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Attendance List: Mr Ben Birgbauer Treasurer Jaguar Land Rover (BB)

Title of Meeting: Jaguar Land Rover Q4 FY15 Results Call Earnings Conference Call

Hosted By: Kenneth Gregor Financial Officer Jaguar Land Rover (KG)

KG Good afternoon and good evening to everybody who has taken the time to join us on the call I appreciate your time. What we have got here is the full year presentation of results for bondholders in Jaguar Land Rover Automotive plc. In normal fashion I will run through the presentation relatively quickly so we have some time for Q&A at the end.

I'm on to slide 5 in the presentation has which has got some talking points about the full year, obviously we are also talking about Q4 end of March as well as the full year end of March but I think the overall highlights are we have concluded an end to a strong year for a Jaguar Land Rover in FY15 and a very solid Q4 to close that year. Retail volumes were just over 462,000 up 6.4%, with Land Rover up 8.9%. Jaguar down 4.5% and I'll talk about that a little later. Strong growth for revenue up 12.8% to £21.9 billion and a strong EBITDA performance throughout the year really, including Q4, which averaged out in the full year to just a touch under 19%. Higher revenue was driven by higher wholesales which, in turn, drove EBITDA up £0.7 billion to £4.1 billion. Headline PBT of £2.6 billion was impacted by some non-cash financial accounting items related to FX, which I will talk about in a moment, up £0.1 billion year over year and the profit after tax for the year also up at just over £2.0 billion. I'm particular pleased by the free cash flow performance which was £0.8 billion positive and that is after higher investment for the year of £3.1 billion, actually a bit lower than the product investment that we had guided this time last year and that was partially the reason the free cash flow was a bit stronger than we had planned the other part of it was the strong profit performance resulting in strong cash flow. The financings actions that we have completed during the year have left us with a very healthy balance



sheet with cash and financial deposits just over £4.0 billion as well as the uncommitted revolving credit facility that we have. We have also declared a £150 million dividend, which we will pay to Tata motors in June 2015 consistent with last year and the year before.

Turning to slide 6 which has some of the metrics, you can see retail volumes for quarter 4 over 124,000 units, basically flat year over year for the quarter and I'll talk a bit more about why that is later on. It largely relates to some model run outs of the Freelander and the changeover in China from the imported Evoque to the locally produced Evoque those two things have impacted the quarter a bit but as you can see when you get to the total full year number retail volumes were up almost 28,000 units. This slide also shows some of the other quarterly figures so you can see the EBITDA for the quarter at just over £1.0 billion, up just under £100 million, and you can see year over year for Q4 that the EBITDA margin is slightly ahead of the same quarter a year ago at 17.4% versus 17.2% and we are actually pretty pleased with the EBITDA margin for Q4 holding up well, and you can see how that has helped bring the full year average EBITDA margin up to 18.9% which itself was up almost 1.5% compared to a year ago. I think it'll probably be easier to see when I get to the income statement to talk about some of the FX affects but we have basically got quite a large revaluation from two sources, a revaluation of foreign currency debt and other liabilities and also mark to market of hedges that do not qualify for hedge accounting treatment under IAS 39 in the quarter and those have been amplified by what was quite a big weakening of sterling through Q4 where it closed the end to around \$1.48 dollars to sterling. So we have got a couple of big revaluation effects that are impacting the headline profit before tax hence that is down year over year from the £576 million a year ago to £396 million in this quarter largely because of those FX affects that you will see more clearly in the next couple of slides. That has also impacted the headline PBT for the full year where it is up 113 but basically the underlying profit is up much more and I think I would therefore probably encourage you to look at the EBITDA to understand the underlying performance of the business both in the quarter and in the full year.

We also see positive free cash flow in Q4 of £335 million, supporting full year positive free cash flow of just under 800 million, down year



on year, largely because of the higher investment but I think to be honest I'm actually very pleased that we have managed to produce positive cash flow in the quarter and the 12 months ended March given the higher investment during the year.

On slide 7, we can see Land Rover retail volumes up almost 9.0%, so we're quite pleased with that. It is a year of transition with the run out of the Freelander and the introduction of the Discovery Sport which will be more of a feature in FY16 than it has been in FY 15. We are also seeing a transition effect as we cease the importation of Evoques to China and switch to the local production of the Evoque where we continue to focus on manufacturing quality and customer deliveries.

