

Title of Meeting: Fiscal 2017 Quarter 3 Results Call

Coordinator Thank you. Good day to you, ladies and gentlemen. Welcome to the Jaguar Land Rover Fiscal 2017 Quarter 3 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. Over to you, sir.

K. Gregor Thank you. Good morning. Good afternoon to everyone who's taken the time to join us on the call for the Q3 FY '17 financial results for Jaguar Land Rover. I'm just going to dive into the discussion as usual.

Overall, for the quarter, it was another quarter of transition, with the change over from '16 to '17 model year on Range Rover and Range Rover Sport and we're in the process of launching the new Land Rover Discovery. So, both of those things are having an impact in the quarter, which I'll talk about as we go through the presentation.

Overall on retail sales, we saw continued strong demand for our cars and SUVs around the world. Those were up about 9% on the same quarter a year ago to over 149k units, but it is the case that our wholesale volume, which reflects the deliveries from us to our dealers, were about 5% lower. That's explained by the run-out of the Discovery in particular, in advance of the all new model going on sale this quarter.

The revenue is up despite the fact that that wholesale volumes were down. That's largely because of the weakening of the pound that's taken place over the last year since June, which caused revenues to be substantially higher.

PBT was £255 million, down from £499 million a year ago, reflecting a number of things, which I'll go into a bit more detail in a couple of the slides. We have seen in the quarter a continuation of higher incentive spending and, in this quarter in particular, we saw an impact from an extended '16 model year run-out in the US.

We see the continued growth of depreciation & amortization and there was £60 million of unfavourable unrealized foreign exchange and commodity hedge revaluation impacting PBT, but that has been off-set by further recoveries related to Tianjin.

We had positive free cash flow in the quarter of £54 million and that was after the £926 million of total investment spending, so liquidity therefore remaining very healthy. Of course, that was before the two bond issues we did in January as noted on the slide.

Just moving on, slide 5 has some of the key metrics that I've talked to. I don't necessarily think there's anything extra to talk about. So I'll move to slide 6, which gives a picture of retail sales in different geographies around the world, up in the US, China, Europe; down in the UK. Again, that's mostly accounted for by the Land Rover volumes being lower due to Discovery change over and the Defender run-out. Retail sales in overseas markets were lower more because of the weakness in the Middle East, Russia, and Brazil, in particular, but as mentioned previously we had good growth in China and in the US.

The next slide I thought I would include because I talked about wholesales in my introduction. Q3 wholesales were 131k units, down 5% on the same quarter a year ago, as shown on the chart. You can see some of the movements here. If you look on the Land Rover bars, you can see the Discovery down pretty much 10k units year-over-year in the quarter as we run out the old model and the deliveries of the new model commences this quarter. That's really explaining all of the volume impact, if I were to just single out one thing. But you can also see here, something that I talked about in a prior call, Range Rover and Range Rover Sport volumes being somewhat lower in the quarter, and that's connected with the change over from '16 to '17 model year for both of those vehicles. There's a new entertainment system that we launched in those cars at '17 model year, and that's had a little bit of a launch effect there.

On the Jaguar side, you can see substantially higher volume year-over-year, so we're really pleased with the development of the F-PACE as it matures in the marketplace. That's good to see.

If we move onto the next slide, 8, it just goes into a bit more detail. I've talked about the revenue already. On the EBIDTA side, we thought we'd try to provide a little bit more texture on the variances here to try to dimension why the EBITDA margin is moving as much as it is in the quarter year-on-year. So, it's just a sort of directional guidance, if you like, but the impact of those lower wholesale volumes and the less favourable product mix, giving together an effect of almost 2% on the EBITDA margin year-over-year, maybe roughly half and half between the two effects.

On the higher marketing expense, if I could just take the full calendar year or fiscal year forecast compared to the same 12 months, we're seeing incentive spending running perhaps a point higher year-on-year in the full span of a year. But in this particular quarter, because of some stocking factors at the end of the year and the extended model year run-out in the US, we saw investment spending a bit higher again. It's

almost 0.7 points of EBITDA margin effect in the quarter year-on-year compared to, I would say, the very low level of incentive spending that we enjoyed in the same quarter a year ago.

