# Jaguar Land Rover Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

Registered number: 01672070

For the year ended 31 March 2018

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# STRATEGIC REPORT

The directors present their strategic report for Jaguar Land Rover Limited (the company) for the year ended 31 March 2018.

## Principal activity

The company's principal activity during the year was the design, development, manufacture and marketing of high performance luxury saloons, specialist sports cars, four wheel drive off-road vehicles and related components and services. The product range is constantly being improved and updated as part of the company's commitment to provide technically advanced and competitively priced luxury vehicles.

## Review of business and future developments

Fiscal 2018 performance and product portfolio

The company has seen an increase in its turnover to £21,945 million (2017: £20,721 million (restated*)). Profit before tax has decreased to £652 million (2017: £755 million (restated*)).

Principal products for 2018 were:

- XE
- XJ
- XF
- F-PACE
- F-TYPE
- E-PACE
- I-PACE
- Discovery
- Discovery Sport
- Range Rover
- Range Rover Sport
- Range Rover Evoque
- Range Rover Velar

Key performance indicators

The key performance indicators (KPIs) used are set out below:

| KPI | Commentary | 2018 | 2017* Restated |
|---|---|---|---|
| Turnover | Increase due to higher wholesales and retail sales led by Velar, E-PACE and the all-new Land Rover Discovery. | £21,945 million | £20,721 million |
| Profit before tax | Decrease primarily driven by higher depreciation and amortisation related to significant capital expenditure in prior years, higher incentives, marketing expense and certain Q4 engineering charges, offset by lower material costs, favourable FX revaluation and the £437 million exceptional pension credit in Q1. | £652 million | £755 million |
| Net assets | Increase in net assets due to favourable movement in derivative financial instruments, favourable remeasurement of pension liability and increase in fixed assets and intangibles. | £9,065 million | £6,125 million |
| Headcount (average) | Increase in headcount due to growth in manufacturing and product development to support the continued expansion of the company. | 38,333 Employees | 36,873 Employees |

*Comparatives have been restated as explained in note 2.

All amounts are as per the statutory financial statements unless otherwise stated.

# STRATEGIC REPORT (CONTINUED)

GREAT PRODUCTS

## Jaguar

Jaguars are born out of flair, ingenuity and an instinct for seduction. They are creations that embody our passion for performance and express our reason for being: to excite in every sense.

Making great cars is at the very heart of our strategy, and our cars show the world that true performance isn't only measured in figures, but in the way it makes you feel. These are the moments worth living for. It is not the number of breaths you take, it is the moments that take your breath away. Jaguar. The Art of Performance.

The current line-up of Jaguar cars is the most diverse, exciting and dynamic we've ever seen. The new XF Sportbrake joined Jaguar's award-winning XF saloon in its tenth year of production. The XF was launched in 2007 and has now claimed almost 200 global awards. The saloon's new Sportbrake sibling delivers equally impressive performance, design, technology and increased space with a 565-litre luggage compartment. The XF Sportbrake is available with Jaguar's advanced range of clean and efficient four-cylinder Ingenium petrol and diesel engines with CO2 emissions from as low as 134g/km.

Further demonstrating a long-term commitment to the Chinese market, the all-new XEL saloon – with an additional 100mm added to the wheelbase – is the second Jaguar engineered exclusively for China, following the larger XFL, and one of five Jaguar and Land Rover models to be manufactured there. The XEL delivers even greater interior comfort for rear-seat passengers while maintaining its sleek, sports saloon design.

In 2018, Jaguar's flagship luxury saloon, the XJ, celebrates its 50th anniversary. It now offers unprecedented power and performance in the form of the 186mph XJR 575 – a car that can truly go from red carpet to race track. Identified by discreet, tailor-made, exterior details, the XJR 575 comes with diamond-quilted leather seats that add a final flourish to the interior.

Introducing our advanced four-cylinder engine to the F-TYPE has created a vehicle with its own distinct character. The pairing of Jaguar's all-aluminium two seat sports car with the advanced 300PS 2.0-litre turbocharged powertrain delivers Jaguar sports car DNA with enhanced agility and improved efficiency and affordability. The new model retains the performance expected from the F-TYPE, accelerating from 0–60mph in only 5.4 seconds and achieving a top speed of 155mph, making the F-TYPE experience more accessible than ever before.

Joining the PACE family this year is the E-PACE, Jaguar's feisty new cub. Demonstrating its agility, precision and performance at its launch, the compact performance SUV leapt into the Guinness World Record books with a 15.3-metre-long jump and a 270-degree barrel roll. Jaguar's newest SUV has now gained a five-star Euro NCAP rating, underlining the E-PACE's safety credentials to match its sports car looks and SUV practicality.

Since the first Jaguar car was produced in 1935, we have pushed the boundaries of what is possible. The Jaguar portfolio has moved the industry forward again with the launch of the all-electric I-PACE. Built on newly designed, bespoke architecture, the new Jaguar I-PACE is the ultimate all-electric performance SUV. No other car on the market combines stunning design, aerodynamic efficiency, zero tailpipe emissions and the driving characteristics only a Jaguar possesses. The bold cab-forward design allows a spacious interior package, matched to sports car performance. Two Jaguar Land Rover-designed electric motors deliver 400PS, all wheel-drive traction, 0–60mph in just 4.5 seconds and supreme agility. The 90kWh lithium-ion battery gives a range of up to 480km (WLTP cycle), while 100kW DC charging can provide 0–80 per cent charge in just 40 minutes.

# STRATEGIC REPORT (CONTINUED)

GREAT PRODUCTS (CONTINUED)

**Land Rover**

For 70 years, Land Rover has been known for its 'go anywhere' spirit – designing vehicles with genuine capability and composure at their heart.

We believe in ambition with integrity: we care about what we do as well as the way in which we do it. Land Rovers have a 'can do' attitude and deliver the best customer experiences. Life shouldn't be constrained by obstacles, no matter how big or small. We call this Land Rover's inner strength. It gives our people the courage, confidence and pioneering spirit to embrace their challenges head-on, with heart, determination and self-assurance.

We will continue to create and innovate to retain our enviable position as the world's SUV brand of choice. It's not a responsibility we take lightly, but we are confident that we will succeed by staying true to who we are. We will invest in the new technologies, skills and services that mean we can aim higher, go further, make more of our world... and go Above and Beyond.

Over the last decade, the transformation of the Land Rover brand has been truly remarkable. We have introduced an exciting new range of SUVs, each one showcasing a unique combination of design excellence and engineering integrity.

Our adventurous and versatile compact SUV, the Land Rover Discovery Sport, is Land Rover's fastest-selling vehicle, with more than 200,000 units sold globally since its introduction in 2014. The premium compact SUV offers unrivalled all-terrain capability, versatility for up to seven people, a premium interior and comprehensive choice of advanced Ingenium petrol and diesel engines.

The sight of a seven-trailer truck being pulled by an SUV sounds far-fetched – but that's exactly what happened when Land Rover put the 2018 model year Discovery to the ultimate towing test. Proving its award-winning towing capability and position as the world's best family SUV in even the most extreme conditions, the Land Rover Discovery pulled a 110-tonne, 100 metre-long road train on a 16km test route in the heat and dust of Australia's Northern Territory in September 2017.

To celebrate six years of Evoque success, Land Rover announced a new Special Edition model. The Evoque Landmark is available in a vibrant Moraine Blue colour – inspired by the turquoise lakes of the Canadian Rocky Mountains. Demand is still high for the pioneering luxury compact SUV, which delivers critically acclaimed design, desirability and all-terrain capability to the segment it created in 2011. The Landmark Special Edition comes with Land Rover's latest technology, including the optional 10-inch InControl Touch Pro system featuring apps such as Spotify and a 4G Wi-Fi hotspot. The Remote Premium app for smartphone and smartwatch lets owners check the fuel level, lock status and location and even pre-heat or cool the cabin.

The Range Rover Evoque also now offers greater performance thanks to all-new Ingenium petrol engines. The 290PS variant is the most powerful, most advanced engine yet offered in either model. Its 400Nm of torque enhances all-terrain capability and enables 0–60mph in as little as 6.0 seconds.

Joining the Range Rover family is the Velar, bringing unprecedented glamour, modernity and elegance. A vehicle with emotionally charged DNA and unquestionable pedigree, it's the first of its kind. The beauty of the Range Rover Velar was recognised as World Car Design of the Year, voted for by the world's leading motoring journalists. This midsize luxury SUV is now renowned as much for its safety as it is for design and technology, having been awarded the maximum five-star Euro NCAP rating for outstanding performance.

Our legendary two range-topping Range Rovers have taken their next evolutionary step with the addition of plug-in hybrid (PHEV) electric models, providing sustainable luxury with new levels of efficiency and capability to complement their refinement and desirability. Thanks to the electrified powertrain, the Range Rover P400e and Range Rover Sport P400e offer our customers 31 miles of electric-only range, and combined fuel economy and $CO_2$ emissions of up to 91.1mpg and as low as 72g/km. For the first time, customers choosing Land Rover's flagship SUVs can experience zero-emissions driving. To prove the dynamic breadth of capability of this exceptional new hybrid powertrain, a Range Rover Sport P400e became the first SUV to ascend the famously challenging 45°, 999-step staircase to Heaven's Gate rock arch, in Tianmen, China.

# STRATEGIC REPORT (CONTINUED)

GREAT PRODUCTS (CONTINUED)

### Jaguar Land Rover Special Operations

Jaguar Land Rover Special Operations comprises two of the most exciting businesses in the automotive industry: Special Vehicle Operations (SVO) and Jaguar Land Rover Classic.

### Special Vehicle Operations

Jaguar Land Rover SVO showcases the highest standards of performance, luxury and capability in cars that are truly special.

The SVO-developed Jaguar XE SV Project 8 is now the world's fastest four-door car, following a production-intent prototype's record lap of the Nürburgring Nordschleife.

The incredible time of 7 minutes 21.23 seconds is nearly 11 seconds quicker than the previous fastest sedan around the legendary 12.9-mile German circuit. It positions the 600PS Project 8 ahead of some of the world's fastest two-door coupés and supercars.

Following the success of the Range Rover Sport SVR and Jaguar F-TYPE SVR, the Jaguar F-PACE, renowned as 2017 World Car of the Year, gets the bespoke SVR treatment. The fastest and most powerful version of the F-PACE has an enhanced chassis and aerodynamics for maximum driver reward in all conditions. Its specially tuned 550PS supercharged V8 engine offers a top speed of 174mph and despatches 0–60mph in just 4.1 seconds.

In 2016, Jaguar became first premium car manufacturer to join the ABB FIA Formula E Championship. Now we're making history again with the world's first ever international race series for a production battery electric vehicle. The series will feature up to 20 Jaguar I-PACE eTROPHY race cars, designed, engineered and built by the SVO team – offering teams the chance to showcase driving talent and electric performance, while competing on the world stage in zero-emissions motorsport.

Nearly 50 years ago, Land Rover created the luxury SUV sector with the introduction of the Range Rover. Now it has defined a new genre with the world's first full-size luxury SUV coupé: the limited-edition two-door Range Rover SV Coupé. An exemplar of Range Rover design, craftsmanship and capability, the SV Coupé features a seductive body allied to the next generation of cabin luxury and tranquillity – with the peerless all-terrain ability expected of Range Rover.

The Range Rover Sentinel is one of the most extraordinary Range Rovers ever produced. It has been expertly engineered by SVO to provide class-leading levels of protection to occupants against extreme attack, while retaining the Range Rover's luxury, refinement and off-road capability. Based on the standard-wheelbase Range Rover Autobiography, the Sentinel delivers the supreme comfort associated with the world's most desirable SUV allied to outstanding occupant protection. Designed to withstand the most damaging and targeted of threats, including penetration by 7.62mm high-velocity armour-piercing incendiary bullets, this exceptional vehicle delivers lateral protection against up to 15kg trinitrotoluene (TNT) blasts and defence against DM51 grenade explosions from both beneath the floor and above the roof.

### Jaguar Land Rover Classic

Jaguar Land Rover Classic's mantra is 'we future history'. The division, headquartered in Ryton, Coventry, UK, is dedicated to preserving and restoring our motoring heritage for future generations to enjoy and cherish. Jaguar Land Rover Classic is the official source of authentic cars, expert services, genuine parts and unforgettable experiences for classic Jaguar and Land Rover enthusiasts worldwide.

In 2018, Jaguar Land Rover Classic accelerated its expansion strategy with the opening of a brand-new Classic Centre in Germany, the first facility of its kind outside the UK. The new 4,500m2 Jaguar Land Rover Classic Centre Germany at Kettwig, Essen, follows the successful opening of Jaguar Land Rover Classic Works in the UK, offering owners and enthusiasts a wide range of authentic Jaguar and Land Rover classic cars, services, parts and experiences.

# STRATEGIC REPORT (CONTINUED)

GREAT PRODUCTS (CONTINUED)

Classic Works took the bold step to electrify the past through the creation of the inventive Jaguar E-type Zero, featuring a fully electric powertrain. Once famously acclaimed by Enzo Ferrari as "the most beautiful car in the world", this special Jaguar E-type now combines breath taking beauty with zero emissions. The Jaguar E-type Zero features a cutting-edge electric powertrain enabling 0–62mph in just 5.5 seconds. It has a 'real world' range of 270km (170 miles), helped by its low weight and aerodynamics. In 2018 GQ named the Jaguar E-type Zero the 'best use of electricity since the lightbulb' at its Car of the Year event.

Jaguar Classic is restarting production of the iconic D-type race car, 62 years after the last example was built in 1956. The first Jaguar D-type to be assembled by Jaguar Classic, an engineering prototype, made its world debut at the Salon Retromobile, Paris, in February 2018. Just 25 new examples of the D-type will be meticulously hand-built at Jaguar Land Rover Classic Works in Ryton. In 1955 Jaguar planned to build 100 D-types. Only 75 were completed and so Jaguar Classic is now fulfilling the company's original ambition by creating the remaining 25 which will be period-correct sports cars.

This year, Land Rover created a limited-edition, highperformance version of the iconic Defender. Up to 150 V8-powered examples will be specially selected and re-engineered to celebrate the Land Rover marque's 70th anniversary year. Defender Works V8 is the most powerful and fastest version that Land Rover has ever created. The 5.0-litre naturally aspirated petrol V8 powertrain produces 405PS and 515Nm of torque (the standard Defender delivered 122PS and 360Nm). The Defender Works V8 will accelerate from 0–60mph in 5.6 seconds, while top speed is increased to 106mph.

SMARTER, SAFER, CLEANER TECHNOLOGY

Our customers' lives are changing rapidly, driven by new technologies, new ownership models and high expectations of personalised experiences. Premium mobility is already at the core of our business and the advent of autonomy, connectivity, electrification and shared mobility (ACES) won't change this. We're using these new enabling technologies to enhance the customer experience with a Jaguar or a Land Rover, getting to know our customers better and ensuring their loyalty to our brands remains unquestionable.

To succeed in smart mobility requires collaborative effort. InMotion Ventures, Jaguar Land Rover's venture capital arm, is creating value through mobility services with a current portfolio of 13 equity investments and three partnerships.

Increasingly, we are innovating from within, harnessing the talents of our 12,000-strong global engineering community. Take our Innovation Lab in Portland, Oregon, US which concentrates on incubating technologies that will change the way our customers move and how our cars are used.

Our goal is simple: to make cars safer, free up people's valuable time and improve mobility for everyone.

## Connected and autonomous innovations

In 2017, motorists in London spent an average of 74 hours waiting in traffic – in a self-driving vehicle, that time could be productive or relaxing.

Autonomous and connected Jaguar Land Rover cars have already been testing on British roads in Fiscal 2017/18, trialling these technologies in real-world scenarios. We are also leading in several key collaborations, including the UK government-backed, UK 'Autodrive' and AutopleX programmes enabling self-driving cars to 'see' at blind junctions and through obstacles.

We have also launched CORTEX, a £3.7 million research project in collaboration with Birmingham University, to make the self-driving car viable in the widest range of on- and off-road conditions: autonomous vehicles of the future with the capability and performance that customers expect.

The knowledge we gain from our new partnership with Waymo, formerly the Google self-driving car project, will be critical to future plans. We are working with Waymo to design and engineer up to 20,000 self driving Jaguar I-PACE vehicles.

# STRATEGIC REPORT (CONTINUED)

## SMARTER, SAFER, CLEANER TECHNOLOGY (CONTINUED)

InMotion has invested into Voyage this year, a company that is operating autonomous ride-hailing services in a geo-fenced area in Florida, United States. A further opportunity to gain insight into how people will use self-driving cars.

Experts estimate that by 2020 up to 30 billion devices around the world will be connected to a network. The car is no exception, and the pace of adoption and our innovation in connectivity has accelerated.

Our cars already seamlessly connect with devices but in the near future customers will benefit from 'over-the-air' software updates to their cars and infotainment systems, reducing the need to visit retailers. This will be even faster when 5G connectivity is a reality. Our recently announced partnership with Qualcomm Technologies, a world leader in next generation mobile technologies, allows us to take maximum advantage of ultra-fast connectivity and download speeds.

### Electrifying the future

We believe the future is electric. But even in a battery powered, autonomous future, customers will want cars that are exciting to drive, refined and agile on the road. The electric motor offers performance coupled with the luxury of silence. A real game changer for the industry, the electric Jaguar I-PACE now on sale, gives us true competitive advantage.

We are also seeing success with our new Range Rover and Range Rover Sport PHEV models that blend battery electric power with our 300bhp 2.0-litre Ingenium petrol engine into a highly capable package that truly demonstrates sustainable luxury.

To enable future electrified models, we are now set on a course to become a leading expert in developing and manufacturing vehicle battery technologies.

Our participation in the all-electric ABB FIA Formula E Championship provides an ideal testing ground – covering everything from charging times and battery life cycles to recycling techniques. This 'race to road' approach will help speed up electric development.

### Shared future

Some cities are beginning to restrict private vehicles; for example, Oslo in Norway will ban all vehicles from 2019. We recognise that most of our customers want to continue to own their cars but people are increasingly seeking new ways to access vehicles outside of the traditional ownership models and we are responding.

InMotion announced in June 2017 a $25 million (£19 million) investment in Lyft, the fastest-growing rideshare company in the US. This investment is supporting Lyft's expansion and technology plans. It is also providing Jaguar Land Rover's InMotion Ventures with the opportunity to develop and test its mobility services, including autonomous vehicles, and to supply Lyft drivers with a fleet of Jaguar and Land Rover vehicles.

InMotion has invested $3 million in US-based self-driving taxi service Voyage to support the development of a global on-demand service, so anyone can summon an autonomous vehicle to their door and reach their destination safely.

### Smarter manufacturing

Currently, we operate on multiple architectures. We are developing a robust, efficient and agile architecture strategy which meets the changing needs of customers and enables us to continue creating products that customers will love, for life, be these with efficient combustion engines, fully electric or plug-in hybrid options.

Our investment into MLA (modular longitudinal architecture) will optimise commonality, reduce complexity, while managing costs as vehicle volumes increase.

# STRATEGIC REPORT (CONTINUED)

SMARTER, SAFER, CLEANER TECHNOLOGY (CONTINUED)

Solihull is now confirmed as the plant that will be upgraded to the new MLA architecture for the next-generation Range Rover and Range Rover Sport. MLA will be fully flexible for car size, capability and powertrain. The architecture could also be used to work with hydrogen-powered options, future proofing our business as we continue our research into the safest and cleanest propulsion systems.

It isn't just our cars undergoing radical transformations. We are equipping our advanced manufacturing facilities with the next generation of technologies to improve productivity and quality, while keeping employee health and wellbeing front and centre.

At Tech Fest in September 2017, we announced our latest collaboration with Harvard University to explore how advances in wearable soft robotics and artificial muscle technologies can be used in our plants. Accelerating operator capability whilst reducing physical strain aim to create a quieter, safer and more efficient working environment.

**Flexible, modular architecture**

By 2020, most of our current vehicles and all of our future nameplates will be engineered from our advanced, flexible architecture. Customers buying any of our vehicles will be able to choose the powertrain system that suits them best.

**Transformed cost structure**

We are on a journey to ensure that our business is leaner and more agile. A data-driven approach to identifying, analysing and solving problems is improving our cost structure. Our team of expert data analysts model complex data to support operational decisions and help us accurately forecast demand and make production corrections quicker. Following trials, US retailers have started to implement Jaguar Land Rover methods of machine learning to systematically verify the accuracy of vehicle orders. This has resulted in a faster sales process and greater efficiency in the manufacturing process.

**Driving a cleaner future**

Whilst our future is electric, in the medium term the internal combustion engine will continue to be part of our journey. Engineered in the UK to give the best driving performance in all conditions, our family of Ingenium petrol and diesel engines delivers enhanced responsiveness and maximum fuel efficiency. Our latest EU6d diesels are amongst the cleanest in the world, with the highest technology after-treatment available and are vital to meet European CO2 targets.

A new set of more demanding and representative European emissions and fuel consumption tests was rolled out in 2017, designed to better replicate real world driving conditions. We have always invested in the best technology, creating our clean Ingenium petrol and diesel engines, which have been designed, engineered and tested to the toughest emissions standards. We fully support the introduction of even more rigorous emissions rules and are confident that our cars will meet the new tests.