It's a bit of a transition year for Jaguar as I talked about in the prior calls. Although the F-TYPE continues to perform strongly the XF and XJ are down but we announced the new XF at the New York auto show back in April which starts production in the summer here in the UK and with deliveries to show rooms commencing around about August/September time, so the XF is down year over year as production of the old car runs out. We have also launched the new Jaguar XE which, in terms of the press reaction, has been very positive. The gradual production ramp up is happening as normal and retail deliveries will start at the back end of this month, so we're feeling quite positive about the XE but of course it doesn't feature in the retail volumes for FY15 and so the XE will feature more prominently on FY16. So as I said this is a bit of a year of transition for Jaguar with many new products coming to market this year with the XE, XF, and the F-Pace at the back end of the fiscal year.

On the financial pieces on this slide I have talked about the EBITDA margin and the EBITDA being up year on year. What is going on there, overall the higher revenues clearly are being driven by the higher wholesale volumes, that is understandable, and a solid product mix with Range Rover, Range Rover Sport and the Jaguar F type all performing well during the year helping to support the EBITDA margin and a decent market mix as well as you will see when you look at the full year figures, the China volume was up in the full year and we have also got sales growth in the UK, US, Europe and Asia Pacific so largely across most markets in the full year.



FX is a little bit of a complicated picture in the full year. It is fair to say sterling started the year by strengthening significantly against the US dollar with rates over \$1.70 to the pound in August of last year and then spent most of the second half of the year weakening as we got through to March with the rate ending at around \$1.48 to the pound. The euro also weakened throughout the year as economic growth continued to be low, to around €1.37 by the end of March, exacerbated by quantitative easing undertaken by the ECB during the quarter. Sterling weakened as the general election loomed closer but subsequently strengthened to about \$1.57 as the election results became apparent. So quite a mixed picture on foreign exchange it is fair to say, which does have quite an impact on the results and I'm sure you will have a few questions on that. In terms of the financial impact on EBITDA in the full year, so I am now talking about the FX affect above the EBITDA line, by and large it is about a negative impact of £150 million net of realised hedges for the full year. In Q4 however it is a positive effect in EBITDA of about £50 million in Q4 compared to the same period a year ago because sterling was so weak in Q4. There is a whole mixture of effects but those are the two headline numbers I've given just to help you understand the pound millions impact within EBITDA both for the full year and for Q4.

When you get to PBT there are other factors, which we will see on the income statement in a moment, which are having an impact. I've already mentioned the revaluation of foreign currency debt and the mark to market of unrealised hedges not eligible for hedge accounting treatment under the IAS 39 standard and I'll talk more about that when we get to the income statement.

Turning to the volume page on slide 8, this is for Q4 and as I said already the 124,000 plus units is pretty flat overall year on year for the quarter. What you can see is actually some contrasting pictures with the UK, North America, Europe and Asia Pacific all being up compared to the same quarter a year ago. China being down 20% and all other markets being down 22%. For those of you who are interested in the China picture it is the case that the 20% reduction is impacted by three features, one is the changeover from the imported Evoque to locally produced Evoque, in our joint venture plant with Chery, where there is a bit of a ramp up happening of the



localised Evoque that is about half of the volume change and the other half of the volume change is related to the run out of Freelander which has run out year over year and the replacement with Discovery Sport and Discovery Sport is very much in a production ramp up phase also. That feature is actually there in all of these markets but in China you have got the added impact of Evoque. If you adjusted for those three impacts out the China volumes are very slightly up for all the other car lines in Q4. All other markets were down 20% reflecting the economic and political conditions in Russia, Brazil and South Africa and we can talk about that a bit more if you wish in the Q&A.

The way that plays out for the full year, illustrated on slide 9, is that I think overall we're pretty pleased with the way the year has ended with over 462,000 units up over 6% and you can see China up 12.5%, North America up 3.6%, the UK up 13.1%, Europe up 6.0%, Asia Pacific up 16.8% and all other markets down 9.0% again is really down to Russia, Brazil and South Africa.

