

# **Jaguar Land Rover Limited Liability Company**

Financial Statements  
for the year ended 31 December 2016  
and Auditor's Report  
(Translated from the original in Russian –  
Unofficial Translation)

## INDEPENDENT AUDITOR'S REPORT

To the participant of LLC Jaguar Land Rover:

### Opinion

We have audited the financial statements of ABC Company (the "Company"), which comprise:

- Balance sheet as of 31 December 2016;
- Statement of financial results for the year 2016;
- Appendices to the balance sheet and statement of financial results:
  - Statement of changes in equity for the year 2016;
  - Statement of cash flows for the year 2016;
  - Notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with Russian accounting and financial reporting standards ("RASs").

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

**UNOFFICIAL TRANSLATION**

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

The Russian original signed by

Papusha Olga  
Engagement partner

31 March 2017

The following financial statements were prepared for use in the Russian Federation in accordance with accounting principles and financial reporting practices generally accepted in the Russian Federation and are not intended to present the financial position and results of operations of the audited entity in accordance with accounting principles and practices generally accepted in any other jurisdiction.

**AUDITED ENTITY: LLC JAGUAR LAND ROVER:**

State Registration Certificate No. 50 011233988 issued by the Interregional Inspectorate of the Federal Tax Service No. 13 for Moscow region on 22 May 2008.

Certificate of registration in the Unified State Register of Legal Entities №50 012594695 issued by the Interregional Inspectorate of the Federal Tax Service No. 13 for Moscow region on 5 March 2012.

Location: 141411, Russian Federation, Moscow, Mezhdunarodnoe St., 28B, bldg. 2.

**Audit Firm: ZAO "Deloitte & Touche CIS"**

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

**BALANCE SHEET**  
**As at 31 December 2016**

Entity  
 Taxpayer identification number  
 Type of activity  
 Legal status / form of ownership

Unit  
 Address

**LLC Jaguar Land Rover**  
**Wholesale of vehicles**  
**Limited Liability Company / Ownership**  
**by foreign legal entity**  
**Thousands of rubles**  
**Mezhdunarodnoe St, 28B, bldg.2,**  
**141411, Moscow, Russian Federation**

Date (day, month, year)

OKPO

INN

OKVED

OKOPF/

OKFS

OKEI

**CODES**

31/12/2016

86658358

5047095543

50.10.1

12300 / 23

384

Item description	Note	31 December 2016	31 December 2015	31 December 2014
<b>ASSETS</b>				
<b>I. NON-CURRENT ASSETS</b>				
Intangible assets		30,895	25,539	26,737
Property, plant and equipment	4.1	1,111,880	602,785	408,916
Deferred tax assets	4.3	700,753	735,440	541,191
Long-term accounts receivables	4.5	132,000	180,000	-
Other non-current assets		11,619	9,145	6,999
<b>Total Section I</b>		<b>1,987,147</b>	<b>1,552,909</b>	<b>983,843</b>
<b>II. CURRENT ASSETS</b>				
Inventories	4.4	5,574,163	4,835,339	2,172,328
Value-added tax receivable		10,653	79,264	50,403
Accounts receivable	4.5	1,117,720	1,490,280	1,413,999
Investments (other than cash equivalents)	4.2	1,585,249	2,312,162	7,639,321
Cash and cash equivalents	4.6	1,596,338	2,891,545	662,594
Other current assets		11,021	8,821	7,609
<b>Total Section II</b>		<b>9,895,144</b>	<b>11,617,411</b>	<b>11,946,254</b>
<b>TOTAL ASSETS</b>		<b>11,882,291</b>	<b>13,170,320</b>	<b>12,930,097</b>
<b>EQUITY AND LIABILITIES</b>				
<b>III. EQUITY AND RESERVES</b>				
Share capital	4.7	48,345	48,345	48,345
Additional capital (excluding revaluation)		608,993	608,993	608,993
Retained earnings		4,938,140	5,168,137	4,165,866
<b>Total Section III</b>		<b>5,595,478</b>	<b>5,825,475</b>	<b>4,823,204</b>
<b>IV. NON-CURRENT LIABILITIES</b>				
Provisions	4.9	1,495,641	1,293,915	1,368,235
Deferred tax liabilities	4.3	2,242	268	-
<b>Total Section IV</b>		<b>1,497,883</b>	<b>1,294,183</b>	<b>1,368,235</b>
<b>V. CURRENT LIABILITIES</b>				
Accounts payable	4.8	3,201,742	3,806,276	5,664,153
Provisions	4.9	1,587,188	2,244,386	1,074,505
<b>Total Section V</b>		<b>4,788,930</b>	<b>6,050,662</b>	<b>6,738,658</b>
<b>TOTAL LIABILITIES</b>		<b>11,882,291</b>	<b>13,170,320</b>	<b>12,930,097</b>

General Director

Kuzyakov V.V.

Chief Accountant

Bukreeva O. P.

28 March 2017

**STATEMENT OF FINANCIAL RESULTS  
For 2016**

Entity	<b>LLC Jaguar Land Rover</b>	Date (day, month, year)	<b>CODES</b>
Taxpayer identification number		31/12/2016	
Type of activity	<b>Wholesale of vehicles</b>	OKPO	86658358
Legal status / form of ownership	<b>Limited Liability Company/Ownership by foreign legal entity</b>	INN	5047095543
Unit	<b>Thousands of rubles</b>	OKVED	50.10.1
		OKOPF/	12300 / 23
		OKFS	
		OKEI	384

  

Item description	Note	2016	2015
Revenue			
Cost of sales	5.1	51,361,843	50,793,518
	5.2	(40,176,758)	(38,840,837)
<b>Gross profit</b>		<b>11,185,085</b>	<b>11,952,681</b>
Selling expenses	5.2	(5,785,979)	(7,053,666)
<b>Profit from sales</b>		<b>5,399,106</b>	<b>4,899,015</b>
Interest income			
Other income		553,723	604,768
Other expenses	5.3	1,082,859	879,323
	5.4	(779,685)	(523,972)
<b>Profit before income tax</b>		<b>6,256,003</b>	<b>5,859,134</b>
Current income tax expense			
including permanent tax liabilities		(1,277,033)	(1,419,192)
Change in deferred tax assets	4.3	66,662	53,384
Change in deferred tax liabilities	4.3	(34,687)	194,249
Other	4.3	(1,974)	(268)
	4.3	(4,169)	-
<b>Net profit</b>		<b>4,938,140</b>	<b>4,633,923</b>

General Director

Kuzyakov V.V.