CUSTOMER FIRST

Excellent customer service doesn't just mean satisfying customers, it means listening and responding to continuously improve our offering. That is why we used over 250,000 verbatim comments from customers, distilling their thoughts down into five Customer First Principles: Easy to Do Business With, Dependable, Personalised, Make Me Feel Special and Transparent. These principles focus our attention: everything we do, from each screw we turn to each mile we drive, must be done with our customers at front of mind.

That is why we recruit only the most talented people who understand the importance of customer service and can convey these principles throughout our business, continuing to create experiences customers love, for life.

**Representing the voice of the customer**

Our customer-focused innovation team uses feedback to understand what our customers want and develop ideas accordingly. We currently have 10 advisory boards running, bringing together customers from China, the United States and the UK who own the same type of vehicle.

## STRATEGIC REPORT (CONTINUED)

CUSTOMER FIRST (CONTINUED)

*Meanwhile, we have strengthened our customer insight processes to improve the quality and accuracy of* customer data, which is fed back into our engineering teams to find new and improved ways to meet our current and future buyers' demands.

Focusing on the customer ensures every decision we make is tailored with them in mind. That helps us behave in a way that delivers positive outcomes, every time. You don't get an accurate picture of how customers use their cars until you see them actually interacting with them. The closer our mind-set is to the customer, the closer we are to perceiving a new problem that our team can solve. This is how we develop new features and exciting products.

**What matters to our customers**

At Jaguar Land Rover we strive for continuous improvement. In 2018, we are addressing fundamental customer challenges that the business must overcome to succeed through our Customer First transformation plan under five strategic objectives: exceed quality expectations, deliver on time, create value for us, create value for our customers and enable and use our people efficiently.

We have a laser focus on ever higher quality, keeping vehicle programmes on track and ensuring that we optimise resources to deliver an optimal experience to even more customers. This plan is still in its infancy. However, the goals are clear: offering products and services that our customers desire and always striving to exceed customer expectations over time.

ENGAGED, PASSIONATE PEOPLE

Our business is driven by passionate people who design, develop and manufacture cars that our customers love.

There is a *growing demand for digital and electrical skills across engineering and high-value manufacturing* (HVM). Development of these skills to fulfil our growth ambitions requires research-led training, with governments, academia and cross-sector industries working in partnership.

We believe that Jaguar Land Rover is in a unique position to answer the industry's insatiable call for a wide range of skills. We are investing more than £100 million per year in the Jaguar Land Rover Academy offering lifelong learning for employees. Around a quarter of employees are actively working towards a formal academic or professional qualification at all levels from apprenticeship to doctorate. We have also upskilled 7,000 engineers with Masters-level education since 2010.

What makes Jaguar Land Rover's skills programme different is the breadth of institutions with which we partner. We use 10 universities, including Warwick, Cambridge and York, to deliver different specialisms. These technically accredited links into academia are supported by over 100 PhD projects at any one time.

**Automotive apprenticeships**
Jaguar Land Rover is the largest provider of automotive apprenticeships in the UK. Over the last six years, we have invested £186.5 million in young people through our apprenticeship programme.

**A digital call for the world's brightest and best**
To inspire and attract a diverse range of talent, we are investing in innovative recruitment strategies.

We found 15 new engineers through Tech Quest, an online game that tests abilities through puzzles and coding challenges. To inspire and attract a diverse range of talent, we are investing in innovative recruitment strategies. 5 per cent of our Sep 17 apprentices were recruited through our Gorillaz programme. This was an app-based code-breaking challenge with the best-performing candidates fast-tracked through the recruitment process.

# STRATEGIC REPORT (CONTINUED)

## ENGAGED, PASSIONATE PEOPLE (CONTINUED)

**Inspiring tomorrow's engineers**
More than 350,000 schoolchildren participated in our 'Inspiring Tomorrow's Engineers' programme in 2017. This provided interactive learning, team challenges and educational visits aimed at capturing and encouraging an active and ongoing interest in engineering. By 2020 the programme will have engaged with two million young people, nurturing talent for our business and the wider automotive industry.

**Conducting business with integrity**
Alongside their passion for what we do, our people are committed to conducting business fairly and honestly, in line with Jaguar Land Rover's Code of Conduct. We expect the highest level of ethical behaviour when interacting with customers, retailers, suppliers, government agencies, communities and each other.

Our Human Rights Policy sets out our commitment to respect and comply with all relevant laws, rules and regulations in the territories in which we operate. These include provisions addressing slavery, human trafficking, forced labour, child labour and upholding each employee's right to freedom of association.

We have refreshed our assessment of slavery and human trafficking risks within our operations and we continue to deem the risk to be low. During the year ended 31 March 2018, we obtained assurances from key providers of agency staff with regards to their own commitments to respecting human rights.

Jaguar Land Rover's Code of Conduct and Human Rights Policy, as well as our slavery and human trafficking statement for the year ended 31 March 2018, can be found at www.jaguarlandrover.com.

## DRIVING GLOBAL GROWTH

We take pride in being a truly international company trading and manufacturing across the world, but our heart and soul remain firmly in the UK.

For the third consecutive year, we've confirmed our position as Britain's largest automotive manufacturer, for both vehicles and engines. It is through focused, continuous investment that we are creating the most advanced and efficient operational environments across all our sites globally.

With construction almost complete, our 300,000m$^2$ manufacturing site at Nitra, Slovakia offers us the additional capacity necessary to further increase our product range. The £1.3 billion investment will produce a true factory of the future. It will feature dynamic manufacturing technologies including Kuka's Pulse carrier system, which is 30 per cent faster than conventional conveyance systems.

Installation of manufacturing technologies in Nitra continues to reaffirm Jaguar Land Rover as a leader in the development of lightweight technologies in the automotive sector.

In response to growing demand for our vehicles in China, in July 2017 we opened our Chinese engine plant as part of a RMB10.9 billion joint venture with Chery Automobile Ltd. The state-of-the-art facility incorporates the latest cutting-edge engine manufacturing technologies from Jaguar Land Rover to deliver the new Ingenium petrol engine to our Chinese customers.

Mirroring its sister plant in the UK, the Chinese engine facility includes both machining and assembly halls to manufacture the most advanced engines we have ever produced – supporting our global strategy to reduce emissions and improve fuel efficiency – all without compromise for our customers. At more than 50,000m2, the new world-class facility contains a fully flexible production line.

Our Gaydon facilities in Warwickshire, UK, the headquarters for all engineering research and development, are midway through a dramatic £1.3 billion expansion to create a state-of-the-art pioneering hub for Jaguar Land Rover's next-generation design and engineering activities. The hub is supported by a number of 'spokes', centres of engineering excellence located in key markets where we can access the skills in short supply: robotics, data analytics, electrical engineering software and artificial intelligence. All of these are critical to the progression of Jaguar Land Rover's technology ambitions.

# STRATEGIC REPORT (CONTINUED)

DRIVING GLOBAL GROWTH (CONTINUED)

We have this year announced the next spoke, a new software centre in Shannon, Republic of Ireland, harnessing the talent in what is a globally recognised centre of excellence for software engineering. Shannon will act as a research hub supporting our Gaydon pioneering hub and strengthens our international engineering capabilities as we pioneer autonomous and electrification technologies for future Jaguar and Land Rover vehicles.

We've also underpinned our commitment to the United States, one of our biggest markets, by an expanded new North American headquarters in Mahwah, New Jersey. The US$30 million investment includes creation of a 147,000 sq. ft state-of-the-art facility. Technology and skill development were at the forefront of the building design to enable greater collaborative working and housing bespoke facilities for skills training and product research.

## Principal risks and uncertainties

The principal risks and uncertainties of the Jaguar Land Rover group, of which the company is part, are included in the Jaguar Land Rover Automotive plc Annual Report 2017-18. The principal risks and uncertainties are considered at a group level and are considered to be similar to those of the company. Within the context of the wider Jaguar Land Rover group, the principal risks and uncertainties facing the company include, but are not limited to, the following:

### *Credit risk*

The company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is specified within individual agreements.

### *Liquidity risk*

The company maintains receivable based financing that is designed to ensure the company has sufficient available funds for operations.

Lower consumer demand for vehicles and a tightening of conditions in the credit markets, may adversely affect both consumer demand and the cost and availability of finance to the company.

### *Interest rate cash flow risk*

The company has both interest bearing assets (including cash and short-term deposits) and interest bearing liabilities, a proportion of which are at variable rates. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature.

### *Currency risk*

The company's operations are exposed to global market risks, including the effect of changes in foreign currency exchange rates and certain commodity prices.

# STRATEGIC REPORT (CONTINUED)

DRIVING GLOBAL GROWTH (CONTINUED)

***Financial risk management***

The company's operations expose it to a variety of financial risks that include the effects of changes in credit risk, liquidity risk, interest rate risk and currency risk. The company has in place a risk management programme that sets out specific guidelines to manage these risks and the circumstances where it would be appropriate to use financial instruments to manage these.

Approved by the Board of Directors and signed on behalf of the Board of Directors,

S Pearson

S. L. Pearson
Company Secretary
19 October 2018

**Registered Address**
Abbey Road
Whitley
Coventry
CV3 4LF
United Kingdom

# DIRECTORS' REPORT

The directors present their report and the audited financial statements for the company for the year ended 31 March 2018.

**Results and dividends**

The income statement shows a profit after tax for the financial year of £545 million (2017 restated: £690 million).

The directors do not recommend payment of a dividend in respect of the financial results for the year ended 31 March 2018 (2017: £nil).

**Directors**

The directors who held office during the year and subsequently to the date of this report unless otherwise stated are as follows:

A. P. Goss (resigned 22 March 2018)
F. Brautigam (appointed 1 April 2018)
K. D. M. Gregor
I. J. Harnett
H. Kirner
N. M. Rogers
Professor Dr. R. D. Speth
W. Stadler (resigned 30 June 2018)
G. A. McPherson (appointed 1 July 2018)

**Directors' indemnities**

The company's intermediate parent, Jaguar Land Rover Automotive plc, maintained directors' liability insurance for all directors during the financial year and subsequently.

**Branches**

The company has four branches which exist and operate outside of the UK based in Singapore and the United Arab Emirates.

**Going concern**

The following statement is given in the context of the company's position within the Jaguar Land Rover group, headed by Jaguar Land Rover Automotive plc. Jaguar Land Rover Automotive plc obtains borrowings from external lenders and shares this funding across the group, including with the company. The consolidated group financial statements of Jaguar Land Rover Automotive plc have concluded that the going concern assumption is appropriate.

The directors have taken action to ensure that appropriate long term cash resources are in place at the date of signing the financial statements to fund company operations. The directors have reviewed the financial covenant linked to the borrowings in place and believe these will not be breached at any point and that all debt repayments will be met.

Therefore the directors consider after making appropriate enquiries and taking into consideration the risks and uncertainties facing the company, that the company has adequate resources to continue in operation as a going concern for the foreseeable future and is able to meet its financial covenants linked to the borrowings in place. Accordingly, the directors continue to adopt the going concern basis in preparing these financial statements.

The company is a joint guarantor to the external borrowings held by Jaguar Land Rover Automotive plc.

**Future developments**

Future developments impacting the company are disclosed in the strategic report on pages 1 to 11.

**Financial instruments**

The disclosures required in relation to the use of financial instruments by the company, together with details of the company's treasury policy and management are set out in note 33 to the financial statements on pages 67 to 75.

# DIRECTORS' REPORT (CONTINUED)

## Research and development

The company has incurred £2,016 million (2017: £1,794 million) of research and development costs during the financial year. The company is committed to a continuing programme of major expenditure on research and development. Further information is included in the strategic report.

## Environment

Information is included in the strategic report.

## Employee involvement

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings and the company magazines. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

## Employee information

The average number of employees of the company is disclosed in note 5 to the financial statements.

The company is committed to a workplace that is inclusive and values diversity. It is the policy of the company that the training, career development and promotion opportunities for disabled people should be identical to that of other employees. The company actively encourages a diversity of applicants for all job vacancies.

In the event of members of staff becoming disabled every reasonable effort is made by the company to ensure that they can continue to contribute fully within the organisation.

Apart from ensuring that an individual has the ability to carry out a particular role, the company does not discriminate in any way. It endeavours to retain employees if they become disabled, making reasonable adjustments to their role and, if necessary, looking for redeployment opportunities within the company. The company also ensures that training, career development and promotion opportunities are available to all employees irrespective of gender, race, age or disability.

## Charitable donations

Charitable donations in the year amounted to £155,000 (2017: £116,000), principally to national charities. There were no contributions to political parties (2017: £nil).

## Political involvement and contributions

The company respects an employee's right to use their own time and resources to participate as individual citizens in political and governmental activities of their choice. The company itself operates under legal limitations on its ability to engage in political activities, and even where there are no legal restrictions, the company does not typically make contributions to political candidates or political parties or permit campaigning on its property by political candidates (including those who work for the company) or persons working on their behalf. There have not been any political donations in any of the periods covered by these financial statements.

## Slavery and human trafficking statement

Pursuant to Section 54 of the Modern Slavery Act 2015, the company has published a Slavery and Human Trafficking Statement for the year ended 31 March 2018. The Statement sets out the steps that the company has taken to address the risk of slavery and human trafficking occurring within its own operations and its supply chains. This statement can be found on the company's corporate website.

# DIRECTORS' REPORT (CONTINUED)

**Independent auditor**

During the year ended 31 March 2018 KPMG LLP was appointed as the company's auditor.

In accordance with Section 487 of the Companies Act 2006, the company has elected to dispense with laying financial statements before the general meeting, holding annual general meetings and the annual appointment of the auditor. With such an election in force the company's auditor shall be deemed to be re-appointed for each succeeding financial year in accordance with Section 485 of the Act.

**Statement of disclosure of information to auditor**

In the case of each of the persons who are directors at the time when the report is approved under Section 418 of the Companies Act, 2006 the following applies:

- so far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken necessary actions in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Approved by the Board of Directors and signed on behalf of the Board of Directors,

S Pearson

S. L. Pearson
Company Secretary
19 October 2018

**Registered Address**
Abbey Road
Whitley
Coventry
CV3 4LF
United Kingdom

## DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JAGUAR LAND ROVER LIMITED

## Opinion

We have audited the financial statements of Jaguar Land Rover Limited for the year ended 31 March 2018 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

## Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.
Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JAGUAR LAND ROVER LIMITED (CONTINUED)

**Directors' responsibilities**

As explained more fully in their statement set out on page 15, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities**

Our objectives 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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

**The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

J Leech

**John Leech (Senior Statutory Auditor)**
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
United Kingdom
24 October 2018

## INCOME STATEMENT

| Year ended 31 March (£ millions) | Note | 2018 | 2017* restated |
|---|---|---|---|
| **Revenue** | 3 | **21,945** | **20,721** |
| Material and other cost of sales | 4 | (14,622) | (13,687) |
| Employee cost | 5 | (2,457) | (2,299) |
| Employee cost - pension past service credit | 30 | 437 | - |
| Other expenses | 8 | (4,498) | (4,069) |
| Engineering costs capitalised | 9 | 1,610 | 1,426 |
| Other income | | 246 | 299 |
| Depreciation and amortisation | 15, 16 | (2,033) | (1,625) |
| Foreign exchange loss and fair value adjustments | | (57) | (115) |
| Finance income | 10 | 166 | 174 |
| Finance expense (net) | 10 | (85) | (70) |
| **Profit before tax** | 11 | **652** | **755** |
| Income tax expense | 12 | (107) | (65) |
| **Profit for the year** | | **545** | **690** |

All the activities of the company are from continuing operations.

## STATEMENT OF COMPREHENSIVE INCOME

| Year ended 31 March (£ millions) | Note | 2018 | 2017* restated |
|---|---|---|---|
| **Profit for the year** | | **545** | **690** |
| **Items that will not be reclassified subsequently to profit and loss:** | | | |
| Remeasurement of defined benefit obligation | 30 | 545 | (895) |
| Income tax related to items that will not be reclassified | 17 | (91) | 150 |
| | | **454** | **(745)** |
| **Items that may be reclassified subsequently to profit and loss:** | | | |
| Gain/(loss) on cash flow hedges (net) | | 2,394 | (1,745) |
| Income tax related to items that may be reclassified | 17 | (453) | 325 |
| | | **1,941** | **(1,420)** |
| **Other comprehensive income/(expense) net of tax** | | **2,395** | **(2,165)** |
| **Total comprehensive income/(expense) attributable to shareholders** | | **2,940** | **(1,475)** |

*Comparative financial information has been restated as explained in note 2.

# BALANCE SHEET

| Year ended 31 March (£ millions) | Note | 2018 | 2017* restated |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments | 13 | 809 | 554 |
| Other financial assets | 14 | 405 | 262 |
| Property, plant & equipment | 15 | 6,386 | 5,548 |
| Intangible assets | 16 | 6,859 | 6,273 |
| Deferred tax asset | 17 | - | 144 |
| Other non-current assets | 21 | 85 | 80 |
| **Total non-current assets** | | **14,544** | **12,861** |
| **Current assets** | | | |
| Cash and cash equivalents | 18 | 2,087 | 2,195 |
| Short-term deposits | | 2,011 | 2,609 |
| Trade receivables | | 2,269 | 2,066 |
| Other financial assets | 14 | 1,746 | 647 |
| Inventories | 20 | 1,778 | 1,785 |
| Other current assets | 21 | 411 | 363 |
| **Total current assets** | | **10,302** | **9,665** |
| **Total assets** | | **24,846** | **22,526** |
| **Current liabilities** | | | |
| Accounts payable | 22 | 5,692 | 5,021 |
| Short-term borrowings | 23 | 2,967 | 1,481 |
| Other financial liabilities | 24 | 1,089 | 2,082 |
| Provisions | 25 | 649 | 515 |
| Other current liabilities | 26 | 119 | 84 |
| **Total current liabilities** | | **10,516** | **9,183** |
| **Non-current liabilities** | | | |
| Long-term borrowings | 23 | 3,060 | 3,395 |
| Other financial liabilities | 24 | 260 | 1,395 |
| Provisions | 25 | 924 | 852 |
| Retirement benefit obligation | 30 | 415 | 1,438 |
| Other non-current liabilities | 26 | 145 | 138 |
| Deferred tax liabilities | 17 | 461 | - |
| **Total non-current liabilities** | | **5,265** | **7,218** |
| **Total liabilities** | | **15,781** | **16,401** |
| **Equity attributable to shareholders** | | | |
| Ordinary share capital | 27 | 3,561 | 3,561 |
| Other reserves | 28 | 5,504 | 2,564 |
| **Equity attributable to shareholders** | | **9,065** | **6,125** |
| **Total liabilities and equity** | | **24,846** | **22,526** |

*Comparative financial information has been restated as explained in note 2.

These financial statements were approved by the Board of Directors and authorised for issue on 19 October 2018. They were signed on its behalf by:

*Kenneth David Matheson Gregor*
*Director*
Company registered number: 01672070

# STATEMENT OF CHANGES IN EQUITY

| (£ millions) | Ordinary Share Capital | Reserves | Total Equity |
|---|---|---|---|
| **Balance at 1 April 2017* restated** | 3,561 | 2,564 | 6,125 |
| Profit for the year | - | 545 | 545 |
| Other comprehensive income for the year | - | 2,395 | 2,395 |
| **Total comprehensive income** | **-** | **2,940** | **2,940** |
| **Balance at 31 March 2018** | **3,561** | **5,504** | **9,065** |

| (£ millions) | Ordinary Share Capital | Reserves* restated | Total Equity |
|---|---|---|---|
| **Balance at 1 April 2016** | 2,639 | 4,039 | 6,678 |
| Profit for the year | - | 690 | 690 |
| Other comprehensive expense for the year | - | (2,165) | (2,165) |
| **Total comprehensive expense** | **-** | **(1,475)** | **(1,475)** |
| Issue of share capital | 922 | - | 922 |
| **Balance at 31 March 2017** | **3,561** | **2,564** | **6,125** |

*Comparative financial information has been restated as explained in note 2.

# CASH FLOW STATEMENT

| Year ended 31 March (£ millions) | Note | 2018 | 2017* restated |
|---|---|---|---|
| **Cash flows generated from operating activities** | | | |
| Cash generated from operations | 36 | **2,051** | **2,432** |
| Income tax paid | | (17) | (29) |
| **Net cash generated from operating activities** | | **2,034** | **2,403** |
| **Cash flows used in investing activities** | | | |
| Investment in subsidiaries and equity accounted investments | | (261) | (13) |
| Investment in short-term deposits and other investments | | (5,473) | (5,097) |
| Redemption of short-term deposits and other investments | | 6,016 | 3,797 |
| Movements in short-term deposits and other investments | | 543 | (1,300) |
| Purchases of property, plant and equipment | | (1,544) | (1,408) |
| Proceeds from sale of property, plant and equipment | | 1 | - |
| Net cash outflow relating to intangible asset expenditure | | (1,631) | (1,466) |
| Issue of short-term loans to group undertakings | | (500) | - |
| Finance income received | | 26 | 25 |
| Dividends received | | 132 | 43 |
| **Net cash used in investing activities** | | **(3,234)** | **(4,119)** |
| **Cash flow generated from financing activities** | | | |
| Issue of share capital | 27 | - | 922 |
| Finance expenses and fees paid | | (159) | (159) |
| Proceeds from issuance of short-term borrowings | | 2,096 | 488 |
| Repayment of short-term borrowings | | (1,206) | (1,039) |
| Proceeds from issuance of long-term borrowings | | 373 | 857 |
| Repayment of long-term borrowings | | - | (57) |
| Payment of lease obligations | | (1) | (4) |
| Dividends paid | | - | - |
| **Net cash generated from financing activities** | | **1,103** | **1,008** |
| | | | |
| **Net decrease in cash and cash equivalents** | | **(97)** | **(708)** |
| Cash and cash equivalents at beginning of year | | 2,195 | 2,871 |
| Effect of foreign exchange on cash and cash equivalents | | (11) | 32 |
| **Cash and cash equivalents at end of year** | | **2,087** | **2,195** |

*Comparative financial information has been restated as explained in note 2.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 BACKGROUND AND OPERATIONS

The company's principal activity during the year was the design, development, manufacture and marketing of high performance luxury saloons, specialist sports cars, four-wheel drive off-road vehicles and related components.

