

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Jaguar Land Rover Servicios México, S. A. de C. V.

Financial Statements

December 31 de 2019 y 2018

(with report of Independent Auditors)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Report of independent auditors

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

Opinion

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

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

Basis of opinion

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

Emphasis paragraphs

We draw attention to notes 3 j) and 7 of the financial statements, which describe that the services provided to Jaguar Land Rover Mexico, SAP I de CV, related party, represent 100% of the income received in 2019 and 2018. Our Opinion has not been modified in relation to this matter.

During 2019, the change disclosed in note 4 to the financial statements was made under partial retrospective application, so the comparative financial information presented for 2018 was not reformulated and is presented as previously reported. Our opinion has not been modified in relation to this issue.

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

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

In preparing the financial statements, Management is responsible for evaluating the Company's ability of continuing operations, disclosing, as appropriate, matters related to business continuity

(Figures in Mexican pesos)

and using the business continuity accounting basis except if the administration intends to liquidate the Company or to cease its operations, or there is no other realistic alternative.

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

Auditors' responsibilities in auditing the financial statements

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

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

- We identify and evaluate the risks of material deviation in the financial statements, due to fraud or error, we design and apply audit procedures to respond to such risks and we obtain sufficient and adequate audit evidence to provide a basis for our opinion. The risk of not detecting a material deviation due to fraud is higher than in the case of a material deviation due to error, since fraud may involve collusion, falsification, deliberate omissions, intentionally erroneous manifestations or circumvention of internal control.
- We obtain knowledge of the internal control relevant to the audit in order to design audit procedures that are appropriate depending on the circumstances and not in order to express an opinion on the effectiveness of the Company's internal control.
- We evaluate the adequacy of the accounting policies applied, the reasonableness of the accounting estimates and the corresponding information disclosed by the Administration.
- We conclude on the appropriateness of the use, by the Administration, of the accounting base of the business continuity and, based on the audit evidence obtained, we conclude on whether or not there is a material uncertainty related to facts or conditions that may generate doubts significant on the Company's ability to continue as with its operation. If we conclude that there is material uncertainty, we are required to draw attention in our audit report to the relevant information disclosed in the financial statements or, if such disclosures are not appropriate, to express a modified opinion. Our conclusions are based on the audit evidence obtained to date in our audit report. However, future events or conditions may cause the Company to cease its operations.

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

- We evaluate the overall presentation, structure and content of the financial statements, including the information disclosed, and whether the financial statements represent the underlying transactions and events in a way that achieves a fair presentation.

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

KPMG CARDENAS DOSAL, S. C.

C.P.C. María del Rocío Becerra Ortega

Mexico City, Julio 31st 2020.

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Jaguar Land Rover Servicios México, S. A. de C. V.

Balance Sheet

As of December 31, 2019 and 2018

(Figures in Mexican Pesos)

Assets	December 31 2019	December 31 2018	Liabilities and shareholders' equity	December 31 2019	December 31 2018
Current Assets			Current liabilities		
Cash	\$ 3,225,238	476,505	Current maturities of:		
Jaguar Land Rover México, S.A.P.I. de C.V. (Note 7)	5,581,393	7,148,516	Lease liability (Note 11)	\$ 2,153,799	-
Other accounts receivable	0	178,797	Suppliers and accrued liabilities	337,641	158,328
Advance Payments	<u>568,680</u>	<u>259,673</u>	Provisions (Note 10)	3,732,847	2,568,947
Total current assets	9,375,311	8,063,491	Income Tax (Note 9)	2,821,378	2,706,323
			Workers' participation in profits	<u>316,839</u>	<u>256,226</u>
Improvements to leased premises (Note 8)	-	22,726	Total current liabilities	9,362,504	5,689,824
Right-of-use assets (note 11)	6,828,315	-	Lease liability (Note 11)	7,723,390	-
Deferred income tax (note 13)	3,593,252	1,982,358	Employee benefits (Note 12)	<u>2,098,955</u>	<u>2,150,026</u>
Other assets	564,334	598,021	Total liabilities	<u>19,184,849</u>	<u>7,839,850</u>
			Equity (Note 14):		
			Capital Stock	50,000	50,000
			Retained earnings	<u>1,733,722</u>	<u>2,776,746</u>
			Total Capital	<u>1,783,722</u>	<u>2,826,746</u>
			Obligations and contingent liabilities (Note 16)		
			Subsequent Events (Note 15)		
	<u>\$ 20,361,212</u>	<u>10,666,596</u>		<u>\$ 20,968,571</u>	<u>10,666,596</u>

See notes to the financial statements

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Jaguar Land Rover Servicios México, S. A. de C. V.

