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Attendance List: Kenneth Gregor, CFO, Jaguar Land Rover (KG)
C. Ramakrishnan, Group CFO, Tata Motors (CR)
Ben Birgbauer, Treasurer, Jaguar Land Rover (BB)

Title of Meeting: Jaguar Land Rover Fiscal 2016 Quarter 2 Results Call

Hosted By: Kenneth Gregor, CFO, Jaguar Land Rover

KG Thanks to everyone taking the time to join us on the call. Today we'll run through the results for Jaguar Land Rover in the normal format for the second quarter and the first half of fiscal year 15/16 and we'll have a bit of time for Q and A at the end which between myself, CR and Ben will handle. Just a moment I'll be turning the pages on the presentation so I'll refer to those pages, I'm starting on slide 6.

Challenging quarter I think it's fair to say. Clearly for the business and at the bottom line after an exceptional charge we've got a loss before tax of £157 million or £92 million after tax and the loss being driven by a number of factors, one of which being the exceptional charge we made of £245 million where we've made a full provision against all of the cars that were at the Tianjin port., I'll talk a bit more about that later. Working back up, the ebitda in the quarter was just under £600 million which represented a 12% margin in the quarter and revenue of £4.8 billion on volume of some 111,000 units of wholesale volume, that was up about 7,000 units versus the same quarter a year ago but as I'll describe, we had the challenge of less advantageous market mix, in particular in the quarter which had broadly continued the trend we saw in the first quarter of our China volume being lower than the same period a year ago and that is resulting in the biggest single factor for the lower ebitda margin that we see year over year, but I'll talk a bit more about some of the other things driving that ebitda margin as I walk through the presentation.

Cash flow was an outflow of £225 million, that was after investment of £775 million and clearly we're continuing on our growth plan to invest in new products and technology, facility, capital spending. The 775 is clearly part of the plan that we've talked about before. At the end of the quarter we had cash and deposits of just under £3 billion and also the undrawn revolving credit facility so still very healthy liquidity available to the group to manage these ebbs and flows that we've seen in this quarter.

And where does that take us for the six months? That's on slide 7. So far the first six months of the year, retail volume was some 225,000



units, broadly flat versus the prior year. Wholesale volume was some 222,000 units, a little bit up versus the first half of last year driving revenue at just under £10 billion with ebitda margin for the first half of the year at 14.3% and the profit before tax before exceptional items of £726 million. Clearly down on the very strong first half we had last year and you could see the effect of the exceptional item in the numbers.

Just walking through the volumes to give some more texture on what we saw in the quarter. On slide 8 we have the volumes by geography in the normal format and what you can see is China volume following what we saw in the first quarter with volume down just over 30% for broadly a similar range of factors that we saw in the first quarter which I described in some detail last quarter. Against that we've seen really positive growth in most of our other markets, the UK continues to be strong. We're on track in the UK for a record year in or at least matching where it was back in about 2003, for the UK car market, on track for about 2.6 million units for the market as a whole with our volume supported by new product launches up 9%.

Our US business is seeing some good growth in volume. The market has been positive. Gasoline prices and oil prices remain low in the US. Europe is up 34% again supported by the new model introductions and some new measure of economic recovery in Europe. Overseas volume is down overall with challenging markets in there. You've got Brazil which is down, you've got Russia which is down for all the reasons we've talked about before and the economic situation in those regions.

So overall the volume was flat. On slide 9 we've got the model mix and what you can see there is Jaguar up 15%, really supported by the new XE which sold 9,000 units in the quarter. We're pleased with the introduction of the XE and you know we'll look to future quarters and see that build and roll out over markets across the world.

On to Land Rover, just a little bit worse than flat, down about 4%, primarily due to the combined effects of what I've just described on China and rest of the world. You can see the Discovery Sport volume was 18,000 units in the quarter compared to the Freelander last year which was 14,000 units so it's up which is good and aside from Evoque, most of the other models are about flat year on year. Within that texture, September sales were actually 3% up overall. The quarter saw September a good bit stronger than July and August which I think was positive for us.