The company is a limited company incorporated and domiciled in the United Kingdom. The address of its registered office is Abbey Road, Whitley, Coventry, CV3 4LF, United Kingdom. The company is an indirect subsidiary of Tata Motors Limited, India ('Tata Motors Limited').

These financial statements have been prepared in Pound Sterling (GBP) and rounded to the nearest million (£ million) unless otherwise stated.

## 2 ACCOUNTING POLICIES

### STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRS Interpretation Committee interpretations as adopted by the European Union (EU) and the requirements of the United Kingdom Companies Act 2006 applicable to companies reporting under IFRS.

The company is exempt from preparing consolidated group financial statements under Section 400 of the Companies Act 2006 and therefore these financial statements contain information about the company and not its group. The company is included in the consolidated financial statements of Jaguar Land Rover Automotive plc which are available from the company's registered office.

### BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

### GOING CONCERN

The following statement is given in the context of the company's position within the Jaguar Land Rover group, headed by Jaguar Land Rover Automotive plc. Jaguar Land Rover Automotive plc obtains borrowings from external lenders and shares this funding across the group, including with the company. The consolidated group financial statements of Jaguar Land Rover Automotive plc for the year ended 31 March 2018 have concluded that the going concern assumption is appropriate.

The directors have taken action to ensure that appropriate long-term cash resources are in place at the date of signing the financial statements to fund company operations. The directors have reviewed the financial covenants linked to the borrowings in place and believe these will not be breached at any point and that all debt repayments will be met.

Therefore the directors consider, after making appropriate enquiries and taking into consideration the risks and uncertainties facing the company, that the company has adequate resources to continue in operation as a going concern for the foreseeable future and is able to meet its financial covenants linked to the borrowings in place. Accordingly, the directors continue to adopt the going concern basis in preparing these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 2 ACCOUNTING POLICIES (CONTINUED)

### USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRSs requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Those which are significant to the company are discussed separately below:

**Judgements**

In the process of applying the company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements.

*Revenue from multiple element arrangements*

Where a contractual arrangement consists of two or more separate elements that have value to a customer on a standalone basis, revenue is recognised for each element as if it were an individual contract. The total contract consideration is allocated between the separate elements. Sales of bundled offers generally involve service plans and data connectivity contracts with the vehicle. For offers that cannot be separated into identifiable components, revenues are recognised in full over the life of the contract. The company makes judgements on what components can be separated and the appropriate margin used to defer that component (cost plus basis). Refer to note 3.

*Assessment of Cash Generating Units*

The company has determined that there is one cash-generating unit. This is on the basis that there is no smaller groups of assets which can be identified with certainty which generate specific cash flows which are independent of the inflows generated by other assets or groups of assets. Refer to note 16.

*Capitalisation of Product Engineering costs*

The company undertakes significant levels of research and development activity and for each vehicle program a periodic review is undertaken. The company applies judgement in determining at what point in a vehicle programs lifecycle the recognition criteria under IAS 38 are satisfied.

**Estimates and assumptions**

The areas where assumptions and estimates are significant to the financial statements are as described below. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

*Impairment of intangible and tangible fixed assets*

The company tests annually whether indefinite lived intangible fixed assets have suffered any impairment. The recoverable amount of the cash-generating unit is based on the higher of value in use and the fair value less cost of disposal. Value in use is calculated from cash flow projections generally over five years using data from the company's latest internal forecasts, and extrapolated beyond five years using estimated long-term growth rates. Key assumptions and sensitivities for impairment are disclosed in note 16.

*Product warranties*

The company provides product warranties on all new vehicle sales. Provisions are generally recognised when vehicles are sold or when new warranty programs are initiated. Based on historical warranty claim experience, assumptions have to be made on the type and extent of future warranty claims and customer goodwill, as well as on possible recall campaigns. These assessments are based on experience of the frequency and extent of vehicle faults and defects in the past. In addition, the estimates also include assumptions on the amounts of potential repair costs per vehicle and the effects of possible time or mileage limits. The provisions are regularly adjusted to reflect new information. Refer to note 25.

The company also has back-to-back contractual arrangements with its suppliers in the event that a vehicle fault is proven to be a supplier's fault. Estimates are made of the expected reimbursement claims based upon historical levels of recoveries by supplier, adjusted for inflation and applied to the population of vehicles under warranty at the balance sheet date. Supplier reimbursement claims are presented as separate assets in note 14.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 2 ACCOUNTING POLICIES (CONTINUED)

### USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

*Retirement benefit obligation*

The present value of the post-employment benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/ (income) for pensions include the discount rate, inflation and mortality assumptions. Any changes in these assumptions will impact upon the carrying amount of post-employment benefit obligations. Key assumptions and sensitivities for post-employment benefit obligations are disclosed in note 30.

*Variable marketing expense*

The company accrues for the estimated incentives required to be paid to dealers to retail vehicles previously wholesaled. Estimates are revised on a monthly basis and reflect both historical experience, competitor pricing, ageing of vehicles and local market conditions.

### REVENUE RECOGNITION

Revenue comprises the amounts invoiced to customers outside the company and is measured at the fair value of the consideration received or receivable, net of discounts, sales incentives, dealer bonuses and rebates granted, which can be identified at the point of sale. Revenue is presented net of excise duty, where applicable, and other indirect taxes.

Revenue is recognised when the risks and rewards of ownership have been transferred to the customer and the amount of revenue can be reliably measured with it being probable that future economic benefits will flow to the company. The transfer of the significant risks and rewards are defined in the underlying agreements with the customer. Generally vehicle revenue is recognised when the vehicle is allocated to a customer provided that the company has met the criteria for a bill and hold sale.

No sale is recognised where, following disposal of significant risks and rewards, the company retains a significant financial interest. The company's interest in these items is retained in inventory, with a creditor being recognised for the contracted buyback price. Income under such agreements, measured as the difference between the initial sale price and the buyback price, is recognised on a straight-line basis over the term of the agreement. The corresponding costs are recognised over the term of the agreement based on the difference between the item's cost, including estimated costs of resale, and the expected net realisable value.

If a sale includes an agreement for subsequent servicing or maintenance, the fair value of that service is deferred and recognised as income over the relevant service period in proportion with the expected cost pattern of the agreement.

Revenue as reported in the income statement is presented net of the impact of the realised foreign exchange relating to derivative hedging revenue exposures.

### COST RECOGNITION

Costs and expenses are recognised when incurred and are classified according to their nature.

Expenditures are capitalised, where appropriate, in accordance with the policy for internally generated intangible assets and represent employee costs, stores and other manufacturing supplies, and other expenses incurred for product development undertaken by the company.

Material and other cost of sales are reported in the income statement is presented net of the impact of the realised foreign exchange relating to derivative hedging cost exposures

### GOVERNMENT GRANTS AND INCENTIVES

Government grants are recognised when there is reasonable assurance that the company will comply with the relevant conditions and the grant will be received.

Government grants are recognised in the income statement, either on a systematic basis when the company recognises, as expenses, the related costs that the grants are intended to compensate or, immediately, if the costs have already been incurred.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 2 ACCOUNTING POLICIES (CONTINUED)

### GOVERNMENT GRANTS AND INCENTIVES (CONTINUED)

Government grants related to assets are deducted from the cost of the asset and amortised over the useful life of the asset. Government grants related to income are presented as an offset against the related expenditure, and government grants that are awarded as incentives with no ongoing performance obligations to the company are recognised as other income in the period in which the grant is received.

Sales tax incentives received from governments are recognised in the income statement at the reduced tax rate, and revenue is reported net of these sales tax incentives.

### FOREIGN CURRENCY

The company has a functional and presentation currency of GBP.

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of transaction. Foreign currency denominated monetary assets and liabilities are remeasured into the functional currency at the exchange rate prevailing on the balance sheet date. Exchange differences are recognised in the income statement as 'Foreign exchange loss'.

### INCOME TAXES

Income tax expense comprises current and deferred taxes. Income tax expense is recognised in the income statement, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity, whereby tax is also recognised outside profit or loss), or where related to the initial accounting for a business combination. In the case of a business combination the tax effect is included in the accounting for the business combination.

Current income taxes are determined based on respective taxable income of each taxable entity and tax rules applicable for respective tax jurisdictions.

Deferred tax assets and liabilities are recognised for the future tax consequences of temporary differences between the carrying values of assets and liabilities and their respective tax bases, and unutilised business loss and depreciation carry-forwards and tax credits. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, unused tax losses, depreciation carry-forwards and unused tax credits could be utilised.

Deferred tax assets and liabilities are measured based on the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost of acquisition or construction less accumulated depreciation less accumulated impairment, if any. Land is not depreciated.

Cost includes purchase price, non-recoverable taxes and duties, labour cost and direct overheads for self-constructed assets and other direct costs incurred up to the date the asset is ready for its intended use.

Interest cost incurred for constructed assets is capitalised up to the date the asset is ready for its intended use, based on borrowings incurred specifically for financing the asset or the weighted average rate of all other borrowings, if no specific borrowings have been incurred for the asset.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Estimated useful lives of the assets are as follows:

| Class of property, plant and equipment | Estimated useful life (years) |
|---|---|
| Buildings and leased assets | 20 to 40 |
| Plant and equipment | 3 to 30 |
| Vehicles | 3 to 10 |
| Computers | 3 to 6 |
| Furniture and fixtures | 3 to 20 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 2 ACCOUNTING POLICIES (CONTINUED)

### PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The depreciation for property, plant and equipment with finite useful lives is reviewed at least at each year end. Changes in expected useful lives are treated as changes in accounting estimates.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Freehold land is measured at cost and is not depreciated. Heritage assets are not depreciated as they are considered to have a residual value in excess of cost. Residual values are re-assessed on an annual basis.

Depreciation is not recorded on assets under construction until construction and installation are complete and the asset is ready for its intended use. Assets under construction include capital advances. Depreciation is not recorded on heritage assets as the company considers their residual value to approximate cost.

### INTANGIBLE ASSETS

**Acquired intangible assets**

Intangible assets purchased, including those acquired in business combinations, are measured at acquisition cost which is the fair value on the date of acquisition, where applicable, less accumulated amortisation and accumulated impairment, if any. Intangible assets with indefinite lives are reviewed annually to determine whether an indefinite-life assessment continues to be supportable. If not, the change in the useful-life assessment from indefinite to finite is made on a prospective basis.

For intangible assets with definite lives, amortisation is provided on a straight-line basis over the estimated useful lives of the acquired intangible assets as per the amortisation periods below:

| Class of intangible asset | Estimated amortisation period (years) |
|---|---|
| Software | 2 to 8 |
| Goodwill | Indefinite life |
| Intellectual property rights and other intangibles | Indefinite life |

The amortisation for intangible assets with finite useful lives is reviewed at least at each year-end. Changes in expected useful lives are treated as changes in accounting estimates.

Capital work-in-progress includes capital advances. Customer-related intangibles acquired in a business combination consist of dealer networks. Intellectual property rights and other intangibles mainly consist of brand names, which are considered to have indefinite lives due to the longevity of the brands.

**Internally generated intangible assets**

Product engineering costs incurred on new vehicle platforms, engines, transmission and new products are recognised as intangible assets – when feasibility has been established, the company has committed technical, financial and other resources to complete the development and it is probable that the asset will generate future economic benefits.

The costs capitalised include the cost of materials, direct labour and directly attributable overhead expenditure incurred up to the date the asset is available for use.

Interest cost incurred is capitalised up to the date the asset is ready for its intended use, based on borrowings incurred specifically for financing the asset or the weighted average rate of all other borrowings, if no specific borrowings have been incurred for the asset.

Product engineering cost is amortised over the life of the related product being a period of between two and ten years.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment loss, if any.

Amortisation is not recorded on product engineering in progress until development is complete.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 2 ACCOUNTING POLICIES (CONTINUED)

### INTANGIBLE ASSETS (CONTINUED)

### IMPAIRMENT

**Property, plant and equipment and other intangible assets**

At each balance sheet date, the company assesses whether there is any indication that any property, plant and equipment and intangible assets may be impaired. If any such impairment indicator exists, the recoverable amount of an asset is estimated to determine the extent of impairment, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, or earlier if there is an indication that the asset may be impaired.

The estimated recoverable amount is the higher of value in use and fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

An annual impairment review for heritage assets is performed as the assets are held at cost and not depreciated and any impairment in the carrying value is recognised immediately in the income statement.

**Equity accounted investments: Joint ventures and associates**

The requirements of IAS 39 *Financial Instruments: Recognition and Measurement* are applied to determine whether it is necessary to recognise any impairment loss with respect to the company's investments in an associate or joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (the higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, demand deposits and highly liquid investments with an original maturity of up to three months that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

### INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Cost of raw materials and consumables are ascertained on a first-in first-out basis. Costs, including fixed and variable production overheads, are allocated to work-in-progress and finished goods determined on a full absorption cost basis. Net realisable value is the estimated selling price in the ordinary course of business less estimated cost of completion and selling expenses.

Inventories include vehicles sold subject to repurchase arrangements. These vehicles are carried at cost to the company and are amortised in changes in stocks and work in progress to their residual values (i.e. estimated second hand sale value) over the term of the arrangement.

### PROVISIONS

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are held for product warranty, legal and product liabilities, and environmental risks as detailed in note 25 to the financial statements.

Supplier reimbursements are recognised as separate assets within other financial assets. See note 14.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 2 ACCOUNTING POLICIES (CONTINUED)

### LONG-TERM INCENTIVE PLAN ('LTIP')

The company operates a share-based payment LTIP arrangement for certain employees. The scheme provides a cash payment to the employee based on a specific number of phantom shares at grant date and the share price of Tata Motors Limited at the vesting date, subject to profitability and employment conditions. These are accounted for as cash settled arrangements, whereby a liability is recognised at fair value at the date of grant, using a Black-Scholes model. At each balance sheet date until the liability is settled, the fair value of the liability is remeasured, with any changes in fair value recognised in the income statement.

### LEASES

At the inception of a lease, the lease arrangement is classified as either a finance lease or an operating lease, based on the substance of the lease arrangement.

#### Assets taken on finance lease

A finance lease is recognised as an asset and a liability at the commencement of the lease, at the lower of the fair value of the asset and the present value of the minimum lease payments. Initial direct costs, if any, are also capitalised and, subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### Assets taken on operating lease

Leases other than finance leases are operating leases, and the leased assets are not recognised on the company's balance sheet. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease in 'Other expenses'.

### EMPLOYEE BENEFITS

#### Pension plans

The company operates three defined benefit pension schemes, the UK defined benefit schemes were previously contracted out of the second state pension scheme until 5 April 2016. The assets of the plans are held in separate trustee administered funds. The plans provide for a monthly pension after retirement based on salary and service as set out in the rules of each scheme.

Contributions to the plans by the company take into consideration the results of actuarial valuations. The plans with a surplus position at the balance sheet date have been limited to the maximum economic benefit available from unconditional rights to refund from the scheme or reduction in future contributions. Where the company is considered to have a contractual obligation to fund the pension plan above the accounting value of the liabilities, an onerous obligation is recognised.

The UK defined benefit schemes were closed to new joiners in April 2010.

For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial revaluations being carried out at the end of each reporting period.

Defined benefit costs are split into three categories:

– Current service cost, past-service cost and gains and losses on curtailments and settlements;

– Net interest cost; and

– Remeasurement.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 2 ACCOUNTING POLICIES (CONTINUED)

### EMPLOYEE BENEFITS (CONTINUED)

**Pension plans (continued)**

Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled.

Past service cost, including curtailment gains and losses, is generally recognised in profit or loss in the period of scheme amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability.

The company presents these defined benefit costs within 'Employee costs' in the income statement (see note 5).

Separate defined contribution schemes are available to all other employees of JLR. Costs in respect of these schemes are charged to the income statement as incurred.

**Actuarial gains and losses**

Actuarial gains and losses relating to retirement benefit plans are recognised in other comprehensive income in the year in which they arise. Actuarial gains and losses relating to long-term employee benefits are recognised in the income statement in the year in which they arise.

**Measurement date**

The measurement date of all retirement plans is 31 March.

### FINANCIAL INSTRUMENTS

**Classification, initial recognition and measurement**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets are classified into categories: financial assets at fair value through profit or loss (which can either be held for trading or designated as fair value options); held-to-maturity investments; loans and receivables; and available-for-sale financial assets. Financial liabilities are classified into financial liabilities at fair value through profit or loss or classified as other financial liabilities. Where the company has received from third parties consideration in the form of convertible loan notes, these are designated as fair value through profit or loss using the fair value option.

Financial instruments are recognised on the balance sheet when the company becomes a party to the contractual provisions of the instrument.

Initially, a financial instrument is recognised at its fair value. Transaction costs directly attributable to the acquisition or issue of financial instruments are recognised in determining the carrying amount, if it is not classified as at fair value through profit or loss. Subsequently, financial instruments are measured according to the category in which they are classified.

*Financial assets and financial liabilities at fair value through profit or loss – held for trading:* Derivatives, including embedded derivatives separated from the host contract, are classified into this category. Financial assets and liabilities are measured at fair value with changes in fair value recognised in the income statement with the exception of those derivatives that are designated as cash flow hedging instruments and for which hedge accounting is applied.

*Held to maturity:* Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the company has the intention and ability to hold to maturity and that are not classified as financial assets at fair value through profit or loss or financial assets available-for-sale and do not meet the criteria for loans and receivables. Subsequently, these are measured at amortised cost using the effective interest method less impairment losses, if any.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 2 ACCOUNTING POLICIES (CONTINUED)

### FINANCIAL INSTRUMENTS (CONTINUED)

**Classification, initial recognition and measurement (continued)**

*Loans and receivables:* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that are not classified as financial assets at fair value through profit or loss or financial assets available-for-sale. Subsequently, these are measured at amortised cost using the effective interest method less impairment losses, if any. These include cash and cash equivalents, trade receivables, finance receivables and other financial assets.

*Available-for-sale financial assets:* Available-for-sale financial assets are those non-derivative financial assets that are either designated as such upon initial recognition or are not classified in any of the other financial assets categories. Subsequently, these are measured at fair value and changes therein are recognised in other comprehensive income, net of applicable deferred income taxes, and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. The company does not hold any available-for-sale financial assets.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.

Embedded derivatives relating to prepayment options on senior notes are not considered as closely related and are separately accounted unless the exercise price of these options is approximately equal on each exercise date to either the amortised cost of the senior notes or the present value of the lost interest for the remaining term of the senior notes.

**Equity instruments**

An equity instrument is any contract that evidences residual interests in the assets of the company after deducting all of its liabilities. Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

**Other financial liabilities**

These are measured at amortised cost using the effective interest method.

**Determination of fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Subsequent to initial recognition, the company determines the fair value of financial instruments that are quoted in active markets using the quoted bid prices (financial assets held) or quoted ask prices (financial liabilities held) and using valuation techniques for other instruments. Valuation techniques include discounted cash flow method and other valuation models.

**Derecognition of financial assets and financial liabilities**

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expires or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or has expired.

When a financial instrument is derecognised, the cumulative gain or loss in equity (if any) is transferred to the income statement.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 2 ACCOUNTING POLICIES (CONTINUED)

### FINANCIAL INSTRUMENTS (CONTINUED)

**Impairment of financial assets**

The company assesses at each balance sheet date whether there is objective evidence that a financial asset, other than those held at fair value through profit or loss, or a group of financial assets is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

*Loans and receivables & held to maturity:* Objective evidence of impairment includes default in payments with respect to amounts receivable from customers, significant financial difficulty of the customer or bankruptcy. Impairment loss in respect of assets held at amortised cost is calculated as the difference between their carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Such impairment loss is recognised in the income statement. If the amount of an impairment loss decreases in a subsequent year, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal is recognised in the income statement.

*Equity investments:* A significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets is impaired. If any such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value), less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in profit and loss. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

**Hedge accounting**

The company uses foreign currency forward contracts, foreign currency options and borrowings denominated in foreign currency to hedge its risks associated with foreign currency fluctuations relating to highly probable forecast transactions. The company designates these foreign currency forward contracts, foreign currency options and borrowing denominated in foreign currency in a cash flow hedging relationship by applying hedge accounting principles under IAS 39.

The company uses cross currency interest rate swaps to convert some of its issued debt from foreign denominated fixed rate debt to GBP floating rate debt. Hedge accounting is applied using both fair value and cash flow hedging relationships. The designated risks are foreign currency and interest rate risks.

These derivative contracts are stated at fair value on the balance sheet at each reporting date. Changes in the fair value of these contracts that are designated in a fair value hedge are taken to the income statement. They offset the change in fair value, attributable to the hedged risks, of the borrowings designated as the hedge item. Changes in the fair value of the derivative contracts that are designated and effective as hedges of future cash flows are recognised in other comprehensive income (net of tax), and any ineffective portion is recognised immediately in the income statement. Amounts accumulated in other comprehensive income are reclassified to the income statement in the periods in which the forecast transactions affect profit or loss.

