

Attendance List:	Ken Gregor Ben Birgbauer C. Ramakrishnan
Title of Meeting:	Fiscal 2017 Quarter 1 Results Call
Hosted By:	Kenneth Gregor
Coordinator	Ladies and gentlemen, good day and welcome to the Jaguar Land Rover Fiscal 2017 Quarter 1 Earnings Conference Call. We have with us today Mr. Ken Gregor, Chief Financial Officer Jaguar Land Rover; Mr. C. Ramakrishnan, Group Financial Officer of Tata Motors; and Mr. Ben Birgbauer, Group Treasurer Jaguar Land Rover.
	As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.
	I will now hand the conference over to Mr. Ken Gregor. Thank you. Hello to you, sir.
K. Gregor	Thank you very much and good evening, good afternoon, and good morning to everyone who's joined us on the call today. I'm here to talk about our Q1 FY17 financial results. I'll try to run through the presentation that, hopefully, you've got in front of you and we'll have some time for Q&A at the end as per normal.
	Just turning to Slide 6, the first slide, really a solid quarter for the business with some pretty good volume growth, up 16% compared to the same quarter year ago to 133k units driving the revenue up to £5.5 billion. The profit before tax, just 1 million under £400 million, down from the £638 million in the same quarter year ago, largely reflecting the non-recurrence of a favourable FX revaluation we had in that same quarter year ago combined with an unfavourable FX revaluation in Q1 FY17. I'll talk about the specific numbers around that in a couple of slides.
	The profit before tax also includes a further £50 million recovery related to the Tianjin port explosion which we treat as an exceptional item.
	We had free cash outflow in the quarter of £633 million. It is a seasonal effect that we see a build-up in inventory in launch-related factors happening in this quarter, like we did a year ago. I'll talk about some of the specifics, and all of that together left us still with very strong liquidity. Recognized by S&P, as I'm sure you're all

aware, we saw our credit rating rise to BB+. Clearly, I'm hoping Moody's might follow.

Slide 7 has some of the metrics. You can see the retail volume up 18k units. The wholesale volume up less and that is reflecting the fact that the wholesale volume excludes the joint venture volume whilst the retail volume includes the joint venture volume, so you do see some differences there. That, of course, impacts our financials in different ways with the share of the joint venture profit not included in EBITDA, but in profit before tax and that's something to watch out for in our results this quarter and onward.

I think you can see the metrics I've mostly called out, EBITDA £672 million, 12.3% margin, down 4 percentage points. I'll talk about some of the reasons for that and the underlying result that we saw as I get on to the next slide, or next couple of slides. But first, the volumes. Very solid sales volume performance supported by new product launches.

Overall, we were up in every region around the world, strongly up in the US, the UK, China, Europe, a bit more modest growth in overseas with those markets which include Brazil, Russia, South Africa, the Middle East, all being impacted to varying degrees by the economic issues in those places and the continued relatively low oil price. I'm showing some more modest growth, but, overall, a very solid result.

On the following slide, Slide 7, you can see the same volume growth but explained by product. You can see Land Rover, overall up with the Discovery Sport being the main driver. On the Jaguar side, you can see very strong growth, up 76% with the F-PACE being the main driver, with the XE also performing well. So, good product-driven growth, which is the key to our future strategy for the business.

I'll talk a bit more detail on Slide 10 about some of the profit drivers. As I said already, PBT is down. Within that, the volume did produce some favourable volume mix as well as higher China joint venture profits, partially offset by higher depreciation and amortization. We did have a lower local market incentive in Q1 FY17 compared to Q1 FY16, and that's a swing of about £55 million.

Then, with the foreign exchange revaluation (altogether including debt and unrealized hedges) in Q1 FY16 we had a total of 205 million of favourable revaluation that doesn't recur. So, that is actually the main driver for the whole change in profit year-over-year, added to which we've got an unfavourable FX revaluation mainly on Euro

payables of £86 million in Q1 FY17. Those two FX revaluation impacts more than explain the entire reduction in profit.

I mentioned the D&A already. We also had some favourable commodity revaluation and I already mentioned the further £50 million recovery related to the Tianjin port explosion.