I said I'd talk a little bit more about the year to year effect and I've got some of that on slide 10. As I said the revenue was 4.8 billion up 23 million, that's high wholesale volume with some benefit from foreign exchange in revenue offset by the adverse market mix that we saw in China. The ebitda margin was down from the very strong quarter that

we saw this time last year and there's a number of things going on in there. One is the less favourable market mix offset partially by the



higher wholesale volume. Second is that we are in the process of a very busy year in terms of launching new products and engines. Year to year we did see higher manufacturing and launch and other support costs in the quarter related to the launch of, for example, the all new Jaguar XF and XE continued to be rolled out to a number of markets. We're installing our new AJ200 Diesel into a number of our models, we've got 16 model year Evoque, a 16 model year XJ and all of those things are of course very positive and provides opportunities to build a more solid second half which is our plan but of course they do also bring launch costs and manufacturing costs, so we do see some of that in the quarter.

The other thing going on within ebitda that gets to us quarter by quarter, particularly with the volatility of the euro exchange rate, is revaluation of our euro payables balance. It's in the region of about £1 billion worth of euro payables and it revalues every quarter which relates to our purchases of material in euros which is about half of our material costs purposes. We pay our suppliers on 45 to 60 day terms so it is a payables balance on our balance sheet. We revalued every quarter and the revaluation goes through ebitda. The euro moved by about 4% in the quarter causing a movement of about £40 million in the quarter adverse and we had the non-recurrence of a £40 million gain in the same quarter a year ago, so year to year you get a double whammy effect. That's just something to be aware of, it's something we obviously track for example in October we'd have seen a £40 million gain because the exchange rate has gone back up roughly the other way so I don't think it's something to worry about too much.

And then when you get to PBT we'll see a bit more of the items below ebitda on the income statement page in a couple of pages time but the PBT ended up at £88 million before the exceptional item and that's down half a billion pounds compared to the same quarter a year ago, clearly mostly driven by that lower ebitda. The depreciation and amortisation is up and of course that's part of the investment in all of that new product, technology and capacity coming through our income statement, which as we build the volume we'll be defrayed to a better extent. That's what you see this quarter, the finance expense was a bit higher for a couple of reasons. Then you've also got the revaluation of foreign currency debt, market to market of unrealised effects and commodity hedges which is also getting to us this quarter at £29 million higher this quarter than the same quarter a year ago. Finally, we had the exceptional charge.

Slide 11 talks to that, we had around about 5,000, that's a generic photo by the way it's not a photo of our cars. We had 5,800 cars at the port in various locations stored at the port in August with a net consolidated inventory value of £245 million. Many of those cars were destroyed or

damaged, it's fair to say that we're still working through the assessment of those vehicles on the level of damage and exactly what the state of those vehicles is in, but as we've assessed that we've taken a one-time exceptional charge provision against the value of those units at the full

value of £245 million in the quarter. It is the case that insurance and other potential recoveries may take some months to conclude in the normal way of these things and the relevant accounting standards require that those recoveries only be recognised in future periods when paid or confirmed and therefore they've not been recognised in this quarter.

And we also thought of topical interest of course with the stories in the press over the last couple of months that we'd talk a little bit about diesel technology on slide 12. Jaguar Land Rover does not use any emissions defeat devices or software in our products. We do believe diesel technology is a key enabler to fulfil CO₂ and other emissions targets worldwide and it is the case that all of our EU6 diesel engines which are in our cars right now, including our new ingenium engines, use emissions after-treatment based on selective catalytic reduction or colloquially known as a urea dosing system that injects urea into the catalyst to reduce NOX emissions. That supports us meeting emissions targets worldwide and we do support a move to the WLTP procedure which includes the planned introduction of real driving emissions testing in 2017 and we're designing our products to meet all of those relevant tests, legislation and regulations.

Slide 13 has the income statement that I described earlier, it's got a little bit more detail as per usual on some of the line items that are moving in the quarter below ebitda. You can see the depreciation and amortisation growth that I talked about. You can also see the market to market of debt and unrealised hedges which includes commodities hedges growing in this quarter that's worth £114 million between revaluation of our US dollar debt and revaluation of commodity hedges and also some other realised hedges. I think these things do swing from quarter to quarter and if you look to the six month number its net across the first six months of the year that revaluation us a £35 million positive, which really reflects the volatility in the currency markets.