Profit and Loss Statement

As of December 31 2019 and 2018

(Figures in Mexican Pesos)

	<u>2019</u>	<u>2018</u>
Services income (note 7)	\$ 44,538,635	41,816,988
Other income	97,411	76,610
	<u>44,636,046</u>	<u>41,893,598</u>
General expenses:		
Wages, salaries and benefits	32,632,431	29,478,371
Travel and representation expenses	2,605,761	2,677,198
Leases and maintenance	1,723,357	3,957,132
Professional services	2,062,001	1,561,608
Office and fuel expenses	903,405	816,563
Subscriptions and insurance	11,829	125,561
Workers' participation in profits (note 13)	(132,098)	256,226
Depreciation and amortization (notas 8 y 11)	1,587,549	586,484
Other (income) expenses, net	1,421	56,118
Other expenses	769,721	928,834
Training	87,428	8,311
	<u>42,252,805</u>	<u>40,452,406</u>
Total general expenses		
Financing result:		
Interest cost (note 11)	714,686	-
Exchange (profit) loss, net	(386,486)	16,490
	<u>328,200</u>	<u>16,490</u>
Financing result, net		
Profit before income tax	<u>2,055,041</u>	<u>1,424,702</u>
Income tax (note 13):		
Over tax base	1,156,520	1,016,248
Deferred	(230,906)	(483,390)
	<u>925,614</u>	<u>532,858</u>
Total income tax		
Net profit	<u>\$ 1,129,427</u>	<u>891,844</u>

See notes to the financial statements

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Jaguar Land Rover Servicios México, S. A. de C. V.

Statement of Changes in Shareholders' Equity

As of December 31, 2019 and 2018

(Figures in Mexican Pesos)

	Capital <u>stock</u>	Retained <u>earnings</u>	Total shareholders' <u>equity</u>
Balance as of December 31, 2017	\$ 50,000	1,884,902	1,934,902
Comprehensive income	<u>-</u>	<u>891,844</u>	<u>891,844</u>
Balance as of December 31, 2018	50,000	2,776,746	2,826,746
Adjustments due to new rules (note 11)	<u>-</u>	<u>(2,172,451)</u>	<u>(2,172,451)</u>
Results of the year	<u>-</u>	<u>1,129,427</u>	<u>1,129,427</u>
Balance as of December 31, 2019	\$ <u>50,000</u>	<u>1,733,722</u>	<u>1,783,722</u>

See notes to the financial statements (consolidated)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Jaguar Land Rover Servicios México, S. A. de C. V.

Cash Flow Statement

As of December 31, 2019 and 2018

(Figures in Mexican Pesos)

	<u>2019</u>	<u>2018</u>
Operating activities		
Profit before income tax	\$ 2,055,041	1,424,702
Plus other accounting items that do not require cash:		
Depreciation	1,564,822	
Amortization	22,726	586,484
Exchange (profit) loss (not performed)	(374,065)	-
Interest payable	714,687	-
	<u>3,983,211</u>	<u>2,011,186</u>
Changes in assets and liabilities from operations:		
(Increase) decrease in:		
Jaguar Land Rover México, S.A.P.I. de C.V.	1,567,123	1,672,990
Advanced payments and others	(96,523)	(168,596)
Suppliers and accrued liabilities	179,313	(136,529)
Tax payable	12,770	(773,813)
Workers´ participation in profits (payable)	316,839	256,226
Workers´ participation in profits (paid)	(256,226)	(295,284)
Provisions	1,163,900	(2,512,271)
Employee benefits and profit sharing	(500,008)	319,928
Paid income tax	(1,054,238)	(871,057)
Net cash flow from operating activities	5,316,161	-497,220
Financing operations		
Lease liabilities paid	(2,567,431)	-
Financing cooperations cash flows (net)	(2,567,431)	-
Net increase (decrease) of cash and cash equivalence	2,748,733	(497,220)
Cash and cash equivalents		
Cash at the beginning of the year	<u>476,505</u>	<u>973,725</u>
Cash at the end of the year	<u>\$ 3,225,238</u>	<u>476,505</u>

See notes to the financial statements

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

(1) Company activity and main business transactions

I. Company activity

Jaguar Land Rover Servicios México, S. A. de C. V. (the Company), was established on December 22, 2010, and its main activity is to perform all kinds of services in favor of third-parties including but not limited to advisory services, supervision and consulting, selection, hiring and personnel management, and accounting and fiscal services, to Jaguar Land Rover Mexico, S. A. de C. V. (related party).

The period of operations of the Company and the fiscal year, comprise from January 1 to December 31, 2019.

(2) Authorization and basis for presentation

Authorization

On July 31st, 2020, Mr. Luis Reyes, Director of Finance, authorized the issuance of the attached financial statements and their accompanying notes.

In accordance with the General Law of Commercial Companies (LGSM) and the bylaws of Jaguar Land Rover Servicios Mexico, S. A. de V. V., shareholders have the authority to amend the financial statements even after they have been delivered. The financial statements will be submitted to the consideration and approval of the next Shareholders' Meeting.

Basis for presentation

a) Compliance Statement

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

b) Assumptions and estimates

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

Assumptions

The information on judgments reached in the application of accounting policies having the most important effect on the amounts appreciated in the financial statements, are described in the following notes:

- Note 12 – Measuring of obligations by benefits defined: key actuarial assumptions;
- Nota 13 – Profit taxes - Income tax (IT) and workers' participation in profits (WPP) – deferred taxes;
- Note 8 – Impairment testing of improvements to leased premises: key assumptions for recoverable amounts, including the recoverability of development costs
- Note 10 – Provisions: key assumptions to determine expected expenses.