For options, the time value is not a designated component of the hedge, and therefore all changes in fair value related to the time value of the instrument are recognised immediately in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. For forecast or committed transactions, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is retained there until the forecast transaction impacts profit or loss.

If the forecast transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is immediately transferred and recognised in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 2 ACCOUNTING POLICIES (CONTINUED)

### NEW ACCOUNTING PRONOUNCEMENTS

**In the current year, the company adopted the following standards, revisions and amendments to the standards and interpretations (which had a material impact upon the company)**

IAS 7 has been amended to require additional disclosure to help users evaluate changes in borrowings. The amendment is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted subject to EU endorsement. The company has included a net debt reconciliation within its disclosures following the adoption of this standard (see note 36).

**The following pronouncements, issued by the IASB and endorsed by the EU, are not yet effective and have not yet been adopted by the company. The company is evaluating the impact of these pronouncements on the financial statements.**

**IFRS 9 Financial Instruments** addresses the classification, measurement and recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and contractual cash flow characteristics of the financial asset. The company has undertaken an assessment of classification and measurement and the company does not expect a material impact on the financial statements given that equity investments which are not equity accounted are valued at fair value through profit or loss at 31 March 2018.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. The company has undertaken an assessment of the impairment provisions, especially with regards to Trade Receivables and has applied the simplified approach under the standard. For all principal markets, the company operates with major financial institutions who take on the principal risks of sales to customers and consequently the company receive full payment for these receivables between 0 – 30 days. Therefore the company has concluded that there will be no material impact under the standard for remeasurement of impairment provisions under the standard.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the company's risk management practices. The company has undertaken an assessment of their IAS 39 hedge relationships against the requirements of IFRS 9 and have concluded that the company's current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9. Due to the materially of the company's hedge book, a full transition project has occurred during FY18 which has resulted in substantial modifications to existing treasury processes and systems.

The company has identified a change with respect to the treatment of the cost of hedging, specifically the time value of the foreign exchange options and foreign currency basis included in the foreign exchange forwards. The time value of foreign exchange options and the foreign currency basis included in the foreign exchange forwards will now be recorded in a separate component of the statement of comprehensive income and consequently it is expected that there will be a reduction in the volatility of amounts reported in the income statement. Foreign exchange gains/losses for non-financial items will now be recognised as an adjustment to that non-financial item (i.e. inventory) when recorded on the balance sheet and this adjustment will be made on a prospective basis from 1 April 2018.

Furthermore, it is expected this it will be possible in the future to apply hedge accounting rules to the majority of commodity hedging instruments.

# NOTES (CONTINUED)

## 2 ACCOUNTING POLICIES (CONTINUED)

### NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Under the transition rules of IFRS 9, the company will restate comparative financial information for accounting for both the time value of options and cross currency basis. The company is currently assessing the financial impact of this change.

In addition, under the published change issued by the IASB in February 2018 regarding the modification of financial liabilities, an additional charge of £5.0m will be recognised for the financial year ended 31 March 2018 after transition to IFRS 9 on 1 April 2018, representing the loss recognised on the modification of the company's undrawn revolving credit facility.

**IFRS 15 Revenue from Contracts with Customers** replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations (such as IFRIC 13 Customer Loyalty Programmes).

Application of IFRS 15 is mandatory for reporting periods beginning on or after 1 January 2018, although early adoption is permitted. The company will apply IFRS 15 for the first time for the financial year beginning on 1 April 2018.

The company proposes to apply the modified retrospective application approach, meaning that comparative periods are not restated according to IFRS 15. Instead, the cumulative effect of the application of the Standard will be recognised in opening balance sheet reserves.

The new standard identifies a comprehensive five-step model for determining revenue recognition, including the amount and timing that revenue is recognised. This is generally to be applied to all contracts with customers. The model depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

The company has assessed the impact on the financial statements of adopting IFRS 15 and it is not expected to have a significant impact on the company's profitability, liquidity and capital resources or financial position.

The anticipated primary impact on the company refers to consideration payable to customers, which the Standard defines as discounts, rebates, refunds or other forms of disbursement to customers (such as retailers) or end customers (as part of the overall distribution chain), where a service is not received in return and, if a service *is* received in return, where it cannot be fair-valued. The treatment of such items has resulted in a reclassification of marketing expenses to revenue reductions.

Other specific impacts on the company will occur in particular with regard to the treatment of associated vehicle sale performance obligations, and the assessment of principal versus agent in providing or arranging for storage, freight, and in-transit insurance alongside the sale of a vehicle. These transport arrangements are made when delivering vehicles to retailers across the global network.

In accordance with IFRS 15, the company has determined that it is an agent in providing these services, and therefore will amend the presentation of these amounts from a gross basis (i.e. revenues and costs separately) to a net basis (where consideration received will be presented net of associated costs in the income statement).

The company has also identified a reclassification of royalty income and incremental income from customers from Other income to Revenue as part of the transition to the new standard,

The result of the changes discussed above will not materially impact the company's profit before tax. The anticipated impact to the company's earnings before interest and tax (EBIT) is an increase of 0.1% for each of the financial years.

# NOTES (CONTINUED)

## 2 ACCOUNTING POLICIES (CONTINUED)

### NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The introduction of the Standard will give rise to new financial statement categories in the statement of financial position, being "contract assets" and "contract liabilities." These items can arise through advance payment or advance delivery at the contract level. In addition, disclosure requirements are extended.

The IASB published Amendments to IFRS 15 in April 2016. These changes allow for transitional arrangements for modified and fulfilled contracts, and clarify the identification of performance obligations, principal-agent relationships, and licenses. The application of these amendments is also not expected to have any major impact on the company's profitability, liquidity and capital resources or financial position.

**IFRS 16 ('Leases')** sets out a new approach to accounting for leases by lessees. Whilst under IAS 17, the accounting treatment of a lease was determined on the basis of the transfer of risks and rewards incidental to ownership of the asset, whereas under the new standard, all leases in general are to be accounted for by the lessee in a similar way to finance lease arrangements. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to EU endorsement and the adoption of IFRS 15.

The company has continued with its IFRS 16 project during the financial year though as the compilation and assessment of contracts has yet to be concluded, a reliable quantitative measurement cannot be made. The company will however apply the available exceptions regarding the recognition of short-term leases and low value leasing assets.

**The following pronouncements, issued by the IASB, have not yet been endorsed by the EU, are not yet effective and have not yet been adopted by the company. The company is evaluating the impact of these pronouncements on the financial statements.**

**IFRS 17 Insurance Contracts** was published on 18 May 2017 and replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, such as roadside assistance, entities have an accounting policy choice to account for them in accordance with either IFRS 17 or IFRS 15. Due to the existing operating activities of the company, adoption of IFRS 17 is not expected to have a material impact on either the profitability or the net assets of the company.

**IFRIC 23 Uncertainty over Income Tax Treatments** was published in June 2017 which sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. If no, the entity should reflect the effect of uncertainty in determining its accounting tax position. The Interpretation applies to annual reporting periods beginning on or after 1 January 1 2019 with earlier application permitted.

The IASB issued an amendment to IAS 28 (Investments in Associated and Joint Ventures) in September 2014 to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- Requires full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations); and
- Requires the partial recognition of gains and losses where the assets do not constitute a business, i.e., a gain or loss is recognized only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, for example, whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves. The IASB has postponed indefinitely the effective date, with early adoption permitted.

# NOTES (CONTINUED)

## 2 ACCOUNTING POLICIES (CONTINUED)

### NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

The IASB issued **IFRIC 22 (Foreign Currency Transaction and Advance Consideration)** in December 2016 which clarified accounting requirements with respect to the exchange rate to be used for reporting foreign currency transactions when payment is made or received in advance. This is effective for annual periods beginning on or after 1 January 2018. The company is currently assessing the impact of adopting IFRIC 22.

The IASB issued amendments to **IFRS 2 (Share-based Payments)** in June 2016 that clarify how to account certain share-based payment transactions. The amendments for:

- Accounting requirements with respect to the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- Accounting requirements with respect to share-based payment transactions with a net settlement feature for withholding tax obligations; and
- Modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective from 1 January 2018, with early adoption permitted.

The company is currently assessing the impact of adopting the amendments.

The IASB issued amendments to IAS 19 (Employee Benefits) in February 2018 which clarified the accounting for plan amendments, curtailments and settlements. If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.

In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The company is currently assessing the impact of adopting the amendments.

### PRIOR YEAR RESTATEMENT

The income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and related notes (where relevant) have been restated in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for prior year errors identified subsequent to the filing of the financial statements for the year ended 31 March 2017.

**Intercompany cut-off**

A revenue cut-off error was identified on sales to certain related group companies for the years ended 31 March 2017 and 31 March 2016. This was identified following a comprehensive assessment of JLR's contractual arrangements as part of the overall group's transition to the new revenue recognition accounting standard, IFRS 15 Revenue *From Contracts With Customers.*

The impact of correcting for this error on the opening reserves for the year ended 31 March 2018 was a £58 million decrease in opening retained earnings.

The impact of correcting for this error in the year ended 31 March 2017 was a £5 million decrease in profit after tax and a £53 million decrease in opening retained earnings in relation to the profit impact of the error in the year ended 31 March 2016. There was a £58 million decrease in net assets reported at 31 March 2017.

# NOTES (CONTINUED)

## 2 ACCOUNTING POLICIES (CONTINUED)

### PRIOR YEAR RESTATEMENT (CONTINUED)

The impact of the restatement on the components of total comprehensive income for the year ended 31 March 2017 is as follows:

| As at 31 March (£ millions) | 2017 |
|---|---|
| ***Impact on the income statement*** | |
| Decrease in revenue | (47) |
| Decrease in material and other cost of sales | 41 |
| Decrease in income tax expense | 1 |
| **Decrease in profit for the year** | **(5)** |
| **Change in other comprehensive income** | **-** |
| ***Change in total comprehensive income*** | **(5)** |

The impact of the restatement on the components of the balance sheet for the year ended 31 March 2017 is as follows:

| As at 31 March (£ millions) | 2017 |
|---|---|
| **Impact on the balance sheet** | |
| Increase in deferred tax asset | 13 |
| Decrease in trade receivables | (232) |
| Increase in inventories | 166 |
| Increase in accounts payable | (5) |
| **Decrease in net assets** | **(58)** |

The impact of the restatement on the components of the cash flow statement for the year ended 31 March 2017 is as follows:

| As at 31 March (£ millions) | 2017 |
|---|---|
| **Impact on the cash flow statement** | |
| Decrease in profit for the year | (5) |
| Decrease in income tax expense | (1) |
| **Decrease in cash flow from operating activities before changes in assets and liabilities** | **(6)** |
| Decrease in trade receivables | 42 |
| Increase in inventories | (41) |
| Increase in accounts payable | 5 |
| **Change in cash generated from operations** | **-** |
| **Change in cash and cash equivalents** | **-** |

**Transfer pricing adjustment**

During the year ended 31 March 2018 the company concluded an agreement between itself, its subsidiary undertaking JLR North America LLC, HM Revenue and Customs and the Internal Revenue Service to set the transfer price charged on relevant intercompany sales. As a result of concluding this agreement, and taking into account the associated negotiations though out fiscal year 31 March 2017, it was determined that at 31 March 2017 an adjustment should have been made to the financial statements to accrue an estimate for the adjustment to prior year revenues and the associated income tax impact.

The impact of correcting for this error on the opening reserves for the year ended 31 March 2018 was a £76 million decrease in opening retained earnings.

The impact of correcting for this error in the year ended 31 March 2017 was a £76 million decrease in profit after tax. There was £76 million decrease in net assets reported at 31 March 2017.

# NOTES (CONTINUED)

## 2 ACCOUNTING POLICIES (CONTINUED)

### PRIOR YEAR RESTATEMENT (CONTINUED)

The impact of the restatement on the components of total comprehensive income for the year ended 31 March 2017 is as follows:

| As at 31 March (£ millions) | 2017 |
|---|---|
| **Impact on the income statement** | |
| Decrease in revenue | (94) |
| Decrease in income tax expense | 18 |
| **Decrease in profit for the year** | **(76)** |
| **Change in other comprehensive income** | **-** |
| **Change in total comprehensive income** | **(76)** |

The impact of the restatement on the components of the balance sheet for the year ended 31 March 2017 is as follows:

| As at 31 March (£ millions) | 2017 |
|---|---|
| **Impact on the balance sheet** | |
| Increase in deferred tax asset | 18 |
| Decrease in trade receivables | (94) |
| **Decrease in net assets** | **(76)** |

The impact of the restatement on the components of the cash flow statement for the year ended 31 March 2017 is as follows:

| As at 31 March (£ millions) | 2017 |
|---|---|
| **Impact on the cash flow statement** | |
| Decrease in profit for the year | (76) |
| Decrease in income tax expense | (18) |
| **Decrease in cash flow from operating activities before changes in assets and liabilities** | **(94)** |
| Decrease in trade receivables | 94 |
| **Change in cash generated from operations** | **-** |
| **Change in cash and cash equivalents** | **-** |

# NOTES (CONTINUED)

## 3 REVENUE

| Year ended 31 March (£ millions) | 2018 | 2017* restated |
|---|---|---|
| Sale of goods | 23,310 | 22,012 |
| Realised revenue hedges | (1,365) | (1,291) |
| **Total revenue** | **21,945** | **20,721** |

*Comparative financial information has been restated as explained in note 2.

Included within 'Sale of goods' is £42 million (2017: £21 million) of revenue which has arisen from the sale of service plans.

## 4 MATERIAL AND OTHER COST OF SALES

| Year ended 31 March (£ millions) | 2018 | 2017* restated |
|---|---|---|
| Changes in inventories of finished goods and work-in-progress | (26) | (150) |
| Purchase of products for sale | 1,083 | 946 |
| Raw materials and consumables used | 13,747 | 12,982 |
| Realised purchase hedges | (182) | (91) |
| **Total material and other cost of sales** | **14,622** | **13,687** |

*Comparative financial information has been restated as explained in note 2.

## 5 EMPLOYEE NUMBERS AND COST

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Wages and salaries | 1,861 | 1,763 |
| Social security costs and benefits | 277 | 259 |
| Pension costs | 319 | 277 |
| **Total employee cost** | **2,457** | **2,299** |

| Average employee numbers for the year ended 31 March 2018 | Non-agency | Agency | Total |
|---|---|---|---|
| Manufacturing | 18,098 | 2,834 | 20,932 |
| Research and development | 7,226 | 2,937 | 10,163 |
| Other | 5,933 | 1,305 | 7,238 |
| **Total employee numbers** | **31,257** | **7,076** | **38,333** |

| Average employee for the numbers year ended 31 March 2017 | Non-agency | Agency | Total |
|---|---|---|---|
| Manufacturing | 17,496 | 3,704 | 21,200 |
| Research and development | 7,777 | 1,646 | 9,423 |
| Other | 5,158 | 1,092 | 6,250 |
| **Total employee numbers** | **30,431** | **6,442** | **36,873** |

# NOTES (CONTINUED)

## 6 DIRECTORS' EMOLUMENTS

| Year ended 31 March (£) | 2018 | 2017 |
|---|---|---|
| Directors' emoluments | 7,871,596 | 7,663,927 |
| Amounts receivable under long-term incentive scheme | (6,730) | 1,726,921 |
| Post-employment benefits | 461,173 | 873,214 |
| Compensation for loss of office | 1,051,188 | - |

The aggregate of emoluments and amounts receivable under the long-term incentive plan ('LTIP') of the highest paid director was £3,709,532 (2017: £4,393,459), together with a cash allowance in lieu of pension benefits of £393,673 (2017: £873,214). During the year, the value of LTIP awards accrued has decreased by £14,128 (2017: increase of £537,445) which will become payable in future periods.

The highest paid director's emoluments are paid by Jaguar Land Rover Automotive plc, an intermediate parent, who makes recharges to the company.

| Year ended 31 March (number) | 2018 | 2017 |
|---|---|---|
| Retirement benefits are accruing to the following number of directors under: | | |
| Defined contribution schemes | 1 | - |

## 7 LONG-TERM INCENTIVE PLAN ('LTIP')

During the year ended 31 March 2016, the Group issued the final share-based payment LTIP arrangement based on the share price of Tata Motors Limited. The scheme provides a cash payment to the employee based on a specific number of phantom shares at the grant date and the share price of Tata Motors Limited at the vesting date. The cash payment is dependent upon continued employment for the duration of the three-year vesting period.

| Year ended 31 March (number) | 2018 | 2017 |
|---|---|---|
| Outstanding at the beginning of the year | 4,115,221 | 6,032,857 |
| Granted during the year | - | 974 |
| Vested in the year | (1,918,331) | (1,665,663) |
| Forfeited in the year | (267,499) | (252,947) |
| **Outstanding at the end of the year** | **1,929,391** | **4,115,221** |

The weighted average share price of the 1,918,331 phantom share awards vested in the year was £4.33 (2017: £4.75).

The weighted average remaining contractual life of the outstanding phantom share payment awards is 0.3 years (2017: 0.8 years).

No phantom shares were exercisable as at 31 March 2018 (2017: nil).

During the year ended 31 March 2018, £1 million was recognised as a credit to 'Employee cost' in the income statement in relation to the share-based payment LTIP (2017: charge of £8 million).

The fair value of the balance sheet liability in respect of phantom share awards outstanding at the year end was £7 million (2017: £16 million) and is included in 'Provisions'.

# NOTES (CONTINUED)

## 7 LONG-TERM INCENTIVE PLAN ('LTIP') (CONTINUED)

The fair value of the awards was calculated using a Black-Scholes model at the grant date. The fair value is updated at each reporting date as the awards are accounted for as cash-settled under IFRS 2 Share-based Payment. The inputs into the model are based on Tata Motors Limited historical data and the risk-free rate is calculated on government bond rates. The significant inputs used are:

| As at 31 March | 2018 | 2017 |
|---|---|---|
| Risk-free rate (%) | 0.87 | 0.18 |
| Dividend yield (%) | 0.00 | 0.04 |
| Weighted average fair value per phantom share | £3.32 | £4.69 |

During the year ended 31 March 2017, the company announced a new LTIP to replace the previous share-based payment LTIP. The new LTIP, effective from June 2016, provides a cash payment to certain employees based on the Group's performance against long-term business metrics related to performance and strategic priorities (over a period of three years). This new LTIP benefit scheme has been accounted for in accordance with IAS 19 Employee Benefits.

## 8 OTHER EXPENSES

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Stores, spare parts and tools | 174 | 196 |
| Freight cost | 831 | 767 |
| Works, operations and other costs | 2,419 | 2,015 |
| Repairs | 33 | 30 |
| Power and fuel | 77 | 68 |
| Rent, rates and other taxes | 27 | 19 |
| Insurance | 22 | 31 |
| Impairment of investments | 6 | 11 |
| Write-down of intangible assets | 46 | - |
| Impairment of property, plant and equipment | 18 | 12 |
| Product warranty | 507 | 619 |
| Publicity | 338 | 301 |
| **Total other expenses** | **4,498** | **4,069** |

## 9 RESEARCH AND DEVELOPMENT

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Total research and development costs incurred | 2,016 | 1,794 |
| Research and development expensed | (406) | (368) |
| **Engineering costs capitalised** | **1,610** | **1,426** |
| Interest capitalised | 88 | 89 |
| Research and development grants capitalised | (105) | (89) |
| **Total internally developed intangible additions** | **1,593** | **1,426** |

Engineering costs capitalised of £1,610 million (2017: £1,426 million) comprises £556 million (2017: £507 million) included in 'Employee cost' and £1,054 million (2017: £919 million) included in 'Other expenses' in the income statement.

# NOTES (CONTINUED)

## 9 RESEARCH AND DEVELOPMENT (CONTINUED)

During the year ended 31 March 2014, legislation was enacted to allow UK companies to elect for the Research and Development Expenditure Credit (RDEC) on qualifying expenditure incurred since 1 April 2013. In the year ended 31 March 2018, as a result of this election, £102 million (2017: £87 million) of the RDEC – the proportion relating to capitalised product development expenditure and other intangible assets – has been offset against the cost of the respective assets. The remaining £45 million (2017: £38 million) of the RDEC has been recognised as 'Other income'.

## 10 FINANCE INCOME AND EXPENSE

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Finance income | 27 | 25 |
| Dividends received | 139 | 149 |
| **Total finance income** | **166** | **174** |
| Total interest on financial liabilities measured at amortised cost | (169) | (154) |
| Interest income on derivatives designated as a fair value hedge of financial liabilities | 3 | - |
| Unwind of discount on provisions | (13) | (13) |
| Interest capitalised | 94 | 97 |
| **Total interest expense** | **(85)** | **(70)** |

The capitalisation rate used to calculate borrowing costs eligible for capitalisation was 4.1 per cent (2017: 4.3 per cent).

