Attendance List:	Adrian Mardell - Chief Financial Officer Ben Birgbauer - Group Treasurer
Title of Meeting:	Q2 FY20 Results Call
Hosted By:	Adrian Mardell

Coordinator

Ladies and gentlemen, good day, and welcome to the Jaguar Land Rover Fiscal 2020 Quarter 2 and Half-Year Earnings Conference Call. We have with us today Mr. Adrian Mardell, Chief Financial Officer, Jaguar Land Rover 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. [Operator instructions]. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Adrian Mardell. Thank you, and over to you, sir.

A. Mardell

Thank you so much and good afternoon to everybody on the line. Good morning to anybody joining from North America. I'm going to go straight into the presentation materials.

The first slide I'm looking at and you will see is the product and the investment updates. The key events in quarter two of course we launched our all new Defender in Frankfurt in September with the Pivi Pro infotainment system with software over-the-air capability. We're also very excited about the New Product Creation Centre we opened in our Gaydon facility. You can see a picture of it there. It's an amazing facility and will certainly help us improve the efficiency and performance of the teams as they're able now to work more closely alongside each other.

I think key note for this call particularly, we have completed two loans in October, post the quarter end, the first of which you see here we've been working on for a while. The £625 million loan included six banks. My thanks to all of you involved directly on the line, which was actually 80% guaranteed by the UK export funding guarantee, quite a unique loan structure as you know.

We also completed today £100 million facility with Black Horse financing on our fleet vehicles, mostly our own use vehicles being handed back, awaiting refurbishment and resale. We'll get into the details of those as we go forward.

On the next slide, you can see our profitability in quarter two returned. Our profit was £156 million, after £10 million of other exceptional charges on restructuring costs. That was 4.8% EBIT margin, mostly driven by revenue growth of 8%. Good, favourable mix of SUV 5 vehicles, Range Rover Sports and Range Rovers. The wholesale volumes are actually only up 2.9%.

Retails were marginally lower overall in the quarter. I'll get into the details but importantly, China were increased in the quarter by 24% over the same quarter last year. And, Evoque landed really well, again significantly higher than the old Evoque in the same quarter last year.

Profitability, driven mostly by those things, also returned and increased significantly. Beyond the revenue increases, of course, we had the benefits of Project Charge now starting to take hold and I'll take you through the details of that, as well as the lower D&A like quarter one and the favourable FX with the weaker sterling at least during the quarter. Of course, sterling as we know has strengthened a little bit in October.

Cash flow was close to breakeven. That was a significant £559 million improvement from the same quarter last year, of course driven by higher profits and lower investment. We did also receive a grant of €65 million from the Slovakian government which improved the cash position in the quarter. That grant went to balance sheet, as you'd expect it to do.

This is a breakdown of the retails. I think to note here it's very much what we were signalling on the call in July, so I was saying that China retails were definitely stronger in July and likely to continue to be in the quarter. You can see them there, up year-over-year versus same quarter 24.3%. I also mentioned that our overseas performance had deteriorated and would be adverse in the quarter, just over 19%. I expect both of those trends to continue into quarter three.

If I look at that by nameplate, as mentioned, the Evoque was the star performer versus the same quarter last year, up 54%, almost 8,000 units. The Range Rover Sport also did very well. Those things underpin the mix improvement I referred to earlier. On the down side, most of the vehicles due for significant enhancements were worse versus the prior year. So, the Discovery Sport, which we've now improved in '20 model year, the XF comes along middle of next year, and then the Discovery. So, all the three adverses of the next three products which we will give a significant major refresh to.

In terms of the waterfall chart, you can see versus a loss of £90 million in quarter two last fiscal year, the profit of £166 million, before exceptional items here, £166 million. So, it's a strong improvement. This waterfall chart actually goes upstream rather than down, which is really nice, driven by significant events. That volume and mix improvement was significant in the quarter as you can see. Also, the parts and accessories, car parts, is increasing, and will have big increases in the quarter versus last year.