Slide 10 shows the income statement in a little more detail and you can see some of the factors impacting profit that I've been alluding to earlier on. I've already talked about most of the things down to EBITDA, and if we focus on Q4 you can see the impact of depreciation and amortisation which I haven't talked about already and it is a feature you should keep looking out for as we have highlighted in prior quarters, which is the growth we expect to see in depreciation and amortisation because we are investing very heavily and have done so over the past few years and we have got therefore a growth in depreciation that is happening but also the growth in our amortisation as the engineering that we are undertaking, and started when we became a subsidiary of Tata motors, is now catching up in the income statement versus the cash expense that is going through. So that has grown £72 million for the quarter year on year, really reflecting the introduction of new models, in particular the Discovery Sport, probably the single biggest reason for the increase in the depreciation and amortisation in the quarter then the full year you have got that plus, some of the investment related to XE which started production in the quarter and you have got full year relating to Range Rover in the 12 months through March 15.



On the debt and unrealised hedges mark to market, you have got £220 million in the quarter split almost exactly about £100 million in revaluation of foreign currency debt, our dollar bonds that a good number of you on the call are invested in, and the other £100 million relates to the mark to market of the portion of unrealised hedges that do not qualify for hedge accounting treatment under IAS 39 magnified this quarter by the size of the FX move. So you get that affect which when you look year over year in the quarter is a £242 million movement added to that the £72 million movement of depreciation amortisation you start to understand why the headline the PBT is down £180 million. That has magnified itself when you look for the 12 months ended March where that mark to market that we had in Q4 has aggregated with the mark to market effect we already had in the first 9 months and then compounded itself by comparing against the mark to market and revaluation of foreign currency debt that we had in the full year ended March 31st 2014, so we have actually ended up with a large swing of over £500 million in the full year on these debt and mar to market on unrealised hedges. I do feel the best way to understand the underlying performance of the business is to look at the EBITDA line but those things are significantly impacting the PBT number so are worth explaining.

The cash flow on slide 11, you can see in the quarter there was £335 million of positive cash flow which is down year over year but also contributes to the £791 million of positive cash flow in the 12 months to the end of March 2015, down £359 million and I guess if you just go up a couple of lines you can see for the full year that is more than explained by the increase in investment in fixed and intangible assets, which is included in our overall product investment and this is the portion that is capitalised which is why it is lower than the £3.1 billion I quoted earlier which also includes the non-capitalised piece. The cash flow from operations before that full year investment was £200 million higher compared to last year. So I think we are pretty pleased with the cash flow performance of the business and the overall underlying profitability of the business in both the quarter and in the full year driving that cash flow which at the end of the day it probably needs to in order to continue to grow the investment which is and continues to be part of our core strategy.



The balance sheet is reflecting the strength of that cash flow position plus the financing we did during the year that you are all aware of. I won't labour that other than you can see the net cash position at £1.7 billion at the end of March 15 producing some solid looking debt to EBITDA and debt to equity metrics.

Turning away from the financial numbers now slide 14. I've touched on most of these things – The all new Discovery Sport is in a ramp up phase. The picture is from the press launch we did in Iceland which is really a super way to showcase the capability of the car. I think we are feeling quite positive about the opportunity for Discovery Sport of course time will tell but the FY16 numbers will reflect a full year of that car and it has been very well received by the market.

Turning now to the Jaguar XE which has just gone on sale; that is a picture from Spain where we did the press launch of the car which has also had a very positive reception. The XE has had a number of five-star reviews and has probably exceeded our expectations in terms of the reception by the press. Of course the judgement that really matters is out in the marketplace and we will find out through the next 12 months but I would say we are cautiously optimistic that Jaguar XE is going to get a good reception in the marketplace. It is a nice car, it really does a good job of blending the emotional appeal that Jaguars have always had with some really good rational appeal in terms of headline CO2 figures of 99 grams per kilometre and cost of ownership figures which will rival the competition which should stand it in good stead in the marketplace.

The locally produced Evoque in China is in ramp up and went on sale in February. We are in a bit of a ramp up phase for that now so you do see an impact in Q4 but I think in the full year we are cautiously optimistic about that products and the reception it will get through the balance of the full year. It is the case that the China market is evolving over all and I've no doubt some of you will ask questions about that but I think the locally produced Evoque has an important part to play in that evolution of the China market for JLR and the associated pricing pressures etc., that you see there. We have been able to lower the price of the Evoque in the marketplace to maintain and build on our competitiveness which I think in the fullness of time will be a positive thing.



Then beyond the cars that we have launched we are also in production ramp up phase of our new engine factory, located just outside Wolverhampton in the UK and the launch of that Ingenium engine, which is installed first in the Jaguar XE, and we will roll out into our other products such as the Discovery Sport and the Range Rover Evoque later this year. Production at the new engine factory is

progressing well; it is a state of the art facility which enables us to take more control over our powertrain strategy as we introduce the Ingenium engine in to our product range, the first of which is the Jaguar XE which, combined with its aluminium lightweight architecture, delivers class leading CO2 figures, so we're clearly positive about that.