Chief Accountant

Bukreeva O. P.

28 March 2017

**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 31 December 2016**

Entity	<b>LLC Jaguar Land Rover</b>
Taxpayer identification number	
Type of activity	<b>Wholesale of vehicles</b>
Legal status / form of ownership	<b>Limited Liability Company/Ownership by foreign legal entity</b>
Unit	<b>Thousands of rubles</b>

	<b>Codes</b>
Date (day, month, year)	31/12/2016
OKPO	86658358
INN	5047095543
OKVED	50.10.1
OKOPF/OKFS	12300 / 23
OKEI	384

<b>Item description</b>	<b>Share capital</b>	<b>Additional capital (excluding revaluation)</b>	<b>Retained earnings</b>	<b>Total</b>
<b>Balance as at 31 December 2014</b>	<b>48,345</b>	<b>608,993</b>	<b>4,165,866</b>	<b>4,823,204</b>
Net profit	-	-	4,633,923	4,633,923
Dividends Payout to the participant	-	-	(3,631,652)	(3,631,652)
<b>Balance as at 31 December 2015</b>	<b>48,345</b>	<b>608,993</b>	<b>5,168,137</b>	<b>5,825,475</b>
Net profit	-	-	4,938,140	4,938,140
Dividends Payout to the participant	-	-	(5,168,137)	(5,168,137)
<b>Balance as at 31 December 2016</b>	<b>48,345</b>	<b>608,993</b>	<b>4,938,140</b>	<b>5,595,478</b>

<b>Additional information</b>	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
Net assets	5,595,478	5,825,475	4,823,204

General Director Kuzyakov V.V.

Chief Accountant Bukreeva O. P.

28 March 2017

**STATEMENT OF CASH FLOWS**  
**For the year ended 31 December 2016**

Entity	<b>LLC Jaguar Land Rover</b>
Taxpayer identification number	
Type of activity	<b>Wholesale of vehicles</b>
Legal status / form of ownership	<b>Limited liability company/Property of foreign legal entities</b>
Unit	<b>Thousands of rubles</b>

Date (day, month, year)	<b>31/12/2016</b>
OKPO	86658358
INN	5047095543
OKVED	50.10.1
OKOPF/OKFS	12300 / 23
OKEI	384

<b>Item description</b>	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Proceeds from sales of goods, products, work and services	53,540,367	53,217,757
Other cash inflows	2,076,168	2,283,783
Payments upon agency agreement	(29,291)	(105,738)
Purchases of goods, work, services	(37,924,602)	(37,468,919)
Payments to employees	(350,621)	(312,157)
Income tax	(1,073,816)	(1,323,151)
Value added tax	(1,410,818)	(1,884,090)
Other taxes and duties	(546,341)	(383,943)
Customs payments (duties, fees, excises)	(10,113,350)	(10,702,132)
Bonuses paid	(2,530,688)	(4,029,045)
Other payments, contributions	(171,942)	(87,811)
<b>Net cash (outflows)/inflows from operating activities</b>	<b>1,465,066</b>	<b>(795,446)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets and intangible assets	(69,403)	(44,433)
Proceeds from sales of fixed assets and other assets	678,922	406,316
Interest on investments	481,531	631,001
Loans given to other entities	(8,400,000)	(9,300,000)
Proceeds from repayment of loans receivable	9,200,000	14,600,000
<b>Net cash received from/(used in) investing activities</b>	<b>1,891,050</b>	<b>6,292,884</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Payment of Dividends to the participant	(4,651,323)	(3,268,487)
<b>Net cash used in financing activities</b>	<b>(4,651,323)</b>	<b>(3,268,487)</b>
<b>Net increase/(decrease) in cash and cash equivalents during the reporting period</b>	<b>(1,295,207)</b>	<b>2,228,951</b>
<b>Net cash and cash equivalents at the beginning of reporting period</b>	<b>2,891,545</b>	<b>662,594</b>
<b>Net cash and cash equivalents at the end of the reporting period</b>	<b>1,596,338</b>	<b>2,891,545</b>

General Director

Kuzyakov V.V.

Chief Accountant

Bukreeva O.P.

28 March 2017



## NOTES TO THE FINANCIAL STATEMENTS OF LLC JAGUAR LAND ROVER FOR THE YEAR ENDED 31 DECEMBER 2015

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### 1. GENERAL

Jaguar Land Rover Limited Liability Company (the "Company") was established by ZAO Ford Motor Company in May 2008 (certificate of state registration N 1085047006549 dated 22.05.2008). In May 2009, ZAO Ford Motor Company sold its 100% share in the company to LLC Jaguar Cars Limited a legal entity registered and acting under the laws of United Kingdom.

Legal and actual registered address: Mezdunarodnoe St., 28B, bldg.2, Moscow, Russian Federation 141411.

Executive body – general director – Kuzyakov Vyacheslav Vladimirovich.

From 10 February 2016 to 10 October 2016 Shatalova Ekaterina Yuryevna (finance and administrative director) combined duties of acting general director.

The sole participant is Jaguar Land Rover Holdings Limited, registered under the laws of the United Kingdom.

The ultimate parent undertaking and controlling party is Tata Motors Limited, India. Tata Motors Limited is a public company quoted on stock exchanges of Mumbai (India) and New-York (USA). The major beneficiary of Jaguar Land Rover Limited is Tata Sons Limited, India owing 28.71% of the shares.