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

— Note 11 – Right of use assets and lease liability

c) Functional currency and report currency

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

For disclosure purposes in the notes to the financial statements, where reference is made to pesos or “\$”, this refers to Mexican Pesos, and when reference is made to dollars, it means Dollars of the United States of America.

d) Presentation of the Statement of Earnings

The Company presents the full results in a single statement including only the items representing net profit or loss, and is entitled “Statement of Earnings” since, during the current and immediately previous tax years submitted for comparative purposes, the Company failed to generate Other Integral results (ORI).

Since the Company is a service corporation, regular costs and expenses are shown based on their nature, since it is considered that in this way the presentation is clearer.

(3) Summary of the main accounting policies

(a) Cash

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

(b) Financial instruments

i. Initial appreciation and measurement

The financial assets and liabilities – including accounts receivable and payable – are initially appreciated when these assets occur or are acquired, or when the liabilities are issued or assumed, both under agreement.

The financial assets and financial liabilities (except in the case of an account receivable or payable without a material financing component), are initially measured and appreciated at their fair value plus, in the case of financial assets or liabilities not measured at fair value and subject to change), carried by means of integral results, the transaction costs directly attributable to their acquisition or issuance, when they are subsequently measured at their redeemed cost. An account receivable without a significant financing component is initially measured at the transaction price.

ii. Subsequent classification and measuring.

Financial assets –

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

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

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

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

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

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

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

A financial asset is measured at its redeemed cost if the two following conditions are met, and not classified in accord with its fair value with changes through results:

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

Financial assets: Evaluation of the business model –

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

- The policies and goals established for the portfolio and the operation of these policies in practice. They include whether the strategy of Management is focused on collecting revenue from interest, maintaining a specific interest rate profile or coordinating duration of the financial assets with that of the liabilities being financed by such assets or the anticipated outgoings of cash, or realize cash flows through the sale of assets;
- How portfolio yield is evaluated and how this is reported to Company Management;
- The risks affecting the yield of the business model (and the financial assets maintained in the business model) and, specifically, the way in which such risks are handled;

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

- How the managers of the business are compensated (for example if compensation is based on the fair value of the assets handled or on the existing cash flows obtained); and
- The frequency, the volume, and the opportunity of sales in previous periods, the reasons for these sales and expectations on the activity of future sales.

The transfers of financial assets to third parties in transactions not qualifying for a written off process shall not be considered as a sale for this purpose, consistent with the permanent appreciation of assets by the Company.

Financial assets –

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

- Loans and accounts receivable;
- At fair value with changes in results
- Designed at fair value with changes in results.

Financial assets: Subsequent measuring and profits and losses –

Financial assets at fair value with changes in results	Measured at fair value with changes, including income from interest, in results.
Loans and accounts receivable	Measured at redeemed cost using the effective interest method.

Financial liabilities: Classification, subsequent measuring, profits, and losses.

Financial liabilities are appreciated initially at their fair value, and subsequently measured at their redeemed value. Financial liabilities obtained from agreements or placement of financial debt instruments are initially appreciated at the value of the obligation they represent (at their fair value) and will be subsequently remedied under the redeemed cost returned method through the effective interest rate. Income from interest and profits and losses by the exchange of foreign currency is appreciated in results. Any profit or loss in a written off account is acknowledged in results.

iv. Written-off Accounts

Financial assets

The Company will write off a financial asset when the rights over the cash flows of the financial asset expire, or when the rights to receive cash flows in a transaction in which basically risks and benefits of ownership of the financial asset are transferred, or in which the Company fails to transfer or substantially retain all risks and benefits related to the property or retain control over the financial assets.

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Financial liabilities

The Company will write-off a financial liability when its obligations are paid or cancelled or have expired. The Company shall also write off a financial liability when its conditions are changed, and the cash flows of the modified liability are substantially different. In this case, a new financial liability is appreciated based on the new conditions at fair value.

In the event of a financial liability written off, the difference between the book value of the cancelled financial liability and the settlement paid (including other cash transfers or liabilities assumed) are appreciated in the results.

v. Compensation

A financial asset and liability shall be subject to compensation, in such a way as to evidence their net amount in the statement of earnings when, and only when, the Company has, the legally-requirable right to compensate the appreciated amount and intends to settle for the net amount, or of transfer the asset and pay the liability simultaneously.

(c) Advance payments

Advance payments are appreciated for the amount paid at the time this takes place, always providing it is considered that the associated future economic benefit flows to the Company. Once the goods or service are received, the Company appreciates the amount with respect to the advance payments as an asset or expense of the period, depending on whether it is certain that the acquired asset will generate a future economic benefit.

The Company shall periodically evaluate the capacity of advance payments losing the ability to generate future economic benefits, together with the recoverability thereof. An amount considered non-recoverable is appreciated as a loss by deterioration in the results for the period.

(d) Improvements to leased premises

The value of the improvements to leased premises, including the costs initially incurred in the purchase transaction. Repair and maintenance costs are appreciated in the statement of earnings as they are incurred.

Amortization is determined by using the straight-line method (since Company Management considers that this method is the best for reflecting the use of such assets), based on their estimated useful life anticipated as period of 6 years, or contract termination, whichever is less.

The improvements to leased premises are reviewed when indications of deterioration exist in the value of such assets.

During the years ending December 31, 2019 and 2018, there were no indications of deterioration.