Slide 15, there is no shortage of new products coming to showrooms near you this year with the XF, which shares the same aluminium architecture as the XE, and goes on sale later this year. That again is really going to enable us to make a good step forward in that segment as the new XF blends that emotional appeal that Jaguars have always had with the rational appeal of great CO2 figures, a neatly packaged car with great driving attributes, so we're feeling positive about the new XF as it goes head-to-head with competitors in the premium D/E segments around the world.

A more emotional product is the Evoque convertible, which goes on sale in 2016. The Evoque has always had a strong and fun design element to it and I think a convertible is really going to add to that and appeal to those customers that just love to drive with the top down, and so again we're feeling quite optimistic about that car. It is going to be relatively modest volume though I think but it adds a certain halo effect to the Evoque line up and Range Rover brand. The Jaguar F-Pace, which is the new performance crossover from Jaguar, goes on sale in 2016 and we are well on track with the delivery of that product and we have just a sneak preview of the rear lamp which bears some similarity to the design cues of the F-TYPE sports car range. I think that is going to be a very important product for Jaguar really taking the brand to new segments compared to the sports car and saloon segments it has occupied in the past, so a real breakthrough product for Jaguar and hence feeling quite optimistic about that although really a product that we will be talking about next year rather than this year.



Slide 16, I think we are proud of our engineering heritage and the way we have developed in that space and in fact that resulted in us winning a Queens award for sustainable development in 2015 because of our investment in aluminium technology, the engine technology and also our CO2 performance and not just in our products but also in our factories, reducing energy consumption, water and waste usage at manufacturing sites in the UK, which we

are really proud of. I guess I am showcasing that because clearly the world becomes ever more CO2 conscious and complying with CO2 targets is a core part of our strategy to address emissions regulation and this award is evidence of the progress that we are making in that direction.

We are growing our investment in our factories as well as our products and we have made 600 million of new investment in our interests in the UK so far this year including 400 million that we spent to build the new Jaguar XF in Castle Bromwich later this year. We are also partnering with UK government and Warwick University in the creation of a National Automotive Innovation Centre on the Warwick University campus which will open in spring 2017 and we do also plan to increase the size of our advanced engineering design Centre at Whitley the UK in order to enable us to continue to invest in our engineering, hybrid and alternative propulsion technology, light weighting and electrification with battery electric vehicles that we are investing in right now and we will talk about in the future calls and also the new products replacements for the Defender, the Discovery and various other new products that we will talk about in future meetings, which all require an increase in the size of our engineering facilities in the UK. That is part and parcel of what we have already announced in terms of the headline figure growing from the £3.1 billion that we spent in FY 15 growing to the £3.7 billion that we are likely to spend in FY16.

Beyond that of course you guys know about bond issues that we did. For us part of that as you know was about refinancing our debt cost and I think we were pleased to have opportunistically hit the low point for interest rates and locked in those rates which for us is important in terms of managing the cost of our interest going forward so that we are able to improve our profitability and drive



cash flow to invest. You should also lookout for some of our products that will feature in the new James Bond movie when that comes out, "SPECTRE".

I've given a slightly longer presentation than normal but it is both the quarter end and the full year so I have tried to cover both. Looking ahead we have given a bit of guidance as to where to expect some of our figures to be for FY16. To be honest this isn't new it really builds on the guidance we already provided back when we did the Q3

earnings call and then re-emphasised when we issued new bonds and had the associated investor calls back in February and March. The short answer is we are very much focused on continuing to roll out more great products in FY16, ramping up sales of the Jaguar XE in May, looking forward to launching the XF, and the Evoque convertible, and the F-Pace later in the year. As I said we gave guidance that we estimate overall investment in FY16 would be in the £3.6 to £3.8 billion range so I am confirming that remains our estimate for the full year. Of course we are very focused on generating robust operating cash flows to support that investment this year. It is possible that cash flow could be slightly negative in FY16 as a result of higher investment but we are very focused on driving strong operating cash flows to fund the majority of that product investment and of course we have got a strong balance sheet and proven access to the capital markets so that means we are very confident about our ability to fund our way through that investment this year and for years to come.