#### **1.1. Main activities of LLC Jaguar Land Rover include:**

- Import, export, purchase, marketing, sales of vehicles, components and spare parts (OKVED code 50.10.1);
- Providing information to dealers and the parent company on imports, purchases, marketing, sales, services of vehicles, components and spare parts;
- Acting as commercial agent on its behalf and on behalf of the Russian entities in relation to marketing, sales, services, repair, installation, assembly and production of vehicles, components and spare parts;
- Consulting, marketing and other kind of services, related to import, export, purchase, marketing, sales of vehicles, components and spare parts;
- Any other activities that comply with the legislation of the Russian Federation.

The Company performs its activities in accordance with the legislation of the Russian Federation ("RF").

#### **1.2. Number of employees**

The Company's average number of employees in 2015 and 2016 was 110 and 104, respectively.

#### **1.3. Main customers**

Vehicles are sold to Russian companies and individuals through a network of authorized dealers.

During the reporting period, the largest share of the Company's sales was made to the following dealers:

- LLC ROLF Estate St. Petersburg – 11% (2015: 9%);
- LLC Musa Motors JLR – 9% (2015: 10%);
- LLC AAA Nezavisimost Premier Auto – 8% (2015: 11%);
- CJSC Ailon AG – 6% (2015: 7%).

## 2. ORGANIZATION OF ACCOUNTING

The Company maintains its accounting records in accordance with the requirements of the RF legislation on accounting and regulations of the RF Ministry of Finance.

In 2015 accounting records were maintained in accordance with the Company's accounting policies as approved by the Order of the general director dated 31 December 2012.

Financial statements were prepared by the Company on the basis of the accounting and reporting regulations that are effective in the RF.

The Company uses SAP and 1C to maintain its financial and tax accounting records.

### **2.1. Going concern assumption**

In preparation of the financial statements, the Company's management assumed that the Company will continue as a going concern in the foreseeable future and has no plans to discontinue or significantly reduce its activities, and that therefore its obligations will be discharged appropriately.

### **2.2. Chart of accounts**

The Company has developed and applies a chart of accounts based on the standard chart of accounts for financial and business activities of organizations as approved by Order of the RF Ministry of Finance No. 94n dated 31 October 2000, using certain subaccounts which enable preparation of financial statements that comply with Russian accounting and tax law and separate cost accounting requirements.

### **2.3. Stock-count**

Stock count is performed in accordance with Methodological Guidelines for the Count of Property and Financial Liabilities approved by Order of the RF Ministry of Finance No. 49 dated 13 June 1995.

The count of property, plant and equipment is performed by units and separate classes of fixed assets at least once every three years. The last count of property, plant and equipment was performed as at 26 and 27 December 2013, separately for vehicles and for other fixed assets.

Inventory count of spare parts was conducted as at 14 November 2016; inventory count of vehicles (inventories) was conducted as at 24 November 2016. Count of all other assets and liabilities was conducted as at 31 December 2016.

### **2.4. Assets and liabilities denominated in foreign currency**

When accounting for business transactions in foreign currencies, the Company uses Central Bank of Russia's ("CBR") official exchange rates of the Russian ruble ("RUB") against such currencies as at the dates of transactions. Assets and liabilities denominated in foreign currencies are reported in amounts calculated on the basis of RUB official exchange rates established by the CBR as at 31 December 2016, 2015 and 2014.

Assets and liabilities denominated in foreign currencies are accounted for in line with the provisions of PBU 3/2006 "Accounting for assets and liabilities denominated in foreign currency". According to PBU 3/2006 liabilities denominated in foreign currencies are translated into rubles as at:

- The reporting date;
- The date of the transaction.

Foreign currency gains and losses are presented separately in the statement of financial results as other income and expenses.

## **2.5. Current and non-current assets and liabilities**

Assets classified as current assets in the financial statements are expected to be used in the Company's production and other activities within 12 months after the reporting date. Liabilities classified as current liabilities in the financial statements are expected to be repaid within 12 months after the reporting date. In other cases, such assets and liabilities are treated as non-current.

## **2.6. Accounting for property, plant and equipment**

The historical cost of property, plant and equipment acquired for consideration includes actual costs incurred by the Company for acquisition, construction or production, net of the value added tax and other recoverable taxes (unless otherwise prescribed by Russian legislation).

The historical cost of property, plant and equipment includes actual costs of transporting the assets and bringing them to an operable condition.

Property, plant and equipment is initially recorded at historical cost. The historical cost is determined based on the acquisition cost of fixed assets.

The useful life of fixed assets is determined in accordance with the Resolution of the Government of the RF No. 1 dated 1 January 2002 "On the Classification of Fixed Assets Included in Depreciation Groups".

Depreciation rates of property, plant and equipment are as follows:

<b>Property, plant and equipment group</b>	<b>Depreciation rate (% from initial cost per 1 year)</b>	
	<b>From (minimum)</b>	<b>To (maximum)</b>
Vehicles	14	32
Other	9	48

No revaluation of property, plant and equipment is performed.

Assets with a value of less than RUB 40 thousand which satisfy the criteria of PBU 6/01 and qualify for property, plant and equipment are accounted for as inventory.

Depreciation of PPE items is charged on a straight-line method based on the original cost of assets using depreciation rates determined on the basis of the asset useful life. The straight-line depreciation method is used throughout the asset's useful life.

Actual costs of current and capital repairs of fixed assets items are charged to expenses related to production and sale in the period in which they are incurred.

The value of an item of fixed assets which is disposed of or unable to bring economic benefits (income) to the Company in the future is derecognized.

Gains and losses from disposal and sale of property, plant and equipment are presented separately in the statement of financial results as other income and expenses.

Leased fixed assets are accounted for in the balance sheet of the Company using account 01.5 "Vehicles CSV" ("corporate service vehicles" – Company's own used vehicles).

Property, plant and equipment received under lease are not included in the balance sheet and expenses on lease are written off as period expenses.

## **2.7. Accounting for intangible assets**

The initial value of intangible assets is determined based on its acquisition cost. Amortization of intangible assets is accrued according to the useful life determined by agreement.