(e) Impairment of the recovery value of non-current assets-

The Company evaluates the net book value of its non-current assets, to determine the indications that such value exceeds its recovery value. The recovery value represents the amount of potential net income that is reasonably expected to be obtained as a consequence of the use or sale of such assets. If it is determined that the net book value exceeds the recovery value, the Company records the appropriate estimates, and record the effect on the results for the year.

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

(f) Leases

Policy applicable from January 1, 2019

Leases under which the Company assumed substantially all the risks and rewards of ownership were classified as capitalizable leases. At the time of initial recognition, the leased asset was determined considering the amount that was lower between its fair value and the present value of the minimum lease payments. After initial recognition, the amount of the asset was modified in accordance with the accounting policy applicable to it.

Assets held in other leases were classified as operating leases and were not recognized in the Company's statement of financial position. Payments under operating leases were recognized in the accounting results on a straight-line basis over the term of the lease. The lease incentives received were recognized as a reduction of the total lease expense, during the lease term.

Policy applicable from January 1, 2019

At the beginning of the corresponding agreement, the Company evaluates whether such agreement is, or refers to a lease. An agreement is, or refers to a lease if it assigns the right to control certain asset for a specific period and for a consideration. To evaluate whether an agreement conveys the right to control the use of an identified asset, the Company uses the definition of lease in NIF D-5.

At the beginning of, or at the time of any amendment to the agreement that provides a lease component, the Company assigns the consideration in the agreement to each lease component or service based on their relative independent prices.

The Company assumes both an asset subject matter of a right-of-use, and the lease liability, as of the lease initial date. The asset such a right-of-use is initially measured at cost, and includes the initial amount of the lease liability adjusted for purpose of lease payments made on or before the initial date, plus the initial direct costs incurred and an estimate of the costs for dismantle or restore the underlying asset or the site where it is located, less leasing incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the beginning date to the end of the lease term, unless, pursuant to the terms of the agreement, the lease has the option to transfer ownership of the underlying asset to the Company at the end of the lease term or the cost of the right-of-use asset reflects that the Company shall exercise a purchase option. In such event, such asset will be depreciated over its useful life, and shall be determined on the same basis as that of property and equipment. In addition, the right-of-use shall be periodically reduced for impairment losses, if applicable, and adjusted for certain new valuations of the lease liability as changes in the rental amount due to inflation adjustment.

The lease liability is initially measured at the present value of the lease payments that are not paid on the initial date, discounted using the interest rate implicit in the lease or, if that rate cannot be easily determined, the incremental financing rate of the Company. Generally, the Company applies its incremental interest rate as the discount rate.

The lease payments included in the valuation of the lease liability comprise the following:

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

- fixed payments, including fixed basic payments;
- variable lease payments that depend on an index or a rate, initially valued using the index or the rate on the initial date;
- amounts expected to be paid under a residual value guarantee; and
- the option price under a call option that the Company shall reasonably pretends to exercise, the lease payments corresponding to an optional renewal period, in the event the Company pretends to exercise an extension option, and the penalties for termination of the lease before the expiration date, unless the Company is sure not to terminate it before the expiration date.

The lease liability is valued at redeemed cost using the effective interest method. It is revalued when there is a change in future lease advances arising from a change in the index or rate, if there is a change in the Company's estimate of the amount expected to be paid under a residual value guarantee, when the Company changes its assessment of whether it will apply for a purchase, extension or termination option or whether there is an amended fixed lease payment. If the lease liability is revalued in this way, an adjustment is made for the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company reports assets having the right-of-use that do not meet the definition of investment property, right-of-use assets, and lease liabilities in lease liabilities in the statement of financial position.

Short-term leases and low-value asset leases

The Company has decided not to recognize right-of-use assets and lease liabilities for low-value asset leases and short-term leases, including IT equipment. The Company acknowledges the lease payments associated with such leases as a straight-line expense over the term of the lease.

(g) Provisions

The liabilities for provisions are appreciated when (i) there is a present obligation (legal or assumed) as the result of a past event, (ii) there is a possibility that the use of economic resources is required as a means to settle such obligation, and (iii) the obligation can be reasonably estimated.

The provisions for contingent liabilities are appreciated only when the use of resources is probably for their settlement. Likewise, commitments are only appreciated when they generate a loss.

(h) Employee benefits

Direct short-term benefits

The direct benefits to employees at short-term are recognized in the results for the period when the services are performed. A liability is appreciated in the amount it is expected to pay should the Company have a legal or assumed obligation to pay this amount as the result of past services rendered, and the obligation can be reasonably estimated.

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Post-employment benefits

Defined benefit plans

The net obligation of the Company corresponding to the benefit plans defined by seniority bonus and termination of the working relationship are calculated separately for each plan, estimating the amounts of future earned by the employees in current and previous periods and discounting this amount.

Calculation of the obligations for the benefit plans defined is performed annually by experts, using the projected credit unit method. When the calculation results in a possible asset for the Company, the asset appreciated is limited to the current value of economic benefits available in the form of future disbursements or reductions in future contributions thereto. To calculate the current value of economic benefits, any minimum financing requirement should be considered.

The labor cost of the current service, representing the cost of the benefits period for the employee on having completed another year of working life based on the benefits plans, is appreciated in operating costs and expenses. The Company determines the expense (income) by net interest over the net liability (asset) by the defined benefits of the period, multiplying the discount rate used to measure the benefit obligation defined by the net liability at commencement of the annual period reported taking into account changes in net liability (asset) for benefits defined during the period as a result of estimated contributions and payment of benefits.