## 11 PROFIT BEFORE TAX

Expense/(income) included in profit before tax for the year are as follows:

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Foreign exchange (gain)/loss on loans | (111) | 212 |
| Foreign exchange (gain)/loss on economic hedges of loans* | (11) | 4 |
| Foreign exchange (gain)/loss on derivatives* | (119) | 28 |
| Unrealised loss/(gain) on commodities | 2 | (148) |
| Depreciation of property, plant and equipment | 987 | 768 |
| Amortisation of intangible assets (excluding internally generated development costs) | 96 | 79 |
| Amortisation of internally generated development costs | 950 | 778 |
| Operating lease rentals in respect of plant, property and equipment | 58 | 51 |
| Loss on disposal of property, plant and equipment and software | 21 | 13 |
| Auditor remuneration | 3 | 3 |

* Comparatives have been revised for the amendment in the current year to disclose separately 'Foreign exchange (gain)/loss on economic hedges of loans' as a separate line item, which has resulted in a reclassification of £4 million from amounts from 'Foreign exchange (gain)/loss on derivatives'.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 11 PROFIT BEFORE TAX (CONTINUED)

The following table sets out the auditor remuneration for the year (rounded to the nearest 0.1 million):

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Fees payable to the company's auditor for the audit of the company's annual accounts | 2.3 | 2.5 |
| Fees payable to the company's auditor for amounts incurred on behalf of other group companies | 0.2 | 0.2 |
| **Total audit fees** | **2.5** | **2.7** |
| Audit related assurance services | - | - |
| Other assurance services | - | 0.3 |
| **Total non-audit fees** | **-** | **0.3** |
| **Total audit and related fees** | **2.5** | **3.0** |

## 12 TAXATION

**Recognised in the income statement**

| Year ended 31 March (£ millions) | 2018 | 2017* restated |
|---|---|---|
| **Current tax expense** | | |
| Current year | 44 | 35 |
| Prior year | 2 | 11 |
| **Current tax expense** | **46** | **46** |
| **Deferred tax expense/(credit)** | | |
| Origination and reversal of temporary differences | 81 | 107 |
| Adjustments for prior years | (28) | (29) |
| Rate change | 8 | (59) |
| **Deferred tax expense** | **61** | **19** |
| **Total income tax expense** | **107** | **65** |

*Comparative financial information has been restated as explained in note 2.

Prior year adjustments relate to differences between prior year estimates of tax position and current revised estimates or submission of tax computations.

**Recognised in the statement of comprehensive income**

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Deferred tax expense/(credit) on actuarial gains on retirement benefits | 104 | (178) |
| Deferred tax expense/(credit) on change in fair value of cash flow hedges | 455 | (349) |
| Deferred tax (credit)/expense on rate change | (15) | 52 |
| **Total tax expense/(credit)** | **544** | **(475)** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 12 TAXATION (CONTINUED)

### Reconciliation of effective tax rate

| Year ended 31 March (£ millions) | 2018 | 2017* restated |
|---|---|---|
| Profit for the year | 545 | 690 |
| Total income tax expense | 107 | 65 |
| **Profit before tax** | **652** | **755** |
| Income tax expense using the tax rates applicable to individual entities of 2018: 19.0% (2017: 20.0%) | 124 | 151 |
| Non-deductible expenses | 29 | 16 |
| Non-taxable income | (45) | (36) |
| Changes in tax rate | 8 | (59) |
| Withholding taxes suffered | 17 | 11 |
| Over provided in prior years | (26) | (18) |
| **Total income tax expense** | **107** | **65** |

*Comparative financial information has been restated as explained in note 2.

Included within prior period adjustments for the year ended 31 March 2018 is £26 million credit relating to revisions of prior year estimates of the company's tax position to bring them in line with the latest estimates and currently filed tax positions.

The UK Finance Act 2016 was enacted during the year ended 31 March 2017 which included provisions for a further reduction in the UK corporation tax rate to 17 per cent with effect from 1 April 2020.

Accordingly, UK deferred tax has been provided at blended rates of 17.8 per cent on assets (2017: 18.5 per cent) and 17.6 per cent on liabilities (2017: 17.7 per cent).

## 13 INVESTMENTS

Investments consist of the following:

| As at 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Unquoted equity investments | 809 | 554 |

On 31 August 2017, Jaguar Land Rover Limited acquired a further 10,000 'B' shares in Spark44 (JV) Limited for consideration of £1 million, increasing its share of the voting rights of Spark44 (JV) Limited from 50% to 50.5%. In addition, Spark44 (JV) Limited's Articles of Association together with the Shareholder Agreement were amended to give Jaguar Land Rover Limited control of Spark44 (JV) Limited as the majority shareholder. Prior to this, Jaguar Land Rover Limited had joint control over Spark44 (JV) Limited. Spark44 (JV) Limited is not publicly listed.

During the year ended 31 March 2018, the company invested £1 million for 100 per cent of the share capital of Jaguar Land Rover Taiwan Company Limited and 100 per cent of the share capital of Jaguar Land Rover Ireland (Services) Limited. The company also invested an additional £253 million in Jaguar Land Rover Slovakia s.r.o.

Jaguar Land Rover Limited and Jaguar Land Rover Holdings Limited acquired 100% of the share capital of GDV Imports México, S.A.P.I. de C.V and Servicios GDV México, S.A. de C.V. during the year ended 31 March 2018 for a consideration of £6 million.

During the year ended 31 March 2017, the company invested £1 million for 100 per cent of the share capital of Jaguar Land Rover Colombia SAS and invested an additional £131 million in Jaguar e Land Rover Brasil Indústria e Comércio de Veículos Ltda.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 13 INVESTMENTS (CONTINUED)

Details of the direct and indirect subsidiary undertakings are as follows, each being a 100 per cent interest in the ordinary share capital of the company unless otherwise stated:

| Name of company | Principal place of business and country of incorporation | Registered office address |
|---|---|---|
| Jaguar Land Rover North America, LLC. | USA | 100 Jaguar Land Rover Way, Mahwah, NJ 07495, USA |
| Jaguar Land Rover Deutschland GmbH | Germany | Am Kronberger Hang 2a, 65824 Schwalbach/Ts, Germany |
| Jaguar Land Rover Belux N.V. | Belgium | Generaal Lemanstraat 47, 2018 Antwerpen, Belgium |
| Jaguar Land Rover Austria GmbH | Austria | Siezenheimer Strasse 39a, 5020 Salzburg Austria |
| Jaguar Land Rover Italia SpA | Italy | Via Alessandro Marchetti, 105 - 00148, Roma, Italy |
| Jaguar Land Rover Australia (Pty) Limited | Australia | 65 Epping Road, North Ryde, New South Wales 2113, Australia |
| Jaguar Land Rover Espana SL | Spain | Torre Picasso, Plaza Pablo Ruiz Picasso, 1 – Planta 42, 28020 Madrid, Spain |
| Jaguar Land Rover Nederland B.V. | Holland | PO Box 40, Stationsweg 8, 4153 RD Beesd, Netherlands |
| Jaguar Land Rover Portugal Veiculos e Pecas, Lda. | Portugal | Edificio Escritorios do Tejo, Rua do Polo Sul, Lote 1.01.1.1 – 3.° B-3, Parish of Santa Maria dos Olivais, Municipality of Lisboa, Portugal |
| Jaguar Land Rover Japan Limited | Japan | Garden City Shinagawa Gotenyama Bldg. 9F, 6-7-29 Kita-Shinagawa, Shinagawa-ku, Tokyo 141-0001, Japan |
| Jaguar Land Rover Korea Co. Ltd | Korea | 25F West Mirae Asset Center 1 Building 67 Suha-dong, Jung-gu Seoul 100-210, Korea |
| Jaguar Land Rover Canada ULC | Canada | 75 Courtneypark Drive West, Unit 3 Mississauga, ON L5W 0E3, Canada |
| Jaguar Land Rover France SAS | France | Z.A. Kleber – Batiment Ellington, 165 Boulevard de Valmy, 92706 Colombes, Cedex, France |
| Jaguar e Land Rover Brasil Indústria e Comércio de Veículos Ltda. | Brazil | Avenida Ibirapuera 2332, Torre I - 10º andar- Moema 04028-002, São Paulo-SP-Brazil |
| Jaguar Land Rover (South Africa) Holdings Limited | England and Wales | Abbey Road, Whitley, Coventry CV3 4LF England |
| Jaguar Land Rover (South Africa) (Pty) Ltd | South Africa | 28 Victoria Link, Route 21 Corporate Park, Nellmapius Drive, Irene X30, Centurion, Tshwane, Gauteng, South Africa |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 13 INVESTMENTS (CONTINUED)

| Name of company | Principal place of business and country of incorporation | Registered office address |
|---|---|---|
| Jaguar Land Rover India Limited | India | Nanavati Mahalaya, 3rd floor, 18, Homi Mody Street, Mumbai, Maharashtra, India 400001 |
| Daimler Transport Vehicles Limited | England and Wales | Abbey Road, Whitley, Coventry CV3 4LF England |
| S.S. Cars Limited | England and Wales | Abbey Road, Whitley, Coventry CV3 4LF England |
| The Lanchester Motor Company Limited | England and Wales | Abbey Road, Whitley, Coventry CV3 4LF England |
| The Daimler Motor Company Limited | England and Wales | Abbey Road, Whitley, Coventry CV3 4LF England |
| The Jaguar Collection Limited | England and Wales | Abbey Road, Whitley, Coventry CV3 4LF England |
| Jaguar Land Rover Pension Trustees Limited | England and Wales | Abbey Road, Whitley, Coventry CV3 4LF England |
| JLR Nominee Company Limited | England and Wales | Abbey Road, Whitley, Coventry CV3 4LF England |
| Jaguar Cars Limited | England and Wales | Abbey Road, Whitley, Coventry CV3 4LF England |
| Land Rover Exports Limited | England and Wales | Abbey Road, Whitley, Coventry CV3 4LF England |
| Land Rover Ireland Limited | Ireland | c/o LK Shields Solicitors 39/40 Upper Mount Street Dublin 2, Ireland |
| Jaguar Cars South Africa (Proprietary) Ltd | South Africa | Simon Vermooten Road, Silverton, Pretoria 0184 South Africa |
| Jaguar Land Rover Slovakia s.r.o. | Slovakia | Vysoka 2/B, 811 06 Bratislava, Slovakia |
| Jaguar Land Rover Singapore Pte. Ltd | Singapore | 138 Market Street, CapitaGreen, Singapore |
| Jaguar Racing Limited | England and Wales | Abbey Road, Whitley, Coventry CV3 4LF England |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 13 INVESTMENTS (CONTINUED)

| Name of company | Principal place of business and country of incorporation | Registered office address |
|---|---|---|
| InMotion Ventures Limited | England and Wales | Abbey Road, Whitley, Coventry CV3 4LF England |
| Jaguar Land Rover Colombia SAS | Colombia | CL 67735 OFE, 1204 Bogotan, Cundinamarka 1 3192 900 Colombia |
| InMotion Ventures 1 Limited | England and Wales | Abbey Road, Whitley, Coventry CV3 4LF England |
| InMotion Ventures 2 Limited | England and Wales | Abbey Road, Whitley, Coventry CV3 4LF England |
| InMotion Ventures 3 Limited | England and Wales | Abbey Road, Whitley, Coventry CV3 4LF England |
| Jaguar Land Rover México, S.A.P.I. de C.V. | Mexico | Av. Javier Barros Sierra No.540 Piso 7 Oficina 703, Col. Santa Fe la Fe Del., Alvaro Obregón, México, D.F. C.P. 01210 |
| Jaguar Land Rover Servicios México, S.A. de C.V. | Mexico | Av. Javier Barros Sierra No.540 Piso 7 Oficina 703, Col. Santa Fe la Fe Del., Alvaro Obregón, México, D.F. C.P. 01210 |
| Jaguar Land Rover Taiwan Company Limited | Taiwan | 12F, No. 40, Sec. 1, Chengde Road, Datong Dist., Taipei City 103, Taiwan (R.O.C.) |
| Jaguar Land Rover Ireland (Services) Limited | Ireland | c/o 40 Upper Mount Street, Dublin 2, Ireland |
| Spark44 (JV) Limited (50.5% share ownership) | England and Wales | Abbey Road, Whitley ,Coventry, CV3 4LF England |
| Spark44 Limited (50.5% share ownership) | England and Wales | The White Collar Factory, 1 Old Street Yard, London EC1Y 8AF England |
| Spark44 LLC (50.5% share ownership) | USA | 5870 W. Jefferson Blvd, Studio H,Los Angeles, CA 90016, USA |
| Spark44 Canada Inc (50.5% share ownership) | Canada | 1059 Spadina Road, Toronto, ON M5N 2M7, Canada |
| Spark44 GmbH (50.5% share ownership) | Germany | Querstr. 7, 60322 Frankfurt am Main |
| Spark44 Communications S.L. (50.5% share ownership) | Spain | Prim 19, 4th floor, 28004 Madrid |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 13 INVESTMENTS (CONTINUED)

| Name of company | Principal place of business and country of incorporation | Registered office address |
|---|---|---|
| Spark44 S.r.l (50.5% share ownership) | Italy | Via Marcella, 4/6- 00153 Rome |
| Spark44 Pty Limited (50.5% share ownership) | Australia | Level 5, 65 Berry Street, North Sydney , NSW 2060 |
| Spark44 DMCC (50.5% share ownership) | UAE | Unit No: 1401 &1404, Swiss Tower, Plot No: JLT-PH2-Y3A Jumeirah Lakes Towers, Dubai, UAE |
| Spark44 Seoul Limited (50.5% share ownership) | South Korea | F12, 11 Cheonggyecheon-ro, Jongno-gu, Seoul, Korea |
| Spark44 Singapore Pte Limited (50.5% share ownership) | Singapore | 138 Market Street 36-01/02 CapitaGreen, Singapore 048946 |
| Spark44 Japan K.K. (50.5% share ownership) | Japan | 2-23-1-806, Akasaka, Minato-ku, Tokyo, 153-0042 |
| Spark44 Demand Creation Partners Limited (50.5% share ownership) | India | Block A, Level 1, Shiv Sagar Estate, Dr. Annie Besent Road, Worli,Mumbai – 400018 |
| Spark44 South Africa Pty Ltd (50.5% share ownership) | South Africa | 21 Forssman Close, Barbeque Downs, Kyalami |
| Spark44 Shanghai (50.5% share ownership) | China | Rooms 6401,6402,6501,6502, No.436 Ju Men Road, Huang Pu District, Shanghai |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 13 INVESTMENTS (CONTINUED)

The company has the following investments in joint ventures, associates and trade investments at 31 March 2018:

| Name of investment | Proportion of voting rights | Principal place of business and country of incorporation | Principal activity | Registered office address |
|---|---|---|---|---|
| **Joint ventures and associates** | | | | |
| Chery Jaguar Land Rover Automotive Co. Ltd. | 25.00% | China | Manufacture and assembly of vehicles | Room 1102, Binjiang International Plaza, No 88 Tonggang Road, Changshu Economic and Technical Development Zone, Suzhou City, Jiangsu Province, China |
| Jaguar Cars Finance Limited | 49.90% | England & Wales | Non-trading | 280 Bishopsgate, London, EC2M 4RB, England |
| Synaptiv Limited | 33.30% | England & Wales | Business and domestic software development | 84 Kirkland Avenue, Ilford, Essex, England, IG5 0TN |
| CloudCar Inc. | 33.30% | USA | Automotive software development | 2191 E Bayshore Rd 200 Palo Alto, CA 94303 USA |
| Driveclubservice Pte. Limited | 25.08% | Singapore | Holding company and mobility application owner/licensor | 22 Sin Ming Lane, #06-76, Midview City, Singapore 573969 |
| Driveclub Limited | 25.83% | Hong Kong | Vehicle leasing | Unit A, 9/F, D2 Place ONE, 9 Cheung Yee Street, Lai Chi Kok, Kowloon, Hong Kong |
| **Trading investments** | | | | |
| Jaguar Land Rover Schweiz AG | 10.0% | Switzerland | Sale of automotive vehicles and parts | Badenerstrasse 600 8048 Zurich Switzerland |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 13 INVESTMENTS (CONTINUED)

Except for CloudCar Inc. and Driveclub Limited, the proportion of voting rights disclosed in the table above is the same as the company's interest in the ordinary share capital of each undertaking.

Chery Jaguar Land Rover Automotive Co. Ltd. is a limited liability company whose legal form confirms separation between the parties to the joint arrangement. There is no contractual arrangement or any other facts or circumstances that indicate that the parties to the joint control of the arrangement have rights to the assets or obligations for the liabilities relating to the arrangement. Accordingly, Chery Jaguar Land Rover Automotive Co. Ltd. is classified as a joint venture. Chery Jaguar Land Rover Automotive Co. Ltd is not publicly listed.

During the year ended 31 March 2018, a dividend of £103 million was received from Chery Jaguar Land Rover Automotive Co. Ltd. (2017: £34 million).

During the year ended 31 March 2018, the company purchased 25.08% of the share capital of Driveclubservice Pte. Limited for £0.2 million. In addition, the company also purchased 1 per cent of the share capital of Driveclub Limited, the wholly owned subsidiary of Driveclubservice Pte. Limited. However, the company has 25.83% of the voting rights, being the 1 per cent of share capital held and the indirect shareholding held through Driveclubservice Pte. Limited.

During the year ended 31 March 2018, the company's proportion of the ordinary share capital in Cloudcar Inc. was diluted to 26 per cent of the ordinary share capital. However, the company has 33 per cent of the voting rights since a number of ordinary shares are in the form of options either available for issue or assigned to the employees of CloudCar Inc.

The company has no additional rights or influence over Jaguar Cars Finance Limited other than the voting rights attached to the ordinary share capital.

During the year ended 31 March 2017, the company purchased 32 per cent of the ordinary share capital of CloudCar Inc. for £12 million.

## 14 OTHER FINANCIAL ASSETS

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| **Non-current** | | |
| Warranty reimbursement and other receivables | 116 | - |
| Restricted cash held as security | 1 | 1 |
| Derivative financial instruments | 286 | 255 |
| Others | 2 | 6 |
| **Total non-current other financial assets** | **405** | **262** |
| **Current** | | |
| Warranty reimbursement and other receivables | 98 | 2 |
| Restricted cash held as security | 8 | - |
| Derivative financial instruments | 264 | 169 |
| Accrued income | 35 | 18 |
| Amounts owed by group undertakings | 1,337 | 455 |
| Other | 4 | 3 |
| **Total current other financial assets** | **1,746** | **647** |

Amounts owed by group undertakings are repayable on demand.

'Warranty reimbursement and other receivables' as at 31 March 2018 includes £82 million in current and £116 million in non-current assets relating to supplier reimbursements for warranty (see note 25). The amounts have been recognised to correct an immaterial error and to align with other peer automotive companies.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 15 PROPERTY, PLANT AND EQUIPMENT

| (£ millions) | Land and buildings | Plant and Equipment | Vehicles | Computers | Fixtures & fittings | Leased Assets | Heritage Vehicles | Under construction | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| **Balance at 1 April 2016** | **944** | **5,626** | **4** | **63** | **58** | **43** | **52** | **490** | **7,280** |
| Additions | - | - | - | 24 | 9 | - | - | 1,323 | 1,356 |
| Transfers | 101 | 832 | - | - | - | - | - | (933) | - |
| Disposals | (3) | (26) | - | (1) | - | - | - | - | (30) |
| **Balance at 31 March 2017** | **1,042** | **6,432** | **4** | **86** | **67** | **43** | **52** | **880** | **8,606** |
| Additions | - | - | - | 17 | 7 | - | - | 1,841 | 1,865 |
| Transfers | 333 | 1,545 | - | - | - | - | - | (1,878) | - |
| Disposals | (1) | (287) | (1) | (2) | - | (35) | (1) | - | (327) |
| Asset write-downs | - | - | - | - | - | - | - | (5) | (5) |
| **Balance at 31 March 2018** | **1,374** | **7,690** | **3** | **101** | **74** | **8** | **51** | **838** | **10,139** |
| **Depreciation** | | | | | | | | | |
| **Balance at 1 April 2016** | **103** | **2,128** | **2** | **14** | **15** | **34** | **-** | **-** | **2,296** |
| Depreciation charge for the year | 39 | 708 | - | 9 | 8 | 4 | - | - | 768 |
| Disposals | (1) | (17) | - | - | - | - | - | - | (18) |
| Asset write-downs | - | 12 | - | - | - | - | - | - | 12 |
| **Balance at 31 March 2017** | **141** | **2,831** | **2** | **23** | **23** | **38** | **-** | **-** | **3,058** |
| Depreciation charge for the year | 54 | 911 | - | 12 | 9 | 1 | - | - | 987 |
| Disposals | - | (267) | (1) | (2) | - | (35) | - | - | (305) |
| Asset write-downs | - | - | - | - | - | - | 13 | - | 13 |
| **Balance at 31 March 2018** | **195** | **3,475** | **1** | **33** | **32** | **4** | **13** | **-** | **3,753** |
| **Net Book Value** | | | | | | | | | |
| At 1 April 2016 | 841 | 3,498 | 2 | 49 | 43 | 9 | 52 | 490 | 4,984 |
| At 31 March 2017 | 901 | 3,601 | 2 | 63 | 44 | 5 | 52 | 880 | 5,548 |
| **At 31 March 2018** | **1,179** | **4,215** | **2** | **68** | **42** | **4** | **38** | **838** | **6,386** |

As part of the company's review of the carrying value of property, plant and equipment, £18 million of heritage assets and assets under construction have been written down and this has been recognised as an expense within 'Other expenses' in the year ended 31 March 2018. During the year ended 31 March 2017, £12 million of plant and machinery was written down.
The carrying value of 'Plant and Equipment' held under finance leases at 31 March 2018 was £4 million (2017: £5 million).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 16 INTANGIBLE ASSETS

| (£ millions) | Goodwill | Software | Intellectual property rights and other intangibles | Product Development in Progress | Capitalised product development | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance at 1 April 2016** | **382** | **568** | **396** | **1,541** | **4,601** | **7,488** |
| Additions | - | 88 | 14 | 1,433 | - | 1,535 |
| Capitalised product development - internally developed | - | - | - | (816) | 816 | - |
| Disposals | - | (83) | - | - | (138) | (221) |
| **Balance at 31 March 2017** | **382** | **573** | **410** | **2,158** | **5,279** | **8,802** |
| Additions - externally purchased | - | 79 | 6 | - | - | 85 |
| Additions - internally developed | - | - | - | 1,593 | - | 1,593 |
| Capitalised product development - internally developed | - | - | - | (1,668) | 1,668 | - |
| Disposals | - | (25) | - | - | (131) | (156) |
| Asset write-downs - assets under construction | - | (9) | - | (24) | - | (33) |
| **Balance at 31 March 2018** | **382** | **618** | **416** | **2,059** | **6,816** | **10,291** |
| **Amortisation** | | | | | | |
| **Balance at 1 April 2016** | **-** | **185** | **-** | **-** | **1,707** | **1,892** |
| Amortisation for the year | - | 79 | - | - | 778 | 857 |
| Disposals | - | (82) | - | - | (138) | (220) |
| **Balance at 31 March 2017** | **-** | **182** | **-** | **-** | **2,347** | **2,529** |
| Amortisation for the year | - | 94 | 2 | - | 950 | 1,046 |
| Disposals | - | (25) | - | - | (131) | (156) |
| Asset write down | | 13 | - | - | - | 13 |
| **Balance at 31 March 2018** | **-** | **264** | **2** | **-** | **3,166** | **3,432** |
| **Net Book Value** | | | | | | |
| At 1 April 2016 | 382 | 383 | 396 | 1,541 | 2,894 | 5,596 |
| At 31 March 2017 | 382 | 391 | 410 | 2,158 | 2,932 | 6,273 |
| **At 31 March 2018** | **382** | **354** | **414** | **2,059** | **3,650** | **6,859** |

Following a review of all intangible assets, £46 million of costs were identified as being written-down and recognised as an expense within 'Other expenses' in the year ended 31 March 2018 (2017: £nil).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 16 INTANGIBLE ASSETS (CONTINUED)

### IMPAIRMENT TESTING

The intellectual property rights of the company are deemed to have an indefinite useful life on the basis of the expected longevity of the brand names.