We do still have challenges in our China JV. Volumes were up in the quarter. Retails were up versus the same quarter last year. But, there are four products in our line-up produced at the local joint venture in China that have just been or are being refreshed, and of course towards the end of their life, those products are expensive and we did have a worsening performance in the JV in the quarter.

It's also, as you would have seen from other autos, including premiums, it's a tougher market to sell into, which means marketing expenses, VME are increasing. This time they were just over 7%, better than quarter one if you remember. Quarter one was 9%, so it was definitely an improvement in the quarter, but it's tougher than this time last year, as you can see there, a point worse. Included within there is a £25 million residual value adjustment to our Range Rover and Range Rover Sport vehicles in the USA, '16 model year vehicles, where we can see the residual values didn't rise as much as we were expecting when we wrote the contracts three years ago for the '16 model year vehicles. We think most of that is now behind us; we can see the data and we'd expect only modest adjustments, if any, in future periods on '16 model year Range Rover, Range Rover Sport in North America.

Then we have the cost improvements across pretty much all areas of our business. That's where the product charge of course kicked in quite heavily from about March and April this year. So, the Sapphire improvements are shown here in several places on people reductions and also the overhead reductions, fixed marketing, selling, administration, lower D&A as a result of the impairment earlier in the year is there as well. That's also eliminated and offset by a labour and overhead adjustment, which is really relating to inventory, so that's code for we reduced stocks in this quarter versus the same quarter last year, which is clearly a good thing but gives us an income statement hit as we do that.

And then exchange is positive in most places. So, you know modelling a relatively weak sterling is good. That's shown in operating exchange and that was very favourable in the quarter versus the same quarter last year. The hedges now are starting to roll off and therefore the amount of hedge negative/positive versus prior year is almost nil, a small positive.

We did in fact have a bad news hit on the balance sheet revaluations as the dollar appreciated from 1.26/7 to 1.23 in the quarter. Of course that gave us bad news in Q2. At today's rates, that would reverse itself in Q3 if it were to stay that way, as sterling has appreciated as you know during the course of October. And those are several reasons why the improvement of £250-some million over the same quarter last year, which of course we're very pleased about.

Beyond profitability, we had another stronger quarter on cash. So you can see there we break that through to cash profits, that £870 million number, and we like as a go-forward model, our aim over time is that the cash profits are higher than the levels of investment of course. Investment was actually a little lower in the quarter than we were originally signalling. We are at that low point as we talked through last time in the investment cycle. That will increase and we are starting to see some increases in Q3, but we are still well within our guidance we provided and will confirm again later in this discussion.

And then we had some working capital movements, some positives on payables, inventory reductions, some collections of VAT, but we're actually significantly negative on receivables. Receivables were higher at the end of September than they were at the end of June, and that's purely a function of the selling rate velocity at September was much higher than in June. And of course sales rates increase, the receivable terms grow a greater number. So, nothing there for you to be too concerned about.

Investment levels broken down by all the categories we've shown you before. As you'd expect, capitalised R&D was lower and also the main investments, core investments, were lower also, £154 million lower than the same quarter last year.

In terms of liquidity levels, you see on the left-hand side we had £4.8 billion worth of cash and undrawn RCF facility. The two loans that we actually agreed in October is on top of that. So, you see the dotted line there, post receipt of those facilities, the accessible liquidity for Jaguar Land Rover is now again just over £5.5 billion.

We've also shown you there the debt maturity profile. On a calendar year basis, it's relatively balanced, which is obviously good news. Although, in this fiscal year, both the CY19, which is due to mature in November, and the CY20 due to mature in March, so the first two tranches of debt repayment will actually happen in the balance of this fiscal year. On the far right you see the total amount of debt that we have on the balance sheet at the end of September, £5.1 billion, and then the two new facilities would add to that debt by £725 million.

The next one shows what we've done so far this year on funding. The new receivable facility actually got put in place right at the end of last fiscal year, end of March. We drew down, if you remember, we told you £305 million in quarter one. The level of drawdown has stayed the same in Q2. So, the favourable improved in cash was not as a result of increased drawdown of that facility and then the £625 million UKEF and the £100 million Black Horse deal are both now ticked because they are complete and of course we'll get into more details on those should you wish later.