Intangible assets are amortized on a straight-line basis.

Useful lives of intangible assets are determined by the Company itself at initial recognition of the object and established by the order of the General Director of the Company.

Useful lives of intangible assets are reviewed on an annual basis to determine if they need to be amended.

Intangible assets are not revalued.

## **2.8. Accounting for investments**

Investments for which market value can be determined under the established procedure are presented in the financial statements at the current market value as at the end of the reporting year through adjustment of their value as of the previous reporting date. The difference between the current market value of financial investments at the reporting date and the previous valuation is recognized in financial results.

The investments for which current market value cannot be determined are recognized at cost at the reporting date.

As at 31 December of each reporting year and where there are indicators of impairment the Company tests financial investments for impairment, and recognizes an impairment allowance if necessary in accordance with PBU 19/02 "Accounting for Financial Investments". An allowance is created if the test reveals a significant persistent decrease of the value of investments in accordance with PBU 19/02 "Accounting for Financial Investments".

## **2.9. Accounting for inventories**

The actual cost of inventories acquired for consideration includes actual costs incurred by the Company for acquisition, net of VAT and other recoverable taxes (unless otherwise prescribed by the Russian legislation).

Purchasing and storing of materials is accounted for using account 10 "Materials", where materials are recognized at actual acquisition cost.

When materials are placed into operations, the Company uses the average sliding cost method to value its inventory.

Calculation of average cost is made at the moment when the item is disposed of.

Goods for resale are accounted for in the following way:

- Vehicles are accounted for at acquisition cost plus customs duties and fees (if applicable).
- Vehicle spare parts are accounted for at acquisition cost. Customs duties and fees are accumulated in total amount in a separate account.

To reflect the operations of storing and purchasing of inventory and other similar resources the Company uses recording scheme with account 15 "Procurement and acquisition of inventories" and 16 "Deviation in the value of inventories".

Inventories that are obsolete, have fully or partially lost their original quality or whose current market value has decreased or which will be destroyed with high probability or are potentially not suitable for sale are reported in the balance sheet at the end of the reporting period net of the allowance for inventory impairment. Allowance for inventory impairment is charged against the Company's financial results and is calculated separately for each inventory unit based on current demand change and determined by the value of stock units with no demand, and as the difference between the current market value and actual cost of inventories, in case the latter is higher.

**2.10. Accounting for cash and cash equivalents**

Highly liquid financial investments with a maturity of less than three months, which may be easily converted into a known amount of cash and which are subject to an insignificant risk of value fluctuation are recognized as cash and cash equivalents in the balance sheet.

**2.11. Income recognition**

The Company's revenues include the sale of vehicles and vehicle spare parts, vehicle rentals, consulting services, sales of brochures and their delivery.

Any other income is treated as other income.

Revenue is recognized in the following way:

- From the sale of spare parts – at the moment of delivery to the first carrier;
- From the sale of vehicles to dealers from Russian Federation, Republic of Belarus, Republic of Kazakhstan – at the moment of transfer of the title under a contract (i.e. as soon as the Company receives payment for the vehicle, provided that the vehicle was cleared by the custom authorities and passport of vehicle (PTS) is transferred to buyer);
- From the sale of vehicles to dealers from Republic of Armenia - at the moment of transfer of the title under a contract (i.e. at the moment of transfer to dealer, as soon as the Company receives payment for the vehicle;
- From rendering of services – at the moment of fulfillment;
- Sales of brochures and services of their delivery are recorded according to the date of application.

Revenue from the sales of vehicles and spare parts is reduced by amount of the dealer bonuses.

Penalties paid by dealers in case of the late payment for vehicles are recorded as other income.

**2.12. Accounting for expenses**

Expenses on operating activities are treated as follows:

- The cost of vehicles sold is defined on an individual unit basis. Transportation expenses are included in the cost of vehicles sold in proportion of the units sold to the total quantity of vehicles purchased during the reporting period.
- The cost of spare parts sold is defined as the average cost. Transportation expenses are included in the cost of spare parts sold in proportion of the units sold to the total value of spare parts purchased during the reporting period. Customs duties, fees, excises (if applicable) are included in cost of the goods sold in proportion to the value of goods sold during the period.

Selling expenses include:

- Advertising and marketing;
- Warranty repairs and warranty service;
- Transportation expenses;
- Payroll;
- Rent;
- Depreciation;
- Other.

Other expenses include:

- State duty;
- Property tax;
- Transport tax;

- Losses on write-off of irreparable spoilage;
- Penalties, interest, forfeits for breach of contractual terms;
- Not significant prior years expenses identified in the current year;
- Accounts receivable with expired limitation period, other uncollectible debts;
- Foreign exchange losses;
- Other similar expenses.

### **2.13. Accounting for allowances and provisions**

The Company creates the following allowances:

- Investments impairment allowance (see description in section 2.8 of Notes);
- Inventory obsolescence and impairment allowance (see description in section 2.9 of Notes);
- Bad debt allowance (it is the best estimate of the Company's management of that part of the debt, which not be received).

The following types of provisions are recognized by the Company in its accounting records and in the:

- Accruals for unused vacations;
- Provision for warranty claims;
- Other provisions which meet the criteria in clauses 4 and 5 of PBU 8/2010 "Provisions, Contingent Liabilities and Contingent Assets" ("PBU 8/2010").

**Accrual for unused vacation** is recognized as follows:

Provision amount is calculated for each employee separately. Amount of the provision is increased by the amount of Social taxes contributions. As employees use vacation (compensation for unused vacation) the provision is reduced.

**Provision for warranty claims** is determined for each vehicle model based on historical data of warranty payments and adjusted for planned figures of the improvement of the quality of vehicle, changes of cost of work, inflation, changes in manufacturing technology and other similar indicators.

### **2.14. Accounting for prepaid expenses**

Prepaid expenses are recognized in account 97 "Prepaid Expenses" on the basis of actual costs. Prepaid expenses are charged to Profit & Loss (P&L) on a monthly basis by debiting related expense accounts during the period specified in the respective documents (licenses, contracts, etc.). If it is impossible to determine the period from the relevant documents, it is determined by a committee whose members are appointed by the Company's General Director.