The directors are of the view that the operations of the group, headed by Jaguar Land Rover Automotive plc and including the company, represent a single cash-generating unit.

The assets of Jaguar Land Rover Limited are considered for the risk of impairment annually and the recoverable amounts of indefinite life assets, comprising intellectual property rights and goodwill, and intangible assets not yet available for use have been measured in accordance with IAS 36.

The smallest identifiable group of assets that generates cash flows largely independent of other assets and that comprises the indefinite life assets, goodwill and assets not yet available for use of the company is the cash-generating unit comprising the tangible and intangible assets of the company.

For the periods presented the recoverable amount of this cash-generating unit has been calculated with reference to its value in use. The key assumptions of this calculation are shown below:

| As at 31 March | 2018 | 2017 |
|---|---|---|
| Period on which management approved forecasts are based | 5 years | 5 years |
| Growth rate applied beyond approved forecast period | 2.0% | 1.9% |
| Pre-tax discount rate | 8.7% | 10.9% |

The growth rates used in the value in use calculation reflect those inherent within the Jaguar Land Rover Automotive Plc's business plan (which incorporates the company), which is primarily a function of the Group's cycle plan assumptions, past performance and management's expectation of future market developments through to 2022/23. The business plan also considers other key assumptions, such as volume forecasts, exchange rates, commodity prices, production capacity and costs, fixed costs and tax rates. The cash flows are then extrapolated into perpetuity assuming a growth rate as stated above and is set with reference to projected GDP growth of the countries in which the company operates.

### SENSITIVITY TO KEY AND OTHER ASSUMPTIONS

The sensitivity analysis below has been presented in the interests of transparency only. It is not believed that any reasonably possible movement in key and other assumptions will lead to an impairment.

Sensitivity analysis has been completed on each key assumption in isolation. This indicates that the value in use calculation will be equal to its carrying value with an increase in the pre-tax discount rate of 4.0 per cent (2017: 4.5 per cent) or a reduction in the growth rates used to extrapolate cash flows beyond the five-year period of the Group's business plan of 5.3 per cent (2017: 4.0 per cent). In addition, a reduction in EBIT margin of 3.5 per cent in the terminal year (2017: 3.2 per cent) will result in the value in use calculation being equal to its carrying amount.

As disclosed on page 82–83 of the Jaguar Land Rover Automotive plc Annual Report 2017-18, the Group considers the key assumptions in the cash flow forecasts to be sales volumes, exchange rates, commodity rates, production capacity and costs and capital expenditure. It continues to monitor on a periodic basis the impact of certain future strategic (implications of Brexit, increasing tariffs), operational (diesel uncertainty), legal and compliance (environmental regulations and compliance) and financial risks (competitive business efficiency, exchange rate fluctuations) in order to assess whether an impairment trigger has occurred. In particular, certain Brexit scenarios and tariff scenarios could lead to an impairment trigger, although none has been identified as at 31 March 2018.

The Jaguar Land Rover Automotive Plc Group (which includes the company) continues to assess the potential impacts of Brexit. Until the Brexit negotiations are sufficiently concluded, it is not possible to determine with certainty the full financial impact to the company and impact on the value in use calculation, if any.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 17 DEFERRED TAX ASSETS AND LIABILITIES

| (£ millions) | Opening balance | Recognised in profit or loss | Recognised in other comprehensive income | Closing balance |
|---|---|---|---|---|
| **At 31 March 2018** | | | | |
| **Deferred tax assets** | | | | |
| Property, plant & equipment | 37 | (31) | - | 6 |
| Derivative financial instruments | 547 | (14) | (453) | 80 |
| Compensated absences and retirement benefits | 248 | (72) | (91) | 85 |
| Tax loss | 213 | 131 | - | 344 |
| R&D expenditure credit | 69 | 28 | - | 97 |
| **Total deferred tax asset** | **1,114** | **42** | **(544)** | **612** |
| **Deferred tax liabilities** | | | | |
| Intangible assets | (969) | (103) | - | (1,072) |
| Provisions, allowances for doubtful receivables | (1) | - | - | (1) |
| **Total deferred tax liability** | **(970)** | **(103)** | **-** | **(1,073)** |
| **Net deferred tax asset/(liability)** | **144** | **(61)** | **(544)** | **(461)** |
| | | | | |
| **At 31 March 2017** | | | | |
| **Deferred tax assets** | | | | |
| Property, plant & equipment | - | 37 | - | 37 |
| Provisions, allowances for doubtful receivables | 8 | (8) | - | - |
| Derivative financial instruments | 238 | (16) | 325 | 547 |
| Compensated absences and retirement benefits | 105 | (7) | 150 | 248 |
| Tax loss | 182 | 31 | - | 213 |
| R&D expenditure credit | 50 | 19 | - | 69 |
| **Total deferred tax asset** | **583** | **56** | **475** | **1,114** |
| **Deferred tax liabilities** | | | | |
| Intangible assets | (866) | (103) | - | (969) |
| Property, plant & equipment | (29) | 29 | - | - |
| Provisions, allowances for doubtful receivables | - | (1) | - | (1) |
| **Total deferred tax liability** | **(895)** | **(75)** | **-** | **(970)** |
| **Net deferred tax (liability)/asset* restated** | **(312)** | **(19)** | **475** | **144** |

*Comparative financial information has been restated as explained in note 2.

The company recognises all deferred tax assets at 31 March 2018 and 31 March 2017 in view of the continued profitability of the company. All deferred tax assets and deferred tax liabilities at 31 March 2018 and 31 March 2017 are presented as non-current.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Cash and cash equivalents | 2,087 | 2,195 |

## 19 ALLOWANCES FOR TRADE AND OTHER RECEIVABLES

Changes in the allowances for trade and other receivables are as follows:

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| At beginning of year | 55 | 50 |
| Charged during the year | 3 | - |
| Utilised during the year | (2) | (2) |
| Unused amounts reversed | (1) | (7) |
| Foreign currency translation | (8) | 14 |
| **At end of year** | **47** | **55** |

## 20 INVENTORIES

| Year ended 31 March (£ millions) | 2018 | 2017* restated |
|---|---|---|
| Raw materials and consumables | 71 | 104 |
| Work in progress | 330 | 330 |
| Finished goods | 1,377 | 1,351 |
| **Total inventories** | **1,778** | **1,785** |

*Comparative financial information has been restated as explained in note 2.

Inventories of finished goods include £343 million (2017: £280 million), relating to vehicles sold to rental car companies, fleet customers and others with guaranteed repurchase arrangements.

Cost of inventories (including cost of purchased products) recognised as an expense during the year amounted to £16,712 million (2017: £16,104 million).

During the year, the company recorded an inventory write-down expense of £55 million (2017: £16 million). The write-down is included in 'Material and other cost of sales'.

## 21 OTHER ASSETS

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| **Non-current assets** | | |
| Prepaid expenses | 85 | 77 |
| Other | - | 3 |
| **Total non-current other assets** | **85** | **80** |
| **Current assets** | | |
| Recoverable VAT | 182 | 166 |
| Prepaid expenses | 109 | 94 |
| Research and development credit | 114 | 97 |
| Other | 6 | 6 |
| **Total current other assets** | **411** | **363** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 22 ACCOUNTS PAYABLE

| Year ended 31 March (£ millions) | 2018 | 2017* restated |
|---|---|---|
| Trade payables | 4,308 | 4,064 |
| Liabilities for expenses | 523 | 462 |
| Capital creditors | 745 | 366 |
| Liabilities to employees | 116 | 129 |
| **Total accounts payable** | **5,692** | **5,021** |

*Comparative financial information has been restated as explained in note 2.

## 23 INTEREST BEARING LOANS AND BORROWINGS

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| **Short-term borrowings** | | |
| Loans | 2,967 | 1,481 |
| **Short-term borrowings** | **2,967** | **1,481** |
| **Long-term borrowings** | | |
| Loans | 3,060 | 3,395 |
| **Long-term borrowings** | **3,060** | **3,395** |
| Finance lease obligations (see note 34) | 2 | 3 |
| **Total borrowings** | **6,029** | **4,879** |

Included within short-term borrowings are external bank loans of £149 million (2017: £179 million). All other short-term and long-term borrowings are intercompany loans.

The contractual cash flows of interest bearing debt and borrowings as of 31 March 2018 and 31 March 2017 are set out below, including estimated interest payments and assuming the debt will be repaid at the maturity date.

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| **Due in** | | |
| 1 year or less | 3,110 | 1,647 |
| 2nd and 3rd years | 1,228 | 1,610 |
| 4th and 5th years | 1,305 | 848 |
| More than 5 years | 1,008 | 1,414 |
| **Total contractual cash flows** | **6,651** | **5,519** |

## 24 OTHER FINANCIAL LIABILITIES

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| **Current** | | |
| Interest accrued | 32 | 26 |
| Derivative financial instruments | 668 | 1,760 |
| Liability for vehicles sold under a repurchase arrangement | 387 | 295 |
| Finance lease obligations | 2 | 1 |
| **Total current other financial liabilities** | **1,089** | **2,082** |
| **Non-current** | | |
| Derivative financial instruments | 257 | 1,391 |
| Other payables | 3 | 2 |
| Finance lease obligations | - | 2 |
| **Total non-current other financial liabilities** | **260** | **1,395** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 25 PROVISIONS

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| **Current** | | |
| Product warranty | 531 | 418 |
| Legal and product liability | 100 | 86 |
| Provisions for environmental liability | 10 | 11 |
| Other employee benefits obligations | 8 | - |
| **Total current provisions** | **649** | **515** |
| **Non-current** | | |
| Product warranty | 881 | 775 |
| Legal and product liability | 24 | 45 |
| Provisions for environmental liability | 16 | 22 |
| Other employee benefits obligations | 3 | 10 |
| **Total non-current provisions** | **924** | **852** |

| Year ended 31 March (£ millions) | Product warranty | Legal and product liability | Environmental liability | Other employee benefits obligations | Total |
|---|---|---|---|---|---|
| Opening balance | 1,238 | 86 | 33 | 10 | 1,367 |
| Provision made during the year* | 704 | 103 | 4 | 1 | 812 |
| Provision used during the year | (543) | (41) | (5) | - | (589) |
| Unused amount released in the year | - | (23) | (6) | - | (29) |
| Impact of unwind of discounting | 13 | - | - | - | 13 |
| Foreign exchange | - | (1) | - | - | (1) |
| **Closing balance** | **1,412** | **124** | **26** | **11** | **1,573** |

*Included in 'Provisions made during the year' is £198 million arising in connection with warranty arrangements with suppliers that has been reclassified from 'Provisions' to 'Other financial assets' to correct an immaterial error and align with other peer automotive companies.

### PRODUCT WARRANTY PROVISION

The company offers warranty cover in respect of manufacturing defects, which become apparent up to five years after purchase, dependent on the market in which the purchase occurred. The estimated liability for product warranties is recorded when products are sold. These estimates are established using historical information on the nature, frequency and average cost of warranty claims and management estimates regarding possible future incidences based on actions on product failures. The discount on the warranty provision is calculated using a risk-free discount rate as the risks specific to the liability, such as inflation, are included in the base calculation. The timing of outflows will vary as and when a warranty claim will arise, being typically up to five years.

### LEGAL AND PRODUCT LIABILITY PROVISION

A legal and product liability provision is maintained in respect of compliance with regulations and known litigations which impact the company. The provision primarily relates to motor accident claims, consumer complaints, dealer terminations, employment cases, personal injury claims and compliance with regulations. The timing of outflows will vary as and when claims are received and settled, which is not known with certainty.

### ENVIRONMENTAL RISK PROVISION

This provision relates to various environmental remediation costs such as asbestos removal and land clean up. The timing of when these costs will be incurred is not known with certainty.

### OTHER EMPLOYEE BENEFITS OBLIGATIONS

This provision relates to the LTIP scheme for certain employees (see note 7).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 26 OTHER LIABILITIES

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| **Current** | | |
| Liabilities for advances received | 7 | 19 |
| Deferred revenue | 100 | 56 |
| Other | 12 | 9 |
| **Total current other liabilities** | **119** | **84** |
| **Non-current** | | |
| Deferred revenue | 141 | 127 |
| Other | 4 | 11 |
| **Total non-current other liabilities** | **145** | **138** |

## 27 CAPITAL AND RESERVES

| Year ended 31 March (£ millions) | 2010 | 2017 |
|---|---|---|
| Allotted, called up and fully paid<br>3,560,542,073 (2017: 3,560,542,073) ordinary shares of £1 each | 3,561 | 3,561 |
| **Total ordinary share capital** | **3,561** | **3,561** |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 28 OTHER RESERVES

The movement of other reserves is as follows:

| (£ millions) | Hedging reserve | Retained earnings | Total reserves |
|---|---|---|---|
| **Balance as at 1 April 2017 as previously reported** | (2,287) | 4,985 | 2,698 |
| Restatement (see note 2) | - | (134) | (134) |
| **Balance as at 1 April 2017 *restated** | **(2,287)** | **4,851** | **2,564** |
| Profit for the year | - | 545 | 545 |
| Remeasurement of defined benefit obligation | - | 545 | 545 |
| Gain on effective cash flow hedges | 1,218 | - | 1,218 |
| Cash flow hedges reclassified to foreign exchange in profit or loss | 1,176 | - | 1,176 |
| Income tax related to items recognised in other comprehensive income | (230) | (91) | (321) |
| Income tax related to items reclassified to profit or loss | (223) | - | (223) |
| **Balance as at 31 March 2018** | **(346)** | **5,850** | **5,504** |

| (£ millions) | Hedging reserve | Retained earnings | Total reserves |
|---|---|---|---|
| **Balance as at 1 April 2016 as previously reported** | **(867)** | **4,959** | **4,092** |
| Restatement (see note 2) | - | (53) | (53) |
| **Balance as at 1 April 2016 *restated** | **(867)** | **4,906** | **4,039** |
| Profit for the year *restated | - | 690 | 690 |
| Remeasurement of defined benefit obligation | - | (895) | (895) |
| Loss on effective cash flow hedges | (2,949) | - | (2,949) |
| Cash flow hedges reclassified to foreign exchange in profit or loss | 1,204 | - | 1,204 |
| Income tax related to items recognised in other comprehensive income | 566 | 150 | 716 |
| Income tax related to items reclassified to profit or loss | (241) | - | (241) |
| **Balance as at 31 March 2017* restated** | **(2,287)** | **4,851** | **2,564** |

*Comparative financial information has been restated as explained in note 2.

## 29 DIVIDENDS

No dividends were paid in the year ended 31 March 2018 (2017: £nil).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 30 EMPLOYEE BENEFITS

The company operates defined benefit schemes for qualifying employees. The defined benefit schemes are administered by a trustee that is legally separated from the company. The trustee of the pension schemes is required by law to act in the interest of the fund and of all relevant stakeholders in the schemes, is responsible for the investment policy with regard to the assets of the schemes and all other governance matters. The board of the trustee must be composed of representatives of the company and scheme participants in accordance with each scheme's regulations.

Under the schemes, the employees are entitled to post-retirement benefits based on their length of service and salary.

Through its defined benefit pension schemes the company is exposed to a number of risks, the most significant of which are detailed below:

**Asset volatility**

The scheme liabilities are calculated using a discount rate set with reference to corporate bond yields; if scheme assets underperform these corporate bonds, this will create or increase a deficit. The defined benefit schemes hold a significant proportion of equity type assets, which are expected to outperform corporate bonds in the long term although introducing volatility and risk in the short term.

The schemes hold a substantial level of index-linked gilts, gilts and other inflation and interest rate hedging instruments in order to reduce the volatility of assets compared to the liability value. Although these will lead to asset value volatility.

As the schemes mature, the company intends to reduce the level of investment risk by investing more in assets that better match the liabilities.

However, the company believes that due to the long-term nature of the scheme liabilities and the strength of the supporting company, a level of continuing equity type investments is an appropriate element of the company's long-term strategy to manage the schemes efficiently.

**Changes in bond yields**

A decrease in corporate bond yields will increase scheme liabilities, although this is expected to be partially offset by an increase in the value of the schemes' bond holdings and interest rate hedging instruments.

**Inflation risk**

Some of the company's pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the scheme against extreme inflation). The schemes hold a significant proportion of assets in index linked gilts, together with other inflation hedging instruments and also assets which are more loosely correlated with inflation. However, an increase in inflation will also increase the deficit to some degree.

**Life expectancy**

The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the scheme's liabilities. This is particularly where inflationary increases result in higher sensitivity to changes in life expectancy.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 30 EMPLOYEE BENEFITS (CONTINUED)

The following tables set out the disclosures pertaining to the retirement benefit amounts recognised in the financial statements prepared in accordance with IAS 19:

**Change in present value of defined benefit obligation**

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Defined benefit obligation beginning of the year | 9,912 | 7,617 |
| Current service cost | 214 | 197 |
| Past service credit | (437) | - |
| Interest expense | 239 | 273 |
| Actuarial (gains) / losses arising from: | | |
| Changes in demographic assumptions | (211) | (76) |
| Changes in financial assumptions | (351) | 2,335 |
| Experience adjustments | (99) | (213) |
| Member contributions | 4. | 2 |
| Benefits paid | (986) | (223) |
| **Defined benefit obligation at end of year** | **8,285** | **9,912** |

**Change in fair value of plan assets**

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Fair value of plan assets at beginning of the year | 8,474 | 7,072 |
| Interest income | 218 | 257 |
| Remeasurement (loss)/gain on the return of plan assets, excluding amounts included in interest income | (116) | 1,149 |
| Administrative expenses | (9) | (9) |
| Employer contributions | 285 | 226 |
| Members contributions | 4 | 2 |
| Benefits paid | (986) | (223) |
| **Fair value of plan assets at end of year** | **7,870** | **8,474** |

The actual return on plan assets for the year was £102 million (2017: £1,406 million).

Amounts recognised in the income statement consist of:

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Current service cost | 214 | 197 |
| Past service credit | (437) | - |
| Administrative expenses | 9 | 9 |
| Net interest cost (including onerous obligations) | 21 | 16 |
| **Components of defined benefit cost recognised in the income statement** | **(193)** | **222** |

Amounts recognised in the statement of comprehensive income consist of:

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Actuarial gain/(loss) arising from: | | |
| Changes in demographic assumptions | 211 | 76 |
| Changes in financial assumptions | 351 | (2,335) |
| Experience adjustments | 99 | 213 |
| Remeasurement (loss)/gain on the return of plan assets, excluding amounts included in interest income | (116) | 1,149 |
| Change in onerous obligation, excluding amounts included in interest expense | - | 2 |
| **Remeasurement gain/(loss) of defined benefit obligation** | **545** | **(895)** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 30 EMPLOYEE BENEFITS (CONTINUED)

Amounts recognised in the balance sheet consist of:

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Present value of funded defined benefit obligations | (8,285) | (9,912) |
| Fair value of plan assets | 7,870 | 8,474 |
| **Net retirement benefit obligation** | **(415)** | **(1,438)** |
| Presented as non-current liability | (415) | (1,438) |

The most recent valuations of the defined benefit schemes for accounting purposes were carried out at 31 March 2018 by a qualified independent actuary. The present value of the defined benefit liability, and the related current service cost and past service cost, were measured using the projected unit credit method. The asset valuations are taken from the asset custodian for each scheme.