We may be looking, in the balance of the fiscal year, to of course replace the bonds that we need to pay during the balance of the fiscal year, and again, we can get into more detail on that on the Q&A should you wish.

In terms of the strategic pieces, this next page, the automotive industry continues to be challenging. There's nothing new there. It's broadly the shape of the page we would have shown you previously. Of course for us, the most imminent issue is Brexit and as you know, we are actually again closing our plants in week 44, which is the 4th of November for the week, where we'll lose about 12,000 units of production. That's going to leave us really, really tight on production, particularly in quarter three. We're only building 120,000 cars, just short of, in quarter three. That's much less than we expect to retail in the quarter, and less than we expect to wholesale as well. So, we will be challenging how far we can stretch the pipeline efficiency as a result of the closures that we need to make in November. Of course now, we all know that there won't actually be a Brexit on the 31st of October.

Next one, the turnaround plans, same as we showed you before. And that's because it's working very nicely, so the product pipeline line-up is starting to mature. The next one through the blocks will be Defender, which will be starting in spring 2020. Project Charge, we'll get into the details of that but you're now starting to see the real power of the program where all four of the major work streams that we've been maturing over the last nine months are starting to pay back significantly. If you were to check the last four quarters, we're actually free cash flow positive, since the program started. And that's about £2.3 billion better than we were in the four quarters before, so you can start to see the power of the program and how much impact it's had to the cash balances. It was a cash-driven program. And Accelerate is still working on fixing the fundamentals but importantly, Accelerate works in the future product space and therefore you won't really start to see the impact of Accelerate until new product launches.

This is our wonderful new Defender. I won't talk in much detail on it. Of course it's all over social media. One thing I will share with you, which I think is quite an amazing statistic, we've now had 640,000 people complete the vehicle configuration. Lots of people generally start vehicle configurations but in recent history, we have not had 640,000 people complete the vehicle configuration several months before the vehicle is accessible in the marketplace. So, we're very excited about that and so are the media. You see the responses. This is going to be a super success for Jaguar Land Rover.

In terms of China, of course, China is really important to us. All of the KPIs we've shown you for the last several quarters are maturing, as we'd wish them to do. Retail targets were again met in Q2. Returns of profitability in the dealer network, after, as we mentioned last time, a weaker June for them, as a result of the CN5 units finally being disposed into the marketplace. So, dealer profitability had recovered in the quarter. A very important statistic is local vehicle registrations. Benchmark levels in China is 85%, and we've seen for the first time in September local registrations were higher than 85%, so that is really good news. And retail stock levels are also very close to our medium-term targets, 1.5 months local, 1.3 months import a shade above those, but only a few hundred units. That's a really, really good place to be as well.

In the bottom right, you see the retail levels, ours year-over-year 40% 17% and 18% versus a very flat premium marketplace. So, we outsold and outperformed the market versus where we had previously been. So, a care point on this data we were previously in a weak position as you know, so we're getting quite strong from a weak position. This is not a transformed marketplace for us as yet.

Project Charge, the three legs of Charge, we talked in July and said investment was already above its target. Working capital we won't change til the end of the year because of the ebbs and flows, but I can confirm to you we will be beyond the £0.5 billion once we get through the end of March. And cost and profits, that's the one where most people start to focus on, we had a good quarter two. In total now we have £0.5 billion of the £1 billion target done.

If you go to the next page, I'll break that down, similar format to last time for you. So, £150 million of which we did last fiscal year, and the redundancy programs which we announced actually at the start of this fiscal year, you'll now see in the data. People costs £70 million a quarter lower than the same point last year, so we're confident that year-over-year number, £250m+ will be achieved. Material cost savings you'll start to see in quarter two, the reductions versus last year. Material costs of negotiations get closed down as you go through the year so the quarterly improvement is always greater the further you go through that year.

So, we still feel pretty good on the £300 million target, and you'll see the overhead cost reductions coming through the income statement, again this time in the waterfall. So, we're tracking very nicely towards that £300 million. We're still on target to get to the £1 billion this year. We've moved on from the Charge program internally. We're now starting to develop our plans for the next stage of Charge, which we're calling Charge Plus. It's overwhelmingly an EBIT-based program but of course we won't throw away all of the good things that we've done to-date. And, we will talk in a lot more detail about Charge Plus in the January calls.