We have had some launch costs and I've sort of talked a bit about some of those effects; we also negotiate every couple of years with our unions on new pay arrangements and the pay arrangement that we agreed came with a modest lump sum payable to the manufacturing work force. That's worth about 0.4 points of EBITDA margin also. Then, within all of that, something which I'll come to, on foreign exchange overall, it's a positive variance for us year-on-year. In EBITDA, it's worth about £50 million positive effect year-on-year, but with two very large off-setting amounts. On the revenue side, £440 million of operational FX good news caused by the weakening of the pound, and that's offset by about £380 million of higher hedge losses year-on-year. Together, those things give us a net £50 million positive effect of FX impacting EBITDA year-on-year.

On PBT, D&A will continue to grow as we launch new models and if we come off the base that we had before that was relatively lower. I've talked about the unfavourable, unrealized FX where we saw a further 5% weakening of sterling in the quarter, and so our dollar debt, which we revalue every quarter, caused a further negative revaluation impact.

On the positive side, higher China JV profits, which I'm continuing to feel pleased about, with the development of the China joint venture. We've made further recoveries related to Tianjin in the quarter, which is good.

Moving on, cash flow also a positive in the quarter for us. Something I was quite pleased about, actually, was to see positive cash flow after the investment spending of £54 million in the quarter. I think that's sort of what I was expecting and gave us the position of maintaining strong liquidity and cash balance at the end of the quarter.

Let's keep moving on then to slide 10. I've talked about maybe some of the transitional effects of launching new products in the quarter that caused it to be somewhat more muted in EBITDA margin terms, and I've talked all about those effects, but on the positive side, we've been investing very heavily in this business in order to create those new cars and SUVs that our customers really love. Slide 10 has those things that I've been talking about.

We launched the I-PACE at the LA Motor Show in November. It's a fantastic vehicle which heralds the direction we're headed in with battery-electric vehicles for Jaguar Land Rover and, although that's another year plus away from seeing production vehicles, it's coming, so it's very exciting for the business. We launched also the Evoque convertible at the other end of the spectrum, if you like, in June of last year, and that's provided a nice addition to our range.

We launched the XF long wheelbase in China and I'm looking forward to a full year of sales of that model. I've also already mentioned the new Discovery which we are also excited about. Then, I'd also say just watch this space, because 2017 is going to be a really busy year for Jaguar Land Rover with a number of all new products that we haven't really talked about yet coming to showrooms near you and I'll be talking about those in future calls.

On to slide 11, there's a few facts and figures for those of you interested on the I-PACE. It's going to have a 500 km range and will accelerate from 0 to 60 in 4 seconds. The wonders of electric motors is that they have instant torque, so you can get really incredible performance out of the cars. We're also, of course, very focused on making sure that it has a really good range, so it gives people confidence to use it in real world situations. So we're looking forward to that and, as I said, on the road in 2018.

Overall, our strategy is very much to continue to invest in those new products and the technology and the manufacturing capacity to enable our business to grow profitably. As I said, we're very much focused on continuing to build on the successful recent product launches that I mentioned with a number of other product launches that we haven't talked about yet, so watch out for those.

As I think about the close to the fiscal year and the quarter that we're in, there are a number of reasons why Q4 (January to March quarter) should be stronger than the last two quarters that we've seen as seasonal factors, such as peak sales in March, and also the launch of the new Discovery - I'm looking forward to that. Overall, something else that we're very focused on is maintaining a balanced sales profile in geographies across the world to enable us to manage our way through the ebb and flow of one or other economic issue that's always going to raise its head from time to time.

Overall, that's where we're at for the quarter, and I'm happy to answer a few of your questions if you have any now. Thank you.

Coordinator

Sorry about that. Thank you very much. So, ladies and gentlemen, your question and answer session will now begin.

We have a first question from the line of Pramod Kumar from Goldman Sachs. Please go ahead.

P. Kumar

My first question pertains to the new Discovery. If you can help us understand as to what is the kind of target segment it's going to or how much of the audience is going to increase with this new upgrade? Because it's going to be an all new product after probably a decade now in terms of the changes this product is going to see. So if you could

just help us understand in terms of what can be the potential volumes here, given the major changes that you're doing on the Discovery.

K. Gregor                      That's a great question. If only I had a crystal ball, I would be able to tell you exactly what the sales numbers next quarter would be. What I would say is, for the prior Discovery, I think we had sales in the 50,000 to 60,000 unit a year range, of that order. So, what I'd say is that'd be a good baseline from which we could build.