I think it is the case we are closely following macroeconomic developments around the world and it is the case that market conditions in China are evolving and we are seeing a changing market there with relatively more pricing pressure happening in various segments compared to what we have experienced in the past so that is part of our expectation going forward and we will have to face up to that, so we do expect to see the need to plan extend marginally more incentive support globally, but also for China in particular, in FY16. It remains our expectation that we will see slightly lower margins in China in FY 16 compared to FY 15. Russia continues to be down year on year and the Ruble is perhaps not quite as weak as it was but it is still substantially weaker than it was this time last year



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so unfortunately the Russian situation will cause our volumes in Russia to be lower year over year. Also in Brazil, which is not our

largest market but it is still an important market for Jaguar Land Rover, and the weaker economic situation in Brazil together with a weaker Real is having an impact on our results year over year. So when you take all of that together what we do expect, and again this is really just emphasising guidance we have given previously, is that we have got lots of new products and the launch of the China Joint Venture, which I believe, in the fullness of time, will all support our continued growth. We do expect our EBITDA margins to continue to be in the range we have experienced over the last 4 or 5 years but as

we previously indicated the model and market mix and also some launch costs we will have this year especially for our new products that are coming to market and also the reporting effect of the China Joint Venture where our share of the profits of the China Joint Venture will fall out of what we define as EBITDA will all have an impact. Mixed economic conditions, may also result in our EBITDA margins in FY16 being somewhat lower than what we have seen in FY15 but still within the range that we have experienced over the last 4 to 5 years.

So overall a strong year and a solid quarter as I say impacted by some accounting for revaluation of unrealised hedges and foreign currency debt in both the quarter and the full year but nevertheless solid underlying results. Looking ahead I think the evolving market in China will feature in FY16 and our on-going the investment programme leading to new product launches so we look forward to those in particular.

Q&A session

Ladies and gentlemen your question and answer session will now begin.

A question from the line of Aditya Makharia, JP Morgan.

A

I have a question on Europe, how are you seeing the demand environment shape up there because we are hearing of sales growing off a low base. Secondly with the euro weakening how does



that benefit your competitors because obviously you have seen the euro has fallen sharply versus the dollar.

KG

Some good questions on Europe, it is an interesting one on the FX affect because for Jaguar Land Rover the impact of the euro weakening is actually a positive one financially for us because of our FX exposure where we basically have more material cost purchases denominated in euros than we have revenue in euros. So we do actually get a positive effect in our financial results from that weak euro and that is running through our results year on year. So that is a good effect but you are right at the same time it benefits us it benefits our competition because they have to convert more of their revenue into Euro's so I think overall that is enabling our competitors

to be competitive in markets outside of Europe, such as the US, China, and the UK. So it is a mixed effect I think overall, a positive effect if I just look at the financial effects for us where we benefit but of course our competitors are benefiting as well so it probably balances out to be honest in the way it impacts us. I think overall my personal view is I am quite positive about Europe for Jaguar Land Rover for FY 16. I think some of you may have a different view on how you see Europe economically but my gut instinct is that the impact of the weak euro together with the quantitative easing that has been done in Europe, will help Europe have a bit of economic recovery this year and going forward so I think overall economically I see a stronger economic picture for Europe this year than last and going forward. In terms of the impact on Jaguar Land Rover our product portfolio with the Jaguar XE and the launch of the Discovery Sport those are both smaller products in our line up which by definition make them a bit more relevant for Europe and also the UK which is a positive factor going into FY16. So I think the new products launches that we have got quite well timed in terms of giving us the opportunity to have some important products for Europe just when I hope we start to see some economic recovery in Europe as a whole in FY 16. So on balance I am relatively positive about Europe.

A question from the line of Aryn Pirani, Deutsche bank.

AK

I have a question on the lower volumes in China. Obviously because



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of production in the local facility are we losing out on some potential volumes on the Evoque and I wanted to get a sense of this current slow production ramp up, are you seeing an increase in the order book of locally produced Evoques or is there a waiting period for the

Evoque in China or are customers waiting for the performance of the locally produced Evoque to have proven quality before putting in their orders?