Finally, looking ahead, our plans remain exactly the same as we told you in July. So the EBIT margin for this fiscal year and next fiscal year is still 3% to 4%. Just as July, I will indicate to you, it's mostly likely that it will be closer to the lower end of that range in FY20. PBT will be positive as we go through the balance of this year. The one huge care point of course is Brexit, because there's still huge uncertainty there. Our pipeline inventory will be very, very thin in Q3, and further disturbance in Q4, a huge care point to us, but at the moment we expect to be positive in the second half of the year.

Investment, up to £4 billion, still the guidance. Although this year, given where we are six months through the year, the number is likely to be closer to £3.7 billion. And, free cash flow in the first half less than £800 million, it's negative but it's certainly improving, and we do expect to be cash positive in the second half of the year. Gross debt to EBITDA exactly the same again as we showed you last time; we'll maximise at the 2.8 times.

Why are we confident? Well, we're going to continue to develop and launch those new products, and the next one coming out is going to hit a sweet spot for us. We're going to continue to improve our profitability through the Charge program, and our cash is going to improve as we do that and then we're working on our next generation of Charge, probably three months earlier than we would have anticipated we could have when we started the program. So, all of that turnaround plan is exactly the same as we told you in July and is working.

That's pretty much all I wanted to say in the main presentation.

B. Birgbauer — So, we'll open it up to questions now.

Coordinator — Thank you very much. We will now begin the question-and-answer session. Please stand by for your first question.

The first question comes from the line of Stephanie Vincent from JPMorgan. You're live in the call, Stephanie. Please go ahead.

S. Vincent — Hi. Thank you very much for taking my question. Very good quarter, especially on cost control, but I just want to have some more details on that. First off, just so we know apples to apples, can you talk about any impact from IFRS 16 year-over-year and as well talk about the IFRS 16 impact on profitability that happened in the first quarter as well of 2020?

Then, just had a question on the parts and accessory increase of £36 million. Can you just give us some details about what those incremental profits are related to? This is on slide 7, I believe. And also, on slide 7, just your fixed marketing savings. Can you talk about how those are removed and whether or not those are sustainable as we move into a new launch with the Defender?

A. Mardell — Thanks, Stephanie. Let me take the questions you've asked in the order you've asked them. IFRS 16, so you'll see balance sheet to balance sheet broadly the amount we put on the balance sheet at the end of Q2 was a little bit higher, just over £600 million in the Q1 level. If you remember from quarter one, we said the net-net bottom line impact was small, but obviously we have billing changes and billing issues as we go down the income statement. Broadly speaking you see a lower operating cost and a higher interest charge within the data in Q1 and in Q2 as well. I think the major point here is not a huge significant impact on the income state in either quarter.

B. Birgbauer — Adrian, if I could just help, IFRS was worth about £12 million in interest.

S. Vincent — That's great.

A. Mardell — The next one, parts and accessories was the next one. We're seeing growth in terms of our used vehicle car parts, much bigger than people would actually understand probably. Each year, my anticipation is parts and accessories will actually grow and increase and that will happen pretty much until year ten of our sales is the same as year one of our sales. Because it's broadly speaking a ten-year car park. So, I do expect this number to increase on a year-over-year basis.

This was a large increase this time. Why? Two reasons. The car park and the fact that part of the Charge program is actually starting to pick up after sales profits. We're starting to actually look closer at distribution costs within the after sales service network. So, there's a fixed cost reduction in there that you wouldn't necessarily see as called out and the parts and accessories revenue growth. It was large in the quarter, larger than I'd expect to see every quarter but that's partly because of the one-off nature of some of those cost reductions we did.