The principal assumptions used in accounting for the pension plans are set out below:

| Year ended 31 March (%) | 2018 | 2017 |
|---|---|---|
| Discount rate | 2.7 | 2.6 |
| Expected rate of increase in compensation level of covered employees | 2.3 | 2.3 |
| Inflation increase | 3.1 | 3.2 |

For the valuation at 31 March 2018, the mortality assumptions used are the SAPS base table, in particular S2PxA tables and the Light table for members of the Jaguar Executive Pension Plan.

For the Jaguar Pension Plan, scaling factors of 113 per cent to 119 per cent have been used for male members and scaling factors of 102 per cent to 114 per cent have been used for female members. For the Land Rover Pension Scheme, scaling factors of 108 per cent to 113 per cent have been used for male members and scaling factors of 102 per cent to 111 per cent have been used for female members.

For the Jaguar Executive Pension Plan, an average scaling factor of 95 per cent has been used for male members and an average scaling factor of 85 per cent has been used for female members.

For the valuation at 31 March 2017, the mortality assumptions used are the SAPS base table, in particular S2NxA tables and the Light table for members of the Jaguar Executive Pension Plan. A scaling factor of 120 per cent for males and 110 per cent for females has been used for the Jaguar Pension Plan, 115 per cent for males and 105 per cent for females for the Land Rover Pension Scheme, and 95 per cent for males and 85 per cent for females for the Jaguar Executive Pension Plan.

There is an allowance for future improvements in line with the CMI (2017) projections and an allowance for long-term improvements of 1.25 per cent per annum (2017: CMI (2014) projections with 1.25 per cent per annum improvements).

The assumed life expectations on retirement at age 65 are:

| Valuation at 31 March (years) | 2018 | 2017 |
|---|---|---|
| Retiring today: | | |
| Males | 21.3 | 21.5 |
| Females | 23.4 | 24.5 |
| Retiring in 20 years: | | |
| Males | 22.5 | 23.3 |
| Females | 25.1 | 26.3 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 30 EMPLOYEE BENEFITS (CONTINUED)

Following consultation with employees earlier in the year, on 3 April 2017, the company approved and communicated to its defined benefit schemes' members that the defined benefit schemes' rules were to be amended with effect from 6 April 2017. As a result, among other changes, future retirement benefits will be calculated each year and revalued until retirement in line with a prescribed rate rather than based upon a member's final salary at retirement. As a result of the remeasurement of the schemes' liabilities, a past service credit of £437 million has arisen and was recognised in the year ended 31 March 2018.

The sensitivity analysis below is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous periods.

| Assumption | Change in assumption | Impact on scheme liabilities | Impact on service cost |
|---|---|---|---|
| Discount rate | Increase/decrease by 0.25% | Decrease/increase by £442 million | Decrease/increase by £10 million |
| Inflation rate | Increase/decrease by 0.25% | Increase/decrease by £376 million | Increase/decrease by £10 million |
| Mortality | Longevity increase/ decrease by 1 year | Increase/decrease by £241 million | Increase/decrease by £5 million |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 30 EMPLOYEE BENEFITS (CONTINUED)

The fair value of plan assets is represented by the following major categories:

| As at 31 March (£ millions) | 2018 Quoted* | 2018 Unquoted | 2018 Total | 2018 % | 2017 Quoted* | 2017 Unquoted | 2017 Total | 2017 % |
|---|---|---|---|---|---|---|---|---|
| **Equity instruments** | | | | | | | | |
| Information technology | 131 | - | 131 | 2% | 142 | - | 142 | 2% |
| Energy | 56 | - | 56 | 1% | 60 | - | 60 | 1% |
| Manufacturing | 96 | - | 96 | 1% | 104 | - | 104 | 1% |
| Financials | 151 | - | 151 | 2% | 163 | - | 163 | 2% |
| Other | 417 | - | 417 | 5% | 450 | - | 450 | 5% |
| | **851** | **-** | **851** | **11%** | **919** | **-** | **919** | **11%** |
| **Debt instruments** | | | | | | | | |
| Government | 2,521 | - | 2,521 | 32% | 2,916 | - | 2,916 | 34% |
| Corporate Bonds (investment grade) | 20 | 1,834 | 1,854 | 24% | 20 | 2,063 | 2,083 | 25% |
| Corporate bonds (Non investment grade) | - | 583 | 583 | 7% | 123 | 413 | 536 | 6% |
| | **2,541** | **2,417** | **4,958** | **63%** | **3,059** | **2,476** | **5,535** | **65%** |
| **Property funds** | | | | | | | | |
| UK | - | 164 | 164 | 2% | - | 189 | 189 | 2% |
| Other | - | 160 | 160 | 2% | - | 155 | 155 | 2% |
| | **-** | **324** | **324** | **4%** | **-** | **344** | **344** | **4%** |
| **Cash and cash equivalents** | **217** | **-** | **217** | **3%** | **93** | **-** | **93** | **1%** |
| **Other** | | | | | | | | |
| Hedge Funds | - | 355 | 355 | 4% | - | 401 | 401 | 5% |
| Private Markets | 2 | 251 | 253 | 3% | - | 174 | 174 | 2% |
| Alternatives | 469 | 214 | 683 | 9% | 325 | 377 | 702 | 8% |
| | **471** | **820** | **1,291** | **16%** | **325** | **952** | **1,277** | **15%** |
| **Derivatives** | | | | | | | | |
| Foreign exchange contracts | - | 1 | 1 | - | - | 17 | 17 | 1% |
| Interest rate and inflations | - | 228 | 228 | 3% | - | 289 | 289 | 3% |
| | **-** | **229** | **229** | **3%** | **-** | **306** | **306** | **4%** |
| **Total** | **4,080** | **3,790** | **7,870** | **100%** | **4,396** | **4,078** | **8,474** | **100%** |

*Quoted prices for identical assets or liabilities in active markets.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 30 EMPLOYEE BENEFITS (CONTINUED)

As at 31 March 2018, the schemes held Gilt Repos, the net value of these transactions is included in the value of government bonds. The value of the funding obligation for the Repo transactions is £1,287 million (2017: £843 million).

The split of Level 1 assets is 71 per cent (2017: 66 per cent), Level 2 assets 20 per cent (2017: 27 per cent) and Level 3 assets 9 per cent (2017: 7 per cent). Private market holdings are classified as Level 3 instruments. Included in the value for Government bonds, Interest rate and inflation derivatives are Repo transactions, as noted above.

The company contributes towards the UK defined benefit schemes. Following the 5 April 2015 valuations, it is intended to eliminate the pension scheme funding deficits over the 10 years following the valuation date. As at 31 March 2018, there is no additional liability; however, following the changes to the defined benefit schemes' rules in April 2017, an additional obligation may arise in the future. In line with the schedule of contributions agreed following the 2015 statutory valuation, the current ongoing company contribution rate for defined benefit accrual is 31 per cent of pensionable salaries in the UK. Deficit contributions also continue to be paid in line with this schedule of contributions. The funding deficit and ongoing contribution rate are expected to reduce following the completion of the 2018 statutory valuation during 2019.

The average duration of the benefit obligations at 31 March 2018 is 20.4 years (2017: 21.6 years).

The expected net periodic pension cost for the year ended 31 March 2019 is £186 million. The company expects to pay £257 million to its defined benefit schemes, in total, for the year ended 31 March 2019.

### DEFINED CONTRIBUTION SCHEMES

The company's contribution to defined contribution schemes for the year ended 31 March 2018 was £75 million (2017: £55 million).

## 31 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company faces claims and assertions by various parties. The Company assesses such claims and assertions and monitors the legal environment on an ongoing basis, with the assistance of external legal counsel wherever necessary. The Company records a liability for any claims where a potential loss is probable and capable of being estimated and discloses such matters in its financial statements, if material. For potential losses that are considered possible, but not probable, the Company provides disclosure in its financial statements but does not record a liability unless the loss becomes probable. Such potential losses may be of an uncertain timing and/or amount.

The following is a description of claims and contingencies where a potential loss is possible, but not probable. Management believes that none of the contingencies described below, either individually or in aggregate, would have a material adverse effect on the Company's financial condition, results of operations or cash flows.

### LITIGATION AND PRODUCT RELATED MATTERS

The Company is involved in legal proceedings, both as plaintiff and as defendant. There are claims and potential claims of £5 million (2017: £6 million) against the Company which management has not recognised, as settlement is not considered probable. These claims and potential claims pertain to motor accident claims, consumer complaints, employment and dealership arrangements, replacement of parts of vehicles and/or compensation for deficiency in the services by the Company or its dealers.

The Company has provided for the estimated cost of repair following the passenger safety airbag issue in the United States, China, Canada, Korea, Australia and Japan. The Company recognises that there is a potential risk of further recalls in the future, however, the Company is unable at this point in time to reliably estimate the amount and timing of any potential future costs associated with this warranty issue.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 31 COMMITMENTS AND CONTINGENCIES (CONTINUED)

### COMMITMENTS

The Company has entered into various contracts with vendors and contractors for the acquisition of plant and machinery, equipment and various civil contracts of capital nature aggregating to £593 million (2017: £1,476 million) and £15 million (2017: £31 million) relating to the acquisition of intangible assets.

Commitments and contingencies also includes other contingent liabilities of £138 million (2017: £35 million). These mainly related to government body investigations with regards legislation and regulation compliance, support provided to the dealer network, termination clauses and supply chain arrangements. The timing of any outflow will vary as and when claims are received and settled, which is not known with certainty.

The remaining financial commitments, in particular the purchase commitments and guarantees, are of a magnitude typical for the industry.

Inventory of £nil (2017: £nil) and trade receivables with a carrying amount of £149 million (2017: £179 million) and property, plant and equipment with a carrying amount of £nil (2017: £nil) and restricted cash with a carrying amount of £nil (2017: £nil) are pledged as collateral/security against the borrowings and commitments.

Commitments related to leases are set out in note 34.

Stipulated within the joint venture agreement for Chery Jaguar Land Rover Automotive Co. Ltd. is a commitment for the company to contribute a total of CNY 1,750 million of capital, of which CNY 1,438 million has been contributed as at 31 March 2018. The outstanding commitment of CNY 312 million translates to £35 million at the year-end exchange rate.

Any litigations and claims against Jaguar Land Rover Limited are considered to be the responsibility of the company which settle these as appropriate. No amounts were recharged by the company for the years ended 31 March 2018 and 31 March 2017.

The Company provides certain guarantees for financing and other arrangements where the likelihood of demand on the guarantee is deemed remote. The financing arrangements covered by such guarantees include:

The Company's intermediate parent, Jaguar Land Rover Automotive plc, has issued Senior Notes that are listed on the Luxembourg Stock Exchange multilateral trading facility ('EURO MTF') market. The Company is a guarantor with Jaguar Land Rover Holdings Limited of certain of these Senior Notes. The tranches of bonds outstanding at 31 March 2018 are as follows:

- $700 million Senior Notes due 2018 at a coupon of 4.125% per annum
- £400 million Senior Notes due 2022 at a coupon of 5.000% per annum
- $500 million Senior Notes due 2019 at a coupon of 4.250% per annum
- £400 million Senior Notes due 2023 at a coupon of 3.875% per annum
- $500 million Senior Notes due 2020 at a coupon of 3.500% per annum
- €650 million Senior Notes due 2024 at a coupon of 2.200% per annum
- £300 million Senior Notes due 2021 at a coupon of 2.750% per annum
- $500 million Senior Notes due 2027 at a coupon of 4.500% per annum

The Company is a guarantor with Jaguar Land Rover Holdings Limited, Jaguar Land Rover North America LLC, Land Rover Exports Limited and JLR Nominee Company Limited of $500 million Senior Notes due 2023 at a coupon of 5.625% per annum.

In addition, the Company is a guarantor with Jaguar Land Rover Holdings Limited of the £1,935 million revolving credit facility held by the intermediate parent company, Jaguar Land Rover Automotive plc. As at 31 March 2018 this facility was fully undrawn.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 32 CAPITAL MANAGEMENT

The company's objectives when managing capital are to ensure the going concern operation of all subsidiary companies and to maintain an efficient capital structure to support ongoing and future operations of the group and to meet shareholder expectations.

The company issues debt, primarily in the form of loans to other group companies, to meet anticipated funding requirements and maintain sufficient liquidity. The company also maintains certain undrawn committed credit facilities to provide additional liquidity. These borrowings, together with cash generated from operations, are loaned internally or contributed as equity to certain subsidiaries as required. Surplus cash in subsidiaries is pooled (where practicable) and invested to satisfy security, liquidity and yield requirements.

The capital structure and funding requirements are regularly monitored by the JLR plc Board to ensure sufficient liquidity is maintained by the company. All debt issuance and capital distributions are approved by the JLR plc Board. In addition, the covenant related to the Group's financing arrangements is regularly monitored and compliance is certified annually.

The following table summarises the capital of the company:

| Year ended 31 March (£ millions) | 2018 | 2017* restated |
|---|---|---|
| Short-term debt | 2,969 | 1,482 |
| Long-term debt | 3,060 | 3,397 |
| **Total debt**** | **6,029** | **4,879** |
| Equity | 9,065 | 6,125 |
| **Total capital** | **15,094** | **11,004** |

*Comparative financial information has been restated as explained in note 2.

** Total debt includes finance lease obligations of £2 million (2017: £3 million).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 33 FINANCIAL INSTRUMENTS

This section gives an overview of the significance of financial instruments for the company and provides additional information on balance sheet items that contain financial instruments.

The details of significant accounting policies, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

### (A) FINANCIAL ASSETS AND LIABILITIES

The following table shows the carrying amounts and fair value of each category of financial assets and liabilities, other than those with carrying amounts that are reasonable approximations of fair values as at 31 March 2018:

| £ millions | Held to maturity | Loans and receivables and other financial liabilities | Derivatives and other financial instruments in cash flow hedging relationship | Fair value through profit and loss | Total carrying value | Total fair value |
|---|---|---|---|---|---|---|
| Short-term deposits and other investments | 36 | 1,975 | - | - | 2,011 | 2,011 |
| Other financial assets - current | - | 1,482 | 185 | 79 | 1,746 | 1,746 |
| Other financial assets - non-current | - | 119 | 266 | 20 | 405 | 405 |
| **Total financial assets** | **36** | **3,576** | **451** | **99** | **4,162** | **4,162** |
| Short-term borrowings | - | 2,967 | - | - | 2,967 | 2,970 |
| Long-term borrowings | - | 1,850 | 1,210 | - | 3,060 | 3,090 |
| Other financial liabilities - current | - | 421 | 585 | 83 | 1,089 | 1,089 |
| Other financial liabilities - non-current | - | 3 | 250 | 7 | 260 | 260 |
| **Total financial liabilities** | **-** | **5,241** | **2,045** | **90** | **7,376** | **7,409** |

Included in the long-term borrowings shown in other financial liabilities is £342 million designated as the hedged item in a fair value hedge relationship. Included within this figure is £10 million of fair value adjustments as a result of the hedge relationship.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 33 FINANCIAL INSTRUMENTS (CONTINUED)

### (A) FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following table shows the carrying amounts and fair value of each category of financial assets and liabilities, other than those with carrying amounts that are reasonable approximations of fair values as at 31 March 2017:

| (£ millions)* restated | Loans and receivables and other financial liabilities | Derivatives and other financial instruments in cash flow hedging relationship | Fair value through profit and loss | Total carrying value | Total fair value |
|---|---|---|---|---|---|
| Other financial assets - current | 478 | 133 | 36 | 647 | 647 |
| Short-term deposits and other investments | 2,609 | - | - | 2,609 | 2,609 |
| Other financial assets - non-current | 7 | 205 | 50 | 262 | 262 |
| **Total financial assets** | **3,094** | **338** | **86** | **3,518** | **3,518** |
| Short-term borrowings | 1,481 | - | - | 1,481 | 1,481 |
| Long-term borrowings* | 2,432 | 963 | - | 3,395 | 3,489 |
| Other financial liabilities - current | 322 | 1,488 | 272 | 2,082 | 2,082 |
| Other financial liabilities - non-current | 4 | 1,379 | 12 | 1,395 | 1,395 |
| **Total financial liabilities** | **4,239** | **3,830** | **284** | **8,353** | **8,447** |

*Comparatives have been revised for the amendment in the current year (year ended 31 March 2018) to disclose separately 'Derivatives and other financial instruments in cash flow hedging relationship' as a separate line item, which has resulted in a reclassification of amounts from 'Loans and receivables and other financial liabilities'.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 33 FINANCIAL INSTRUMENTS (CONTINUED)

### (A) FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

**Offsetting**

Certain financial assets and financial liabilities are subject to offsetting where there is currently a legally enforceable right to set off recognised amounts and the company intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivative financial assets and financial liabilities are subject to master netting arrangements whereby in the case of insolvency, derivative financial assets and financial liabilities can be settled on a net basis.

The following table discloses the amounts that have been offset in arriving at the balance sheet presentation and the amounts that are available for offset only under certain conditions as at 31 March 2018:

| £ millions | Gross amount recognised | Gross amount of recognised set off in the balance sheet | Net amount presented in the balance sheet | Gross amount not offset in the balance sheet | Cash collateral (received) / pledged | Net amount after offsetting |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Derivative financial assets | 550 | - | 550 | (531) | - | 19 |
| Cash and cash equivalents | 2,267 | (180) | 2,087 | - | - | 2,087 |
| | **2,817** | **(180)** | **2,637** | **(531)** | **-** | **2,106** |
| **Financial liabilities** | | | | | | |
| Derivative financial liabilities | 925 | - | 925 | (531) | - | 394 |
| Short-term borrowings | 3,147 | (180) | 2,967 | - | - | 2,967 |
| | **4,072** | **(180)** | **3,892** | **(531)** | **-** | **3,361** |

The following table discloses the amounts that have been offset in arriving at the balance sheet presentation and the amounts that are available for offset only under certain conditions as at 31 March 2017:

| £ millions | Gross amount recognised | Gross amount of recognised set off in the balance sheet | Net amount presented in the balance sheet | Gross amount not offset in the balance sheet | Cash collateral (received) / pledged | Net amount after offsetting |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Derivative financial assets | 424 | - | 424 | (419) | - | 5 |
| Cash and cash equivalents | 2,226 | (31) | 2,195 | - | - | 2,195 |
| | **2,650** | **(31)** | **2,619** | **(419)** | **-** | **2,200** |
| **Financial liabilities** | | | | | | |
| Derivative financial liabilities | 3,151 | - | 3,151 | (419) | - | 2,732 |
| Short-term borrowings | 1,512 | (31) | 1,481 | - | - | 1,481 |
| | **4,663** | **(31)** | **4,632** | **(419)** | **-** | **4,213** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 33 FINANCIAL INSTRUMENTS (CONTINUED)

### (A) FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

**Fair value hierarchy**

Financial instruments held at fair value are required to be measured by reference to the following levels:

- Quoted prices in an active market (Level 1): this level of hierarchy includes financial instruments that are measured by reference to quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Valuation techniques with observable inputs (Level 2): this level of hierarchy includes financial assets and liabilities measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Valuation techniques with significant unobservable inputs (Level 3): this level of hierarchy includes financial assets and liabilities measured using inputs that are not based on observable market data (unobservable inputs). Fair values are determined in whole or in part using a valuation model based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

There has been no change in the valuation techniques adopted or any transfers between fair value levels in either current or prior financial periods as presented.

The financial instruments that are measured subsequent to initial recognition at fair value are classified as Level 2 fair value measurements, as defined by IFRS 13, being those derived from inputs other than quoted prices that are observable. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. Fair value of forward derivative financial assets and liabilities are estimated by discounting expected future contractual cash flows using prevailing market interest rate curves from Reuters. Commodity swap contracts are similarly fair valued by discounting expected future contractual cash flows. Option contracts on foreign currency are entered into on a zero cost collar basis and fair value estimates are calculated from standard Black-Scholes options pricing methodology, using prevailing market interest rates and volatilities. The estimate of fair value for cross currency swaps is calculated using discounted estimated future cash flows. Estimates of the future floating-rate cash flows are based on quoted swap rates, future prices and interbank borrowing rates (LIBOR).

Additionally, a credit valuation adjustment/debit value adjustment is taken on derivative financial assets and liabilities and is calculated by discounting the fair value gain or loss on the financial derivative using credit default swap (CDS) prices quoted for the counterparty or Jaguar Land Rover respectively. CDS prices are obtained from Reuters.

The long-term unsecured listed bonds are held at amortised cost. Their fair value for disclosure purposes is determined using Level 1 valuation techniques, based on the closing price as at 31 March 2018 on the Luxembourg Stock Exchange multilateral trading facility (EURO MTF) market.

Fair values of cash and cash equivalents, short-term deposits, trade receivables and payables, short-term borrowings and other financial assets and liabilities (current and non-current excluding derivatives) are assumed to approximate to cost due to the short-term maturing of the instruments and as the impact of discounting is not significant.

Management uses its best judgement in estimating the fair value of its financial instruments. However, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented above are not necessarily indicative of all the amounts that the company could have realised in a sales transaction as of the respective dates. The estimated fair value amounts as at 31 March 2018 and 2017 have been measured as at the respective dates. As such, the fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year end.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 33 FINANCIAL INSTRUMENTS (CONTINUED)

### (B) FINANCIAL RISK MANAGEMENT

The company is exposed to foreign currency exchange rate, commodity price, interest rate, liquidity and credit risks. The company has a risk management framework in place which monitors all of these risks as discussed below. This framework is approved by the Board of Directors.