What else on this page? The exceptional item of course, the taxation charge is a credit this quarter because of the adjustments to tax and deferred tax based on the exceptional item which will be tax deductible.

The cash flow. You know one of our key focuses is funding our product investment from our ebitda and you can see in the quarter ending in the first six months of the year, the ebitda of 1.4 billion in the first six months of the year is covering the product investment that was also 1.4 billion and that's a real focus for us in driving the cash flow from operations to fund substantial part of our product investment. Working capital is slightly negative in the quarter and a bit more negative in the

first half of the year. I do expect some normalisation of that in the second half of the year. We do normally see that through the fourth quarter in particular so we should look out for that. Taxation down a bit in terms of cash tax paid this first half compared to the same half year ago. Product investment growing in the first half compared to the second half, £1.4 billion compared to £1.3 billion and funding that cash



flow in the first half of the year from our cash that I already talked about. Slide 15 has the cash and cash equivalents at the end of the quarter just under £3 billion and undrawn revolving credit facilities still a very healthy level of liquidity and net cash on the balance sheet even after what of course has been a challenging first half.

Looking forwards slide 16 has all of the new or a number of the new products that we are launching and have launched. So I've mentioned most of these, a mid-cycle refresh on the Evoque, the 16 model year that's been a very important product for us over the last few years and the refresh at 16 model year gives some new features as well as new headlamps, tail lamps and just general improvement all round. There is also the installation of the AJ200 Ingenium diesel engine with the EU 6 technology in the car so that's very positive for that product line. We're also launching an XJ 16 model year product in Q3 FY16, with a new entertainment system and some other improvements. Again some new headlamps to give it a bit of a visual lift as well which is great. An all new XF, early days of course, we've only just started selling it in September but so far so good and that's quite an exciting product for us to really move the XF forward. All new lightweight technology and architecture sharing with the XE that we launched in May, which as I said earlier, the launch ramp up in various markets happens month by month with the US launching in the first part of next year. We are continuing to build on the launch of the Discovery Sport and introducing the Discovery Sport into our China manufacturing facility in Changshu with sales of that localised version of the Discovery Sport starting this month.

So we look forward to seeing how that product goes in China and the last one to talk about is the F PACE. We were at the Frankfurt motor show since the last time we talked, that was at the back end of September and we unveiled the car. It's had great reception from the motoring press and lifestyle journalists. So quite excited about the prospects for this car, both for the vehicle itself and for the positive way it moves forward the Jaguar brand in terms of the relevance of the Jaguar brand to consumers worldwide. It starts production at the beginning of 2016. It's really something we'll see from a sales perspective in the following financial year but we were pleased to be able to confirm its launch and unveil the car at Frankfurt.

I've included a couple of slides on October sales. I mentioned that September sales were up 3% globally, October sales were up 24% compared to the same October a year ago, which was real positive

growth and in fact seeing growth across most of our geographies to 41,550 units, notably the UK up 40% really supported by the XE and Discovery Sport. North America volume up 74%, supported by some of the new products and just a general trend that we have seen in the US over the last few months. Our China volume up 9% in the month which was pleasing especially after the string of heavy reductions we've seen over the past few months with just under 2,000 units of localised Evoque achieved in the month also and Europe up 24%.



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Overseas still with the effect of Russia and Brazil. When you look by car line you can see both brands up which is good in October, up 39% in Jaguar, up 21% in Land Rover. Of course one swallow doesn't make a summer but we're pleased with the October sales results and as I said we've got new products as I just turn to slide 20.

We're really focused on the balance of the year successfully launch those new products that I've just described and the potential of those to drive profitable volume growth in 2015/16 in order to position ourselves to deliver a solid second half. You know we did, as previously indicated, expect ebitda margins for fiscal 15/16 to be lower than the higher margins that we saw particularly in the first part, first nine months, of 2014, which reflected all of the factors laid out there the model mix/launch costs I've talked about as well. So as I say we're looking forward to a solid second half.

