Ps. 48,270,240 and Ps. 42,309,501, respectively. As at 31 December 2017 and 2016, the Company has also accounts receivable due from this related party of Ps. 9,525,128 and Ps. 9,034,804, respectively.

### 3. Leasehold Improvements

An analysis of this caption is as follows:

	<b>2017</b>		<b>2016</b>
Investment	<b>Ps. 3,520,307</b>	Ps.	3,520,307
Less:			
Accumulated amortization	<b>2,911,098</b>		2,324,614
Net	<b>Ps. 609,209</b>	Ps.	1,195,693

Amortization expense for the years ended 31 December 2017 and 2016 was Ps. 586,483 in both years.

### 4. Short-term Employee Benefits

#### a) Short-term employee benefits:

As at 31 December 2017 and 2016, the Company has recognized accrued liabilities for short-term employee benefits. An analysis is as follows:

	<b>2017</b>		<b>2016</b>
Vacation premium	<b>Ps. 32,659</b>	Ps.	64,278
Paid annual leave	<b>770,254</b>		660,393
Performance bonus	<b>4,742,312</b>		5,905,843
Other benefits	<b>68,831</b>		-
	<b>Ps. 5,614,056</b>	Ps.	6,630,514

#### b) Employee profit sharing

- i) As at 31 December 2017 and 2016, the Company's employee profit sharing payable was Ps. 295,284 and Ps. 67,097, respectively.
- ii) The Company is obligated to pay profit sharing to its employees, in addition to their contractual compensation and benefits. For the years ended 31 December 2017 and 2016, employee profit sharing was calculated based on 10% of the Company's taxable income, plus and minus the effects of certain adjustments specified in the Mexican Income Tax Law. For the years ended 31 December 2017 and 2016, the Company's employee profit sharing payable

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was Ps. 295,284 and Ps. 67,097, respectively.

iii) As at 31 December 2017 and 2016, the Company recognized deferred employee profit sharing on the following temporary items:

	2017	2016
<b>Deferred employee profit sharing assets:</b>		
Provisions	Ps. 96,027	Ps. 102,489
Labor obligations	145,370	90,364
Fixed assets	250,594	192,932
	<b>491,991</b>	<b>385,785</b>
<b>Deferred employee profit sharing liabilities:</b>		
Prepaid expenses	( 20,499)	( 55,505)
	<b>( 20,499)</b>	<b>( 55,505)</b>
Total deferred employee profit sharing asset	<b>471,492</b>	<b>330,280</b>
Valuation allowance	( 471,492)	( 330,280)
Deferred employee profit sharing asset, net	<b>Ps. -</b>	<b>Ps. -</b>

## 5. Retirement Benefits, Seniority Premiums and Termination Benefits

The Company's liability for labor obligations is calculated by independent actuaries on an annual basis.

For the years ended 31 December 2017 and 2016, the net periodic benefit expense/(income) was Ps. 629,862 and Ps.(1,749,143), respectively.

An analysis of the net periodic benefit expense, the net defined benefit obligation associated with the Company's retirement benefit plan (seniority premiums payable at retirement) and the termination benefit plan (seniority premiums payable upon death and due to permanent disability, dismissal or voluntary separation before retirement) as at and for the years ended 31 December 2017 and 2016 is:

a) Net periodic benefit expense/(income)

	2017		
	Seniority premiums	Termination benefits	Total
<b>Analysis of net periodic benefit expense:</b>			
Current-year service cost	Ps. 12,223	Ps. 110,406	Ps. 122,629
Interest cost on defined benefit obligation	3,893	75,056	78,949
Remeasurements of the net defined benefit obligation	3,305	424,979	428,284
Net periodic benefit expense	<b>Ps. 19,421</b>	<b>Ps. 610,441</b>	<b>Ps. 629,862</b>

	2016		
	Seniority premiums	Termination benefits	Total
Analysis of net periodic benefit (income)/expense			
Current-year service cost	Ps. 11,948	Ps. 107,203	Ps. 119,151
Interest cost on defined benefit obligation	3,379	70,418	73,797
Past service cost (adoption)	220,015	-	220,015
Remeasurements of the net defined benefit asset	( 680,137)	564,112	( 116,025)
Unrecognized past service cost (adoption)	15,497		15,497
Actuarial gain	( 2,061,578)	-	( 2,061,578)
Net periodic benefit (income)/expense	Ps.( 2,490,876)	Ps. 741,733	Ps.( 1,749,143)

b) An analysis of the net periodic benefit expense and the liability for labor obligations, together with the basic actuarial assumptions considered in the calculation of labor obligations as at 31 December 2017 and 2016, is as follows:

	2017		
	Seniority premiums	Termination benefits	Total
<b>Analysis of net projected obligation:</b>			
Net projected obligation at beginning of year	Ps. 55,695	Ps. 1,144,541	Ps. 1,200,236
Net periodic benefit expense	16,116	185,462	201,578
Actuarial loss	3,305	424,979	428,284
Net projected obligation	Ps. 75,116	Ps. 1,754,982	Ps. 1,830,098

	2016		
	Seniority premiums	Termination benefits	Total
Analysis of net projected obligation:			
Net projected obligation at beginning of year	Ps. 2,569,495	Ps. 1,084,576	Ps. 3,654,071
Early extinguishment of labor obligations	( 2,061,578)	-	( 2,061,578)
Net periodic benefit expense	15,326	177,622	192,948
Employee benefits paid	( 22,923)	( 681,769)	( 704,692)
Actuarial loss	14,369	564,112	578,481
Unrecognized past service cost (adoption)	235,511	-	235,511
Actuarial gain at beginning of year (adoption)	( 694,505)	-	( 694,505)
Net projected obligation	Ps. 55,695	Ps. 1,144,541	Ps. 1,200,236

The rates used in the actuarial study in 2017 and 2016 were as follows:

	2017	2016
Labor obligation discount rate	7.25%	7.35%
Salary increase	5.00%	4.50%
Inflation rate	4.00%	3.50%

## 6. Lease

16.

The Company has entered into a lease agreement for the building where its main office is located for a 78-month term commencing as of 1 June 2012, and with the option to renew. Each year the minimum annual lease payment is adjusted for inflation and based on the changes in the exchange rate. The estimated future minimum annual payments over the life of the lease agreement is USD 149,693 and rent in the last year was USD 133,702.

For the years ended 31 December 2017 and 2016, rental expense under operating leases was Ps. 2,929,506 and Ps. 2,806,286, respectively.

## **7. Equity**

a) The Company's share capital is represented by 5,000 common registered shares, issued and outstanding, with a par value of Ps. 10.00 each.

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. 10,000 and is included as part of the caption Retained earnings.

c) 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.

d) As a result of the 2014 Mexican Tax Reform, dividends paid to foreign individuals and corporations from earnings generated as of 1 January 2014 shall be subject to an additional 10% withholding tax.

## **8. Income Tax**

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

b) Employee profit sharing

The MITL establishes that as of 1 January 2014, entities are to calculate their employee profit sharing on the basis of their taxable earnings for the year determined for income tax purposes, plus or minus the effects of certain adjustments specified in the MITL.

c) 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. 1,152,908	Ps. 385,450
Deferred income tax	( 491,708)	552,117
Total	Ps. 661,200	Ps. 937,567

d) An analysis of deferred taxes shown in the statement of financial position is as follows:

	2017	2016
<b>Deferred tax assets:</b>		
Labor obligations	Ps. 436,111	Ps. 271,091
Provisions	288,080	307,465
Employee profit sharing payable	84,494	16,422
Fixed assets	751,781	578,797
	1,560,466	1,173,775
<b>Deferred tax liabilities:</b>		
Prepaid expenses	( 61,498)	( 166,515)
Deferred tax asset, net	Ps. 1,498,968	Ps. 1,007,260

e) For the years ended 31 December 2017 and 2016, the Company reported taxable income of Ps. 3,843,027 and Ps. 1,284,832, respectively, on which income tax payable was Ps. 1,152,908 and Ps. 385,450, respectively.

f) 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. 848,589	Ps. 1,833,716
Permanent differences:		
Annual inflation adjustment	( 745,465)	( 360,496)
Non-deductible expenses	881,704	1,001,350
Leasehold Improvements	( 197,319)	( 10,194)
Provisions	1,416,491	660,847
Income before income tax, plus permanent items	2,204,000	3,125,223
Statutory income tax rate	30%	30%
Total income tax	Ps. 661,200	Ps. 937,567
Effective income tax rate	78%	51%

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

	2017	2016
Restated contributed capital account (CUCA)	Ps. 65,559	Ps. 61,402
Net taxed profits account (CUFIN)	9,017,541	6,884,165

## 9. Contingencies and Commitments

18.

a) Enacted changes made to the Mexican Federal Labor Law that came into effect on 1 December 2012 could have an effect on the Company's financial position. The effects of these changes may vary from a disclosure in the financial statements to the recognition of an additional liability for employee profit sharing or other liabilities related to employee benefits. As at 31 December 2017, the Company has evaluated the effects that the changes in the labor law may have on its financial information and has concluded that the changes have had no effect as at 31 December 2017. However, this situation may change in the future and so the Company will continue assessing the effects of the changes to the law in the years to come.

b) 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.

c) 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.