Amendments to the plans affecting the cost of past services are immediately appreciated in the results in which the amendment occurs, without it being possible to defer these to subsequent years. Likewise, the effects by liquidation events or a reduction in obligations in the period which significantly reduce a) the cost of future services and/or the population subject to such benefits, respectively, are appreciated in the results for the period.

The re-measurements (formerly actuarial profits and losses) resulting from differences between planned and effective actuarial hypotheses at the end of the period, are appreciated in the period in which they occur in the results for the period.

(i) Profit taxes and workers' participation in profits (WPP)-

Profit taxes and the WPP applicable during the year are determined in accordance with current tax provisions.

Differed profit taxes and WPP are registered in accordance with the assets and liabilities method, which compares the book and tax values thereof. Profit taxes (assets and liabilities) are appreciated by the future tax consequences attributable to the temporary differences between the values of existing assets and liabilities reflected in the financial statements and their relative tax bases. Deferred assets and liabilities by profit tax and WPP are calculated using the rates established in the corresponding law, to be applied to taxable profit in the years it is considered that the temporary differences shall be reversed. The effect of changes in the tax rates on deferred profit taxes and WPP are appreciated in the results for the period in which such changes are approved.

(j) Revenue Recognition

Income is measured based on the compliance obligation specified in the contract with a related party. Income from services are appreciated over time as they are rendered. Invoices for services are issued monthly and are usually payable in a period of 30 days.

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

The Company provides administrative services to its related party. This service is provided for in a yearly agreement.

(k) Business concentration-

The Company obtained all its income from its related party Jaguar Land Rover México, S. A. P. I. de C.V. for the years ended December 31, 2019 and 2018.

(l) Result of financing (RF)-

The RF includes financial income and expenses. Financial income and expenses are made up as follows:

- Income from interest;
- Profit or loss in foreign currency from financial assets and financial liabilities.

Operations in foreign currency are recorded at the exchange rate applicable on the dates of formalization or payment. The monetary assets and liabilities denominated in foreign currency are converted at the exchange rate in force on the date of the statement of financial position. Differences in exchange incurred in connection with assets or liabilities contracted in foreign currency are carried to the results for the period.

(4) Accounting changes

NIF D-5 "Leases" - The Company applied this NIF as from January 1, 2019 using the partial retrospective approach, according to which the accumulated effect of the initial application is recognized in the accumulated results, within shareholders' equity, at the date of adoption. Consequently, the comparative information presented for 2018 was not reformulated, and is presented as previously reported. The details of the changes are as follows:

The Company selected the practical solution contained in NIF D-5 to evaluate which transactions are leases, and to apply the requirements of NIF D-5 only to agreements that were previously identified as leases. Those agreements that were not identified as leases according to Bulletin D-5 and IFRIC 4, were not reevaluated to determine if there is a lease under NIF D-5. Therefore, the definition of leasing under NIF D-5 applied only to agreements executed or modified on or after January 1, 2019.

As a lessee, the Company leases several assets, including IT equipment. The Company previously classified leases as capitalized or operating leases based on its evaluation of whether the lease significantly transferred all supplemental risks and rewards to ownership of the underlying asset to the Company. Pursuant to NIF D-5, the Company acknowledges the assets subject to a right-of-use, and the lease liabilities for most of such leases, that is, such leases appear in the statement of financial position.

At the beginning or in the amendment of the agreement that provides a lease component, the Company assigns the consideration in the agreement to each lease component or service based on their relative independent prices.

Leases previously classified as operating leases:

Previously, the Company classified property leases as operating leases. In the transition process, for such leases, the recognized lease liabilities were valued at the present value of the remaining lease payments, discounted at the Company's incremental financing rate as of January 1, 2019.

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Right-of-use assets are valued at an amount equal to the lease liability, adjusted for advance or accrued lease payments.

The Company has performed impairment tests on the right-of-use assets on the date of transition and has concluded that there are no indications that they are impaired.

The Company used some practical solutions allowed by NIF D-5 to leases previously classified as operating leases, including the following:

- Applied a single discount rate to a set of leases with similar characteristics;
- Applied NIF C-9 "Provisions, contingencies and commitments" to assess whether leases are onerous, adjusting the right-of-use asset for the provision for onerous leases recognized in the statement of financial position as of the date of initial application;
- Did not recognize the assets and liabilities by right of use for leases whose lease term ends within 12 months after the date of initial application;
- Did not recognize the assets and liabilities for right of use for leases of low-value assets;
- Excluded the initial direct costs from the valuation of the right-of-use asset on the date of initial application; and
- Previously unknown information or circumstances were used, such as determining the lease term, when the agreement contains options to extend or terminate it.

Leases classified as leases subject to be capitalized before the adoption of NIF D-5

In connection with such leases, the book value of the asset and the lease liability, according to the previously applicable regulations, became the book value of the right-of-use asset and the lease liability as of January 1, 2019.