P. Kumar                      And just to take it forward, we have seen that in the past when you launched the new Range Rover and the Range Rover Sport, the volumes kind of increased by almost 50%, and I think the order of change of what you're doing with the Discovery is more or less the same. So, would it be too optimistic to expect that it can also see that kind of ramp up?

K. Gregor                      I think I've never criticized someone for being too optimistic, but I also think it's probably the case that we're very positive about the model. It's also had a great reception and launch. The prior model actually grew its sales towards the end of its life, so I'd say we're really confident of building on the 50,000 to 60,000 units of the old model that we sold, but where that takes us to, let's see how that plays out.

Coordinator                      Thank you for your question. We have the next question from the line of Richard Smith from Citi. Please proceed.

R. Smith                      Hi there. Just a couple of quick questions. I think you made reference on slide 8 to the main drivers behind some of the margin weakness, in particular, around the less favourable product mix and the variable marketing expense. With regards to both of those, but especially the marketing expense, do you expect that higher variable expense to be a feature of the market going forward? Does it reflect a need to invest more in marketing in order to maintain volumes, or do you feel it's more driven specifically by the cadence of certain new model launches that aren't necessarily going to repeat in the same pattern in coming quarters?

K. Gregor                      Yes. I think it's a good question. I think the short answer is, overall, I do expect to continue to see a higher level of incentive spending for the business in 2017 than we saw in 2015, for example, because we've been seeing that during 2016. Overall, as I said, in the full span of a fiscal year, it averages out to be round about just over a point of revenue at that high level of variable marketing. I think it's coming because we're coming off a very low base for the business, so there's some level of reversion to a more normal environment with that higher level, and it's something we talked about in prior quarters where we had seen modestly high levels in China in the second part of last year and also the beginning of this year.

In this quarter, we saw the US market be a bit flatter in the fourth quarter, and then we also had our own extra factor with a slightly longer '16 model year run-out before we got to '17 model year, so there's one or another of our own factors in there, but underlying it is a generally somewhat higher level of incentive spending that we've been seeing develop over the past six quarters or so.

Therefore, yes, I would expect to see it continue.

R. Smith                      Okay, thank you.

Coordinator                      Thank you for your question, Richard. We have our next question from Aryn Pirani from Deutsche Bank. Please go ahead.

A. Pirani                      Good evening. Thanks for the opportunity. My first question was actually on the tax rate. It appears that this quarter's tax rate is significantly higher than what we have seen in previous quarters. Any particular reason for that?

K. Gregor                      Yes, well, the tax rate by quarters it might be something to take offline a bit and let the team follow up on, but it is the case that the same quarter a year ago was impacted by a positive adjustment related to the changes in the UK corporation tax rate, and this quarter, this year has a small negative adjustment for one or other factor. The combination of them causes a swing, but at the risk of getting into talking about the finer points of deferred tax accounting, I'll probably try not to go into detail about it, and instead suggest its maybe something we could take offline.

A. Pirani                      Okay, fair enough. That was my only question. Thank you.

K. Gregor                      Thanks.

Coordinator                      Thank you, Mr. Pirani, for your question. We have our next one from the line of Kumar Rakesh from BNP Paribas. Please proceed.

K. Rakesh                      Good evening. Thank you for the question. My first question is regarding the US market. You have talked about increasing marketing expenses, essentially the incentives, and also we are looking at inventory level going up. Is it a reflection of competitive intensity going up in that market or the overall market gradually slowing down? What exactly is resulting into this higher incentive and inventory as well?

K. Gregor                      I think that's a good question. I think it's something that we saw overall. The US market had been increasing very strongly up until September and then for one or other reason, its development was flatter in the final quarter of the year as an industry overall. I think, given that you go from a period of growth to a period of flatter volume that does

tend to generally result in seeing some higher level of incentive spending from competitors, as well as ourselves, so I think it has to do with the market dynamic.

Exactly why that happens is an interesting point because, overall, the US economy fundamentals are actually quite strong and one would hope that through 2017, one would continue to see the US economy develop well. If it does develop relatively well, then one should expect and hope, at least, that the car market would continue to be relatively strong.

I think where I get to with all of that is there are lots of factors within what I've just talked about that are outside of our control and for us, therefore, we have to remain really focused on doing what we do best, which is producing fantastic new cars and SUVs that excite our customers. If we do that, then it's the best antidote to the challenges that the economic world throws at us. So that's what we'll stay really focused on, and take the economic issues in our stride that way.