Prepaid expenses are presented on the balance sheet as part of other current assets and other non-current assets depending on the expected useful life at the reporting date.

### **2.15. Income tax**

In accordance with the Order of the Ministry of Finance of the RF No. 114n dated 19 November 2003 on approval of Accounting standard "Accounting for settlements on income tax" PBU 18/02, the Company shall recognize, for financial accounting purposes, the difference between income tax on profit (loss) recognized for accounting purposes and income tax recognized for tax purposes and declared in the income tax return.

Deferred tax assets and liabilities are carried in the balance sheet as non-current assets and long-term liabilities respectively. Deferred tax assets are recorded in the financial accounting records through a separate account 09, and deferred tax liabilities through a separate account 77. When preparing its financial statements, the Company reports the deferred tax assets and liabilities on a gross basis in the balance sheet.

Permanent tax liabilities, movements in deferred tax assets, movements in deferred tax liabilities and current income tax provisions are recognized in the Statement of Financial Results.

Current income tax of the Company is tax payable to the budget, determined based on the amount of theoretical income tax expense adjusted by the amount of movements in permanent tax liabilities during the current period, and changes in deferred tax assets and deferred tax liabilities.

### 3. CLASSIFICATION CHANGE

As at 31 December 2015 part of expenses related to warranty repairs and services were included in other expenses. The Company changed the approach in classification of such expenses and made a reclassification in the amount of 96,999 RUB thousand from other expenses to selling expenses.

### 4. BREAKDOWN OF CERTAIN BALANCE SHEET ITEMS

#### 4.1. Property, plant and equipment

Movements of the historical cost of the groups of property, plant and equipment were as follows:

Item description				(RUB thousand)
	31 December 2015	Additions	Disposals	31 December 2016
Vehicles	642,711	1,198,269	(629,422)	1,211,558
Production and support tools	68,709	54,296	(72)	122,933
<b>Total</b>	<b>711,420</b>	<b>1,252,565</b>	<b>(629,494)</b>	<b>1,334,491</b>

Item description				(RUB thousand)
	31 December 2014	Additions	Disposals	31 December 2015
Vehicles	454,217	584,152	(395,658)	642,711
Production and support tools	32,978	35,731	-	68,709
<b>Total</b>	<b>487,195</b>	<b>619,883</b>	<b>(395,658)</b>	<b>711,420</b>

The historical cost of leased items of fixed assets as at 31 December 2016 amounted to RUB 479,960 thousand (as at 31 December 2015 – RUB – 41,182 thousand, as at 31 December 2014 – RUB 59,399 thousand), accumulated depreciation as at 31 December 2016 amounted to RUB 87,268 thousand (as at 31 December 2015 – RUB 6,160 thousand, as at 31 December 2014 – RUB 8,942 thousand).

The amount of accumulated depreciation by key groups of fixed assets as at 31 December 2016, 2015 and 2014 was as follows:

Item description				(RUB thousand)
	2016	31 December 2015	2014	
<b>Accumulated depreciation</b>				
Vehicles	181,716	84,976	62,661	
Production and support tools	40,895	23,659	15,618	
<b>Total</b>	<b>222,611</b>	<b>108,635</b>	<b>78,279</b>	
<b>Leased fixed assets</b>	392,692	35,022	50,457	

As at 31 December, the Company has property in lease – office space for administrative purpose. The amount of property lease is 56,617 RUB thousand. The Company has land area in lease from Agalarov Estate (229,524 sq m) for commercial purposes. The amount of property in lease is 108,000 RUB thousand.

Property in lease are accounted for on off-balance account «Property in lease».

**4.2. Short-term investments**

As at 31 December 2016 short-term investments comprised the following:

<b>Counterparty</b>	<b>Loan amount</b>	<b>Loan currency</b>	<b>Interest rate as of 31.12.2016</b>	<b>Maturity date</b>
Jaguar Land Rover Limited (UK)	1,500,000	Rubles	8.0%	On demand
Interest receivable	<u>85,249</u>			
<b>Total short-term investments</b>	<b><u>1,585,249</u></b>			

As at 31 December 2015 short-term investments comprised the following:

<b>Counterparty</b>	<b>Loan amount</b>	<b>Loan currency</b>	<b>Interest rate as of 31.12.2015</b>	<b>Maturity date</b>
Jaguar Land Rover Limited (UK)	1,000,000	Rubles	8.8%	On demand
Jaguar Land Rover Limited (UK)	300,000	Rubles	8.8%	On demand
Jaguar Land Rover Limited (UK)	700,000	Rubles	8.8%	On demand
Jaguar Land Rover Limited (UK)	300,000	Rubles	8.8%	On demand
Interest receivable	<u>12,162</u>			
<b>Total short-term investments</b>	<b><u>2,312,162</u></b>			

During 2014 and 2015 until 21 October 2015 the interest rate was the variable rate, set by the Agreement on the revolving loan facility dated 24 March 2014. From 21 October 2015 the interest rate is the fixed rate, set by the Agreement on the revolving loan facility dated 21 October 2015. From 12 October 2016 the interest rate is the fixed rate, set by the Agreement on the revolving loan facility dated 12 October 2016.