In the long term, we plan to continue to execute our successful growth strategy. Product is our life blood, innovation and technology power those products and of course we are investing in the manufacturing capacity both in the UK and overseas to enable those products to be produced. We plan to continue that growth strategy with my focus as a CFO clearly being to generate the strong operating cash flow to support that level of product investment that we do expect to be a little bit lower than we guided earlier in the year, probably around about £3.5 billion now for FY16. With that I'll stop talking and happy to answer a few questions in the balance of the time that we have. Thank you.

Operator

We have our first question from the line of Richard Phelan representing Deutsche Bank please proceed.

RP

Thank you, I guess with the October sales you've demonstrated an improvement in China up 9% obviously that's a contrary trend to the negative trends that you've seen earlier in the fiscal year, can you comment on some of the trends that you're experiencing perhaps in China which are contributing to that, is that now an inflection point and how are you doing in terms of executing on the China joint venture? Thank you.

KG

Yes as I said I don't think one can ever extrapolate a full year from one month, I'm always cautious on commenting on one month's sales, as I

said one swallow doesn't make a summer but within the month I think we could see that we did see positive growth in Range Rover, Range Rover Sport, Discovery and also Discovery Sport which is obviously a new car but so we saw all of that as solid for our business. It's fair to say we continued to see the Evoque lower than the level of the Evoque we were selling previously. I think that does reflect some of the general trends that we saw and we continue to see the Jaguar products being lower compared to the same period a year ago. Some of that being down to the model run out of the XF and the run out of the 15 model year XJ before we see the impact of the new XF and the 16 model year



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XJ. So we still have some of the model changeover factors getting to us as well as some of those specific demand factors relating to the China market and segments in which we're in overall and we also saw sales of some 300 units of the XE in China in the month which is just starting off in China.

So overall a decent month and looking forward you know we've got some things to build on, I think it will continue to ebb and flow if I'm honest and I think as I say don't base the year on one month but we've got the launch of the Discovery Sport as a localised product, its priced very competitively against its basket of competitors including for example the Audi Q5. We reduced the price versus the equivalent imported product by on average about 20%, that's what consumers expect and the production ramp up of the localised product has gone really well, so we're ready with the car, the manufacturing facilities are in great shape, we've got the positioning we think right in a very competitive segment of course and we're optimistic about its prospects but of course the market will define that, so time will tell. But back to the point I made in the presentation the key for all of our markets, not just China, because we do focus on China a lot I know but sometimes I think you should step back a bit is that new product is our lifeblood and with various 16 model year products we've got the all new XF, the F-PACE coming up I think it does position us well to take advantage of market recovery in China as and when that takes place and economic situations around the world.

RP Thank you.

Operator The next question comes from the line of Pramod Kumar representing Goldman Sachs please proceed.

PK Yes thanks a lot gentlemen thanks for the opportunity. My first questions pertain to the ASP movement and the gross margin movement on a sequential basis, but I just want to double check the numbers because if I'm not wrong Range Rover and Range Rover Sport combined wholesale volume increased by 4 percentage points in China and volume of XE was up by 11% and gross margins were down 2.3%. I just want to understand how much of this is primarily led by the shift in product mix towards the Jaguar XE and then how would you see that going forward and if there are other factors which are affecting it happy to understand.

KG In terms of the various factors you're talking sequential quarters, you're thinking about Q2 versus Q1 is that the question you are asking?

PK Yes.

KG There's a couple, I should call out a couple of kind of one off type factors, one of which is in June, as I've already mentioned in the September quarter we had a revaluation of our euro payables that was just over £80 million in the quarter. In the June quarter that was

actually a positive revaluation of £11 million so that swing in itself is probably worth just over a point of ebitda. The other thing that I described quarter to quarter that's happening is in the June quarter is that we had a receipt, which we talked about you might remember, which was the receipt of the local marketing incentive.

PK Sorry to interrupt but I was more interested in the gross margin the incentive was more in other expenditure right, if I'm not wrong?