K. Rakesh                      Thanks, Ken. That was helpful. My second question is on how much of your sales would be through lease in the US and in the UK market. I understand you do not have a financial arm yourself, but through your partners, how much would leasing be as total percentage of sales in these two markets?

K. Gregor                      Sorry, I actually probably don't have the precise details to be able to give you a very specific answer right now, but in the US, somewhere north of 50%, I think, is what I would say of our sales are lease related. I think in the UK it's a bit lower than the US, perhaps round about the 50% mark. But, to be honest, I don't have the precise figures at my fingertips, so it would be better the sort of thing we could handle in a one-on-one or a follow-up if you wish.

K. Rakesh                      Sure, Ken. Thanks a lot for that.

Coordinator                    Thank you. We have our next questions from the line of Binay Singh from Morgan Stanley. Please proceed.

B. Singh                      Hi, team. Thanks for the opportunity. My question is on JLR margins. During the past, you've guided for around 14% to 16% range for JLR margins, and this year in the first nine months, we had some in the 10% to 11% range. So, do you think the business is structurally now a much weaker, lower margin business or do you stick with the past guidance? How do you look at that?

K. Gregor                      Yes, that's another very good question, and it's obviously the case that we'd seen in the past. If you go back a couple of years, we'd seen margins 17% or 18% in some quarters, and even for a full fiscal year a couple of years ago. For various reasons, the launch of the China joint venture, the changing mix of our products and markets that we'd be

selling in, we did always expect that the EBITDA margin that we would see would come down. We thought it would come down to the sort of range 14% to 15% that it had been prior to it peaking at the 17% level, and it is, of course, the case that it's now reduced a bit more than that, as you say.

When I look at our business for Jaguar Land Rover I feel quite strongly that we should be targeting an EBIT margin similar to that of our competition. If you look at our German competition they target EBIT margins in the 8% to 10% range. Roughly, an EBIT margin of 8% is equivalent to an EBITDA margin of about 14%. So, in the medium term, for our business, we are targeting to achieve those sorts of returns within our business.

I think its fair to say that, in the present situation, we are a business in a period of a bit of a transition as we successively launch exciting new products into the market and we are very excited about their potential to do well. That's bringing with it large development costs, quarter by quarter successively, that to be honest we need to work through. So, I see quarters like this one as somewhat transitional. I look forward to Q4 being somewhat stronger, and as I look forward into 2017, we have a good opportunity for some good volume growth, which is very positive, but we also have some more product launches. So, I think one could expect to see margins continue to be in the range in which we're experiencing, but in the fullness of time, that range of 14% to 15% EBITDA margin is what we're targeting to achieve as a business in the medium term.

B. Singh Okay, so you're not changing your margin guidance in that sense on an annual basis further for the coming year.

K. Gregor Well, I'm not really providing specific guidance. I think what I'm trying to say, I suppose, is that one could expect to see some of the same features that we're seeing in present quarters, launch costs and things like that, will continue to recur in the quarters in the coming year as well. As well as having a positive effect from higher volumes, I think we'll see a mixture of those factors continue in 2017 like we have in 2016.

B. Singh But new launch momentum has almost been a part of this business, right?; from the launch of Evoque launch up until this point? So shouldn't that be coming through on an annual basis regularly? So are you now saying that because of other factors, you are coming away from the 14% to 16% margin range?

K. Gregor No. No, I'm not. I'm saying very much that remains our business target for the medium term. I'm not changing from that approach. I'm seeing a reality of various factors that are causing it to be somewhat lower in the present quarters, and that might take a few quarters to work its way through. In terms of new product launches, we have a lot



coming this year, so watch this space. It's going to be a very exciting year for the business with some new products for us for both brands.

B. Singh                      Alright. Just one last question. On the I-PACE that you're launching, the electric car, clearly very exciting specs, but generally the understanding is that EVs are lower margins. Anything you want to comment on that for now? In terms of cost structure or margin, is it going to be significantly different from your current structure?

K. Gregor                      I think there's a bit of water to flow under the bridge for us to see that. When we showed the I-PACE at the LA show, what we said to potential customers was we expected it to be priced up to 15% higher than an equivalently spec'd F-PACE, given that they're similarly sized cross-over style vehicles. Of course, the reason it would be higher priced is because it's an electric vehicle and the batteries and the motors are somewhat more expensive than the engines and the fuel tanks that they replace. So, the margins on electric vehicles are somewhat more challenging as a result, and, therefore, require more pricing, etc., but I think time will tell exactly how that pans out.