### (C) CASH FLOW HEDGES

The company uses foreign currency contracts & foreign currency denominated borrowings as hedging instruments to hedge its risk associated with foreign currency fluctuations relating to highly probable forecast transactions. In addition, the company uses cross currency interest rate swaps to hedge its foreign currency risk associated with recognised long-term borrowings. The fair value of such contracts designated in a cash flow hedge relationship as at 31 March 2018 was a net liability of £384 million (2017: £2,529 million).

Cash flow hedges are expected to be recognised in profit or loss during the years ending 31 March 2019 to 31 March 2028.

The company uses foreign currency options as the hedging instrument in cash flow hedge relationships. The time value of options is excluded from the hedge relationship and thus the change in time value is recognised immediately in the income statement.

There is no significant ineffectiveness from cash flow hedges.

Changes in the fair value of foreign currency contracts, to the extent determined to be an effective cash flow hedge, are recognised in the statement of comprehensive income, and the ineffective portion of the fair value change is recognised in the income statement.

The following amounts have been recognised in the years ended 31 March 2018 and 2017:

| **As at 31 March (£ millions)** | **2018** | **2017** |
|---|---|---|
| Fair value gain/(loss) in derivative contracts recognised in other comprehensive income | 1,073 | (2,799) |
| Foreign exchange gain/(loss) on foreign currency borrowings recognised in other comprehensive income | 145 | (150) |
| Loss reclassified to the income statement | 1,176 | 1,204 |
| **Net gain/(loss) reported in other comprehensive income for cash flow hedges** | **2,394** | **(1,745)** |
| Gain/(loss) released from the hedge reserve to 'Foreign exchange loss and fair value adjustments' in the income statement relating to forecast transactions that are no longer expected to occur | 7 | (40) |
| Gain/(loss) on derivatives not hedge accounted, recognised in 'Foreign exchange loss and fair value adjustments' in the income statement | 17 | 11 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 33 FINANCIAL INSTRUMENTS (CONTINUED)

### (D) FAIR VALUE HEDGES

The company uses cross currency interest rate swaps as the hedging instrument in a fair value hedge of foreign exchange and interest rate risks of foreign currency denominated debt. The derivatives convert USD fixed rate debt to GBP floating rate debt.

Changes in the fair value of foreign currency contracts that are designated in fair value hedging relationships are recognised in the income statement. Changes in the fair value of the underlying hedged item (long term borrowings) for the hedged risks are recognised in the same income statement line.

The following amounts have been recognised in the years ended 31 March 2018 and 2017:

| During year to 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Net change in the hedged item used for assessing hedge effectiveness, taken to the income statement in 'Foreign exchange loss and fair value adjustments' | 34 | - |
| Fair value changes in the derivative instruments used in assessing hedge effectiveness, taken to the income statement in 'Foreign exchange loss and fair value adjustments' | (27) | - |
| Ineffectiveness recognised in the income statement in 'Foreign exchange loss and fair value adjustments' | 7 | - |

### (E) FOREIGN CURRENCY EXCHANGE RATE RISK

The fluctuation in foreign currency exchange rates may have a potential impact on the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity and the cash flow statement, where any transaction references more than one currency or where assets/liabilities are denominated in a currency other than GBP.

Considering the countries and economic environment in which the company operates, its operations are subject to risks arising from fluctuations in exchange rates in those countries. The risks primarily relate to fluctuations in US Dollar, Chinese Yuan and Euro against the functional currency of the company.

Foreign exchange risk on future transactions is mitigated through the use of derivative contracts. In addition to the derivatives designated in hedging relationships as detailed in (C) and (D), the Group enters into foreign currency contracts as economic hedges of recognised foreign currency debt.

A 10 per cent depreciation/appreciation in Sterling against the foreign currency underlying the contracts within the company's derivative portfolio that are sensitive to changes in foreign exchange rates (excluding US Dollar bonds designated in a cash flow hedging relationship) would have resulted in an approximate (loss)/gain of:

| As at 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| 10% depreciation in Sterling against the foreign currency: | | |
| In other comprehensive income | (576) | (1,670) |
| In the income statement | (11) | 102 |
| 10% appreciation in Sterling against the foreign currency: | | |
| In other comprehensive income | 486 | 1,595 |
| In the income statement | 8 | (17) |

The company is also exposed to fluctuations in exchange rates which impact the valuation of foreign currency denominated assets and liabilities on its balance sheet at each reporting period end.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 33 FINANCIAL INSTRUMENTS (CONTINUED)

### (E) FOREIGN CURRENCY EXCHANGE RATE RISK (CONTINUED)

The following table sets forth information relating to foreign currency exposure as at 31 March 2018:

| As at 31 March (£ millions) | US Dollar | Euro | Chinese Yuan | *Others | Total |
|---|---|---|---|---|---|
| Financial assets | 1,640 | 1,820 | 174 | 592 | 4,226 |
| Financial liabilities** | (3,175) | (3,704) | (731) | (196) | (7,806) |
| **Net exposure asset/(liability)** | **(1,535)** | **(1,884)** | **(557)** | **396** | **(3,580)** |
| 10% appreciation/depreciation of the currency would result in additional (loss)/gain: | | | | | |
| In other comprehensive income | (117)/117 | - | - | n/a | n/a |
| In the income statement | 4/(4) | 188/(188) | 56/(56) | n/a | n/a |

The following table sets forth information relating to foreign currency exposure as at 31 March 2017:

| As at 31 March (£ millions) | US Dollar | Euro | Chinese Yuan | *Others | Total |
|---|---|---|---|---|---|
| Financial assets | 1,079 | 873 | 72 | 39 | 2,063 |
| Financial liabilities** | (580) | (1,593) | (9) | (64) | (2,246) |
| **Net exposure asset/(liability)** | **499** | **(720)** | **63** | **(25)** | **(183)** |
| 10% appreciation/depreciation of the currency would result in additional (loss)/gain: | | | | | |
| In other comprehensive income** | (93)/93 | - | - | n/a | n/a |
| In the income statement** | 143/(143) | (72)/72 | 6/(6) | n/a | n/a |

*Others include Japanese Yen, Russian Rouble, Singapore Dollar, Swiss Franc, Australian Dollar, South African Rand, Thai Baht, Korean Won etc.

**Comparatives have been revised for the amendment in the current year (year ended 31 March 2018) to disclose separately '(Loss)/gain in other comprehensive income' and 'Gain/(loss) in the income statement' as separate line items, and to fully reflect all foreign currency denominated debt held by the company.

### (F) COMMODITY PRICE RISK

The company is exposed to commodity price risk arising from the purchase of certain raw materials such as aluminium, copper, platinum and palladium. This risk is mitigated through the use of derivative contracts and fixed price contracts with suppliers.

The derivative contracts do not qualify for hedge accounting as the commodity exposure does not meet the hedge accounting requirements of IAS 39.

The total fair value gain on commodities of £28 million (2017: £106 million) has been recognised in 'Other income' in the income statement. The gains reported do not reflect the purchasing costs incurred by the company (which are included within 'Material and other cost of sales').

A 10 per cent appreciation/depreciation of all commodity prices underlying such contracts would have resulted in a gain/loss of £50 million (2017: £57 million).

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 33 FINANCIAL INSTRUMENTS (CONTINUED)

### (G) INTEREST RATE RISK

Interest rate risk is the risk that changes in market interest rates will lead to changes in interest income and expense for the company.

In addition to issuing long-term fixed-rate loans, the company has other facilities in place which are primarily used to finance working capital that are subject to variable interest rates. When undertaking a new debt issuance the Board of Directors will consider the fixed/floating interest rate mix of the company, the outlook for future interest rates and the appetite for certainty of funding costs.

The risk estimates provided assume a parallel shift of 100 basis points interest rate across all yield curves. This calculation also assumes that the change occurs at the balance sheet date and has been calculated based on risk exposures outstanding as at that date. The year-end balances are not necessarily representative of the average debt outstanding during the year.

As of 31 March 2018 net financial liabilities of £2,447 million (2017: £1,480 million) were subject to the variable interest rate. An increase/decrease of 100 basis points in interest rates at the balance sheet date would result in an impact of £24 million (2017: £15 million) in the income statement and £nil (2017: £nil) in equity.

### (H) LIQUIDITY RISK

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due.

The company's policy on liquidity risk is to maintain sufficient liquidity in the form of cash to meet the company's operating requirements with an appropriate level of headroom.

The following are the undiscounted contractual maturities of financial liabilities, including estimated interest payments:

| As at 31 March 2018 (£ millions) | Carrying amount | Contractual cash flows | 1 year or less | 1 to <2 years | 2 to <5 years | 5 years and over |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Long-term borrowings | 3,060 | 3,638 | 120 | 824 | 1,686 | 1,008 |
| Short-term borrowings | 2,967 | 2,967 | 2,967 | - | - | - |
| Finance lease liabilities | 2 | 2 | 2 | - | - | - |
| Other financial liabilities | 422 | 451 | 427 | 9 | 15 | - |
| Accounts payable | 5,692 | 5,692 | 5,692 | - | - | - |
| Derivative financial liabilities | 925 | 1,207 | 748 | 322 | 124 | 13 |
| **Total contractual maturities** | **13,068** | **13,957** | **9,956** | **1,155** | **1,825** | **1,021** |

| As at 31 March 2017 (£ millions) | Carrying amount | Contractual cash flows | 1 year or less | 1 to <2 years | 2 to <5 years | 5 years and over |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Long-term borrowings | 3,395 | 3,982 | 133 | 687 | 1,748 | 1,414 |
| Short-term borrowings | 1,481 | 1,481 | 1,481 | - | - | - |
| Finance lease liabilities | 3 | 3 | 1 | 2 | - | - |
| Other financial liabilities | 323 | 330 | 305 | 12 | 13 | - |
| Accounts payable | 5,021 | 5,021 | 5,021 | - | - | - |
| Derivative financial liabilities | 3,151 | 3,992 | 1,950 | 1,294 | 748 | - |
| **Total contractual maturities** | **13,374** | **14,809** | **8,891** | **1,995** | **2,509** | **1,414** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 33 FINANCIAL INSTRUMENTS (CONTINUED)

### (I) CREDIT RISK

The majority of the company's credit risk pertains to the risk of financial loss arising from counterparty default on cash investments.

All company cash is invested according to strict credit criteria and actively monitored by company Treasury in conjunction with the current market valuation of derivative contracts. To support this, the Board of Directors has implemented an investment policy which places limits on the maximum cash investment that can be made with any single counterparty depending on their published external credit rating.

To a lesser extent the company has an exposure to counterparties on trade receivables. The company will seek to mitigate credit risk on sales to third parties through the use of payment at the point of delivery, credit insurance and letters of credit from banks which meet internal rating criteria.

None of the financial instruments of the company result in material concentrations of credit risks.

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure.

**Financial assets**

None of the company's cash equivalents, including time deposits with banks, are past due or impaired. Regarding other financial assets that are neither past due nor impaired, there were no indications as at 31 March 2018 or 31 March 2017 that defaults in payment obligations will occur.

Trade and other receivables past due and impaired are set out below:

| As at 31 March (£ millions) | 2018 Gross | 2018 Impairment | 2017 Gross* restated | 2017 Impairment* restated |
|---|---|---|---|---|
| Not yet due | 3,405 | 1 | 2,443 | - |
| Overdue < 3 months | 158 | - | 61 | 2 |
| Overdue > 3 < 6 months | 3 | - | 2 | - |
| Overdue > 6 months | 103 | 46 | 54 | 53 |
| **Total** | **3,669** | **47** | **2,560** | **55** |

*Comparative financial information has been restated as explained in note 2.

Included within trade receivables is £149 million (2017: £179 million) of receivables that are part of a debt factoring arrangement. These assets do not qualify for derecognition due to the recourse arrangements in place. The related liability of £149 million (2017: £179 million) is in short-term borrowings. Both the asset and associated liability are stated at amortised cost.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 34 LEASES

### LEASES AS LESSEE

Non-cancellable finance lease rentals are payable as follows:

| As at 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Less than one year | 2 | 1 |
| Between one and five years | - | 2 |
| More than five years | - | - |
| **Total lease payments** | **2** | **3** |

The above leases relate to amounts payable under the minimum lease payments on plant and machinery. The company leased certain of its manufacturing equipment under finance lease that mature during 2018. The company will take ownership of all assets held under finance lease at the end of the lease term.

Non-cancellable operating lease rentals are payable as follows:

| As at 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Less than one year | 59 | 55 |
| Between one and five years | 118 | 165 |
| More than five years | 66 | 118 |
| **Total lease payments** | **243** | **338** |

The company leases a number of buildings, plant and machinery, IT hardware and software under operating leases, certain of which have a renewal and/or purchase option in the normal course of business.

### LEASES AS LESSOR

The future minimum lease receipts under non-cancellable operating leases are as follows:

| As at 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Less than one year | 3 | - |
| Between one and five years | 1 | 1 |
| More than five years | 9 | 10 |
| **Total lease payments** | **13** | **11** |

## 35 SEGMENT REPORTING

Operating segments are defined as components of the company about which separate financial information is available that is evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance.

The company operates in the automotive segment. The automotive segment includes all activities relating to development, design, manufacture, assembly and sale of vehicles including financing thereof, as well as sale of related parts and accessories from which the company derives its revenues. The company has only one operating segment, so no separate segment report is given. The company's non-current assets are situated in the UK.

The geographic spread of sales by customer location is as disclosed below:

| (£ millions) | UK | US | China | Rest of Europe | Rest of World | Total |
|---|---|---|---|---|---|---|
| **31 March 2018** | | | | | | |
| Revenue | 5,114 | 4,162 | 3,667 | 5,117 | 3,885 | 21,945 |
| **31 March 2017*** | | | | | | |
| Revenue | 4,934 | 4,176 | 3,188 | 5,078 | 3,345 | 20,721 |

*Comparative financial information has been restated as explained in note 2.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 36 NOTES TO THE CASH FLOW STATEMENT

### (A) RECONCILIATION OF PROFIT FOR THE YEAR TO CASH GENERATED FROM OPERATIONS

| Year ended 31 March (£ millions) | 2018 | 2017* restated |
|---|---|---|
| **Profit for the year** | 545 | 690 |
| *Adjustments for:* | | |
| Depreciation and amortisation | 2,033 | 1,625 |
| Write-down of tangible assets | 18 | 12 |
| Write-down of intangible assets | 46 | - |
| Write-down of investments | 6 | 11 |
| Loss on sale of assets | 21 | 13 |
| Income tax expense | 107 | 65 |
| Foreign exchange and fair value (gain)/loss on loans | (111) | 212 |
| Foreign exchange (gain)/loss on natural hedges of loans | (11) | 4 |
| Foreign exchange (gain)/loss on derivatives | (119) | 28 |
| Unrealised loss/(gain) on commodities | 2 | (148) |
| Foreign exchange loss/(gain) on short-term deposits | 55 | (57) |
| Foreign exchange loss/(gain) on cash and cash equivalents | 11 | (32) |
| Finance expense (net) | 85 | 70 |
| Finance income | (166) | (174) |
| Pension past service credit | (437) | - |
| **Cash flows generated from operating activities before changes in assets and liabilities** | **2,085** | **2,319** |
| Trade receivables | (202) | (267) |
| Other financial assets | (440) | (391) |
| Other current assets | 56 | 40 |
| Inventories | 7 | (233) |
| Other non-current assets | (34) | (50) |
| Accounts payable | 306 | 626 |
| Other current liabilities | 35 | 29 |
| Other financial liabilities | 78 | 65 |
| Other non-current liabilities and retirement benefit obligations | (33) | 33 |
| Provisions | 193 | 261 |
| **Cash generated from operations** | **2,051** | **2,432** |

*Comparative financial information has been restated as explained in note 2.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 36 NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

### (B) RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

| (£ millions) | Short-term borrowings | Long-term borrowings | Finance lease obligations | Total |
|---|---|---|---|---|
| **Balance at 1 April 2016** | **1,965** | **2,373** | **8** | **4,346** |
| Proceeds from issue of financing | 488 | 857 | - | 1,345 |
| Repayment of financing | (1,038) | (57) | (5) | (1,100) |
| Foreign exchange | 129 | 81 | - | 210 |
| Arrangement fees paid | - | (13) | - | (13) |
| Fee amortisation | - | 4 | - | 4 |
| Long-term borrowings revaluation in hedge reserve | - | 150 | - | 150 |
| Other non-cash movements in loans to subsidiaries | (63) | - | - | (63) |
| **Balance at 31 March 2017** | **1,481** | **3,395** | **3** | **4,879** |
| Proceeds from issue of financing | 2,096 | 373 | - | 2,469 |
| Repayment of financing | (1,206) | - | (1) | (1,207) |
| Reclassification of long-term debt | 518 | (518) | - | - |
| Foreign exchange | (82) | (39) | - | (121) |
| Arrangement fees paid | - | (4) | - | (4) |
| Fee amortisation | - | 6 | - | 6 |
| Reclassification of long-term debt fees | (2) | 2 | - | - |
| Long-term borrowings revaluation in hedge reserve | - | (145) | - | (145) |
| Other non-cash movements in loans to subsidiaries | 162 | - | - | 162 |
| Fair value adjustment on loans | - | (10) | - | (10) |
| **Balance at 31 March 2018** | **2,967** | **3,060** | **2** | **6,029** |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 37 RELATED PARTY TRANSACTIONS

The company's related parties principally consist of Tata Sons Ltd., subsidiaries and joint ventures of Tata Sons Ltd which includes Tata Motors Limited (the ultimate parent company), subsidiaries, joint ventures and associates of Tata Motors Limited. The company routinely enters into transactions with these related parties in the ordinary course of business including transactions for sale and purchase of products with its joint ventures and associates.

The following table summarises related party transactions and balances not eliminated in the company financial statements. All related party transactions are conducted under normal terms of business. All amounts outstanding are unsecured and will be settled in cash.

| (£ millions) | With subsidiaries of the company | With joint ventures of the company | With associates of the company | With Tata Sons Limited and its subsidiaries and joint ventures | With immediate or ultimate parent and its subsidiaries, joint ventures and associates |
|---|---|---|---|---|---|
| **31 March 2018** | | | | | |
| Sale of products | 15,081 | 695 | - | 4 | 77 |
| Purchase of products | - | - | - | - | - |
| Services received | - | 33 | 547 | 146 | 86 |
| Services rendered | - | 117 | - | - | 1 |
| Interest income | 6 | - | - | - | - |
| Interest expense | 162 | - | - | - | - |
| Trade and other receivables | 999 | 96 | - | 2 | 47 |
| Accounts payable | 156 | - | - | 26 | 23 |
| Loans issued | 1,337 | - | - | - | - |
| Loans received | 5,879 | - | - | - | - |
| **31 March 2017* restated** | | | | | |
| Sale of products | 15,787 | 568 | - | 3 | 49 |
| Services received | - | 69 | 4 | 164 | 105 |
| Services rendered | - | 67 | - | - | 1 |
| Interest income | 146 | - | - | - | - |
| Interest expense | 4 | - | - | - | - |
| Trade and other receivables | 1,436 | 59 | - | 2 | 34 |
| Accounts payable | 122 | 1 | - | 46 | 22 |
| Loans issued | 455 | - | - | - | - |
| Loans received | 4,751 | - | - | - | - |

*Comparative financial information has been restated as explained in note 2.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 37 RELATED PARTY TRANSACTIONS (CONTINUED)

**Compensation of key management personnel**

| Year ended 31 March (£ millions) | 2018 | 2017 |
|---|---|---|
| Short-term benefits | 12 | 13 |
| Post-employment benefits | 1 | 1 |
| Share-based payments | - | 3 |
| Other long-term employee benefits | - | 1 |
| Compensation for loss of office | 1 | 1 |
| **Total compensation of key management personnel** | **14** | **19** |

In addition to the compensation noted above, a loan of £0.7 million was granted to a member of key management personnel in the year ended 31 March 2014. This loan is for a term of seven years and is interest bearing at the HMRC official rate.

Refer to note 30 for information on transactions with post-employment benefit plans.

## 38 ULTIMATE PARENT COMPANY AND PARENT COMPANY OF LARGER GROUP

The immediate parent undertaking is Jaguar Land Rover Holdings Limited and ultimate parent undertaking and controlling party is Tata Motors Limited, India which is the parent of the largest group to consolidate these financial statements. The smallest group which consolidates these financial statements is Jaguar Land Rover Automotive plc.

Copies of the Tata Motors Limited, India consolidated financial statements can be obtained from the Group Secretary, Tata Motors Limited, Bombay House, 24, Homi Mody Street, Mumbai – 400001, India. Copies of the Jaguar Land Rover Automotive plc consolidated financial statements can be obtained from the company's registered office.

## 39 SUBSEQUENT EVENTS

On the 14 September 2018, Jaguar Land Rover Automotive Plc issued €500 million senior notes due 2026 at a coupon of 4.50% per annum. The Company is a guarantor of the bond.

On the 19 October 2018, Jaguar Land Rover Automotive Plc agreed a new term facility of USD $1,000 million. $200 million expires on 31 October 2022 and $800 million expires on 31 January 2025. The Company is a guarantor of the facility.