Impacts as of adoption date

The Company acknowledged additional assets for right of use and additional lease liabilities, recognizing the difference in accumulated results. The effects of adopting NIF D-5 are summarized below:

As of January 1, 2019

Assets for rights of use		\$ 8,393,138
Lease liability		11,496,639
<u>Accumulated results</u>		<u>3,101,501</u>
Commitments for operating leases as of December 31, 2018, as disclosed in the financial statements as of such date	USD	710,773
Discounted using the incremental financing rate as of January 1, 2019	USD	586,929
Exchange rate as of January 1, 2019	USD	19,5878
<u>Lease liability recognized as of January 1, 2019</u>		<u>\$11,496,639</u>

When valuing the lease liabilities that were classified as operating leases, the Company discounted all lease payments using its incremental interest rate as of January 1, 2019. The weighted average rate is 7.56%.

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

(5) Foreign currency position and conversion-

As of December 31, 2019, and 2018, the Company had no monetary assets and liabilities denominated in foreign currency.

As of December 31, 2019, and 2018, \$409,368 and \$16,490, respectively, were recorded as Exchange loss.

The exchange rates used in the several exchange processes as compared with the currency of the report as of December 31, 2019 and 2018, are the following:

Country of origin	Currency	Exchange rate	
		2019	2018
United States of America	Dollars	\$ 18.8452	19.6829

As of December 31, 2019, the Company had no instruments of protection against Exchange loss.

(6) Financial instruments

(a) Fair values

The Company has investments in financial assets and financial liabilities not measured at fair value, since their book value approximates fair value.

(b) Management of financial risks

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

- Credit risk
- Financial capacity risk
- Market risk

Management of financial risk policies

The Board of Directors holds the general responsibility for establishing and supervising the risk management policies of the Company. The Board has established the Finance Advisory Committee, which oversees the Company's risk management policies, and reports to the Board regularly on its activities.

The risks management policies of the Company are established to identify and evaluate the risks facing the latter, establishing suitable risk control limits, and supervising risks and compliance with the limits. The policies and systems of risk management are periodically reviewed to reflect changes in market conditions and in Company activities.

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

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

The Advisory Auditing and Ethics Committee (the Committee) supervises the way in which Management supervises compliance with the Company's risk management policies and procedures and checks as applicable the risk management policy and compared with the risks faced by the Company. Internal Auditing performs periodic revisions of risk management controls and procedures. The Company Committee receives assistance in supervising the Internal Auditing Department, which carries out periodical reviews of risk management controls and procedures, the results of which are reported to the Committee.

Credit Risk:

The credit risk represents the potential loss which placement of a financial instrument could cause the other party, in the event of failure to comply with his obligations.

Accounts receivable with related parties.

Exposure of the Company to a credit risk is of little significance even though its income is obtained from the services rendered to a related party in Mexico. Such related party obtains its income from selling its products and services to several customers.

Liquidity Risk:

The capacity risk represents the possibility of the Company being unable to comply with the obligations related to its financial liabilities, payable in cash or another financial asset. The approach of the Company to manage its financial capacity consists of ensuring, insofar as this is possible, that it shall have sufficient liquidity to settle its liabilities at their maturity date, both in regular scenarios and under extraordinary conditions, without incurring in unacceptable losses or placing the reputation of the Company at risk.

Exposure to liquidity risk

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

December 31, 2019	Book Amount	Contractual Cash Flows				
		Total	12 Months or less	1-2 Years	2-5 Years	5 Years or more
Non-derivative financial liabilities						
Suppliers	\$ 337,641	(337,641)	(337,641)	-	-	-
Lease Liability	9,269,830	(9,269,830)	(2,113,254)	(4,735,703)	(2,240,873)	-
	\$ 9,697,471	(9,607,471)	(2,450,895)	(4,735,703)	(2,240,873)	-

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

December 31, 2019	Book Amount	Contractual Cash Flows				
		Total	12 Months or less	1-2 Years	2-5 Years	5 Years or more
Non-derivative financial liabilities						
Suppliers	\$ 158,328	(158,328)	(158,328)	-	-	-
	\$ 158,328	(158,328)	(158,328)	-	-	-

Market Risk:

Market risk means the possibility that certain changes in the market prices, such as rates of exchange, interest rates and raw materials, may affect income of the Company.

Currency risk

A currency risk occurs when the Company engages in transactions and maintains monetary assets and liabilities in currencies other than its functional currency.

The Company does not resort to the use of derivate financial instruments to manage the exchange rate risk.

(7) Operations and balances with related parties

The balance with Jaguar Land Rover México, S.A.P.I. de C.V. derives from the service agreement for providing administrative, accounting, legal, advisory, consultant support and supervisory services.

The corresponding agreement is valid for one year and was renewed on January 1, 2019.

As of December 31, 2019, and 2018, the Company received income from Jaguar Land Rover México, S.A.P.I. de C.V. in the amount of \$44,538,635 and \$41,618,988, respectively. At the same time the Company, as of December 31, 2019 and 2018, holds accounts receivable in an amount of \$5,591,393 and \$7,148,516, respectively.

As of December 31, 2019, and 2018, the receivable balances from related parties are made up of current account balances, without interest, payable in cash in a term of 30 days for which no guaranties exist. These balances with related parties are considered recoverable, therefore, for the years ended December 31, 2019 and 2018, there was no expense deriving from the uncollectible balances with related parties.