KG

That's a good question, I don't know if I could talk to exactly what is in customer's minds in China but in terms of the raw figures in the quarter for Evoque in China so you have the numbers. This quarter last year we did just under 8000 units of Evoque that was obviously all imported products and for this quarter we did just under 5000 units which is a mixture of imports and locally produced volumes so it is down year on year about 3000 units because of the transition phase into local production. Yes I think there is probably a mixture of factors, I think we are just in a launch phase ourselves so as we ramp up production and we work through Q1 I think we will see the volume of the locally produced Evoque build in showrooms and our priority first and foremost is to get the quality right and assure customers of the quality of that locally produced car. I think maybe some who are waiting to see how it is received is a possibility but certainly our communication in the marketplace is very much focused on the new car having just as good quality as the imported vehicle, which it has and at a much more competitive price. So I think it may take a few months to build back up to the level that we saw for the imported Evoque's but I think there is a bit of water to flow under the bridge until we see the true running level for the locally produced car compared to the imported car. So I think we will probably talk about that more as we see a few more months of sales performance over this quarter and the next quarter.

A question from the line of Teo Lasarte, Bank of America.

TL

Another question on China I'm afraid, but at this point are you forecasting overall volumes in the financial year to be down or do you expect volumes to recover over the coming quarters.

KG

A good question we try not to give sales forecasts overall because the one rule about all forecasts is you can never get them entirely



accurate but overall at this point I am still cautiously optimistic that we would see volumes in China growing year on year as a consequence of the launch of the locally produced Evoque and we have also got the Discovery Sport launching in the market this year

which will also be locally produced and we have got a strong product line in terms of Range Rover, Range Rover sport, Discovery, also supporting the overall volume in China. It is a bit early in the year so time will tell but I think we do have the opportunity with the product and the local production to grow our business in China this year.

TL

There has been quite a lot of headlines recently regarding a possible plant in Europe. Before that there was some comments about a plant in US, have you confirmed a US plant? And for some time you have confirmed you are building a plant in Brazil. The current CAPEX categories you have provided would that include other plants apart from the ones that have been announced by the company?

KG

You are right we are building a plant in Brazil the overall investment on that was roundabout £250 million some of that expenditure made last year, probably the bulk of it in terms of capital spending will be in FY16 and probably a little bit more in FY17. Some of the CAPEX payments for the year on year, from FY 15 to FY 16 - in terms of CAPEX growth is absolutely down to that Brazil facility in FY 16. You are right there has been a fair amount of press speculation around what our plans are. It is the case that we are studying a number of potential locations for a manufacturing facility for Jaguar Land Rover outside of the UK. I actually don't have any official comment to make other than we are evaluating a number of locations. There is a bit of water to flow under the bridge in terms of where we decide to go and there are obviously a number of pros and cons specific to each location under evaluation. In terms of spending in FY 16, yes we have got a placeholder for a modest amount of spend in relation to an additional manufacturing facility but it is not likely to be a large amount in FY16 because we have not selected the location yet so by the time we get round to spending the money it is physically quite difficult to spend it that fast is all truth but that would be something to look forward to in FY17 to FY19 assuming we decide to select a location and then go ahead with our current plans. We are studying it so it is something to look forward to over the next 2 to 3 years. We have got the ramp up in the facility investment in Brazil featuring in



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FY16 and our investment in our China Joint Venture would probably tail off somewhat in FY17 to FY 18 depending on which products we decide to launch there I guess, if we decide to localise more production there it may stabilise but there are a number of moving

pieces, yes we are evaluating additional plants and we will talk more about the location of that when we have selected it and can talk to facts rather than speculation.

A question from the line of Maggie O'Neill, Deutsche bank.

MO

I have a question, in terms of what you said regarding the decline in China volumes in Q4. In stripping out the effects of the Evoque and Discovery Sport, are you seeing fairly strong demand because a lot of competitors seem to be experiencing challenges or do they misunderstand.

KG

What I said was if I stripped those effects out in Q4 the volume in China apart from those changeover effects was actually marginally up in Q4 year over year compared to Q4 of last year but I think it is fair to say that when we look at China it is evolving right now so I wouldn't want you to take my comments from the perspective that we are not cognisant of the evolving China marketplace which we do see and we do feel and I think we will continue to monitor and react to. To be honest I think there is a bit more water to flow under the bridge in terms of what it means but I think overall there is still the potential for the overall car market in China to grow this year in line with the forecast economic growth of 7% and I also think that there is real potential for the premium car market to grow in China this year. I think what happens to that growth whether it does happen in line with economic growth, slightly ahead of it, or slightly behind it, I think there is absolutely water to flow under the bridge to see a clearer pattern this coming year. I think also what we will see and what we see already is increased pricing pressure, which comes in a number of guises. I think those of you who follow China closely will know it is a very transparent market in terms of pricing so you can go on to any number of websites and see cars being advertised for more than the retail price in China and that varies month in month out based on levels of supply and demand and if it is the case that we have seen levels of discounts offered by dealers this year being higher than they were for the same period last year for example, so



that is a feature that is happening and as that happens that is partly funded by the automotive manufacturers in terms of the higher incentive support that we put behind our products and the support we extend to dealers who make those retail sales happen in China.