**4.3. Income tax**

Current income tax expense is determined according to tax accounting records and for 2016 and 2015 and comprised the following:

	<b>2015</b>	<b>(RUB thousand) 2014</b>
<b>Profit before income tax</b>	<b>6,256,003</b>	<b>5,859,134</b>
<b>Theoretical income tax expense</b>	<b>1,251,201</b>	<b>1,171,827</b>
<b>Permanent tax liabilities:</b>		
expenses not deductible for tax purposes	53,061	53,384
income not deductible for accounting purposes	4,058	-
expenses in excess of allowable limits	<u>9,543</u>	<u>-</u>
<b>Total PTL</b>	<b><u>66,662</u></b>	<b><u>53,384</u></b>
<b>Increase/(decrease) in deferred tax assets:</b>		
change in inventory obsolescence allowance	(917)	(27,129)
change in provision for warranty	(82,795)	204,607
other	<u>49,025</u>	<u>16,771</u>
<b>Total DTA</b>	<b><u>(34,687)</u></b>	<b><u>194,249</u></b>
<b>(Increase) / decrease of DTL</b>		
bonus from supplier	(150)	(268)
difference on the property not amortised in the tax accounting	<u>(1,824)</u>	<u>-</u>
<b>Total current income tax expense</b>	<b><u>1,277,033</u></b>	<b><u>1,419,192</u></b>



**4.4. Inventories**

As at 31 December 2016, 2015 and 2014 inventories comprised the following:

	(RUB thousand)		
	31 December		
	2016	2015	2014
<b>Inventories</b>			
Vehicles	3,959,227	3,374,863	1,005,556
Spare parts	1,530,051	1,337,893	1,084,292
Spare parts in-transit	89,302	171,521	131,251
Vehicles in-transit	27,168	26,800	165,927
Transportation and procurement costs	17,769	20,003	16,350
Other	34,522	949	1,288
Inventory obsolescence allowance	(83,876)	(96,690)	(232,336)
<b>Total</b>	<b>5,574,163</b>	<b>4,835,339</b>	<b>2,172,328</b>

As at 31 December 2016 BS value of goods and finished goods, pledged as collateral was 36,268 RUB thousand. As at 31 December 2015, 2014 and 2013 the Company had no inventory pledged as collateral.

Inventory obsolescence allowance was as follows:

<b>Balance as at 31 December 2014</b>	<b>232,336</b>
Increase in allowance	64,092
Decrease of allowance	(199,738)
<b>Balance as at 31 December 2015</b>	<b>96,690</b>
Increase in allowance	41,662
Decrease of allowance	(54,476)
<b>Balance as at 31 December 2016</b>	<b>83,876</b>

**4.5. Accounts receivable**

As at 31 December 2016, 2015 and 2014 accounts receivable comprised the following:

	(RUB thousand)		
	31 December		
	2016	2015	2014
<b>Long-term Accounts Receivable:</b>			
Long-term advances paid	132,000	180,000	-
<b>Total</b>	<b>132,000</b>	<b>180,000</b>	<b>-</b>

	(RUB thousand)		
	31 December		
	2016	2015	2014
<b>Accounts receivable:</b>			
Trade receivables:			
Accounts with dealers for vehicles	43,546	54,898	38,036
Accounts with dealers for spare parts	574,761	615,066	622,242
Other sales	45,092	32,767	36,748
Short-term advances paid	166,745	196,720	99,219
Settlements on taxes and duties	97,530	304,548	400,050
Settlements with customs	49,106	19,840	13,908
Settlements with the parent company for reimbursement of expenses for warranty repair, warranty service	138,496	231,596	179,062
Other	26,565	45,986	31,700
Bad debt allowance	(24,121)	(11,141)	(6,966)
<b>Total</b>	<b>1,117,720</b>	<b>1,490,280</b>	<b>1,413,999</b>

**4.6. Cash and cash equivalents**

As at 31 December 2016, 2015 and 2014 cash and cash equivalents comprised the following:

	(RUB thousand)		
	31 December		
	2016	2015	2014
<b>Cash and cash equivalents</b>			
Current accounts with banks	169,338	137,545	23,094
Short-term deposits	1,427,000	2,754,000	639,500
<b>Total</b>	<b>1,596,338</b>	<b>2,891,545</b>	<b>662,594</b>

**4.7. Share capital and distribution of net profit**

On 29 October 2014, the sole participant of the Company decided to pay out the net retained earnings for 2012 and 2013 under Resolution №16 in the amount of RUB 6,372,424 thousand.

On 24 March 2015, the sole participant of the Company decided to pay out the net retained earnings for 9m 2014 under Resolution №17 in the amount of RUB 3,631,652 thousand.

On 29 November 2016, the sole participant of the Company decided to pay out the net retained earnings for 4 quarter 2014 and for 2015 under Resolution №20 in the amount of RUB 5,168,137 thousand.

The share capital of the Company as at 31 December 2016, 2015, and 2014 amounted to RUB 48,345 thousand.

**4.8. Accounts payable**

As at 31 December 2016, 2015 and 2014 accounts payable comprised the following:

	(RUB thousand)		
	31 December		
	2016	2015	2014
<b>Accounts payable</b>			
Trade payables:			
Accounts for vehicles	351,846	605,081	997,996
Accounts for spare parts	337,429	825,308	855,720
Accounts for other goods and services	705,832	493,753	530,998
Accounts with dealers for warranty reimbursement	63,791	120,156	115,073
Advances received	108,198	55,675	272,162
Taxes payable	646,270	645,370	1,075,860
Accounts with dealers for bonuses and other liabilities	988,376	1,060,933	1,816,344
<b>Total</b>	<b>3,201,742</b>	<b>3,806,276</b>	<b>5,664,153</b>

**4.9. Provisions**

Movements of provisions for the years 2016 and 2015 were as follows:

	(RUB thousand)			
	Provision for warranty claims	Unused vacation provision	Other provisions	Total
<b>Balance as at 31 December 2014</b>	<b>2,419,209</b>	<b>23,531</b>	<b>-</b>	<b>2,442,740</b>
Increase in provisions	3,206,349	21,075	71,470	3,298,894
Use of provisions	(2,183,316)	(20,017)	-	(2,203,333)
<b>Balance as at 31 December 2015</b>	<b>3,442,242</b>	<b>24,589</b>	<b>71,470</b>	<b>3,538,301</b>
Increase in provisions	1,531,430	27,767	-	1,559,198
Use of provisions	(1,950,234)	(21,478)	(42,957)	(2,014,670)
<b>Balance as at 31 December 2016</b>	<b>3,023,438</b>	<b>30,878</b>	<b>28,513</b>	<b>3,082,829</b>