I think because the whole development of the battery technology, the motors, the consumer demand for electric vehicles, all of that is going to develop and evolve very fast over the coming years. I'd be hoping that if battery costs and technology develops as other electronic commodities costs have developed over the last 15, 20 years, we might see battery costs come down, we might see energy densities in batteries rise that could help provide lower cost batteries with better range. Of course, the price that one could charge depends so much on the consumer demand and market acceptance of the vehicles, so there's quite a lot of moving factors I think it's fair to say. It's going to be really interesting to see how that develops and I'm absolutely convinced it's going to be a very important part of the future for Jaguar Land Rover.

B. Singh                      Great. Thanks for the opportunity. That's helpful.

K. Gregor                      Thank you.

Coordinator                      Thank you very much for your questions, Mr. Singh. We have our next question from Jatin Chawla from Credit Suisse. Please go ahead.

J. Chawla                      Hi, good evening. First question relates to your China JV. We saw in January that there was a very significant decline in your wholesales and there was not a similar kind of decline on your retail. So is there a production issue with the China JV that we felt in the month of January?

K. Gregor                      No, I think that's more connected with the timing of the lunar New Year in China, which was around about a week earlier this year and into the back end of January compared to the last year which was in the

first week in February, so it's more down to Chinese New Year than any other factor.

J. Chawla But we didn't see a similar decline in wholesales for the other local JV's from OEMs such as BMW (Brilliance). They had a pretty similar number to December in their wholesales in those terms.

K. Gregor Okay. I can't comment on the results of the other guys, I'm afraid.

J. Chawla Sure, no worries. The second question is on the conditions you've commented on the variable marketing spends being higher by 1.7%, I want to know why this is. Would you be able to comment on what they were when compared to the sequential quarter, which is the September quarter to December quarter?

K. Gregor Yes, I was just staring at the numbers. I think for sequential quarters it's probably about half a point higher, something like that, which was the point I was making earlier about the extra impact of the '16 model year run-out in the US and the reserve adjustments connected with that. So, yes, plus or minus half a point.

J. Chawla Okay, that's all. Thank you.

Coordinator Thank you for your questions. We have our next question from the line of Stephanie Vincent from JP Morgan. Please proceed.

S. Vincent Hi, this is Stephanie Vincent from JP Morgan. I was just going to ask you, I know that you've gone through the line items and the other expense in income quite a bit, and you've talked about the fourth quarter being a stronger quarter in terms of margins. On this other expense line item, including the realized FX hedges, as well as the higher warranty costs and some of the other items you mentioned, how should we be looking at the fourth quarter and, I guess, going into fiscal year 2018 in terms of that line item, going forward in terms of the percentage of revenues?

K. Gregor I think I'm going to struggle to give a precise answer as a percentage of revenue. I think what I would say is if we take the hedging losses that we saw in the quarter, I think it is the case that we would expect to see those continue at a similar level for the next couple of quarters, maybe a little bit lower for a couple of quarters after that, but, basically, being a significant number for the next four or five quarters. Assuming sterling stays at the same place, by the way, I think that's a feature one could expect to see continuing in the other expense.

As for the other factors, I'm feeling at the point that we might be stepping into a bit more detail than I'm actually able to answer at this point in the call, but it might be something that if you have any burning detail questions, we could try to take offline a bit.

**Date: 14<sup>th</sup> February 2017 @ 14.30**

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S. Vincent                      Okay, and in terms of the realized FX hedging, just so I'm not being silly, that's the £455 million?

K. Gregor                        Yes, yes. That's the £455 million.

S. Vincent                      Okay, okay. Alright, that's it for me. Thank you.

K. Gregor                        Thank you, Stephanie.

Coordinator                     Thanks for your questions. Ladies and gentlemen, due to time constraints, no further questions can be taken at this time.

   I will now hand the floor back over to Mr. Ken Gregor for closing remarks. Please go ahead, thank you.

K. Gregor                        I just want to say thank you. I really appreciate all your support as analysts and investors in the Jaguar Land Rover business. It's very important for us, and as I say, we're all looking forward to a very exciting, product filled 2017 for the business.

Coordinator                     Thank you, Ken. Ladies and gentlemen, that concludes your call. You may now disconnect. Thank you all for joining. Have a great day ahead.

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