So that is a feature we have seen happening in the last quarter and we are seeing it happening in this quarter and as I say I think that is part of our general expectation for China over time, that we will see pricing levels normalise over time and the Chinese market will evolve over time. How that happens, how fast that happens, in which segments that happens I think that still needs to play out, but we see it, we are reacting to it and it will have an effect on our financial results as I have already talked about in FY 16 compared to FY 15, that is one of the reasons that we expect our EBITDA margins to be a bit lower this year than last year but we are also planning for it so it is a feature we have seen coming and it is part of our planning and taken into account in our financial planning for this and subsequent years. I think the other thing I would say is the actions with the Joint Venture are well timed because it gives us the opportunity to localise production in China, the first phase of that is to produce two Land Rover products, the Evoque plus the Discovery Sport plus a Jaguar product which will be a story for next year and that localisation of production does give us the opportunity to benefit from lower material cost and avoid import duties and therefore offer lower prices to our customers and basically pass those savings through to our customer base. The local production with our Joint Venture in China is part of our planned response to what we expect to see which is a more competitive environment in China in FY16. Do we know exactly how that is going to pan out for us and for our competitors, I think you'll have to watch this space, I think it will be something we will be talking about for every quarter this year I can't talk about it much more than that right now but absolutely I think it will evolve.

A question from the line of James Maxwell, Henderson.

JM

For the China volumes for Land Rover last year, can you give me an idea of how that broke down across the range? What I am trying to get a sense for is how does this transition from imported vehicles to what flows through the JV which is obviously going to be accounted differently.



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- KG So if I take our full-year FY 15 and guys on the line in my team, we are actually in different places so if I get some of these numbers wrong please correct me, but in FY 15, 116,000 units compared to 103,000 units in FY 14 and of that in FY 15, 31,000 units in FY 15 were Evoque and 29,000 units in FY 14 so I'm now talking full year for Evoque. If I then work down the other piece of it is in FY 15 full year between Freelander and Discovery Sport there were 21,000 units which is about the same as in FY 14, 21,000 units, then all the other products made up the balance of that. So between Freelander and Discovery Sport I think what I have just said is there were around about 50,000 units to 51,000 units in both FY 15 and FY 14 out of the 116,000 in FY 15 and 103,000 in FY 14.
- JM So going forward of those that are going to be sold will there be a few Evoques still imported
- KG There will be a few imports of Discovery Sport and Evoque in FY 16 but the vast majority of those sales going forward will be through the Joint Venture.
- JM So the revenues from China going forward are likely to come down a lot given these are going to go through the JV?
- KG Yes, hence what I said when we provided the earnings guidance back in January and reiterated February etc, that there is an impact on our EBITDA and EBITDA margins in FY 16 as a result of this impact of seeing those volumes shift from being accounted for in our export volumes out of the UK compared into our share of our Joint Venture profits.
- JM Have you got any idea how we should think about the type of profit contribution per vehicle within the JV. I presume you get the money two ways there with your share of the JV's profitability and also some kind of royalty payment?
- KG Yes that is true. The margins, I'm probably not going to be able to go much further in what I am about to say on the call. It may be if you have got any particularly detailed questions we will take them up on a one on one. The margins per unit of the products in the China JV are quite similar to the margins per unit that are achieved to



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exporting with basically lower material costs and duties offset by the lower revenue so the margins per unit are similar. Yes there is a per unit royalty that we earn on the sale of every car in China which

actually does come above EBITDA just to confuse matters in our results going forward so we do earn a revenue from both sources with 50% share of the JV profit plus the royalty which is really reflecting the fact that we engineered the car and it is our intellectual property, our brand etc.

BT Call Operator

Ladies and gentlemen due to time constraints no further questions can be taken.

KG

It has been a longer call than most. I really appreciate the time you guys have taken to join us from the US, UK and Europe and also from India. I appreciate your support as investors also in Jaguar Land Rover. Thank you.

[END OF CALL]