**5. BREAKDOWN OF CERTAIN ITEMS OF STATEMENT ON FINANCIAL RESULTS****5.1. Revenue**

Revenue from operating activities for 2016 and 2015 comprised:

	<b>2016</b>	<b>(RUB thousand) 2015</b>
<b>Income from selling goods and services</b>		
Sale of vehicles	47,871,493	47,316,462
Sale of spare parts	6,333,065	6,432,254
Sale of other goods and services	75,435	65,436
	<b>54,279,993</b>	<b>53,814,152</b>
Less dealer bonuses	(2,918,150)	(3,020,634)
<b>Total</b>	<b>51,361,843</b>	<b>50,793,518</b>

**5.2. Operating expenses**

Breakdown of operating expenses by cost elements for 2016 and 2015 was as follows:

	<b>2016</b>	<b>(RUB thousand) 2015</b>
<b>Cost of sales</b>	<b>40,176,758</b>	<b>38,840,837</b>
Sale of vehicles	26,472,168	25,367,398
Custom duties and recycling tax	8,710,545	8,771,766
Sale of spare parts	4,913,077	4,671,987
Sale of other goods and services	80,968	29,686
<b>Selling expenses</b>	<b>5,785,979</b>	<b>7,053,666</b>
Marketing and advertising	2,389,681	2,153,694
Warranty repairs and warranty service	1,531,430	3,206,349
Transportation and procurement costs	347,980	396,866
Payroll	300,984	262,009
Rent	303,627	127,665
Depreciation of property, plant and equipment	189,078	125,738
Maintenance of vehicles	96,364	73,553
Insurance	40,309	47,131
Business trip expenses	19,939	19,889
Consulting	59,892	55,751
Communication services	14,258	10,404
Provision for roadside assistance program	-	71,201
Other expenses	492,437	503,416
<b>Total</b>	<b>45,962,737</b>	<b>45,894,503</b>

**5.3. Other income**

Other income for 2016 and 2015 comprised:

	<b>2016</b>	<b>(RUB thousand) 2015</b>
<b>Other income</b>		
Gain on sale of property, plant and equipment	679,590	406,316
Penalties and fines	183,739	215,996
Gain from program Help on the road	68,907	28,744
Gain from Finance program	32,671	57,412
Gain from property rent	18,644	15,569
Gain as a result of inventory count	18,245	26,559
Income, related to decrease of Inventory Obsolescence provision	5,438	102,351
Foreign exchange gains	321	580
Other	75,304	25,796
<b>Total</b>	<b>1,082,859</b>	<b>879,323</b>

As was disclosed in Note 3.1, the Company's property, plant and equipment are mainly presented by Company Service Vehicles. In accordance with the Internal Policy, the Company uses these vehicles for 15 months (or 20 thousand kilometers of mileage) and disposes them afterwards. For business purposes of the Company changes in useful service age of vehicles may be approved by finance and administrative director and CEO.

#### 5.4. Other expenses

Other expenses for 2016 and 2015 comprised:

	2016	(RUB thousand) 2015
<b>Other expenses</b>		
Loss from sale of Fixed assets	454,339	279,270
Loss from property rent	96,338	14,106
Loss from Finance program	28,988	54,394
Complaints received	39,260	24,264
Loss from sale and disposal of other assets	28,143	39,771
Taxes	30,452	31,495
Loss from inventory count result	23,254	29,970
Bank charges	19,349	20,283
Foreign exchange losses	377	2,050
Loss from foreign exchange transactions	156	485
Other	59,029	27,884
<b>Total</b>	<b>779,685</b>	<b>523,972</b>

## 6. RELATED PARTIES

In 2016, 2015 and 2014 the Company had transactions with the following related parties:

- Jaguar Land Rover Limited (United Kingdom), a group company:
  - since 1 April 2013 import by the Company of Land Rover and Jaguar vehicles and Land Rover spare parts for sale on the territory of the RF;
  - since 1 January 2014 import of Jaguar spare parts for sale on the territory of RF;
  - since 30 January 2013 has right to use intellectual activity results displayed at the Hub of Jaguar and Land Rover on the territory of the RF;
  - since 1 April 2014 granting right of usage of spare parts accounting software (IPOS) and its support;
  - since 25 March 2014 obtaining short-term loans from the Company;
  - the Company accesses license for TOPIx system since 01 January 2015;
  - the Company accesses license for "Microcat" parts catalogue since 01 June 2015;
  - Auto parts export since 22 October 2015 by the Company.

In 2016 related party transactions included:

	Purchase of goods and services 2015	Sales of goods and services 2015	Loans and interest receivable 31/12/2015	Interest received 2015	Accounts receivable 31/12/2015	Accounts payable 31/12/2015
Jaguar Land Rover Limited	38,004,393	87,423	1,585,249	411,966	140,600	696,521
<b>Total</b>	<b>38,004,393</b>	<b>87 423</b>	<b>1,585,249</b>	<b>411,966</b>	<b>140,600</b>	<b>696,521</b>

In 2015 related party transactions included:

	Purchase of goods and services 2015	Sales of goods and services 2015	Loans and interest receivable 31/12/2015	Interest received 2015	Accounts receivable 31/12/2015	Accounts payable 31/12/2015
Jaguar Land Rover Limited	37,166,742	467	2,312,162	495,631	232,063	1,435,540
<b>Total</b>	<b>37,166,742</b>	<b>467</b>	<b>2,312,162</b>	<b>495,631</b>	<b>232,063</b>	<b>1,435,540</b>

Cash flows from/to related party in 2016 and 2015:

	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Sales of goods and services	421,494	477,781
Purchase of goods and services	(33,441,009)	(32,715,334)
<b>Cash flows from investing activities</b>		
From the return of loans and the sale of debt securities	9,200,000	14,600,000
Interest received	338,879	522,790
On the acquisition of debt securities, loans to others	(8,400,000)	(9,300,000)
<b>Cash flows from financing activities</b>		
Dividends payment	4,651,323	3,268,487

## 7. KEY MANAGEMENT PERSONNEL

The Company's General Director, Finance and Administrative Director, and Chief Accountant are considered key management personnel.