KG You were referring to the what sorry?

PK The average spending and gross margins that were basically minus the raw material costs or material costs.

KG Ok I mean within, we may be getting into too much detail for me to be able to handle on the call and we might just have to follow outside of the call, what I was trying to say I'll just finish my sentence on the last point and then I'll try and answer your next point, was just note there was a non-recurrence of the receipt of the local market incentive which was £60 million in Q1 that doesn't recur in Q2, that's also impacting the ebitda in Q2 as referenced versus Q1. To the point on the revenue and the net revenue and the gross margin there's a number of aspects going on, I think there clearly is some product mix effect happening quarter to quarter and there is some foreign exchange impact happening quarter to quarter so you do see those effects in there, yes but I probably don't have enough of the detail on the other expenses. If I start to try and explain I could well be here for the next half hour so I think that's may be something to handle with the IR teams outside of here who may be able to guide you a little on the specifics.

PK Fair enough. The second question pertains to the capex and cash flow I just want to understand given the lower model mix than what we have generally seen the slower margin that you have been talking about as 14 to 16 and that happened quite drastically, I just want to understand is there going to be any rethink on the near term three to four year outlook of around 15% if I'm not wrong that's what you've guided for? Is there going to be any rethink and especially given the scandal of the

dieselgate which could have further implication on capex for the entire industry, so I just want to understand how you're looking at capex for the next three four years?

KG Yes I mean broadly our plans remain to continue with our plans that we've previously described in terms of new models and technologies both new models as I've described and the new technologies including technologies to meet CO₂ and other emissions regulations which were already part of our investment plan as well as our plans to expand our business overseas, it is our plan to continue with that. We will of course clearly be working to manage the affordability of that spending year to year. Our key focus is driving our operating cash flow to fund those capital expenditure plans and that remains our plan.



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- PK Will it remain the same proportion of revenue?
- KG I think we should look for it to continue to be a fair bit higher than what I've, you know in the fullness of time it should come down but I continue to expect it to be in the sort of numbers, without giving specific numbers, but the sort of numbers that you've alluded to are the sort of level I expect it to continue to run at for the foreseeable future yes.
- PK And finally, one clarification on your China losses on the Tianjin blast it would be at the cost value of the vehicles - the loss what you've booked in the quarter.
- KG Yes.
- PK Will it include import duty whatever you basically paid when it landed on the port?
- KG Yes to all of that.
- PK Yes not the local taxes what the customer will pay when it eventually reaches the shore right?
- KG Right it doesn't include the local taxes that the customer would pay, the local VAT tax but it does include the import duty and consumption tax that are payable when Jaguar Land Rover UK sells the car to Jaguar Land Rover China.
- PK Excellent thanks a lot and best of luck thank you.
- KG Thank you.
- Operator Your next question comes from the line of Chirag Shah representing Edelweiss please proceed.
- CS Thanks for the opportunity. The first question is on the shifting of XE and XF production to Castle Bromwich can you throw some light how this is proceeding and a little question on engine plan, at what level of the plant will you breakeven?
- KG Yes that's a good question I'm going to have to go and speak to my engine production colleagues about, I'm not sure I planned it very easy to answer that question on the call I'm sorry about that. But what I will say is you know we've invested in a state of the art engine factory, we've done it, we're doing it in a sequential fashion so we're investing in the capacity as we need it, so we started investing in the four cylinder diesel engine, the next investment that's happening as we speak is our four cylinder petrol. We then move on to six cylinder diesel and six cylinder petrol engines and that's a phased programme over the next four years or so and therefore you know yes there are some investments

that cover all of that but equally there are also investments that we phased over time to spread the investment in buildings and kit spread over time, so there's a bit of a balance so we have an engine factory that could do all of those engines but then also roll out the engines over time, its phased over time is what I'm trying to say with obviously some investments being up front and in terms of how's that affecting the Jaguar XE and XF launches you know it's really just under way in Castle Bromwich right now. I was at Castle Bromwich about three weeks ago, the facility is looking great, we're in a launch ramp up phase so that always brings lots of sort of day to day challenges that are inherent in running a car business but it's going well and the XE has also successfully launched at Solihull.