On EBITDA, I talked about most of the causal factors already. You've got the same effect with favourable volume and mix. Remember that within in the EBITDA, as I said already, we don't have the China joint venture profits, so you do see unfavourable market mix within the EBITDA, but in PBT terms recovered by the JV profits. That is one of the reasons why the EBITDA is down a bit. But, mainly it's around FX revaluation with the year-on-year effects equating to £118 million and the local market incentive, roughly a £55 million swing I also mentioned earlier.

If you adjusted for the FX revaluation, the £84 million that's in EBITDA within the quarter, the EBITDA margin would have been about 14%, so a good bit stronger than the 12% headline figure and within the more normal range that we have been seeing and expect to see going forward.

Turning to Slide 11 on the cash flow. There was a free cash outflow in the quarter as I already said, although, improved from the same quarter a year ago, the working capital outflow actually wasn't as big, but we have got the same seasonal effect flowing through here as I mentioned earlier. Product investment continues to run at a solid level, a little bit lower than the same quarter a year ago, mainly due to the timing of model introductions and run-outs of others, and we paid a dividend to Tata Motors of the same amount as in the same quarter last year.

Slide 12 and 13 highlight some of the products that I said is and remains the key to our future growth. We have launched the Evoque convertible and we launched the XE in the US during the quarter. The F-PACE was, as I already said, a really strong driver for growth and well-received all around the world. We also have the China joint venture XF long-wheelbase launching in the second half of this fiscal year.

On the manufacturing side we have plenty of activity as we continue to invest in capacity and facilities to build our business in a number of different directions. We showcased here, special vehicle operations that have, for example, a small paint facility that enables us to do bespoke paint, any colour you want out of a palate of well over 200

colours, to just provide that extra revenue growth on top of our core business which is nice.

Slide 14, we talk about the Brexit referendum that happened in the UK in June and, of course, the unexpected vote by the UK public to leave the EU, and we talk about some of the impacts. Of course, the first thing that happened, actually, was the devaluation of the pound by about 10% versus the day before the results of the referendum were announced, and that weakening of the pound caused some of the negative revaluation that we saw in the quarter on the euro payables, for example.

The implications clearly then depend on the extent to which the pound remains weaker, any incremental tariffs that might result following the exit of the UK from the EU, and, of course, any economic factors in the EU or the UK in terms of economic growth.

In terms of the currency implications, we do sell about 80% of vehicles outside of the UK with 24% of those into Europe and, of course, the remainder into key markets such as China, the US, and other markets around the world. I think one point I would make is that we do have and continue to have a good, balanced global footprint, and that enables us to balance out whatever economic effect happens in one region with, hopefully, the counterbalancing effects in other parts of the world.

We do source about 50% of components from the European Union and, therefore, in euros. Those currency implications mean that together, net, we would benefit overall from a continued weaker pound exchange rate as a result of Brexit if that continues, although there's a partial offset in the case of the euro because we buy more content in euros than we sell in euro terms vehicles in Europe.

Although, in the short-term, that will be and is being largely offset by hedges executed when the pound was stronger, but net it's a benefit and in the medium-term it would be more of a benefit if that a weaker Pound persists.

Against that there's the risk of tariffs. Today, of course, within the EU there are no tariffs on vehicle sales, vehicles that we build in the UK and sell into Europe. It is possible that in the future, depending on whatever arrangements are negotiated between the EU and the UK, there could be tariffs in the future on vehicles that are manufactured in the EU, imported into the UK, and vice versa, and the same with components that are sourced in the EU could be subject to some duties.

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Clearly, we don't have a crystal ball, so we don't know exactly the way in which those things are going to develop. The positive impact on currency, the potential risk on tariffs, and all of that, balanced by the fact that we've got a balanced global footprint. So, of course, you could understand, we're watching it very closely and will react accordingly.

Turning to my summary slide before we have a bit of Q&A, Brexit or no Brexit, our business strategy continues to be invest in new products. That's the key to success in the premium car business, and that's the key to our future success as a business. Therefore, we will continue to invest in those products, in technology, CO2 reducing technology, electrification, and also in the manufacturing capacity to continue to grow profitably.