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

(8) Improvements to leased premises-

Improvements to leased premises:

	31 December 2019	31 December 2018	1o. January 2018
Investment	\$ 3,520,306	3,520,307	3,520,307
Less:			
Accrued amortization	3,520,306	3,497,581	2,911,098
Net	\$ -	22,726	609,209

For the periods ended December 31, 2019 and 2018, the amortization cost amounted to \$22,722 and \$586,484.

(9) Income Tax and other contributions payable-

The balances of taxes and contributions payable are made up as follows:

		2019	2018
Contributions to IMSS, SAR and Infonavit	\$	427,112	502,698
Value-added tax		1,475,015	1,210,512
Taxes withheld		600,110	758,779
Profit taxes		247,473	145,191
Payroll taxes		71,669	89,143
Total	\$	2,821,378	2,706,323

(10) Provisions

Provisions are made up as shown below:

		Bonus	Vacations and vacation bonus	Indemnity and other	Total
Balances as of December 31, 2018	\$	577,339	1,831,608	160,000	2,568,947
Increases charged to results		1,797,241	1,580,923	1,469,405	4,847,569
Payments		(1,079,073)	(1,843,542)	(761,054)	(3,683,669)
Balances as of December 31, 2019	\$	1,295,507	1,568,989	868,351	3,732,847

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

(11) Right-of use assets and lease liabilities-

The Company leases the facilities of its corporate offices. The lease term of such facilities generally runs for a period of 5 years, and the option to renew it after the expiration date. Lease payments are updated annually based on the United States of America Urban Consumer Price Index ("US-CPI").

The following information corresponds to those leases for which the Company is a lessee.

Lease assets (right-of-use assets)

Right-of use assets as recognized as of December 31, 2019 are integrated as follows:

		Office
Balance as of January 1, 2019	\$	8,393,138
Depreciation of the year		(1,564,823)
Balance as o December 2019		6,828,315

Amounts acknowledged as results of the year.

Amounts acknowledged as results of the year are as follows:

<u>Leases under the provisions of the Standard NIF D-5</u>	2019
Depreciation of the right-of-use asset	\$ (1,564,,822)
Interest from lease liabilities	(714,686)
Exchange gain not applied	374,065

(Continúa)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

Lease liability

Lease liability as of December 31, 2019 is as follows:

		Future minimum payment	Interst	Spot value
2020	\$	1,501,848	611,406	2,113,254
2021		1,832,680	445,990	2,278,670
2022		1,989,406	267,627	2,457,033
2023		2,344,141	76,732	2,420,873
	\$	7,668,075	1,401,755	9,269,830

Interest accrued is calculated at a rate of 7.56%, and was used to determine the spot value of the minimum payments secured during the term of the lease.

The total cash outflow for leasing during 2019 and 2018 were of \$2,567,431 and \$2,723,965, respectively.

(12) Employee benefits

The Company has a benefit plan defined by seniority bonus and termination which covers its personnel. Benefits are based on the years of service and the amount of compensation of the employees. The policy of the Company is to fund the pension plan to the extent the obligations are enforceable.

As of December 31, 2018, in order to take advantage of existing conditions deriving from new Management practices related to payment of retirement benefits, the Company considered an additional indemnity component as part of the conditions used to determine the labor liability.

The components of the defined benefit costs for the years ended December 31, 2019 and 2018, are shown below:

	Seniority Bonus		Legal Indemnity	
	2019	2018	2019	2018
Cost of current service (CLSA)	\$ 17,222	13,747	190,668	155,376
Net interest over the PNBD*	8,102	5,141	164,681	114,009
Remeasuring of the PNBD or appreciated in results for the year	21,936	1,627	(453,680)	30,028
Cost of defined benefits	\$ 47,260	20,515	(98,331)	299,413
Initial balance of PNBD	\$ 95,631	75,116	2,054,395	1,754,982
Cost of defined benefits	25,324	20,515	355,349	299,413
Actuarial Loss (Gain) on Obligations	21,936	-	(453,680)	-
Final balance of PNBD	\$ 142,891	95,631	1,956,064	2,054,395

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

	2019	2018
Discounts of labor obligations	7.23%	9.00%
Salary increase	5.50%	5.50%
Inflation rate	4.00%	4.00%

(13) Profit taxes (Income tax (IT) and workers participation in profits (WPP))-

Profit tax

- a) For the 2019 and 2018 tax periods, under the Income Tax Law (ITL), the ITL corporate tax is 30%.

The ITL establishes criteria and limitations for the application of some deductions, such as: the deduction of payments which are, in turn, exempt income for the workers, contributions for creating or increasing reserves for pension funds, contributions by the worker to the Mexican Social Security Institute (IMSS) which are paid by the employer; together with the non-deductibility of payments to related parties if certain requirements are not complied with.