In terms of FME, it was lower in quarter two but very consistently in quarter two as quarter one. You'll also notice that our volumes in the first half of the year, I think our retail volumes were like 257,000 units were—the first half-year retails are the lower half, the second half-year retails are always much higher, and we're simply balancing out our marketing costs with our ability to get revenues from the marketplace. So, I do expect FME to increase in the second half of the year, but I think our increase is almost certainly likely to be proportionate to the increases in the revenues we expect to receive over that period as well.

Coordinator: Thank you. The next question is from the line Phil Bagguley from Bank of America. You're live in the call, Phil. Please go ahead.

P. Bagguley: Hi, thanks very much for taking my call. Just a quick one to start with perhaps on the production in this current quarter. You said that the shutdown will be a 12,000 unit impact. Can we just back out, it's 132,000 units in the third quarter last year that you produced?

A. Mardell: Well, obviously, our production quarter-to-quarter, it really does two things. One of the things it does, it balances out the sales levels from previous quarters. But, quarter three production is going to be lower this year than last year. I don't have the last year number in front of me. And, it's also going to be significantly lower than our wholesale expectation and our return expectation. So it will thin out the end-to-end pipeline including the dealers quite substantially in the quarter. We'll learn things from that and in January I'll be able to share with you exactly what we did learn.

P. Bagguley: Okay, thanks a lot. And then the very strong volume growth in US wholesale this quarter, how much of that is down, do you think, due to the tax reform starting to come into play and driving a strong uptick in 6,000 pound plus vehicles, or demand for the same?

A. Mardell: I missed the actual reasoning you were saying. Can you just say again?

P. Bagguley: I think there's been some pretty significant tax reform in the US on a year-over-year basis, whereby there's some fairly significant tax cuts and bonus appreciation for vehicles with a gross weight over 6,000 pounds. We've seen that drive a lot of demand for SUVs and other producers. I know that a couple of Range Rover dealerships in the US, people are given the opportunity to take advantage of it. I wondered if you'd been able to quantify that effect on the demand or the sales.

A. Mardell: I think the answer to that would be very low, actually. Our US market has actually been performing well for the last 18 months or so. There's clearly a link into the health of the US economy, but not necessarily to any specific action like tax reductions, we don't feel. We expect the

US market to do pretty well over the balance of this fiscal year as well also.

The other point of course is with the weak sterling, not only is the volume coming through healthily in the US economy but the value when we try and take it back to Sterling is strong also. So, we're in a bit of a bright spot in the US today as well.

B. Birgbauer: I'd also just point out that really if you look at US retails, they were about flat. So I think in terms of consumer demand you need to look at the retails.

Coordinator: Thank you. Your next question comes from Tom Tharayil from Neuberger Berman. You're live in the call, Tom. Please go ahead.

T. Tharayil: Hi. Good afternoon. I read about a INR 10,000 Cr. equity in the raise by the parent Tata. My first question would be is any of that earmarked for Jaguar Land Rover?

B. Birgbauer: No.

T. Tharayil: My second was the warranty effect of £5 million on slide 7. Are we to infer most of that is China and the issues that were prevalent a while ago and we're seeing the end of that, the warranty effect, or is that across the business?

A. Mardell: It's across the business. It's not China-specific this time.

T. Tharayil: Thank you. And the third and final one was the grant from the Slovakian government, are you allowed to say how much and whether that's secured or if it has to be repaid?

B. Birgbauer: No, it's not secured. No, it doesn't need to be repaid. It's just subject to certain performance things in terms of what we did in the investment in the country. And, I think Adrian said at the start of the call it was €65 million.

T. Tharayil: Thank you very much, indeed.

Coordinator: Thank you. Your next question comes from Peter Jurik from Tresidor Investments. Please go ahead, Peter. You're live in the call.

P. Jurik: Hi. Thanks for taking my question, and congrats on your results. My apologies, I did join the call a little bit late so hopefully my questions won't be a repeat.

But, one question I would have to start, on your slide, I believe it's slide 7 where you call it the moving pieces within improvement performance on EBIT to better operating exchange, etc. Could you walk us through the main or the biggest ones here and help us get a feel to the extent that some of it's transitory and to what extent some of these will stay for the coming quarters, presumably higher volume and sales mix and accessories is typically higher with new vehicles and then tapers off?