This year we do expect the investment spending to continue to be in the range that we guided three months ago, round about £3.75 billion. We've got recent product launches to build on in the case of the Jaguar F-PACE, the XF long-wheelbase that's coming, the E-voque convertible, and some exciting new product launches that we're going to announce within the next six months. Altogether, this activity continues to support our plan to drive profitable volume growth and, of course, strong operating cash flow to help fund ongoing investment.

With that, I'll pause and we'll open the call to Q&A. Thank you.

Coordinator

Thank you very much. We will now begin the question and answer session.

We have our first question from the line of Kapil Singh of Nomura. Please go ahead.

K. Singh

Hi. Thanks for the opportunity. I have a couple of questions. Firstly, on JLR, we have seen a strong improvement in our realizations on a quarter-on-quarter basis. But simultaneously we've also seen a drop in gross margins or increase in raw material to sales. So, could you just help us understand what's happening there and whether we fully realized the benefit of lower commodity prices? That would be my first question.

Secondly, for the China JV, I wanted to understand, I heard C.R. mention on a previous call that profitability may come down going ahead. Given that we're operating at less than 50% utilization I would expect profitability to be improved if not, at least, stay where it is.

And, if I can squeeze in one more, on the local incentives if there can be some guidance as to do we expect more to come in or will this slowly fade away as we head into the next year? Thanks.

K. Gregor      Let me try and take them in reverse order. On the local market incentive, I do expect in the future to continue to be able to apply and receive them, but we do feel that they will be at a lower level than we previously enjoyed, although somewhat higher than perhaps we have enjoyed this quarter.

But we will account for those incentives as we receive them given the uncertainty of negotiating with the relevant authority. So, that will be a matter for the same quarter in a year's time.

In the case of the China joint venture, you're right on the fact that the capacity utilization, we capacitize for about 130,000 units on a two-shift basis in the original application. And you're right, we're probably running just over half of that level right now. So, there is the opportunity as we introduce the XF long-wheelbase to build the capacity utilization which should support the profitability.

At the same time, I think we've enjoyed strong margins in China, but we're very well aware of China's economic growth being somewhat slower than it's been in recent times, and that slower economic growth tends to eventually put pressure on margins. So, we're cognizant of that and we're building that into our thought process going forward. I think one could see the possibility of lower margin from the China joint venture in percentage terms, but higher absolute profitability, hopefully, as we grow the volume.

I think I've touched on most of the factors that drove the EBITDA change that you basically referred to with the material cost. There is a market mix change within EBITDA. If you looked at the wholesale volume development which is a slide in the backup, you could see that the wholesale volume (which excludes volume from the China joint venture) is down in China year-on-year, so that produces a negative mix factor overall within EBITDA resulting in some weakening in the margin year-on-year.

You see that it appears as a higher material cost percentage, but it's really that market mix factor happening. Also within EBITDA you see the non-recurrence of the local market incentive and the FX revaluation that I previously mentioned as the primary factors driving a lower EBITDA margin year-on-year.

K. Singh Thanks for the answers. Just on the average selling prices we've seen improvement as well, so if it's regional mix then I would have thought that same effect would be there on average selling prices as well. So, if you would just help us understand that why raw material sales have increased but simultaneously average selling prices have also increased.

K. Gregor There's also a favourable effect in foreign exchange on the top line of revenues increasing. Clearly, that has an offset in hedges, as I described earlier. So you get a higher revenue per unit, but the profit per unit, all other things being equal, stays roughly the same because of the effect of the hedges offsetting the higher revenue per unit.

So, those two things are balanced, but the higher revenue per unit gives you that high realization, the profit per unit stays the same, and then the other factors that I talked about serve to reduce the EBITDA margin year-on-year. So, I think that's probably the other factor that you're seeing in the quarter.

K. Singh Okay. But if I look at the pound exchange, the average for Q4 and Q1 is nearly the same.

K. Gregor I was talking year-over-year.

K. Singh Even if I look at quarter-on-quarter the ASPs have improved.

K. Gregor There's no doubt some product mix factors there, but perhaps I'm conscious that we're probably just straying into some detail that could perhaps better be handled offline or in a one-on-one which we would obviously be happy to do. Otherwise, I think we're going to get into too much detail.