- b) As of December 31, 2019 and 2018, the profit tax charged to results is made up as follows:

	2019	2018
Applicable Income Tax	\$ 1,156,520	1,016,248
Deferred Income Tax	(230,906)	(483,390)
Total	\$ 925,614	532,858

- c) The tax cost attributable to profits prior to profit tax, differed from that which would result from applying the IT 30% rate to profits prior to tax as a result of the items listed below:

	2019	2018
"Assumed" Expenses	\$ 616,513	427,411
Increase (reduction) resulting from:		
Tax effect of the inflation, net	(105,339)	(107,057)
Non-deductible expenses	399,456	168,168
Other	14,983	44,336
Expense for profit taxes	\$ 925,614	532,858
Effective rate	(45%)	37%

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

d) The deferred taxes shown on the balance sheets are made up of:

	2019	2018
Assets for deferred taxes:		
Labor liabilities	\$ 629,687	521,012
Provisions	1,119,854	595,025
WPP payable	95,052	72,265
Fixed assets	945,514	906,131
Leases	2,780,949	-
	5,571,056	2,094,433
Liabilities for deferred taxes:		
Advance payments	(170,604)	(112,075)
Right-of-use assets	(2,048,495)	-
Deferred asset tax, net	\$ 3,144,314	1,982,358

WPP

- a) The IT Law provides that, as from the 2014 tax period, the base for determining the WPP for the period shall be the tax profit determined for calculating the IT for the period, with some adjustments considered by the IT itself.
- b) The Company is committed to pay WPP, in addition to compensations and existing benefits. The rate for 2019 and 2018 was 10% over the tax profit of the Company, after eliminating certain items indicated by the Income Tax Law. For the periods ended December 31, 2019 and 2018, the Company determined a WPP cost of \$316,839 and \$256,226, respectively, which was appreciated in the administration expenses.
- c) As of December 31, 2019 and 2018, the Company had appreciated deferred WPP over the following temporary entries:

	2019	2018
Deferred assets:		
Provisions	\$ 373,285	198,342
Labor liabilities	209,896	173,671
Fixed assets	315,171	302,044
Leases	826,984	-
	\$ 1,825,336	674,057
Deferred liabilities:		
Advance payments	\$ (56,868)	(37,359)
Right-of-use assets	(682,832)	-
	\$ (739,700)	(37,359)
Deferred-active WPP, net	\$ 1,085,636	636,698
Valuation reserve	(636,698)	(636,698)
Deferred asset WPP, net	\$ 448,938	-

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

As of December 31st 2019 the company calculated an income regarding WPP for \$448,938 which is included in the administration expenses as a net amount.

The valuation reserve of assets or WPP deferred to January 1, 2019 and 2018 was \$636,698 and \$471,492. The net change in the valuation reserve for the years ended December 31, and 2018, was an increase of \$165,206. To evaluate recovery of the deferred assets, Management considered the probability that part or all of these are not recovered. The ultimate realization of deferred tax assets depends on the generation of taxable profit in the periods in which the temporary differences are deductible. On making this assessment, Management considers the reversal of deferred tax liabilities, projected future taxable income and tax planning strategies.

(14) Equity-

(a) Structure of the capital stock-

The total of the capital stock is represented by 5,000 registered common shares, fully subscribed to and paid, having a par value of \$10.00 each.

(b) Restrictions on the capital stock-

In accordance with the Business Corporations Law, the Company must set aside at least 5% of net profits each year to increase the legal reserve until this is equivalent to 20% of the capital stock. As of December 31, 2019 and 2018, the legal reserve amounted to \$10,000, which is included in the accrued results.

Profits distributed in excess of the net tax profit accounts (CUFIN), shall be subject to the payment of corporate income tax at the rate current at their time of distribution. Payment of such tax can be credited against IT.

Under the 2014 tax reform, dividends paid to individuals and corporate entities resident abroad over profits generated as from 2014, shall be subject to an additional withholding tax of 10%.

(15) Subsequent Event –

Coronavirus

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

(Continuous)

Jaguar Land Rover Servicios México, S. A. de C. V.

Notes to the financial statements

For the years ended December 31, 2019 and 2018

(Figures in Mexican pesos)

(16) Commitments and contingent liabilities-

- (a) The Company has formalized service agreements with related companies, in which it undertakes to render them personnel administration services. These agreements are for an indefinite term. Total income for this item was \$44,538,635 in 2019 and \$41,816,988 in 2018.
- (b) The Company has entered into an operative lease for the building where the offices are located with Corporativo Plaza del Parque, S. A. de C. V., for a period of 5 years as from the renewal date, December 1, 2018. The lease provides an option for renewal for a period to be agreed. The minimum amounts to be paid are adjusted based on inflation in the United States of America and the exchange rate.
- (c) There is a contingent liability deriving from employee benefits, as mentioned in note 3(g).
- (d) Pursuant to the current tax law, the authorities are empowered to review up to five tax periods prior to the last income tax return filed.
- (e) Under the IT Law, companies engaging in operations with related parties are subject to tax restrictions and obligations insofar as concerns agreed prices, since these must be comparable to those which would be used with or between independent parties in comparable operations. Should the tax authorities check the prices and reject the amounts determined, they could demand, in addition to charging the tax and corresponding accessories (updating and surcharges), fines over the contributions omitted, which could amount to up to 100% over the updated amount of the contributions.

(17) Recently-issued regulatory declarations-

The Consejo Mexicano de Normas de Información Financiera, A. C. (CINIF) has issued the NIF and Improvements mentioned below, which are applicable to annual periods:

Improvements to NIF 2020

On December 2019, the CINIF issued a document entitled "Improvements to NIF 2020", which contains some changes to some already-existing NIF. The main changes made to the NIF involving accounting changes are the following:

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

Management of the Company considers that the adoption of this improvement to the NIF will not have material effects.