But, in general, just to have a sense of how this ought to progress over the coming quarters, if you could.

A. Mardell

Yes, I'll just pick two or three of the bigger ones, if that's okay. So, from the volume perspective I think the two things to bear in mind is the number of units. We're 2.9% higher, but the revenue was 8% higher, so that does tell you we had a good Range Rover Sport and Range Rover mix in the quarter. And as you know, they're our most valuable products, so there's a sweet spot on the mix of vehicles we had in the quarter versus the same quarter last year. That was certainly good there.

I think I answered the last question in terms of parts and accessories in some detail so I won't repeat that one. It's broadly car parts based on some fixed cost actions we've taken.

I think the next one in terms of the VME, the marketplace is clearly more difficult than it was 12 months ago. You've seen that from most of our competitors, in fact most of the industry. A symptom of that will become higher VME. So, as I mentioned on the call, in July, I'm expecting VME to be around the 7% level rather than the 5% or 6% we've experienced in previous years. There was a specific call-out on '16 model year Range Rover Sport and Range Rovers for £25 million in the quarter. I expect that to be done.

And then overwhelmingly beyond that, great progress across our Charge program in all cost categories, both people costs and overhead reduction costs. And then, the operating exchange environment is more favourable for us than it was 12 months ago. Sterling was weak in the quarter versus previous quarters, and the hedging contracts we have in place are starting to wind up, and therefore the offsets that we would previously have in hedges are less. We did take a hit on the balance sheet in the quarter as a result of sterling depreciating from $1.26-7 to $1.23, and that's mostly wrapped up in that FX revaluation. At today's spot rates, $1.28 and change. Pretty much that rebound number was reversed.

Those are the highlights in Q2. If you're looking for themes going forwards, volumes will be higher in the second half of the year. They always are, and this is no different. We are constrained in quarter three because of production levels, so that will test the pipeline as I say. The heavy mix you saw in quarter two will be reduced marginally, as most of those increases in volumes won't actually be from Range Rovers and Range Rover Sports, so the per unit values will drop a little bit in the second half of the year. But, we are expecting to be profitable in H2. That's why we continue with the guidance of 3% to 4%, even though we suspect it's at the lower end of that range of EBIT.

The only significant risk we have out there that's live and real and potentially imminent is this Brexit piece, which of course if we have to close our plants again in February that would then start to impact the year's results. But, nobody's indicating that at this point.

P. Jurik	That's great. Thank you. The second question I would have is just on the £300 million Project Charge amount that you have outstanding for H2, where the way you've described it is you're negotiating on material costs and when you negotiated, you typically get a retroactive reduction in cost all the way to April of last year. My question here, is this coming mainly from raw material costs or mainly from your suppliers?
A. Mardell	It's production suppliers mostly. It's no different to what we would do in other years, but it's production suppliers. And, broadly, as more contracts get completed then obviously we do back-date that, as you say to April. So quarter one is the lowest we receive and quarter two is the second lowest; quarter three is the second highest, and quarter four with the highest amount of those material cost reductions. And then it's pretty much the same as most years. What we've done this time with Charge is we've added a number of support services to the teams, which is why we're growing in increased confidence in a difficult market for the ability to deliver those savings.
P. Jurik	That's great. The next one is just a housekeeping question. This year, will there be a dividend paid out from your cash flows to the HoldCo?
B. Birgbauer	I think the answer to that simply is our dividend policy is 25% pay out of after-tax earnings. That would be the default position on any dividend. In the end, the dividend would be decided in the fourth quarter—well, in the audit committee and board reviewing the fourth quarter results. So, that would be in May of next year.
P. Jurik	And that decision, is that to pay out the dividend in relation to last year's earnings or are you referring to the decision to then pay this fiscal year's earnings next year?
B. Birgbauer	Well, basically at the close of this financial year, the full-year results would be reviewed in an audit committee and board most likely in May. And, the board would decide on whether to pay a dividend based on those earnings then. That's just the normal process. As I said, the policy is 25% pay out of after-tax earnings. That would be the default position for the board when they are making that decision in May but ultimately they would take into account the policy and other considerations in making the final decision.
P. Jurik	That makes sense. Then, one more question just to clarify something I've seen in the press. So, from what I've seen, the local press in Slovakia has commented that your local unions at the new factory have actually managed to get a collective bargaining agreement with a better wage increase and from what I understand originally, they wanted 15%. I don't think they got 15% from the reporting. But, are you able to give us a sense as to what the financial impact of that new labour agreement will be on your results perhaps on an annualised basis would be useful? Just to understand if that is material or not.
A. Mardell	No, it's not material. It's a few percent of our smallest material cost build-out we have in any plant. It won't have a material impact.