K. Singh We'll take it offline. Thank you. Thanks a lot.

Coordinator Thank you for your question. Your next question comes from the line of Wen Tao Hu of Wei Capital. Please go ahead.

W. Hu Thanks for taking my question. I've really got three, one on product, two on FX. The first one is I noticed that you recently released the EVOQUE convertible, launched in June. I just wanted to ask you what the reception of that model has been. Has it been a global release or are you releasing it in Europe only first? Is there a waiting list? If so, how long?

The second question is on your euro payables and US dollar debt. Could you just remind us the current amount in pound terms of the euro payables and US dollar debt?

Also, when we look at the FX effects, do you also hedge the euro payables on the rolling four- or five-year basis which is why we don't necessarily see the immediate, the full effect of the mark-to-market of the full amount of the payables in the quarter?

And the last question on FX, given that the pound has weakened quite substantially against a lot of the markets into which you sell, are there any plans to use FX, perhaps tactically, in terms of being more aggressive in certain markets, maybe putting in more features or options at that same price to make the product more competitive, similar to perhaps how some of the Japanese have used the yen weakness in the past? Just wanted to get a sense of your plans in terms of tactically using FX as well. Thanks.

K. Gregor

Thanks. Some good questions there. Perhaps what I'll do just to give Ben a bit of warning. On most of the FX questions I'll ask Ben Birgbauer, our treasurer to answer those. But if I just took the first and last questions together, yes, the Evoque convertible has had a really positive reception. It does have a staggered launch around the world market-by-market.

In the UK and Europe we do have order banks of a number of months, so it's quite positive. I'm obviously looking forward to the full development of that as we roll this out. Although it's maybe not large in volume in terms overall, it's provided a really good boost for the Evoque volumes, overall renewed interest in that vehicle as it's midway through its life. So, positive development there.

On whether we would use foreign exchange from a tactical perspective, that's a great question. You could imagine it's the sort of day-to-day operational issue that we face market-by-market around the world.

Overall, I must admit as the finance guy in the room, I tend to prefer to argue to strengthen our margins rather than chase volume at any margin. But, of course, you do have opportunities where, perhaps, with the opportunity to drive a bit more volume and still earn a good margin.

So, I think on balance we want to drive the profitability, but tactically there's some opportunity on volume is how I'd put it to give you that sense of balance. But, obviously, that's something that we discuss

week in, week out and obviously monitor versus what our competitors are doing as well.

Ben, I might hand over to you for some of the more technical FX questions.

B. Birgbauer

Okay. Thanks, Ken. I'll try to answer the questions as I understood them. I think that one question was just around balances of payables and debt or balance sheet items that are getting revalued. What I'd say is in terms of accounts payable, we had total accounts payable at the end of June of £5.8 billion. I don't actually have to hand how much of that was euro. I would tend to say roughly, probably about 40% but I couldn't say for certain, just as a guideline with a health warning.

And then, we do also have dollar debt. We have about \$2.2 billion of dollar debt outstanding. As of this last quarter we did designate some of that debt, so only about half of the dollar debt was revaluing in this period, whereas in the past all of the dollar debt has actually revalued.

On the payables, I think there was a question on do we hedge those. The answer is that what we hedge is our transaction exposure, so revenue and cost. Payables are just the balance sheet expression of cost. So, in one sense we do hedge them, but the funny thing is that once a cost becomes due and accounted as a payable, then when you do have a change in currency rates and you get an immediate mark-to-market, as it were, of that balance sheet balance, even though the cash flow doesn't happen until a little later.

So, this is getting quite technical and maybe it's hard to do over the phone, but the point is we really hedge cash flows. We're hedging cash flow exposures is how we think about it. Roughly, our payment terms tend to range between 45 and 60 days depending on the supplier. We do have some suppliers on 30 days, but basically within that corridor, costs that aren't quite yet paid become payables on the balance sheet and they get revalued immediately. So, the hedge that relates to them doesn't come due until sometime later.

That's I think answering the question you were asking, but if I didn't answer it, please tell me.

W. Hu

I think that helps. Maybe if I just clarify it a little bit. I think I get what you're saying on the euro payables. I guess my question is should we also look at the net of, for example, euro receivables that you may have as well in terms of looking at the mark-to-market exposure?