CS At what point in time are you looking to move XE from Solihull to Castle Bromwich?

KG That is correct, but that's at some point in the future so that hasn't started yet.

CS But do you expect to happen by this year-end or it may take a longer time?

KG I think, my memory says its next year but so I'll update you as and when that process takes place.

CS And as a follow up on that does it also mean that the Castle Bromwich plan to date operating at very low margin levels given the utilisation you are at?

KG I mean I'd say lower than its potential capacity and clearly part of the plan as we develop over our model ramp up programme that you've eluded to we'll have a 16 model year, XJ we'll have the all new XF and as we transfer in the Jaguar XE it will see the capacity of that facility

being fully utilised. That does help the overall sort of operating margin of the business as a whole which is broadly the same point I made earlier about the manufacturing costs and the launch costs we see in the quarter that clearly we have to spend that up front in order to launch of the product and the plan is to grow our volume over time as the products gain momentum in the market place and we should see the operating leverage of the business improve.

CS Fair point. The intensity of the.

BB I'm sorry but I think we need to move onto the next question.

Operator You're next question will come from the line of James Maxwell representing Henderson please proceed.

JM Good afternoon thank you for taking my question. I just wanted to focus, if I might, on operating margins and try and understand what you think might be sustainable going forward, I know there's a lot of focus

on ebitda but if you know most auto manufacturers will be looking at operating margins. When I look at what happened in the second quarter and I accept you had some one-off bits and pieces in there but ignoring the exceptionals I see the operating margins are down from over 14% in the comparable period from last year to just below 5% and if I take the first half they halve from about 15 to 7. It would be handy to have some kind of more detailed breakdown as to really what's driven the margin attrition here, how much of it is of a function of volume moving into the JV, how much of it is a function of pricing pressure in China because the other markets are doing well and ultimately what do you think is sustainable in terms of an operating margin when I look at that and compare it with other premium manufacturers? So that's my first question. My second and forgive me because I dropped out of the call for a minute you might have mentioned it, in terms of working capital do you see the outflow which I think is, I see you're not in the first half, do you expect that to reverse over the full year? Thank you.

KG

Thanks James. On the working capital point, broadly yes, I would expect to see most of that working capital effect reversed in the balance of the year and the reason I qualify is in the way that page works. The page starts at ebitda and the ebitda doesn't include the exceptional item relating to Tianjin. The 960 of working capital, what's called working capital and changes, that does include the 245 of inventory at Tianjin, so that's a sort of presentational point to some extent but I'd expect to see some reversing of the working capital impact in the full year. That is something that we've seen in prior years, typically Q4 is generally a more positive quarter for working capital. I mean I take your point on looking at ebit margins rather than ebitda margins, I'll reflect on that as to what we focus on in future quarters. I think you called out yourself the number of the factors that are driving the ebitda margin which is the primary driver of why the ebit margin is what you call the operating

margin is lower in the quarter than compared to a year ago and I think what you know from my point of view I'm really focused on driving the margin back up in the balance of the year, more towards the range that we've previously guided towards but you know we don't give guidance and I'm not giving a forecast but that's our target our challenge if you like internally is to drive the volume growth based on the new products which will give us a bit of operating leverage in the second half of the year and with it should see some improvement in the ebitda margin which itself would translate into the operating margin. That's our focus, clearly as I say I don't give a forecast by saying so but that's what we're focused on and I think you know you did call out yourself some of the factors, the China mix probably drives a fair element of the reduction in ebitda margin compared to the same period a year ago. You're right also that the localisation of the Evoque removed profit from ebitda and therefore also the ebit margin because the results of the joint venture which at the moment is kind of running at a sort of roughly break-even level is below ebitda. So again the key for the joint venture is to build that volume of the Discovery Sport in conjunction with the Evoque through next year in order for the joint venture itself to benefit from its own operating leverage and drive



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profitable growth of those products and we'll see that contribution but we'll see it below ebitda.