P. Jurik — So, are you able to give a range? Is it £5 million to £10 million or less or more?

A. Mardell — It wouldn't be more than £10 million.

P. Jurik — Fine. The last question from me then is just trying to understand, there was a significant increase in the volumes in China, but of course the JV profits have come down a little bit. So, is that purely related to what you've talked about previously in relation to getting rid of the older vehicles before the new Evoque arrives in China or was there more incentives to try and sell more?

A. Mardell — It's partly that but we actually have four refreshed vehicles going into the joint venture over the next six months, so clearly we're working our pipelines down on all those vehicles. The first one through, as you quite rightly said, was Evoque. We started selling the new ones in quarter two, but we have XE Long, Discovery Sport, and then XF Long, the remaining three vehicles that will be refreshed significantly towards the back end of this fiscal year and just after.

So, our strategy is to make sure that we supply and sell out in an orderly fashion so we don't have old model year vehicles around when new ones are being launched. That's a relatively new strategy for us that we've introduced over the last 12 months and we will be using it for the local business as well.

P. Jurik — Thank you very much.

Coordinator — Thank you. And, your final question comes from David Moon from Wells Fargo. You're live in the call, David. Please go ahead.

D. Moon — Hi, good afternoon. Well done on the good quarter. Just honing in a little bit on the mix performance this quarter and you called out Range Rover Sport and the new Evoque and to a lesser extent the Range Rovers, particularly increases to margin over the quarter. But, I wonder as those models age slightly in the second half of the year, could we expect such a positive impact as we saw in the third quarter?

And also specifically on Evoque, because it's such a new model, is it fair to assume that this previous quarter had a very rich option uptake, or highest specification uptake and whether that should stay in the second half? Thank you.

A. Mardell — Thank you. Let me take Evoque first. The Evoque was strong in quarter two. We expect that to continue in the second half of the year. We didn't see any noticeable rich mix in Q2 on Evoque so I think the downside risk in terms of normalising at different derivative levels is lower on Evoque.

In terms of Range Rover Sport, and Range Rover, obviously they're key products to us. It is more difficult in that marketplace, particularly after we saw the introduction of the X7 as we talked about previously. So, we do expect VME levels to increase as we go through this model year in the second half of the fiscal year. But, again, I don't expect it to have a noticeable impact on H2 results.

What will have more of an impact is we sell many more cars in H2 after H1 is the mix of vehicles will shift down from those high end Range Rovers to other products and therefore on average per unit basis you will see a shift down in mix value as a result of the velocity of those other sales. All of that will net-net to be a market equation which has higher volume, higher value but less per unit, in my view.

D. Moon — To meet the full-year guidance, essentially the second half will have a positive scale effect and then also the further cost reduction rather than a richer mix.

A. Mardell — Yes, that's correct. So, the second half will have increases in volumes and continue any increases in cost reductions as well. And as you started to see that profile in quarter two, as I've just explained, it will mix differently in terms of volume versus per unit value, but you're starting to see the impact of the program and how it's lowered our break-even positions and how over a certain volume again will start to become profitable, which underpins our 3% to 4% guidance in FY20.

D. Moon — Thank you very much.

Coordinator — Thank you. I'd now like to hand the floor back to Mr. Adrian Mardell for closing comments.

A. Mardell — Thank you so much. Thank you for dialling in, really appreciated. Thank you for some really, really good questions as well. Hopefully you got what you wanted from the call. I look forward to speaking with you all again in January. Thank you.