B. Birgbauer

When we talk about the revaluation balance that we reported, and I don't know if you saw the slide at the end of our presentation, it showed the breakdown of the FX impact on the income statement for Q1 FY17 versus Q1 FY16. The £84m unfavourable revaluation in Q1 FY17 is primarily driven by euro payables.

Those revaluations are actually our estimate of all of the balance sheet revaluation that's happening, including any receivables including Euro's and US Dollars. It also includes other liabilities that are in current assets and liabilities that are denominated in euros or dollars and any other currencies for that matter. So, for example, we have warranty reserves denominated in euros and other currencies that revalue as well.

One of the funny things about the auto business is because of dealer wholesale financing arrangements there tends to be rather lower receivable balances on the balance sheet. So, in that sense you get less of an offset than you might see in businesses from other sectors that don't have those kinds of arrangements.

W. Hu

Got it. And then, just the final clarification on that point is the negative £84m in 2016, capturing, if I understand you correctly, all of those euro payable, warranty, on balance sheet, foreign exchange mark-to-markets, right?

B. Birgbauer

Yes, it's all of those items yes.

W. Hu

Okay. All in there. And then the negative 23, the revaluation of undesignated debt, that would capture all of the mark-to-market on the US dollar debt?

B. Birgbauer

Yes.

W. Hu

Okay. Great, got it. Thank you very much.

Coordinator

Thank you for your question. Your next question comes from the line of Richard Smith of Citi. Please go ahead.

R. Smith

Hi there. Good afternoon. Just a very quick question on pensions. Obviously, the change in the actuarial assumption around the discount rate has inflated the obligation side, and obviously it's encouraging to see that the proportion that you guys hold in terms of the plan assets in debt instruments means that a large amount of that has been offset, but clearly rates have moved further since the balance sheet date.

In terms of timing around new evaluations and—I'm just trying to get a sense of to what extent the pension is or any pension deficit is potentially going to be as a draw on cash in terms of additional contributions in the future. Is there anything you can say about that?

B. Birgbauer

We just completed our triennial valuation this year basically, with a renewed deficit contribution schedule, and I don't think we've ever given those deficit contribution schedules. But I think that the shape of it doesn't look much different than what it was in the last triennial valuation. I think I'd say—I don't know, Ken, if you have a different view, but I think that's what I'd say about it.

K. Gregor

Yes, I think that's true. Probably overall—the contributions by year were not significantly different. I think we did extend the payment schedule by a couple of years given the higher deficit that you alluded to already, but year-by-year it was much the same.

R. Smith

Thank you.

Coordinator

Thank you for your question. Your next question is from the line of Robin Zhu of Bernstein. Please go ahead.

R. Zhu

Hi. Thanks for taking the question. I had two quick things to follow up on. In terms of Slovakia, this is a plant that you're building within the Eurozone conveniently enough. I know in the original announcement you guys mentioned the plant would be for all new products. Is that still the case or is there logic in reassigning that plant to produce as much of European demand as possible given the threat of potential tariffs into the EU? That's the first question.

The second question, back on FX, I just wanted to get more clarity around this idea of the realized hedges. I understand that you're 60% or 70% hedged in the near-term, but doesn't that mean that you can effectively adjust the rate that you hedge at reasonably quickly, and once the first 60% roll off, the rest you can—say next year that you can reduce the level of FX losses that you realized over a fairly short period or does that not work with the logic of the way you hedge?

K. Gregor

Robin, thanks for the couple of questions. Yes, on the FX you're basically right. Over time if we hedge on a declining balance basis about 70% to 80% one year out; 50% to 60% two years out; 30%, 35% three years out; 10% to 20% four years out. So, absolutely, the mental math you're doing of that declining balance as we go forward, those hedges taken out, prior levels start to roll off. We put new hedges on at present levels so we lock in the present levels, and you'd see that effect work through over time.

So, yes, the principle is right. It doesn't necessarily happen next quarter or the quarter after because we still have those hedge levels, but over time you'll see that effect happen, yes.