JM Ok I guess the question, do you think now that the effects of the move to the JV in China and priced better in China do you see those effects on a negative base kind of having washed through or do you still think they're washing through and you know there's a risk they continue to hamper the numbers certainly in the near term and mitigate the benefit you're getting from strong sales elsewhere?

KG When you step back, I clearly don't have a crystal ball in terms of how I see that, if I just take it at the broadest level, the impact of the normalisation of the car market in China, I think that the market will continue to have its challenges, I'm mixing my metaphors here, but it ebbs and it flows I think that's entirely possible. I think from our point of view as we were clear in terms of our strategy which is to build the business of our joint venture in China first with the Evoque then with Discovery Sport and next year we'll have another product localised in the joint venture on the Jaguar side and those things are positive developments that give us the opportunity to address the price realignment that has happened in China over time, they allow us to compete at a lower price point, roughly 20% lower as I said than the equivalent imported product and that takes us head on against the competition who by and large have got more localised product already in China than we do. So driving the success of the joint venture over the next couple of years is really key for us and at the same time we'll have products that continue to sell in China as imported products including the Range Rover, the Range Rover Sport, Discovery which are really important products for us in China and broadly sales of which

have held up fairly well through even the last few months when you know it has been without question it has been challenging for sure, I don't make any bones about that but you know China will remain a really important market for us, we've got new products I think the F-PACE is a new product that gives us the opportunity to grow our Jaguar business in China as well as in the rest of the world, so as we move forward I think we're you know very aware that we don't have a crystal ball, they'll be ebbs as well as flows, we're very focused on investing in product that gives us the opportunity to compete in markets around the world and that really remains our focus.

JM Ok thanks very much and good luck.

BB Ok I think we have time for one last question.

Operator The next question comes from the line of Akshay Saxena representing Credit Suisse please proceed.

AS Yes good evening the first question is on the JV, you reported losses for the quarter of about a million pounds. It seems surprising that the loss is so low given that you've had a struggle on pricing and the plant

would be operating at a very low levels at present so I just wonder if you've got some further detail on that?

- KG Yes that's a great question. I was over in China and had a review with the team about three weeks ago also and that was one of the points we discussed. I think the team there have done a great job in managing the costs of the joint venture, the manufacturing costs, the material costs and some of the other operating costs to sort of control those even though the volume that we produced has been less than we had hoped and planned and thereby delivering a break even result so far for the year and I think what I actually feel and I eluded to it in the last call assuming we are successful doing what we plan to do and building the volume of the business of the joint venture over the next year or so I think that shows that there is the potential within the joint venture of decent margins to drive a decent level of profitability and that's clearly our aim and it's our aim shared with our joint venture partners in China.
- AS Just a quick follow up on the margin side, there have been many questions on the call on that, just wanted to check if you guys are still maintaining your margin guidance range of 14 to 15% or is there a rethink on that?
- KG I think if I could just nit-pick a little I think the 14 to 16% is probably your inference, I haven't actually quoted a specify number. What we did say and yes it remains my view is that we always expected margins for 2015/16 to be towards the lower end of the margins that we've experienced over the last five year and yes as you rightly point out the margins that we experienced over the last five years have been the lower end had been the 14 to 16% range and it remains my challenge and my objective for the full year to improve the margin performance in the second half compared to the first half.
- AS One more question if I could squeeze that in. On the working capital side is there any change in terms for dealers as well which is causing working capital to be a drag rather than a positive thing that we have seen so far?
- KG Yes I think good point, I forgot to mention that, I think I may have mentioned that in the first quarter so you do see that in the first half on working capital, in China we did change the payment terms to our retailers for various elements of variable dealer margin and variable marketing expense that broadly is part of it, I don't remember specific numbers a three figure number, of between £150 and £200 million roughly of working capital effect which really we saw in quarter one and which reflects the reversal of very positive working capital effects that we've seen as the business grew in China so yes that effects there thank you for reminding me of it.
- AS Ok best of luck thank you.
- KG Thank you.



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- BB Ok with that I think we're out of time so thank you very much everybody.
- KG Yes thanks to everyone for joining the call today I appreciate you joining us it's been a challenging quarter but thank you.