	<b>2016</b>	<b>(RUB thousand) 2015</b>
<b>Payments to key management personnel</b>		
Payroll	18,696	18,105
Bonuses	6,099	7,297
Other benefits	969	610
<b>Total</b>	<b>25,764</b>	<b>26,012</b>

Long-term remunerations (remunerations paid on the retirement, signed to the benefit of key management personnel with insurance companies (non-government pension funds), and other payments, which secure payment of pensions and other social benefits to key management personnel by the time of their retirement) were not conducted during 2015 and 2016.

The Company had not signed agreements with non-state pension funds. The Company did not enter into any joint venture agreements.

## 8. EXCHANGE RATES

The official exchange rates are established by the Central Bank of the RF. The official exchange rates were effective at the reporting date were as follows:

<b>Currency</b>	<b>31 December 2016</b>	<b>31 December 2015</b>	<b>31 December 2014</b>
USD	60.6569	72.8827	56.2584
EUR	63.8111	79.6972	68.3427
	<b>2016</b>	<b>2015</b>	<b>(RUB thousand) 2014</b>
Foreign exchange gains and losses, net, from translation of assets and liabilities denominated in foreign currency and payable in foreign currency	(56)	(1,470)	(1,687)

## 9. SEGMENT INFORMATION

The Company's segment reporting is presented on the basis of management's perspective and relates to the parts of the Company that are defined as operating segments.

Since the Company's risks and profits are determined mainly by the nature of its operations, data for operating segments is considered to be the primary segmental data, and data for geographic segments is considered to be secondary segmental data.

Information on operating segments for 2016 and 2015 is presented below:

(RUB thousand)

	2016					
	Vehicles Land Rover	Vehicles Jaguar	Vehicle spare parts Land Rover	Vehicle spare parts Jaguar	Other	Total
Revenue, net of VAT	38,782,766	6,244,463	5,579,860	679,320	75,435	51,361,843
Cost of sales	(30,654,810)	(4,238,925)	(4,705,031)	(497,024)	(80,968)	(40,176,758)
<b>Gross profit</b>	<b>8,127,956</b>	<b>2,005,537</b>	<b>874,829</b>	<b>182,296</b>	<b>(5,533)</b>	<b>11,185,085</b>

(RUB thousand)

	2015					
	Vehicles Land Rover	Vehicles Jaguar	Vehicle spare parts Land Rover	Vehicle spare parts Jaguar	Other	Total
Revenue, net of VAT	42,530,587	2,101,675	5 550 649	545 171	65 436	50,793,518
Cost of sales	(32,545,211)	(1,297,614)	(4,594,296)	(374,030)	(29,686)	(38,840,837)
<b>Gross profit</b>	<b>9,985,376</b>	<b>804,061</b>	<b>956,353</b>	<b>171,141</b>	<b>35,750</b>	<b>11,952,681</b>

Information on geographic segments for 2016 and 2015 is presented below:

(RUB thousand)

Segment	2016						Total
	Moscow and Moscow region	St. Petersburg and Leningrad- skaya Region	Other regions	Republic of Belarus	Republic of Armenia	Republic of Kazakhstan	
Revenue, net of VAT	25,757,177	9,783,254	12,968,923	1,037,657	256,715	1,558,117	51,361,843
Cost of sales	(19,987,402)	(7,646,133)	(10,373,132)	(811,134)	(199,940)	(1,159,017)	(40,176,758)
<b>Gross profit</b>	<b>5,769,775</b>	<b>2,137,121</b>	<b>2,595,791</b>	<b>226,523</b>	<b>56,775</b>	<b>399,100</b>	<b>11,185,085</b>

(RUB thousand)

Segment	2015						Total
	Moscow and Moscow region	St. Petersburg and Leningrad- skaya Region	Other regions	Republic of Belarus	Republic of Kazakhstan		
Revenue, net of VAT	28,051,685	7,945,231	12,458,678	833,438	1,504,486		50,793,518
Cost of sales	(21,562,219)	(6,189,497)	(9,387,074)	(634,471)	(1,067,576)		(38,840,837)
<b>Gross profit</b>	<b>6,489,466</b>	<b>1,755,734</b>	<b>3,071,604</b>	<b>198,967</b>	<b>436,910</b>		<b>11,952,681</b>

## 10. RISKS

### 10.1. Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies.

In the first quarter of 2015 two international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

In 2016 the above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Company is at this stage difficult to determine.

### **10.2. Taxation**

Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Although the Company's management believes that the accompanying financial statements reflect fairly the Company's tax liabilities, there is a risk that the interpretation of the legislation by the tax and customs authorities, as applied to the transactions and activities of the Company, may not coincide with that of the management. The tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years prior to the year of tax review. Under certain circumstances reviews may cover longer periods.

The Company purchases goods from foreign suppliers in the ordinary course of business. The management believes that customs duties are calculated in compliance with the applicable legislation. However, there is a risk that relevant regulatory authorities may take a different view. The Company qualifies the risk of an outflow of economic benefits in connection with these events as unlikely.

### **10.3. Legal risks**

Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes and may cause legal risks. The Company's management believes that the accompanying financial statements reflect fairly the Company's tax liabilities and position of Company will be stable. At the same time the Company is sued in the court on the number of legal cases, the total amount of as at 31 December 2016 is not material. The company's management is going to put in issue in the court its relevance and legitimacy.

### **10.4. Credit risks**

Credit risks may arise due to unfavorable consequences caused by buyer's inability to pay for goods and services. As at 31 December 2016 the Company has accounts receivable with overdue payment date. A provision for bad debts was created at amount of 43,027 RUB thousand.

## **11. SUBSEQUENT EVENTS**

There were no subsequent events in the Company's activities after the reporting period.

General Director

Kuzyakov V.V.

Chief Accountant

Bukreeva O. P.

Jaguar Land Rover Limited Liability Company

28 March 2017