K. Gregor

On Slovakia, yes, in principle, you're right about the possibility of what that plant offers — I think all I'd say is obviously you'd expect within the business we have that sort of thought process in hand. I think probably what I'd say is creating the sort of flexibility that you allude to requires investment.

There are choices that would need to be made in the case of were we to see a scenario in which there would be tariffs. Perhaps then there would be a business case for making those additional investments in flexibility versus a situation in which there were no tariffs in a single-market type environment that continues, then there would be less of a business for investing in that flexibility that you allude to. But, clearly, that possibility is there, and we'll, obviously, continue to monitor exactly how that goes and decide at the appropriate time whether or not to make those investments in flexibility.

Sorry, you had a followup on the FX, I think?

R. Zhu

Yes. Given that you hedge roughly 20% a year on a staggered fashion, in theory that's suggestive that 120 million realized loss should come off over a period of four or five years, or whatever it is. But, just in terms of the logic you hedge, shouldn't you be able to either hedge at a fairly low rate currently given where the pound is or somehow eventually allow that realized hedge loss to come off quicker given that you're able to put on new hedges now that can be given the current level of FX?

K. Gregor

Ben, I might let you answer that one.

B. Birgbauer

Let's just discuss the scenario where the exchange rate is frozen, it doesn't change again ever. I think that the reality is that yes, over time, as a function of the declining percentages along the lines Ken described, you'd expect the level of hedges bearing that level of loss to reduce over time. So, that's definitely true.

I think that what I would say then, though, is that the principle of a hedging program is to smooth volatility. So we are in the unfortunate position where we hedged FX at one level and the pound's is at historically low rates, and so we have these hedging losses coming through. but in some ways I think the worst thing we could do is say we're going to start hedging less because we're not going to hedge in

what are now historically low rates. So I think the thought process would be that we should carry on hedging to secure these historically low rates with the view that there's going to be future volatility, and it will be good to have part of our hedge portfolio executed at these historically favourable levels, for the majority of currencies, right now.

So, I think that's how we think about it. I don't know if that answers your question, Robin.

R. Zhu                    It does. Just to clarify, hedges that you're putting on this month would be something in the range of 1.2 or 1.3 pound dollar. Does that make sense?

B. Birgbauer            Today's spot rate is circa 1.32, right?

R. Zhu                    Something around there.

K. Gregor                Absolutely.

R. Zhu                    Thank you. Thanks, guys.

Coordinator              Thank you for your question. Your next question comes from the line of Ashish Nigam of Axis Capital. Please go ahead.

A. Nigam                Thanks for taking my question. I just wanted your thoughts on this £633 million negative free cash flow this quarter. Can you explain the seasonal impact in working capital? Because it was there last year as well, so is it because of the UK name plate change or just that it coincides with some heavy launches for last year as well?

K. Gregor                Yes. There are a number of effects, but perhaps the biggest effect is quarter one calendar year, January to March, is a very large production and sales quarter with more production days than quarter two calendar year, April to June. And because of the working capital profile of the business that Ben already described, you see payables unwinding in quarter two — sorry in April to June period relative to quarter one. So, that drives part of the negative seasonal working capital effect.

You also have the effect of seasonality in terms of market demand where quarter one calendar year, January to March, is a very strong quarter for the UK, and so we bias production and shipment plans to satisfy the demand we get in the UK in March when the number plate changes. March in particular tends to be our biggest single sales month of the year.

And then in the April to June period we start rebalancing production from the UK back to other destinations that are further away, and further away means more inventory in transit relative to the end of March, for example we'll tend to have more inventory at the end of June compared to the end of March, mainly because of that seasonal balancing of demand.

And then the other factor this quarter is the F-PACE launch, the XE launch in the US, and the Evoque convertible which is smaller, but all of those three vehicle launches will impact the normal inventory pipeline build as you send vehicles around all of the world.

These factors combine to give the negative working capital effect that we saw in the April to June period.

A. Nigam      Thanks. That's helpful. Just secondly, on your capex of £3.75 billion, if you can just break that up between R&D, maintenance cap ex, and capacity editions.

K. Gregor Let me try and split it between—I could split it between R&D and capex. It's roughly £1.55 billion of R&D and £2.2 billion of investment in tools, equipment and capacity for things such as the Slovakian manufacturing plant. I think it's always hard, though, to try and give a sense of how it's split between what you're calling maintenance versus other capital. So, I think I'll just stop with the split between R&D and cap ex.

K. Gregor I think I would just reiterate the guidance we gave in the past. It's just like I said before. It's possible with the higher capex level that we're sustaining this year that we could see some modestly negative cash flow this year. But, of course, internally, you could expect and trust that we're driving quite hard to try to make that cash flow positive at the same time.

And that's been the case for the last two to three years actually. I've given the same guidance in the past and I think you've seen each time in the last two to three years that, actually, we've managed to come out of the year with strong positive free cash flow. We've got three quarters in front of us this year to see how the cash flow evolves.

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A. Nigam Just this last question on the China JV. I saw a profit number of £45 million in Q1 FY17. Does this include the royalty received from the JV?

K. Gregor No. That profit figure on the income statement is just the share of the after-tax profit of the joint venture.

E. Nigam Okay. So, if you can just help me comprehend the numbers, I think you had a question previously about it as well. For JV volumes of around 13,000 units over the quarter a £45 million profit seems too good to be true. So, am I missing a number here because I think C.R mentioned that it would be moderate going forward. Can you share any further insight?

K. Gregor I'll just try and answer that one real quick. There are also some seasonal factors with the joint venture in terms of balance of production and wholesale volumes. So that ebbs and flows through the quarters a little bit. Also that can produce higher profits in one quarter versus another quarter.

It's the same thing with any results of any quarter and you can imagine in the business such as this one cannot simply focus at one quarter in isolation, I prefer to look at the balance of the full year where all the seasonal factors are taken into account and you can see a more representative trend. At the end of the day, this is a business where we're investing in new model introductions and the cycles span seven, eight, even ten years, and therefore, one has to try to look beyond just one quarter's results, is what I think I'd say on that.

Coordinator Thank you for your question. Your next question comes from the line of S.Gupta of UBS Please go ahead.

S. Gupta Hi. Good evening. Thanks for taking my question. Just on the F-PACE, I just wanted to check if there were any material start-up costs in this quarter and would that be a factor in terms of why we are seeing the quarter-on quarter average selling price.

K. Gregor Yes, there are launch costs that impact EBITDA as well reflecting the three product launches. But they're not as material as some of the other factors driving EBITDA in Q1 FY17 that I called out earlier.

S. Gupta Okay. And would you be able to give us some sense of what waiting periods look like for JLR vehicles?

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K. Gregor                    I don't like to get specific for competitive reasons, but in some markets we've got some really good strong demand and longer waiting periods, over six months, but probably the world average is three to four months.

S. Gupta                    Great. And just lastly, again, on the China JV, my understanding would be that the JV, whatever component it's procuring from JLR, are paid for in Pounds and, therefore, with the pound depreciation, the JV should benefit. Is that understanding correct?

K. Gregor                    That's a good question. I'm just thinking about that. Sorry, you've thrown me because you've taken me into the next level of detail that I wasn't thinking about.

                                  There's definitely an FX effect though for JV source materials that it sources from JLR. Roughly maybe 40% of materials are sourced out of the UK or mainland Europe and, therefore, that will have an impact. If the pound is weaker, then those material costs should be lower, yes, I think that's true but I'd struggle to quantify that right now and that might be one to take offline.

S. Gupta                    Okay. Just going back to the supply side. Would all the payments to JLR be in Pounds or would there be some billed in Euro's for the components procured by the JV?

K. Gregor                    There would be Euros based payments, yes. Basically, we pass through all of the currency impact onto the joint venture, so if the commodities are sourced in euros, then the joint venture will also pay in Euros.

S. Gupta                    Okay. Great. Thank you so much.

Coordinator                Thank you for your question. Ladies and gentlemen, due to time constraints no further questions can be taken. I'll now hand the floor back to Mr. Ken Gregor for the closing comments.

K. Gregor                    I'd just like to say thanks as always for taking the time to join us today, we appreciate your support, both this quarter and over the years as we continue to develop our business. So, thank you.

Coordinator                Thank you. On behalf of Jaguar Land Rover, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.